

ATC Ventures Group, Inc.  
Form 10-Q/A  
April 16, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q/A (Amendment No.2?)

(Mark one)

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

For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES 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)

(712) 262-4191

(Registrant's telephone number, including area code)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No   
As of August 22, 2011, there were 6,990,662 shares outstanding of the registrant's common stock, par value \$0.0001 per share.

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Cycle Country Accessories Corp.  
Index to Form 10-Q/A

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EXPLANATORY NOTE

Cycle Country Accessories Corp. filed its quarterly report on Form 10-Q for the three months ended June 30, 2011 on August 23, 2011. Amendment No. 1 was filed solely to file the original report in XBRL format. Amendment No. 1 did not contain any substantive changes from the original filing.

We are filing this 2nd Amended Quarterly Report on Form 10-Q/A (the "Amended Filing") to our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011 (the "Original Filing"), to correct errors relating to the number of shares outstanding, the valuation and timing of the expense recognition of those employee equity awards, and the amount and timing of sales discounts and allowances and selling expenses related to a customer incentive program that was put into place by former management and the error regarding the number of shares outstanding related to equity compensation awards with multiple vesting dates that covered multi-year service periods. These errors, in total, caused us to understate total revenue and selling expenses related to our customer incentive program, while understating our stock-based compensation. Additionally, the error regarding the number of shares that were to have been issued and outstanding had the effect of further misstating the basic and fully-diluted earnings per share for the three and nine months ended June 30, 2011.

No other changes are being made other than the updating of: (i) the Exhibits to include updated Certifications of the Chief Executive and Chief Financial Officers, and (ii) the Exhibit Index to disclose that certain exhibits that were filed with the Original Filing are incorporated by reference into this Amended Filing. The sections of the Original Filing that are not being amended are unchanged and continue in full force and effect as originally filed. This Amended Filing speaks as of the date of the Original Filing and has not been updated to reflect events occurring subsequent to the date of the Original Filing.

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Part I Financial Information  
Item 1. Financial Statements

Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Balance Sheet

|  | June 30,<br>2011 (Restated)(1)<br>(Unaudited) | September 30,<br>2010 (Restated)(1) |
|--|---|-------------------------------------|
| <b>Assets</b>  |   |                                     |
| <b>Current Assets</b>  |   |                                     |
| Cash and cash equivalents  | \$ 23,350                                     | \$ 28,939                           |
| Accounts receivable, net   | 390,070                                       | 1,879,491                           |
| Inventories  | 3,126,074                                     | 2,716,639                           |
| Income taxes receivable  | 4,371   | 640,733                             |
| Deferred income taxes  | 521,000                                       | 366,000                             |
| Prepaid expenses and other   | 101,314                                       | 320,475                             |
| Assets held for sale   | 139,033                                       | 795,439                             |
| <b>Total current assets</b>  | <b>4,305,213</b>                              | <b>6,747,716</b>                    |
| Property, plant and equipment, net   | 9,481,534                                     | 9,809,351                           |
| Intangible assets, net   | 59,620  | 161,957                             |
| Other assets   | 16,600  | 7,413                               |
| <b>Total assets</b>  | <b>\$ 13,862,968</b>                          | <b>\$ 16,726,437</b>                |
| <b>Liabilities and Stockholders' Equity</b>  |   |                                     |
| <b>Current Liabilities</b>   |   |                                     |
| Disbursements in excess of bank balances   | 121,334                                       | 387,141                             |
| Accounts payable   | 2,001,430                                     | 689,030                             |
| Accrued expenses   | 1,394,378                                     | 1,049,385                           |
| Bank line of credit  | 2,000,000                                     | 2,700,000                           |
| Current portion of notes payable   | 434,962                                       | 699,681                             |
| Liabilities related to assets held for sale  | 21,362  | 12,409                              |
| Current portion of deferred gain   | -   | 27,754                              |
| <b>Total current liabilities</b>   | <b>5,973,466</b>                              | <b>5,565,400</b>                    |
| <b>Long-Term Liabilities</b>   |   |                                     |
| Notes payable, less current portion  | 2,149,333                                     | 2,478,279                           |
| Deferred income taxes  | 724,000                                       | 1,587,000                           |
| <b>Total long term liabilities</b>   | <b>2,873,333</b>                              | <b>4,065,279</b>                    |
| <b>Total liabilities</b>   | <b>8,846,799</b>                              | <b>9,630,679</b>                    |
| <b>Stockholders' Equity</b>  |   |                                     |
| Common stock, \$.0001 par value; 100,000,000 shares authorized;<br>6,990,662 and 8,046,471 shares issued and outstanding, respectively | 699   | 805                                 |
| Additional paid-in capital   | 12,499,672                                    | 12,495,917                          |
| Accumulated deficit  | (7,484,202)                                   | (5,400,964)                         |
| <b>Total stockholders' equity</b>  | <b>5,016,168</b>                              | <b>7,095,758</b>                    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 13,862,968</b>                          | <b>\$ 16,726,437</b>                |

(1)See Note 11- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial

Statements

See accompanying notes to the unaudited condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Statements of Operations

|   | Three Months ended June 30,       |                     |
|---|-----------------------------------|---------------------|
|   | 2011 (Restated)(1)<br>(Unaudited) | 2010<br>(Unaudited) |
| <b>Revenue</b>  |                                   |                     |
| Net sales   | \$ 973,664                        | \$ 1,783,457        |
| Freight income  | 17,116                            | 13,551              |
| Total revenues  | 990,780                           | 1,797,008           |
| Cost of goods sold  | 589,091                           | 1,542,269           |
| Gross profit  | 401,689                           | 254,739             |
| Selling, general, and administrative expenses             | 937,185                           | 988,770             |
| Loss from operations                                      | (535,497)                         | (734,030)           |
| <b>Other income (expense)</b>                             |                                   |                     |
| Interest expense  | (71,749)                          | (79,201)            |
| Miscellaneous   | 84,043                            | 35,738              |
| Total other income (expense), net                         | 12,295                            | (43,463)            |
| Loss from continuing operations before income tax benefit | (523,202)                         | (777,493)           |
| Benefit from income taxes                                 | 191,020                           | 265,793             |
| Net loss from continuing operations                       | (332,182)                         | (511,699)           |
| Loss from discontinued operations, net of tax             | (90,272)                          | (71,842)            |
| Net loss  | \$ (422,453)                      | \$ (583,541)        |
| <b>Weighted average shares of common stock</b>            |                                   |                     |
| Basic   | 6,990,662                         | 5,877,697           |
| Diluted   | 6,990,662                         | 5,877,697           |
| <b>Loss per basic and diluted share:</b>                  |                                   |                     |
| Continuing Operations                                     | \$ (0.05)                         | \$ (0.09)           |
| Discontinued Operations                                   | \$ (0.01)                         | \$ (0.01)           |

(1)See Note 11- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial Statements

See accompanying notes to the unaudited condensed consolidated financial statements.



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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Statements of Operations

|  | Nine Months ended June 30, |                     |
|--|----------------------------|---------------------|
|  | 2011 (Restated)(1)         | 2010                |
|  | (Unaudited)                | (Unaudited)         |
| <b>Revenue</b>   |                            |                     |
| Net sales  | \$ 7,906,776               | \$ 7,974,366        |
| Freight income   | 74,386                     | 61,350              |
| <b>Total revenues</b>  | <b>7,981,162</b>           | <b>8,035,715</b>    |
| Cost of goods sold   | 6,495,312                  | 5,758,063           |
| Lower of cost or market adjustment                               | 480,918                    | -                   |
| <b>Gross profit</b>  | <b>1,004,932</b>           | <b>2,277,653</b>    |
| Selling, general, and administrative expenses                    | 3,475,267                  | 2,843,736           |
| Fraud expense  | -                          | 134,775             |
| <b>Total operating expenses</b>                                  | <b>3,475,267</b>           | <b>2,978,511</b>    |
| <b>Loss from operations</b>                                      | <b>(2,470,335)</b>         | <b>(700,859)</b>    |
| <b>Other income (expense)</b>                                    |                            |                     |
| Interest expense   | (244,064)                  | (232,446)           |
| Interest income  | -                          | 3                   |
| Gain (loss) on sale of assets                                    | (8,466)                    | -                   |
| Miscellaneous  | 171,289                    | 116,769             |
| Total other expense, net   | (81,241)                   | (115,674)           |
| <b>Loss from continuing operations before income tax benefit</b> | <b>(2,551,576)</b>         | <b>(816,533)</b>    |
| Benefit from income taxes  | 856,041                    | 286,181             |
| <b>Net loss from continuing operations</b>                       | <b>(1,695,535)</b>         | <b>(530,351)</b>    |
| <b>Loss from discontinued operations, net of tax</b>             | <b>(387,706)</b>           | <b>(114,382)</b>    |
| <b>Net loss</b>  | <b>\$ (2,083,241)</b>      | <b>\$ (644,734)</b> |
| <b>Weighted average shares of common stock</b>                   |                            |                     |
| Basic  | 7,342,598                  | 5,981,382           |
| Diluted  | 7,342,598                  | 5,981,382           |
| <b>Loss per basic and diluted share:</b>                         |                            |                     |
| Continuing Operations  | \$ (0.23)                  | \$ (0.09)           |
| Discontinued Operations  | \$ (0.05)                  | \$ (0.02)           |

(1) See Note 11- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial Statements

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See accompanying notes to the unaudited condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows

|   | Nine Months ended June 30,        |                     |
|---|-----------------------------------|---------------------|
|   | 2011 (Restated)(1)<br>(Unaudited) | 2010<br>(Unaudited) |
| <b>Cash Flows from Operating Activities from Continuing Operations:</b>         |                                   |                     |
| Net loss from continuing operations   | \$ (1,695,535)                    | \$ (530,351)        |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                   |                     |
| Depreciation  | 472,667                           | 533,724             |
| Amortization  | 1,168                             | 1,052               |
| Reserve for bad debts   | 60,000                            | -                   |
| Lower of cost or market adjustment  | 480,918                           | -                   |
| Stock-based compensation  | 124,753                           | 45,250              |
| (Gain) loss on sale of property, plant and equipment                            | 8,466                             | (11,231)            |
| Fraud recovery  | -                                 | (120,000)           |
| Change in:  |                                   |                     |
| Accounts receivable   | 1,425,089                         | 1,114,069           |
| Inventories   | (605,305)                         | (476,715)           |
| Income tax receivable   | 636,362                           | (376,360)           |
| Prepaid expenses, net   | 219,161                           | (37,405)            |
| Other assets  | (9,187)                           | 30,981              |
| Accounts payable, net   | 1,307,551                         | 386,810             |
| Deferred income taxes   | (1,018,000)                       | 88,000              |
| Accrued expenses  | 217,471                           | (43,351)            |
| <b>Net cash provided by operating activities from continuing operations</b>     | <b>1,625,578</b>                  | <b>604,473</b>      |
| <b>Cash Flows from Investing Activities from Continuing Operations</b>          |                                   |                     |
| Purchase of property, plant and equipment                                       | (126,661)                         | (232,200)           |
| Purchase of intangible assets, net  | (11,380)                          | (5,036)             |
| Proceeds from sale of property, plant and equipment                             | 25,996                            | 12,500              |
| <b>Net cash used for investing activities in continuing operations</b>          | <b>(112,045)</b>                  | <b>(224,736)</b>    |
| <b>Cash Flows from Financing Activities from Continuing Operations:</b>         |                                   |                     |
| Change in disbursements in excess of bank balances                              | (265,807)                         | (208,559)           |
| Payments on bank notes payable  | (593,665)                         | (638,952)           |
| Advance on development loan   | -                                 | 60,000              |
| Bank line of credit, net  | (700,000)                         | 470,000             |
| <b>Net cash used for financing activities from continuing operations</b>        | <b>(1,559,472)</b>                | <b>(317,511)</b>    |
| <b>Cash Flows from Discontinued Operations:</b>                                 |                                   |                     |
| Cash provided by operating activities   | 40,350                            | (39,919)            |
| Net cash (used for) provided by discontinued operations                         | 40,350                            | (39,919)            |
| <b>Net increase (decrease) in cash and cash equivalents</b>                     | <b>(5,589)</b>                    | <b>22,307</b>       |

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|  |    |        |    |        |
|--|----|--------|----|--------|
| Cash and cash equivalents, beginning of period |    | 28,939 |    | 27,490 |
| Cash and cash equivalents, end of period       | \$ | 23,350 | \$ | 49,797 |

(1)See Note 11- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial Statements

See accompanying notes to the unaudited condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Statements of Cash Flow

|  | Nine Months ended June 30,      |                     |
|--|---------------------------------|---------------------|
|  | 2011 Restated(1)<br>(Unaudited) | 2010<br>(Unaudited) |
| Supplemental disclosures of cash flow information:               |                                 |                     |
| Cash paid during the period for:                                 |                                 |                     |
| Interest   | \$ 244,069                      | \$ 228,510          |
| Supplemental schedule of non-cash investing and financing:       |                                 |                     |
| Recovery of treasury shares from fraud                           | \$ -                            | \$ 120,000          |
| Issuance of common stock and options for payment of compensation | \$ -                            | \$ 41,250           |
| Issuance of common stock for payment of director fees            | \$ -                            | \$ 4,000            |
| Treasury stock purchased included in accrued expense             | \$ 128,744                      | \$ -                |
| Disposal of fixed assets   | \$ 55,124                       | \$ -                |

(1) See Note 11- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial Statements

See accompanying notes to the unaudited condensed consolidated financial statements.

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Cycle Country Accessories Corp  
Notes to Condensed Consolidated Financial Statements  
For the three and nine months ended June 30, 2011 (Restated) and 2010  
(Unaudited)

Note 1. Summary of Significant Accounting Policies:

**Basis of Presentation** - The accompanying unaudited condensed consolidated financial statements for the three months and nine months ended June 30, 2011 and 2010 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 June 30, 2011 and 2010 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, 2010 consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K/A for the fiscal year ended September 30, 2010.

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

**Nature of the Business** - The Company has two distinct segments engaged in the design, manufacture, sale and distribution of products. One of the segments has branded, proprietary products, and the other is a contract manufacturing division. The largest segment, 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 throughout the United States of America, Canada, Mexico, South America, Europe, and Asia. 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 160,000 square feet of modern manufacturing facilities including its owned building in Spencer and leased space in Milford, IA.

The Company records assets, liabilities, revenues and expenses associated with two other segments as discontinued operations for all periods presented. Plazco manufactures, sells, and distributes injection-molded plastic products for vehicles such as golf cars, and low-speed vehicles (LSVs). Perf-Form manufactures, sells, and distributes oil filters for the Powersports industry, including ATVs, UTVs and Motorcycles. As more fully disclosed in Note 9, during the nine months ended June 30, 2011 the Company has concluded that these segments do not fit within the long-term strategic plans of the Company.

**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 condensed consolidated statements of operations. The actual freight costs incurred are included in cost of goods sold.

Sales were recorded net of sales discounts, returns and allowances. Sales discounts and allowances were approximately \$150,000 (restated) and \$73,000 for the three months ended June 30, 2011 and 2010, respectively. For the nine months ended June 30, 2011 and 2010, sales discounts and allowances were approximately \$671,000 (restated) and \$543,000, respectively. Of these amounts, discounts and allowances related to continuing operations were approximately \$145,000 (restated) and \$66,000 for the three months ended June 30, 2011 and 2010 respectively and \$654,000 (restated) and \$532,000 for the nine months ended June 30, 2011 and 2010, respectively.

**Cost of Goods Sold** - The components of cost of goods sold in the accompanying condensed consolidated statements of operations include overhead allocation, 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.



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

Individual trade accounts receivable are periodically evaluated for collectability based on past credit history and their current financial condition. Trade accounts receivable are charged against the allowance for doubtful accounts when such receivables are deemed to be uncollectible. While the Company has a large customer base that is geographically dispersed, a slowdown in markets in which the Company operates may result in higher than expected uncollectible accounts, and therefore, the need to revise estimates for bad debts. To the extent historical experience is not indicative of future performance or other assumptions used by management do not prevail, the provision for uncollectible accounts could differ significantly, resulting in either higher or lower future provisions for uncollectible accounts. The allowance for doubtful accounts was \$75,000 and \$15,000 at June 30, 2011 and September 30, 2010, 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. Cost is determined using the weighted average method.

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 Accounting Standards Codification, "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.

Intangible Assets - Intangible assets with estimable useful lives are amortized over their respective estimated useful lives. Intangible assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

As discussed more fully in Note 9, the Company concluded that the Perf-Form and Plazco segments may not fit within the long-term strategic plans for the Company. As such, the Company determined that indicators of potential impairment existed in the value of trademarks and patents for its Perf-Form segment. Plazco's intangible assets had been previously fully amortized. Recoverability of intangible 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 or estimated market values and third party appraisals, as considered necessary. This analysis did not support the carrying value of the intangible assets for the Perf-Form segment and, therefore, an impairment charge in the amount of \$100,000 for trademarks and \$10,186 for unamortized patents was recognized on March 31, 2011. These charges are included in discontinued operations.

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 condensed consolidated balance sheets. Accrued warranty costs have historically been sufficient to cover actual costs incurred.

Income Taxes - Income taxes are provided for the tax effects of transactions reported in the condensed consolidated financial statements and consist of taxes currently receivable and 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.

The Company follows 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 recognizes in its condensed 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.

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 2008. 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, 2010 or June 30, 2011 and such uncertain tax positions as of each reporting date are insignificant.

**Stock-Based Compensation** - The Company accounts for stock-based compensation on a fair value basis. The estimated grant date fair value of each stock-based award is recognized in expense over the requisite service period (generally the vesting period).

**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 by the weighted average number of shares and share equivalents during the period. See Note 6 for details regarding basic and diluted earnings per share.

**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 \$35,000 and \$45,000 for the three months ended June 30, 2011 and 2010 respectively and \$122,000 and \$110,000 in the nine month period ended June 30, 2011 and 2010 respectively, and is included in selling, general, and administrative expenses in the accompanying condensed consolidated statements of operations.

**Research and Development Costs** - Research and development costs are expensed as incurred. Research and development costs totaled approximately \$154,000 and \$74,000 in the three month periods ended June 30, 2011 and 2010, respectively, and totaled approximately \$341,000 (restated) and \$251,000 for the nine months ended June 30, 2011 and 2010 respectively and are included in selling, general and administrative expenses and cost of goods sold in the accompanying condensed 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 \$34,000 and \$65,000 in the three months ended June 30, 2011 and 2010, respectively and totaled approximately \$152,000 and \$204,000 in the nine months ended June 30, 2011 and 2010, respectively, and are included in cost of goods sold in the accompanying condensed consolidated statements of operations.

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

**Fair Value of Financial Instruments** - The Company utilizes Financial Accounting Standards Board 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 June 30, 2011, the Company does not have any financial or nonfinancial assets or liabilities that would require fair value recognition or disclosures under ASC 820.

The Company estimates that the fair value of all financial instruments at June 30, 2011 approximates their carrying values in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using appropriate valuation methodologies. As a result

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of its analysis of intangible assets, the Company reduced the book value of intangible assets related to the Perf-Form segment to \$0 in March 2011. The impairment charge of approximately \$110,000 is included in the loss from discontinued operations for the nine month period ended June 30,2011.

Note 2. Misappropriation of Funds:

The Company previously reported the misappropriation of funds by its then-Chairman of the Board of Directors and Audit Committee Chairman, Mr. L. G. Hancher Jr. in the fiscal year ended September 30, 2009. This misappropriation of funds was related to a plan for the Company to purchase shares of its own stock which was to be completed by Mr. Hancher on the Company's behalf (the "Stock Buyback") in fiscal 2009.

The Company continues to work to recover all of the amounts misappropriated. During the year ended September 30, 2010, the Company recovered and cancelled 195,416 shares of Company stock with a market value of \$120,000, which reduced common equity and was recorded against fraud expense, net in the consolidated statement of operations. The Company believes the value represents the amount the Company provided for the purchase of shares to the third party that returned these shares to the Company. 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.

In June 2010, the Company commenced a lawsuit against Mr. Hancher. On August 2, 2010, Mr. Hancher filed a Chapter 7 petition in the Bankruptcy Court for the Southern District of Indiana. Proceedings in the Bankruptcy Court are pending. There has been no recovery to date on this action and the amount of a potential recovery, if any, cannot be reasonably estimated at this time.

On January 13, 2011, the Securities and Exchange Commission filed a complaint in U.S. District Court, Northern District of Iowa, against Mr. Hancher and various affiliates of his, charging them with six counts of securities violations involving multiple issuers, including the Company. On the same day, Mr. Hancher entered into a consent agreement with the SEC in which, among other things, Mr. Hancher agreed to pay back an aggregate of approximately \$2.4 million in disgorgement, plus approximately \$600,000 in pre-judgment interest, and a fine of \$130,000.

On May 9, 2011, the Company entered into a settlement agreement with Mr. Hancher. In this agreement, Mr. Hancher and the Company settled the adversary proceedings in exchange for a non-dischargeable judgment in the amount of \$600,000. In doing so, the Company did not limit the size of the claim, but rather, agreed that the amount of \$600,000 was non-dischargeable by Mr. Hancher in his pending bankruptcy case.

Through this negotiated settlement, the Company was able to protect its future recovery without the additional expense of continuing the pursuit of a judgment in federal court against Mr. Hancher, and without the expense of defending its claim in Mr. Hancher's bankruptcy case.

On May 18, 2011, the Securities and Exchange Commission issued an Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions against Mr. Hancher. The order bars Mr. Hancher from associating with any broker, dealer, etc., and while he consented to the entry of the permanent injunction against him, he did so without admitting or denying any the findings of the Order.

At this time, it is not believed that this will result in restitution to the Company in the foreseeable future, based on the information provided in the filings in Mr. Hancher's pending bankruptcy case.

Additional recoveries, if any, will impact subsequent periods and will be reported for the periods in which such recoveries occur. The possibility of any 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.

Note 3. Inventories:

Inventories are stated at the lower of cost or market using the weighted average cost method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Management regularly reviews inventory quantities on hand, future product demand, and the estimated utility of inventory. If the review indicates a deduction in utility below carrying value, management would reduce the Company's inventory to a new cost basis through a lower of cost or market adjustment.

Though we routinely do this analysis each quarter, as discussed more fully in the Executive-level Overview of Item 2, Management Discussion and Analysis, the changes in our senior sales, marketing, and product development management that took place in our second quarter (which were more fully disclosed in our Form 10-Q/A filing for the period ended March 31, 2011), allowed us to analyze the inventory from a fresh perspective. This evaluation concluded that the need existed to more aggressively challenge the prior sales and marketing team's processes and conclusions.

Therefore, during the three months ended March 31, 2011, management evaluated the carrying amount of inventory as it compared to the market values. As a result of the evaluation, the Company recorded an adjustment to inventory in the amount of \$480,918. This charge is recorded in the condensed consolidated financial statements as a lower of cost or market adjustment. During that same period, the company adjusted inventory held in the segments identified as discontinued operations to lower of cost or market, as well. This adjustment totaled \$223,134 and is included in the net loss from discontinued operations.

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For the three month period ended March 31, 2011, these two adjustments to inventory totaled \$704,052.

During the three months ended June 30, 2011, management evaluated the carrying amount of inventory as it compared to the market values, and found no further adjustments were necessary under the present market conditions.

The major components of inventories are as follows:

|                          | June 30,<br>2011<br>(Unaudited) | September 30,<br>2010 |
|--------------------------|---------------------------------|-----------------------|
| Raw Material             | \$ 914,318                      | \$ 895,688            |
| Work in Process          | 80,864                          | 68,631                |
| Finished Goods           | 2,280,892                       | 1,902,320             |
| Inventory Reserve        | (150,000)                       | (150,000)             |
| <b>Total Inventories</b> | <b>\$ 3,126,074</b>             | <b>\$ 2,716,639</b>   |

Management has evaluated the Company's inventory reserve based on historical experience and current economic conditions and determined that, after the adjustments of lower of cost or market noted above, an inventory reserve of approximately \$150,000 at June 30, 2011 and September 30, 2010 remains appropriate. It is reasonably possible the inventory reserve will change in the near future.

#### Note 4. Line of Credit:

The Company entered into a Secured Credit Agreement which provided for a line of credit ("Line of Credit One") with BankMidwest, (the "Lender"), on August 1, 2001, for the lesser of \$1,000,000 or 80% of eligible accounts receivable and 50% of eligible inventory. Line of Credit One has an interest rate at 8%. At June 30, 2011 and September 30, 2010 there was \$1,000,000 due on Line of Credit One.

On July 16, 2010, the Company entered into an agreement with the Lender to replace Line of Credit Two with a new, larger facility, ("Line of Credit Three"). Under the terms of Line of Credit Three, the Company has added an additional line of credit for the lesser of \$1,700,000 or 80% of eligible accounts receivable and 50% of inventory and bears interest at 8%. The note is collateralized by all of the Company's assets. The balance of Line of Credit Three was \$1,000,000 and \$1,700,000 as of June 30, 2011 and September 30, 2010, respectively.

Lines of Credit One and Three contain conditions and covenants that prevent or restrict the Company from engaging in certain transactions without the consent of the 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 ratio and shall not declare or pay any dividends or any other distributions without the consent of the Lender. As more fully described in Note 5, as of and for the three months and nine months ended June 30, 2011, the Company was not in compliance with some of its covenants with the Lender.

On January 17, 2011, the Company and the Lender entered into the Seventh Amendment to the Secured Credit Agreement and Waiver ("Amendment 7"). Amendment 7 modified Line of Credit One and Line of Credit Three to extend the maturities of each line of credit until March 31, 2011.

On March 31, 2011, the Company and the Lender entered into the Eighth Amendment to the Secured Credit Agreement and Waiver ("Amendment 8"). Amendment 8 modified Line of Credit Three to reduce the amount of the Line from \$1,700,000 to a new amount not to exceed \$1,000,000. Agreement 8 matured on June 1, 2011, and was modified on June 9, 2011 to extend the maturity to August 1, 2011. The Company is currently working with the Lender to modify or extend these obligations, but as of August 22, 2011, a signed agreement has not been reached. In addition, in June 2011, the Company announce the signing of a new term sheet with a new lender to provide a \$5,000,000 credit facility for working capital. The new credit facility, expected to close in 30 days, will replace the existing lines of credit and provide for ongoing operations.

#### Note 5. Long-Term Debt:

Long term debt consists of the following:

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|  | June 30, 2011<br>(Unaudited) | September 30, 2010  |
|--|------------------------------|---------------------|
| Note 1 to commercial lender payable in equal monthly installments of \$42,049 including interest at 6.125%. The note matured April 2011 and was secured by all Company assets.   | \$ -                         | \$ 284,263          |
| Note 2 to commercial lender payable in equal monthly installments of \$33,449 including interest fixed at 5.5% until April 2012. Beginning April 2012, the interest is reset every 60 months to 0.50% over prime not to exceed 10.5% or be less than 5.5%. The note matures April 2018 and is secured by all Company assets. | 2,223,324                    | 2,418,530           |
| Note 3 to commercial lender payable in equal monthly installments of \$14,567 including interest at 6.125% until maturity of April 2013 secured by the specific equipment acquired.  | 300,971                      | 415,167             |
| Note - Spencer Area Jobs Trust due in full March 2014 interest free and forgivable in full if the Company maintains required job levels.   | 60,000                       | 60,000              |
| <b>Total</b>   | <b>2,584,295</b>             | <b>3,177,960</b>    |
| Less current maturities  | (434,962)                    | (699,681)           |
| <b>Net</b>   | <b>\$ 2,149,333</b>          | <b>\$ 2,478,279</b> |

These secured credit agreements contain conditions and covenants that prevent or restrict the Company from engaging in certain transactions without the consent of the Lender and require the Company to maintain certain financial ratios, including term debt coverage and maximum leverage. As of and for the three and nine months ended June 30, 2011, the Company was not in compliance with the term debt coverage requirement or the working capital requirement of the agreements.

On January 17, 2011, the Company and the Lender entered into Amendment 7. Under the terms of Amendment 7, the Lender agreed to waive the noncompliance by the Company with the required ratio of current assets to current liabilities as of September 30, 2010 and December 31, 2010 and the Company's anticipated noncompliance with the required ratio of current assets to current liabilities through October 1, 2011 and further, waive the Company's noncompliance with the Term Debt Coverage Ratio (as defined in Amendment 7) as of September 30, 2010 and December 31, 2010, and the Company's anticipated noncompliance with the Term Debt Coverage Ratio through October 1, 2011. See Note 4 on a further description of our credit agreements.

On April 29, 2010, the Company entered into an agreement with the Spencer Area Jobs Trust (the "Trust"). Under the terms of this agreement, the Trust advanced \$60,000 to the Company under a loan which is forgivable in full if the Company maintains no less than seventy full time employment positions through February 2014. If the Company does not maintain seventy employment positions, the amount of the loan forgiven will equal \$850 for each employment position retained. The Company will extinguish this debt amount, if any, upon notice from the Trust.

Note 6. 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 from continuing operations of \$332,182 (restated) for the three months ended June 30, 2011 and a net loss from continuing operations of \$1,695,535 (restated) for the nine months ended June 30, 2011. A net loss causes all outstanding common stock equivalents, such as certain stock options and warrants, to be antidilutive. As a result, the basic and dilutive losses per common share are the same for the three and nine months June 30, 2011. There were no common stock equivalents outstanding during the three and nine months ended June 30, 2011.

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for continuing and discontinued operations:

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|                                   | For the three months ended June 30, 2011 |   |                                 | For the three months ended June 30, 2010 |   |                     |
|-----------------------------------|--|---|---------------------------------|--|---|---------------------|
|                                   | Restated Loss<br>(numerator)             | (Unaudited)<br>Restated<br>Weighted<br>Average<br>Shares<br>(denominator) | Restated<br>Per share<br>amount | Loss<br>(numerator)                      | (Unaudited)<br>Weighted<br>Average<br>Shares<br>(denominator) | Per share<br>amount |
|                                   |  |   |                                 |  |   |                     |
| <b>Basic and Diluted EPS</b>      |  |   |                                 |  |   |                     |
| Loss from continuing operations   | \$ (332,182)                             | 6,990,662   | \$ (0.05)                       | \$ (511,699)                             | 5,877,697   | \$ (0.09)           |
| Loss from discontinued operations | \$ (90,272)                              | 6,990,662   | \$ (0.01)                       | \$ (71,842)                              | 5,877,697   | \$ (0.01)           |

|                                   | For the nine months ended June 30, 2011 |   |                                    | For the nine months ended June 30, 2010 |   |                        |
|-----------------------------------|---|---|------------------------------------|---|---|------------------------|
|                                   | Restated Loss<br>(numerator)            | (Unaudited)<br>Restated<br>Weighted<br>Average<br>Shares<br>(denominator) | Restated<br>Per<br>share<br>amount | Earnings<br>(numerator)                 | (Unaudited)<br>Weighted<br>Average<br>Shares<br>(denominator) | Per<br>share<br>amount |
|                                   |   |   |                                    |   |   |                        |
| <b>Basic and Diluted EPS</b>      |   |   |                                    |   |   |                        |
| Loss from continuing operations   | \$ (1,695,535)                          | 7,342,598   | \$ (0.23)                          | \$ (530,351)                            | 5,981,382   | \$ (0.09)              |
| Loss from discontinued operations | \$ (387,706)                            | 7,342,598   | \$ (0.05)                          | \$ (114,382)                            | 5,981,382   | \$ (0.02)              |

Note 7. Segment Information:

Segment information has been presented on a basis consistent with how business activities are reported internally to management. Management evaluates the operating profit of each segment by using the direct costs of manufacturing its products after an allocation of indirect costs. In determining the total revenues by segment, freight income and sales discounts are 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. Each operating segment is separately managed and has separate financial information evaluated regularly by the Company's executive officers in determining resource allocation and assessing performance. Two of the segments are classified in continuing operations and, as more fully discussed in Note 9, two of these segments are classified as discontinued operations.

"Cycle Country ATV Accessories" is engaged in the design, manufacture, and sale of accessories for all terrain vehicles (ATVs) and utility vehicles (UTVs) such as snowplow blades, lawnmowers, spreaders, sprayers, tillage equipment, winch mounts, and utility boxes.

"Imdyne", the Company's contract manufacturing division, is engaged in the design, manufacture and assembly of a wide array of parts, components, and other precuts for non-competing OEM and other businesses.

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, 2010.

The following is a summary of certain financial information related to continuing operations:

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|   | For the Three Months Ended<br>June 30, 2011 (Restated) |            |              | For the Three Months Ended<br>June 30, 2010 |            |              |
|---|--|------------|--------------|---|------------|--------------|
|   | (Unaudited)  |            |              | (Unaudited)                                 |            |              |
|   | Cycle<br>Country ATV<br>Accessories                    | Imdyne     | Total        | Cycle Country<br>ATV<br>Accessories         | Imdyne     | Total        |
| Net sales                                 | \$ 545,868   | \$ 427,796 | \$ 973,664   | \$ 915,922                                  | \$ 867,536 | \$ 1,783,458 |
| Freight<br>income                         | 9,808  | 7,307      | 17,116       | 7,004                                       | 6,547      | 13,551       |
| Total<br>Revenue                          | 555,676  | 435,103    | 990,780      | 922,926                                     | 874,083    | 1,797,009    |
| Cost of goods<br>sold                     | 192,341  | 396,751    | 589,091      | 829,229                                     | 713,040    | 1,542,269    |
| Gross profit                              | \$ 363,338   | \$ 38,351  | \$ 401,689   | \$ 93,697                                   | \$ 161,043 | \$ 254,740   |
| Sales, general<br>& admin                 |  |            | (937,185)    |   |            | (1,030,851)  |
| Interest<br>expense, net                  |  |            | (71,749)     |   |            | (79,201)     |
| Other income<br>/expense, net             |  |            | 84,043       |   |            | 77,820       |
| Income tax<br>benefit                     |  |            | 191,020      |   |            | 265,793      |
| Net loss from<br>continuing<br>operations |  |            | \$ (332,182) |   |            | \$ (511,699) |

|                                     | For the Nine Months Ended<br>June 30, 2011 Restated |              |                | For the Nine Months Ended<br>June 30, 2010 |              |              |
|-------------------------------------|---|--------------|----------------|--|--------------|--------------|
|                                     | (Unaudited)   |              |                | (Unaudited)                                |              |              |
|                                     | Cycle<br>Country<br>ATV<br>Accessories              | Imdyne       | Total          | Cycle<br>Country<br>ATV<br>Accessories     | Imdyne       | Total        |
| Net sales                           | \$ 6,137,155  | \$ 1,769,621 | \$ 7,906,776   | \$ 5,558,700                               | \$ 2,415,666 | \$ 7,974,366 |
| Freight income                      | 49,652  | 24,734       | 74,386         | 31,709                                     | 29,641       | 61,350       |
| Total Revenue                       | 6,186,807   | 1,794,355    | 7,981,162      | 5,590,409                                  | 2,445,307    | 8,035,715    |
| Cost of goods sold                  | 4,730,142   | 1,765,169    | 6,495,311      | 3,613,422                                  | 2,144,641    | 5,758,062    |
| Lower of cost or market adjustment  | 480,918   | -            | 480,918        |  |              |              |
| Gross profit                        | \$ 975,748  | \$ 29,186    | \$ 1,004,932   | \$ 1,976,987                               | \$ 300,666   | \$ 2,277,653 |
| Sales, general & admin              |   |              | (3,475,267)    |  |              | (2,843,736)  |
| Fraud expense                       |   |              | -              |  |              | (134,775)    |
| Interest expense, net               |   |              | (244,064)      |  |              | (232,440)    |
| Other income /expense, net          |   |              | 162,824        |  |              | 116,770      |
| Income tax benefit                  |   |              | 856,041        |  |              | 286,177      |
| Net loss from continuing operations |   |              | \$ (1,695,535) |  |              | \$ (530,351) |

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### GEOGRAPHIC REVENUE

The following is a summary of the Company's revenue in different geographic areas:

|                 | For the three months<br>ended June 30,<br>(Unaudited) |              | For the nine months<br>ended June 30,<br>(Unaudited) |              |
|-----------------|---|--------------|--|--------------|
|                 | 2011<br>(Restated)                                    | 2010         | 2011<br>(Restated)                                   | 2010         |
| United States   | \$ 936,375  | \$ 1,621,029 | \$ 7,705,804   | \$ 7,389,383 |
| Other Countries | 54,404  | 175,980      | 275,358  | 646,333      |
| Total Revenue   | \$ 990,780  | \$ 1,797,009 | \$ 7,981,162   | \$ 8,035,716 |

As of June 30, 2011, 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 32%, 21% and 14% of total sales respectively for the three months ended June 30, 2011. During the three months ended June 30, 2010, sales to the same customers were approximately 19%, 11% and 10% of total sales, respectively. For the nine months ended June 30, 2011, sales to the same customers were approximately 15%, 23% and 17% of total sales. During the nine months ended June 30, 2010, sales to the same customers were approximately 21%, 13%, and 11% of total sales.

#### Note 8. Stock Based Compensation:

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

The Company's employment agreement dated June 24, 2008 with its former chief executive officer, Jeffrey M. Tetzlaff, provided 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, Mr. Tetzlaff became vested in and received 16,666 shares of stock each year. During the year ended September 30, 2010, the Board accelerated the vesting of the final installment of 16,668 shares of stock which otherwise would have vested on April 7, 2011. For the six months ended March 31, 2010, \$6,875 was recognized as compensation expense. The compensation expense was fully recognized in fiscal year 2010.

Under the 2008 employment agreement, Mr. Tetzlaff also received an option to purchase up to an additional 500,000 shares of the Company's common stock. Effective July 1, 2010, the option to purchase these shares was terminated. There were no outstanding options as of June 30, 2011.

On July 1, 2010, the Company entered into new employment agreements with Mr. Tetzlaff and Robert Davis, as the Chief Operating Officer and Chief Financial Officer. Under the terms of these agreements, the Company granted to each 1,005,809 shares of common stock, subject to shareholder approval, equal to 12.5% on a fully-diluted basis of the common stock, which vest in four installments during the respective terms of the agreements with the first installment of 40% vesting October 1, 2010 and which vesting is subject to acceleration on the occurrence of certain events, including a change of control. These awards were approved by the Company's stockholders at the 2010 annual meeting. During the vesting period, Mr. Tetzlaff and Mr. Davis have full voting and participating rights of common stock.

Both Mr. Tetzlaff and Mr. Davis made elections under Section 83(b) of the Internal Revenue Code for their shares, which allows them to pay income tax on the initial grant instead of paying the tax as the stock vests. As such, the Company originally used the Section 83(b) assigned value of \$.05 per share (\$100,581 in total), and recognized the entire associated expense during the year ended September 30, 2010. It was subsequently determined that this was not the appropriate fair value for these shares, and that the stock award included multiple vesting dates that covered multi-year service periods. As part of the restatement further described in Note 11, the shares were revalued as of September 30, 2010 at the grant date fair value price of \$.37, or \$744,299 in total.

Effective December 31, 2010, Mr. Tetzlaff resigned and the Company and Mr. Tetzlaff entered into a Separation Agreement and Release of Claims. In accordance with the terms of that agreement, Mr. Tetzlaff settled the 402,234 shares that vested October 1, 2010, and forfeited his unvested shares. Cumulative compensation expense of \$48,493 (restated) related to Mr. Tetzlaff's unvested shares was reversed during the three months ended December 31, 2010.

During the fourth quarter of the fiscal year ended September 30, 2010, each of two members of the board of directors were granted 50,000 shares of stock for services provided to the Company under the approved Director Equity Compensation Agreement. The shares vest over a period of three years.

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Effective December 31, 2010, Daniel Thralow resigned as a member of the Company's Board of Directors. Accordingly, Mr. Thralow forfeited his 50,000 unvested shares. Cumulative compensation expense of \$1,857 (restated) related to these unvested shares was reversed during the three months ended December 31, 2010.

For the three and nine months ended June 30, 2011, \$40,116 (restated) and \$128,084 (restated) was recognized as officer restricted stock compensation expense, respectively. For the three and nine months ended June 30, 2011, \$1,536 (restated) and \$4,304 (restated) was recognized as director restricted stock compensation expense, respectively. In total, \$37,126 (restated) and \$124,753 (restated) was allocated to continuing operations for the three and nine months ended June 30, 2011, respectively, while \$4,526 (restated) and \$7,635 (restated) was allocated to discontinued operations for the three and nine months ended June 30, 2011, respectively.

As of June 30, 2011, \$108,594 (restated) of total unrecognized compensation cost related to the remaining unvested shares and is expected to be recognized over the next 3 years.

### Note 9. Discontinued Operations:

In the quarter ended March 31, 2011, the Company concluded that the Perf-Form and Plazco segments no longer fit with the long term strategic plans of the Company. Both of these segments are outside of the Company's core product lines and/or our core customer relationships. Both of these segments have seen substantial decline in the past three years in sales and profitability as they lacked adequate sales, marketing, and operational leadership. Further, the Company has no internal expertise in engineering in either of these product segments. As a result, with the changes in the senior management of the Company, the determination was made that these segments no longer fit the Company's strategic plan, and therefore, these segments are reported as discontinued operations in the condensed consolidated financial statements.

In addition, the value of the Perf-Form segment did not support the carrying value of the intangible assets, and an impairment charge in the amount of \$110,186 for trademarks and unamortized patents was recognized in the three months ended March 31, 2011.

The carrying amounts of the major classes of assets and liabilities for these segments are presented below:

|   | As of June 30, 2011<br>(Unaudited) |                 |                   | As of September 30, 2010 (Restated) |                   |                   |
|---|------------------------------------|-----------------|-------------------|-------------------------------------|-------------------|-------------------|
|   | Plazco                             | Perf-Form       | Total             | Plazco                              | Perf-Form         | Total             |
| <b>Assets:</b>                          |                                    |                 |                   |                                     |                   |                   |
| Accounts Receivable                     | \$ 61,303                          | \$ (1,542)      | \$ 59,761         | \$ 70,719                           | \$ 13,337         | \$ 84,056         |
| Inventories                             | -                                  | -               | 367,604           | 124,507                             | 492,111           |                   |
| Net Property, Equipment and Intangibles | 77,758                             | 1,515           | 79,272            | 105,032                             | 114,240           | 219,272           |
| <b>Assets</b>                           | <b>\$ 139,061</b>                  | <b>\$ (27)</b>  | <b>\$ 139,033</b> | <b>\$ 543,355</b>                   | <b>\$ 252,084</b> | <b>\$ 795,439</b> |
| <b>Liabilities:</b>                     |                                    |                 |                   |                                     |                   |                   |
| Accounts Payable                        | \$ 13,414                          | \$ 2,294        | \$ 15,707         | \$ 6,024                            | \$ 187            | \$ 6,211          |
| Accrued Expenses                        | 3,375                              | 2,280           | 5,655             | 3,684                               | 2,514             | 6,198             |
| <b>Total Liabilities</b>                | <b>\$ 16,789</b>                   | <b>\$ 4,573</b> | <b>\$ 21,362</b>  | <b>\$ 9,708</b>                     | <b>\$ 2,701</b>   | <b>\$ 12,409</b>  |

Losses from discontinued operations, net of income taxes for all periods presented include the operating results of Perf-Form and Plazco and are as follows:

|  | For the Three Months Ended<br>June 30, 2011 (Restated)<br>(Unaudited) |               |                    | For the Three Months Ended<br>June 30, 2010<br>(Unaudited) |               |                    |
|--|---|---------------|--------------------|--|---------------|--------------------|
|  | Plazco  | Perf-Form     | Total              | Plazco   | Perf-Form     | Total              |
| Net sales                                    | \$ 91,385   | \$ 19,372     | \$ 110,758         | \$ 138,340   | \$ 87,556     | \$ 225,897         |
| Freight income                               | 3,330   | -             | 3,330              | 1,066  | 609           | 1,675              |
| <b>Total Revenue</b>                         | <b>94,715</b>   | <b>19,372</b> | <b>114,088</b>     | <b>139,406</b>   | <b>88,165</b> | <b>227,572</b>     |
| <b>Cost of goods sold</b>                    | <b>68,976</b>   | <b>27,991</b> | <b>96,967</b>      | <b>128,853</b>   | <b>80,298</b> | <b>209,151</b>     |
| Gross profit(loss)                           | \$ 25,739   | \$ (8,620)    | 17,120             | \$ 10,553  | \$ 7,867      | 18,421             |
| Sales, general & administrative expense      |   |               | (114,323)          |  |               | (127,579)          |
| Income tax benefit                           |   |               | 6,931              |  |               | 37,317             |
| <b>Net loss from discontinued operations</b> |   |               | <b>\$ (90,272)</b> |  |               | <b>\$ (71,842)</b> |



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|   | For the Nine Months Ended<br>June 30, 2011(Restated) |             |              | For the Nine Months Ended<br>June 30, 2010 |            |              |
|---|--|-------------|--------------|--|------------|--------------|
|   | (Unaudited)  |             |              | (Unaudited)                                |            |              |
|   | Plazco   | Perf-Form   | Total        | Plazco                                     | Perf-Form  | Total        |
| Net sales                               | \$ 258,977   | \$ 73,877   | \$ 332,855   | \$ 318,530                                 | \$ 153,402 | \$ 471,932   |
| Freight income                          | 3,935  | 1,586       | 5,521        | 4,825                                      | 2,757      | 7,582        |
| Total Revenue                           | 262,912  | 75,463      | 338,376      | 323,355                                    | 156,159    | 479,514      |
| Cost of goods sold                      | 392,270  | 173,524     | 565,794      | 322,052                                    | 155,554    | 477,606      |
| Gross profit (loss)                     | \$ (129,357)   | \$ (98,062) | (227,419)    | \$ 1,303                                   | \$ 605     | 1,908        |
| Sales, general & administrative expense |  |             | (200,415)    |  |            | (200,070)    |
| Impairment of intangibles               |  |             | (110,186)    |  |            | -            |
| Other income/expense, net               |  |             | (11,596)     |  |            | -            |
| Income tax benefit                      |  |             | 161,910      |  |            | 83,781       |
| Net loss from discontinued operations   |  |             | \$ (387,706) |  |            | \$ (114,382) |

Note 10. Going Concern:

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. During the three months ended June 30, 2011, the Company incurred a net loss of approximately \$422,000 (restated) and for the nine months ended June 30, 2011, the Company incurred a net loss of approximately \$2,083,000 (restated). As of June 30, 2011, the Company had an accumulated deficit of approximately \$7,484,000 (restated). As discussed in Note 5, as of June 30, 2011, the Company was in violation of covenants with the Lender, a waiver for which was received. Based on these circumstances, it raises substantial doubt about the Company's ability to continue as a going concern. If the Company is unable to generate profits and unable to continue to obtain financing or renew existing financing for its working capital requirements, it may have to curtail its business sharply or cease business altogether. These unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary in the event the Company does not continue as a going concern.

As noted in the Company's Form 8-K filed on June 8, 2011, the Company has signed a term sheet with a new lender for larger, replacement credit facility. This new credit facility is expected to close within 30 days. The new credit facility is expected to be in the aggregate amount of \$5,000,000, replacing the Company's current \$2,000,000 working capital facility. The new credit facility will be used to repay the existing line of credit and to provide working capital for the ongoing operations.

While the Company is in the process of completing the restructuring of its financing, the Company expects the existing cash balances, cash flow generated from operating activities, and the available borrowing capacity under Line of Credit One and Line of Credit Three provided by Amendment 8 to be sufficient to fund operations.

Note 11. Restatement of Consolidated Financial Statements:

These financial statements have been restated to correct errors relating to certain equity compensation awards. These errors affected the number of shares outstanding, the valuation and timing of the expense recognition of those equity awards, and the amount and timing of sales discounts and allowances and selling expenses related to a customer incentive program that was put into place by former management and the error regarding the number of shares outstanding related to equity compensation awards with multiple vesting dates that covered multi-year service periods. The errors caused the Company to understate selling expenses related to customer incentive program and stock-based compensation. Additionally, the error regarding the number of issued and outstanding had the further effect of misstating the basic and fully-diluted earnings per share for the three and nine months ended June 30, 2011.

The following tables show the specific effects of the restatement on the condensed consolidated financial statements as of and for the three and nine months ended June 30, 2011:

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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Balance Sheet

| (Unaudited)  | June 30,<br>2011<br>ORIGINAL | June 30,<br>2011<br>ADJUSTMENTS | RESTATED             |
|--|------------------------------|---------------------------------|----------------------|
| <b>Assets</b>  |                              |                                 |                      |
| <b>Current Assets:</b>   |                              |                                 |                      |
| Cash and cash equivalents  | \$ 23,350                    | \$ -                            | \$ 23,350            |
| Accounts receivable, net   | 390,070                      | -                               | 390,070              |
| Inventories  | 3,126,074                    | -                               | 3,126,074            |
| Income taxes receivable  | 4,371                        | -                               | 4,371                |
| Deferred income taxes  | 518,000                      | 3,000                           | 521,000              |
| Prepaid expenses and other   | 101,314                      | -                               | 101,314              |
| Assets held for sale   | 139,033                      | -                               | 139,033              |
| <b>Total current assets</b>  | <b>4,302,213</b>             | <b>-</b>                        | <b>4,305,213</b>     |
| Property, plant, and equipment, net  | 9,481,534                    | -                               | 9,481,534            |
| Intangible assets, net   | 59,620                       | -                               | 59,620               |
| Other assets   | 16,600                       | -                               | 16,600               |
| <b>Total assets</b>  | <b>\$ 13,859,968</b>         | <b>\$ 3,000</b>                 | <b>\$ 13,862,968</b> |
| <b>Liabilities and Stockholders' Equity</b>  |                              |                                 |                      |
| <b>Current Liabilities:</b>  |                              |                                 |                      |
| Disbursements in excess of bank balances   | \$ 121,334                   | \$ -                            | \$ 121,334           |
| Accounts payable   | 2,001,430                    | -                               | 2,001,430            |
| Accrued expenses   | 1,416,178                    | (21,800)                        | 1,394,378            |
| Bank line of credit  | 2,000,000                    | -                               | 2,000,000            |
| Current portion of notes payable   | 434,962                      | -                               | 434,962              |
| Liabilities related to assets held for sale  | 21,362                       | -                               | 21,362               |
| Current portion of deferred gain   | -                            | -                               | -                    |
| <b>Total current liabilities</b>   | <b>5,995,266</b>             | <b>(21,800)</b>                 | <b>5,973,466</b>     |
| <b>Long-Term Liabilities:</b>  |                              |                                 |                      |
| Notes payable, less current portion  | 2,149,333                    | -                               | 2,149,333            |
| Deferred income taxes  | 697,000                      | 27,000                          | 724,000              |
| <b>Total long term liabilities</b>   | <b>2,846,333</b>             | <b>27,000</b>                   | <b>2,873,333</b>     |
| <b>Total liabilities</b>   | <b>8,841,599</b>             | <b>5,200</b>                    | <b>8,846,799</b>     |
| <b>Stockholders' Equity:</b>   |                              |                                 |                      |
| Common stock, \$.0001 par value; 100,000,000 shares authorized;<br>6,990,662 shares issued and outstanding | 635                          | 64                              | 699                  |
| Additional paid-in capital   | 12,223,012                   | 276,660                         | 12,499,672           |
| Accumulated deficit  | (7,205,278)                  | (278,924)                       | (7,484,202)          |
| <b>Total stockholders' equity</b>  | <b>5,018,368</b>             | <b>(2,200)</b>                  | <b>5,016,168</b>     |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 13,859,968</b>         | <b>\$ 3,000</b>                 | <b>\$ 13,862,968</b> |

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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Statement of Operations  
For the Three Months Ended June 30, 2011

| (Unaudited)  | ORIGINAL            | ADJUSTMENTS      | RESTATED            |
|--|---------------------|------------------|---------------------|
| <b>Revenues:</b>   |                     |                  |                     |
| Net sales  | \$ 911,874          | \$ 61,790        | \$ 973,664          |
| Freight income   | 17,116              | -                | 17,116              |
| <b>Total revenues</b>  | <b>928,990</b>      | <b>61,790</b>    | <b>990,780</b>      |
| <b>Cost of goods sold</b>  | <b>589,091</b>      | <b>-</b>         | <b>589,091</b>      |
| <b>Gross profit (loss)</b>                                       | <b>339,899</b>      | <b>61,790</b>    | <b>401,689</b>      |
| <b>Selling, general, and administrative expenses</b>             | <b>900,659</b>      | <b>36,526</b>    | <b>937,185</b>      |
| <b>Loss from operations</b>                                      | <b>(560,761)</b>    | <b>25,264</b>    | <b>(535,497)</b>    |
| <b>Other income (expense):</b>                                   |                     |                  |                     |
| Interest expense   | (71,749)            | -                | (71,749)            |
| Miscellaneous  | 84,043              | -                | 84,043              |
| <b>Total other income (expense), net</b>                         | <b>12,295</b>       | <b>-</b>         | <b>12,295</b>       |
| <b>Loss from continuing operations before income tax benefit</b> | <b>(548,466)</b>    | <b>25,264</b>    | <b>(523,202)</b>    |
| <b>Benefit from income taxes</b>                                 | <b>203,020</b>      | <b>(12,000)</b>  | <b>191,020</b>      |
| <b>Net loss from continuing operations</b>                       | <b>(345,446)</b>    | <b>13,264</b>    | <b>(332,182)</b>    |
| <b>Loss from discontinued operations, net of tax</b>             | <b>(85,746)</b>     | <b>(4,526)</b>   | <b>(90,272)</b>     |
| <b>Net loss</b>  | <b>\$ (431,191)</b> | <b>\$ 8,738</b>  | <b>\$ (422,453)</b> |
| <b>Weighted average shares of common stock:</b>                  |                     |                  |                     |
| <b>Basic</b>   | <b>6,353,843</b>    | <b>636,819</b>   | <b>6,990,662</b>    |
| <b>Diluted</b>   | <b>6,353,843</b>    | <b>636,819</b>   | <b>6,990,662</b>    |
| <b>Loss per basic and diluted share:</b>                         |                     |                  |                     |
| <b>Continuing Operations</b>                                     | <b>\$ (0.05)</b>    | <b>\$ (0.00)</b> | <b>\$ (0.05)</b>    |
| <b>Discontinued Operations</b>                                   | <b>\$ (0.01)</b>    | <b>\$ 0.00</b>   | <b>\$ (0.01)</b>    |

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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Statement of Operations  
For the Nine Months Ended June 30, 2011

| (Unaudited)  | ORIGINAL              | ADJUSTMENTS      | RESTATED              |
|--|-----------------------|------------------|-----------------------|
| <b>Revenues:</b>   |                       |                  |                       |
| Net sales  | \$ 7,750,480          | \$ 156,296       | \$ 7,906,776          |
| Freight income   | 74,386                | -                | 74,386                |
| <b>Total revenues</b>  | <b>7,824,866</b>      | <b>156,296</b>   | <b>7,981,162</b>      |
| Cost of goods sold   | 6,495,312             | -                | 6,495,312             |
| Lower of cost or market adjustment                               | 480,918               | -                | 480,918               |
| <b>Gross profit</b>  | <b>848,636</b>        | <b>156,296</b>   | <b>1,004,932</b>      |
| Selling, general, and administrative expenses                    | 3,460,662             | 14,605           | 3,475,267             |
| <b>Loss from operations</b>                                      | <b>(2,612,026)</b>    | <b>141,691</b>   | <b>(2,470,335)</b>    |
| <b>Other income (expense):</b>                                   |                       |                  |                       |
| Interest expense   | (244,064)             | -                | (244,064)             |
| Gain (loss) on sale of assets                                    | (8,466)               | -                | (8,466)               |
| Miscellaneous  | 171,289               | -                | 171,289               |
| <b>Total other expense, net</b>                                  | <b>(81,241)</b>       | <b>-</b>         | <b>(81,241)</b>       |
| <b>Loss from continuing operations before income tax benefit</b> | <b>(2,693,267)</b>    | <b>141,691</b>   | <b>(2,551,576)</b>    |
| Benefit from income taxes  | 947,041               | (91,000)         | 856,041               |
| <b>Net loss from continuing operations</b>                       | <b>(1,746,226)</b>    | <b>50,691</b>    | <b>(1,695,535)</b>    |
| Loss from discontinued operations, net of tax                    | (380,071)             | (7,635)          | (387,706)             |
| <b>Net loss</b>  | <b>\$ (2,126,297)</b> | <b>\$ 43,056</b> | <b>\$ (2,083,241)</b> |
| <b>Weighted average shares of common stock:</b>                  |                       |                  |                       |
| Basic  | 6,343,929             | 998,669          | 7,342,598             |
| Diluted  | 6,343,929             | 998,669          | 7,342,598             |
| <b>Loss per basic and diluted share:</b>                         |                       |                  |                       |
| Continuing Operations  | \$ (0.28)             | \$ 0.05          | \$ (0.23)             |
| Discontinued Operations  | \$ (0.06)             | \$ 0.01          | \$ (0.05)             |



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Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Statement of Cash Flows  
For the Nine Months Ended June 30, 2011

| (Unaudited)  | ORIGINAL       | ADJUSTMENTS | RESTATED       |
|--|----------------|-------------|----------------|
| <b>Cash Flows from Operating Activities from Continuing Operations:</b>                                    |                |             |                |
| Net loss from continuing operations  | \$ (1,746,226) | \$ 50,691   | \$ (1,695,535) |
| Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities: |                |             |                |
| Depreciation   | 472,667        | -           | 472,667        |
| Amortization   | 1,168          | -           | 1,168          |
| Reserve for bad debts  | 60,000         | -           | 60,000         |
| Lower of cost or market adjustment   | 480,918        | -           | 480,918        |
| Stock-based compensation   | -              | 124,753     | 124,753        |
| Loss on sale of property, plant and equipment  | 8,466          | -           | 8,466          |
| Change in operating assets and liabilities:  |                |             |                |
| Accounts receivable  | 1,425,089      | -           | 1,425,089      |
| Inventories  | (605,305)      | -           | (605,305)      |
| Income tax receivable  | 636,362        | -           | 636,362        |
| Prepaid expenses, net  | 219,161        | -           | 219,161        |
| Other assets   | (9,187)        | -           | (9,187)        |
| Accounts payable, net  | 1,307,551      | -           | 1,307,551      |
| Deferred income taxes  | (1,109,000)    | 91,000      | (1,018,000)    |
| Accrued expenses   | 483,915        | (266,444)   | 217,471        |
| Net cash provided by operating activities from continuing operations                                       | 1,625,578      | -           | 1,625,578      |
| <b>Cash Flows from Investing Activities from Continuing Operations:</b>                                    |                |             |                |
| Purchase of property, plant and equipment  | (126,661)      | -           | (126,661)      |
| Purchase of intangible assets, net   | (11,380)       | -           | (11,380)       |
| Proceeds from sale of property, plant and equipment  | 25,996         | -           | 25,996         |
| Net cash used for investing activities in continuing operations  | (112,045)      | -           | (112,045)      |
| <b>Cash Flows from Financing Activities from Continuing Operations:</b>                                    |                |             |                |
| Changes in disbursements in excess of bank balances  | (265,807)      | -           | (265,807)      |
| Payments on bank notes payable   | (593,665)      | -           | (593,665)      |
| Bank line of credit, net   | (700,000)      | -           | (700,000)      |
| Net cash used for financing activities from continuing operations  | (1,559,472)    | -           | (1,559,472)    |
| <b>Cash Flows from Discontinued Operations:</b>  |                |             |                |
| Cash provided by operating activities  | 40,350         | -           | 40,350         |
| Net cash provided by discontinued operations   | 40,350         | -           | 40,350         |
| Net decrease in cash and cash equivalents  | (5,589)        | -           | (5,589)        |
| Cash and cash equivalents, beginning of period   | 28,939         | -           | 28,939         |
| Cash and cash equivalents, end of period   | \$ 23,350      | - \$        | 23,350         |



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### Cycle Country Accessories Corp. and Subsidiaries Condensed Consolidated Statement of Cash Flows For the Nine Months Ended June 30, 2011

| (Unaudited)   | ORIGINAL   | ADJUSTMENTS | RESTATED   |
|---|------------|-------------|------------|
| <b>Supplemental disclosures of cash flow information:</b>         |            |             |            |
| <b>Cash paid (received) during the period for:</b>                |            |             |            |
| Interest  | \$ 244,069 | \$ -        | \$ 244,069 |
| <b>Supplemental schedule of non-cash investing and financing:</b> |            |             |            |
| Treasury stock purchased included in accrued expense              | \$ -       | \$ 128,744  | \$ 128,744 |
| Disposal of fixed assets  | \$ 55,124  | \$ -        | \$ 55,124  |

#### 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/A 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 our Form 10-K/A for the year ended September 30, 2010. 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 subsidiary (the "Company", "we", "us", or "our") and should be read in conjunction with our condensed consolidated financial statements as of September 30, 2010, 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/A for the fiscal year ended September 30, 2010.

We intend for this discussion to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those condensed consolidated financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed 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.

As we discussed in our Form 10-Q/A for the period ended March 31, 2011, the Company has made significant progress in accelerating the changes in our management and operations beginning January 1, 2011. With the resignation of the former CEO and one of the Company's outside directors on December 31, 2010, and the elevation of the Chief Financial Officer to the role of the Interim Chief Executive Officer, the Company has been able to rebuild a team of former leaders of the Company and the industry. The Company rehired both the former Vice President of Sales and the Vice President of Product Innovation, as well as retained and elevated two key people in the positions of Vice President of Product Implementation and the Vice President of Risk Management and Strategic Projects. This team has revitalized our sales, marketing, and operational effectiveness.

These changes have accelerated the internal operational and financial reorganization efforts that started in 2009, as well as the external strengthening of relationships and opportunities. While we have made significant progress, especially in the areas of rebuilding customer trust and credibility, and in implementing operational changes, the challenges the Company has been working through will take some more time to demonstrate results.

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As noted in our condensed consolidated financial statements, the Company has become even more aggressive in analyzing and acting on the opportunities for growth and opportunities for risk management. We have made aggressive, bold changes to clean up underperforming segments and assets. The internal reorganization and initiatives have eliminated the unprofitable and/or unnecessary aspects of the business, allowing us to focus our efforts on our core customers, core products, and our core people.

Looking ahead to the balance of fiscal 2011, management is projecting a continuation of the seasonal pattern experienced by the Company, with sales having reached their annual lows in the third quarter of our fiscal year, and with a prediction of a more favorable finish in the fourth quarter. As is discussed further in this report, during the normally slow sales period of the third quarter, the Company focused on implementing long-term lean initiatives and preparation of the manufacturing operations for the next 24 month period, while we built inventory for the coming season. The third quarter is historically a period of very light sales, and therefore heavy losses from operations. In anticipation of the upcoming season, we made several major changes to our manufacturing processes to improve our operating efficiencies. We believe that these improvements will help us mitigate our future seasonality.

Looking further out over the next 12-24 months, management projects growth in both revenues and margins, based on many factors, including the response of the industry to the initiatives mentioned above, as well as the continued operational efficiencies gained from the efforts and initiatives of the past 24 months. The Company anticipates contribution margins over the next 12-24 month period to range between 25% and 45% of revenue, depending on the segment. Our goal for the ATV Accessories segment is to regain and maintain its long-time average of 40% contribution margins. Our goal for the Imdyne segment is to have contribution margins in the range of 25%-30% of revenue. Overall, our goal is for gross margins, after manufacturing overhead, to exceed 30% of revenues in that same period. Further, for the next 12-24 months, our goal is for our operating expenses to average between 20%-25% of revenues.

Overview for the Three Months Ended June 30, 2011 (Restated) and 2010 (Unaudited)

The following is a summary of the results of operations for the three months ended June 30, 2011 and June 30, 2010 (Unaudited):

|   | Three Months Ended June 30, |          |              |          |
|---|-----------------------------|----------|--------------|----------|
|   | 2011 (Restated)             |          | 2010         |          |
|   | (Unaudited)                 |          | (Unaudited)  |          |
| Total revenue                                 | \$ 990,780                  | 100.00%  | \$ 1,797,008 | 100.00%  |
| Cost of goods sold                            | 589,091                     | 59.46%   | 1,542,269    | 85.82%   |
| Gross profit (loss)                           | 401,689                     | 40.54%   | 254,739      | 14.18%   |
| Selling, general, and administrative expenses | (937,185)                   | (94.59)% | (988,770)    | (55.02)% |
| Loss from operations                          | (535,497)                   | (54.05)% | (734,030)    | (40.85)% |
| Other expense (net)                           | 12,295                      | 1.24%    | (43,463)     | (2.42)%  |
| Loss before benefit from income taxes         | (523,202)                   | (52.81)% | (777,493)    | (43.26)% |
| Income tax benefit                            | 191,020                     | 19.28%   | 265,793      | 14.79%   |
| Net loss from continuing operations           | (332,182)                   | (33.53)% | (511,699)    | (28.47)% |
| Loss from discontinued operations, net of tax | (90,272)                    | (9.11)%  | (71,842)     | (4.00)%  |
| Net loss                                      | \$ (422,453)                | (42.64)% | \$ (583,541) | (32.46)% |

For the three months ended June 30, 2011, the Company reported a net loss of \$422,000 (restated) or 43% of total revenue (restated). This compares to the three months ended June 30, 2010 during which the Company recorded a net loss of \$584,000 or 32% of total revenue. Total revenue for the three months ended June 30, 2011 decreased approximately 45% (restated), or approximately \$806,000 (restated) compared to the same period in fiscal year 2010. This drop in year-over-year revenue was attributable to two significant changes in the business. The first was a scheduled lean manufacturing-driven shutdown of the Spencer manufacturing facility for two of the three months ended June 30, 2011 to accomplish some long-overdue operational and process improvements. The second was attributable to a decline in revenues of approximately 50% (restated) in the Imdyne segment, after the Company's



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decision not to pursue contract work with unprofitable customers from the prior years. These long-overdue operational and process improvements consisted of a series of layout and process changes in the Spencer manufacturing facility's operational flow, as well as reorganizing the quality and inventory management processes. In the case of Imdyne, as previously disclosed in other filings, the Company has chosen to discontinue work on contract manufacturing for customers in which the production was not profitable. This decision, starting in the first quarter of this fiscal year, has had an impact in our overall sales in the Imdyne division.

In total, the gross margin for the quarter ended June 30, 2011 was 41% (restated), up from 14% in the same period in fiscal year 2010. The gross margin improvement in this quarter was attributable to continuation of the improvement in our operations as well as due to the lack of any materially-significant cleanups, allowing the Company to return to more normal margins.

The net loss for the quarter ended June 30, 2011 was \$422,453 (restated), compared to a loss of \$583,541 in the same period in fiscal year 2010. This reduction of net loss was attributable to an increase in our total gross profit of approximately \$169,000 (restated).

The following is a summary of the results of operations by segment for the three months ended June 30, 2011 (Restated) and June 30, 2010 (unaudited):

|   | For the Three Months Ended           |                           | Increase (Decrease) | Increase (Decrease) |
|---|--------------------------------------|---------------------------|---------------------|---------------------|
|   | June 30, 2011 (Restated) (Unaudited) | June 30, 2010 (Unaudited) |                     |                     |
| Net revenue by segment                        |                                      |                           |                     |                     |
| CCAC ATV                                      | \$ 545,868                           | \$ 915,922                | \$ (370,054)        | (40.40)%            |
| Imdyne  | 427,796                              | 867,536                   | (439,740)           | (50.69)%            |
| Net revenue                                   | 973,664                              | 1,783,458                 | (809,794)           | (45.41)%            |
| Freight income                                | 17,116                               | 13,551                    | 3,564               | 26.30%              |
| Total combined revenue                        | \$ 990,780                           | \$ 1,797,009              | \$ (806,229)        | (44.87)%            |
| Gross profit by segment                       |                                      |                           |                     |                     |
| CCAC ATV                                      | \$ 363,338                           | \$ 93,697                 | \$ 269,641          | 287.78%             |
| Imdyne  | 38,351                               | 161,043                   | (122,692)           | (76.19)%            |
| Total gross profit                            | 401,689                              | 254,740                   | 146,949             | 57.69%              |
| Sales, general and administrative             | (937,185)                            | (988,770)                 | 51,585              | 5.22%               |
| Interest income and expense                   | (71,749)                             | (79,201)                  | 7,452               | 9.41%               |
| Other income and expense                      | 84,043                               | 77,820                    | 6,223               | 8.00%               |
| Income tax benefit                            | 191,020                              | 265,793                   | (74,773)            | (28.13)%            |
| Net loss from continuing operations           | (332,182)                            | (469,618)                 | 137,436             | 29.27%              |
| Loss from discontinued operations, net of tax | (90,272)                             | (71,842)                  | 16,058              | 22.35%              |
| Net loss                                      | \$ (422,453)                         | \$ (541,459)              | \$ 119,006          | 21.98%              |

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### Overview for the Nine Months Ended June 30, 2011 and 2010 (Unaudited)

The following is a summary of the results of operations for the nine months ended June 30, 2011 and June 30, 2010 (Unaudited):

|   | Nine Months Ended June 30, |          |              |          |
|---|----------------------------|----------|--------------|----------|
|   | 2011(Restated)             |          | 2010         |          |
|   | (Unaudited)                |          | (Unaudited)  |          |
| Total revenue                                 | \$ 7,981,162               | 100.00%  | \$ 8,035,716 | 100.00%  |
| Cost of goods sold                            | 6,495,312                  | 81.38%   | 5,758,063    | 71.66%   |
| Lower of cost or market adjustment            | 480,918                    | 6.03%    | -            | 0.00%    |
| Gross profit                                  | 1,004,932                  | 12.59%   | 2,277,654    | 28.34%   |
| Selling, general, and administrative expenses | (3,475,267)                | (43.54)% | (2,843,736)  | (35.39)% |
| Fraud expense                                 | -                          | 0.00%    | (134,775)    | (1.68)%  |
| Loss from operations                          | (2,470,335)                | (30.95)% | (700,859)    | (8.72)%  |
| Other expense (net)                           | (81,241)                   | (1.02)%  | (115,674)    | (1.44)%  |
| Loss before benefit from income taxes         | (2,551,576)                | (31.97)% | (816,533)    | (10.16)% |
| Income tax benefit                            | 856,041                    | 10.73%   | 286,181      | 3.56%    |
| Net loss from continuing operations           | (1,695,535)                | (21.24)% | (530,351)    | (6.60)%  |
| Loss from discontinued operations, net of tax | (387,706)                  | (4.86)%  | (114,382)    | (1.42)%  |
| Net loss                                      | \$ (2,083,241)             | (26.10)% | \$ (644,734) | (8.02)%  |

For the nine months ended June 30, 2011, the Company reported a net loss of \$2,083,241 (restated) or 26% (restated) of total revenue (restated). This compares to the nine months ended June 30, 2010 during which the Company recorded a net loss of \$644,734 or about 8% of total revenue. These losses in the first nine months of fiscal year 2011 include significant nonrecurring charges, such as approximately \$195,000 (restated) for one-time severance expense and signing bonuses, \$480,918 for inventory write-downs, and \$387,706 (restated) for losses from discontinued operations. These one-time, non-recurring expenses account for approximately \$1,038,000 (restated) of the loss. In addition, our steel-based commodity material expenses increased over 34%, causing our total materials expense to increase 15% over the nine-month period, accounting for approximately \$300,000 of the net loss.

Total revenue for the period decreased approximately 1% (restated) over the same period in fiscal year 2010. However, after adjusting for the loss in revenue from the unprofitable customers that we discontinued serving, our total revenue for the nine month period is up approximately 16%. Revenue increased for the Cycle Country ATV Accessories segment by approximately 10% (restated), due to seasonally favorable weather throughout our busy snow season, which primarily runs from August through February. Sales in the Imdyne segment decreased approximately 27% (restated), though when adjusted for the loss of the unprofitable customers, the core Imdyne segment grew approximately 52% for the nine-month period. The change in revenue from Imdyne's largest OEM customer accounts for all of that growth.

Gross margins for the nine months ended June 30, 2011 were 13% of revenue (restated), after the adjustments for one-time charges. However, without the one-time charges, the gross margins would have been 19% of revenue (restated).

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The following is a summary of the results of operations by segment for the nine months ended June 30, 2011(restated) and June 30, 2010 (Unaudited):

|  | For the Nine Months Ended<br>June30, |                     | Increase<br>(Decrease) \$ | Increase<br>(Decrease)<br>% |
|--|--------------------------------------|---------------------|---------------------------|-----------------------------|
|  | 2011(Restated)                       | 2010                |                           |                             |
| (Unaudited)  |                                      |                     |                           |                             |
| <b>Net revenue by segment</b>                        |                                      |                     |                           |                             |
| CCAC ATV   | \$ 6,137,155                         | \$ 5,558,700        | \$ 578,455                | 10.41%                      |
| Imdyne   | 1,769,621                            | 2,415,666           | (646,045)                 | (26.74)%                    |
| <b>Net revenue</b>                                   | <b>7,906,776</b>                     | <b>7,974,366</b>    | <b>(67,590)</b>           | <b>(0.85)%</b>              |
| <b>Freight income</b>                                | <b>74,386</b>                        | <b>61,350</b>       | <b>13,036</b>             | <b>21.25%</b>               |
| <b>Total combined revenue</b>                        | <b>\$ 7,981,162</b>                  | <b>\$ 8,035,715</b> | <b>\$ (54,553)</b>        | <b>(0.68)%</b>              |
| <b>Gross profit (loss) by segment</b>                |                                      |                     |                           |                             |
| CCAC ATV   | \$ 975,748                           | \$ 1,976,987        | \$ (1,001,239)            | (50.64)%                    |
| Imdyne   | 29,186                               | 300,666             | (271,480)                 | (90.29)%                    |
| <b>Total gross profit</b>                            | <b>1,004,932</b>                     | <b>2,277,653</b>    | <b>(1,272,721)</b>        | <b>(55.88)%</b>             |
| Sales, general and administrative                    | (3,475,268)                          | (2,843,736)         | (631,532)                 | (22.21)%                    |
| Fraud expense  | -                                    | (134,775)           | 134,775                   | 100.00%                     |
| Interest income and expense                          | (244,065)                            | (232,440)           | (11,625)                  | (5.00)%                     |
| Other income and expense                             | 162,824                              | 116,770             | 46,054                    | 39.44%                      |
| Income tax benefit                                   | 856,041                              | 286,177             | 569,864                   | 199.13%                     |
| <b>Net loss from continuing operations</b>           | <b>(1,695,535)</b>                   | <b>(530,351)</b>    | <b>(1,165,184)</b>        | <b>(219.70)%</b>            |
| <b>Loss from discontinued operations, net of tax</b> | <b>(387,706)</b>                     | <b>(114,382)</b>    | <b>(273,324)</b>          | <b>(238.96)%</b>            |
| <b>Net loss</b>                                      | <b>\$ (2,083,241)</b>                | <b>\$ (644,734)</b> | <b>\$ (1,438,507)</b>     | <b>(223.12)%</b>            |

### Business Segments

As more fully described above in Note 7 to the condensed consolidated financial statements included elsewhere in this filing, the Company operates four reportable business segments. As described in Note 9 to the condensed consolidated financial statements, the Company has classified two of the segments into discontinued operations.

Cycle Country ATV Accessories is vertically integrated and utilizes a two-step distribution method. Our contract manufacturing segment, Imdyne, deals directly with other original equipment manufacturers (OEMs).

### Revenue

For the Cycle Country ATV Accessories segment, revenue decreased approximately 40% (restated) or \$370,000 (restated) for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010. As noted earlier, the company shut down for two of the three months in the quarter ended June 30, 2011 to accomplish some long-overdue lean manufacturing driven operational and process improvements. Revenues for the nine months ended June 30, 2011 increased approximately 10% (restated) to approximately \$6,137,000 (restated) for this segment compared to approximately \$5,559,000 for the nine months ended June 30, 2010. The increase of approximately \$578,000 (restated) is attributable to a favorable weather in our snow season, along with the solidification of our customer relations and the resulting increase in market share.

The Imdyne segment reported sales of approximately \$428,000 and \$867,000 for the three months ended June 30, 2011 and June 30, 2010, respectively. As of October 1, 2010, management made the decision to discontinue processing orders for customers that were not profitable for the Company, which resulted in a decrease in sales. These customers represented approximately 17% of last year's total sales or approximately 65% of the sales of the Imdyne segment in the fiscal year ended September 30, 2010. However, sales increased for other, more profitable

customers, replacing some of those sales that were lost, resulting in a

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net decrease for the period of approximately \$439,000 (restated). Revenues for the segment were approximately \$1,770,000 (restated) and \$2,416,000 for the nine month periods ended June 30, 2011 and June 30, 2010, respectively, a decrease of 27% (restated) for the nine month period, due to sales to customers which were deliberately discontinued.

### Cost of Goods Sold

The following table details components of direct costs of goods sold by segment as a percentage of sales:

|              | For the Three Months Ended              |        |                              |        |
|--------------|---|--------|------------------------------|--------|
|              | June 30, 2011 (Restated)<br>(Unaudited) |        | June 30, 2010<br>(Unaudited) |        |
|              | ATV                                     | Imdyne | ATV                          | Imdyne |
|              | % of Net Sales                          |        | % of Net Sales               |        |
| Materials    | 67.40%                                  | 66.78% | 56.40%                       | 53.93% |
| Direct labor | 4.97%                                   | 7.24%  | 5.00%                        | 5.93%  |
| Mfg variance | (25.32)%                                | 0.90%  | 10.10%                       | 0.45%  |
| Subcontract  | 0.40%                                   | 0.39%  | 0.40%                        | 1.77%  |
| Royalty      | 1.00%                                   | 0.00%  | 0.76%                        | 0.00%  |
| Burden       | 15.85%                                  | 19.23% | 8.86%                        | 8.92%  |
| Mfg overhead | (17.23)%                                | 1.85%  | 9.00%                        | 11.19% |
|              | 47.07%                                  | 96.39% | 90.52%                       | 82.19% |

The total cost of materials as a percentage of revenue has increased significantly this year. The total cost of material for the Cycle Country ATV Accessories segment increased from approximately 56% for the three months ended June 30, 2010 to approximately 67% (restated) for the three months ended June 30, 2011. The biggest change came in our steel-based raw materials and component parts. The Company attempted to manage the rapid increase in steel prices, but was only able to mitigate, rather than prevent, the impact on the cost of goods sold and margins. On average, the commodity steel market is up approximately 34% since October 1, 2010. As our products are primarily steel-based, our costs of raw materials are up 15% overall for the quarter ended June 30, 2011.

The cost of materials increased from approximately 45% of net sales to approximately 55% of net sales for the nine months ended June 30, 2011 as compared to the nine months ended June 30, 2010. On average, the commodity steel market is up approximately 45% since October 1, 2010. As our products are primarily steel-based, our total costs of materials are up 15% overall for the nine months ended June 30, 2011.

Direct labor as a percentage of sales increased for both segments due to increases in wages paid to production employees.

### Expenses

Our selling, general and administrative expenses were approximately \$937,000 (restated) and \$989,000 for the three months ended June 30, 2011 and June 30, 2010, respectively.

There were no materially significant changes in expenses for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010. The company is working hard to reduce its overall expenses, including efforts such as the reduction in professional services due to the conclusion of the Hancher fraud investigation and litigation, as well as savings from the discontinuation of unnecessary sales and marketing programs.

For the nine months ended June 30, 2011 and 2010, selling, general and administrative expenses were approximately \$3,475,000 (restated) and \$2,844,000, respectively.

The significant changes in expenses for the nine months ended June 30, 2011 as compared to the nine months ended June 30, 2010 were:

Wage expense increased approximately \$474,000 (restated) due in part to charges related to the hiring of sales, engineering, and operational management and the one-time severance expense of the prior CEO and other employees. Signing bonuses of \$195,000 were accrued but was offset by severance and other expenses in the amount of -\$3,000 (restated). Additionally, officer restricted stock-based compensation expense was approximately \$128,000 (restated).

Promotion expense increased on costs associated with marketing promotions, an agency retainer, and buyback programs, each of which were either discontinued or else refocused.

Professional fees increased approximately \$100,000 due, in part, to fees associated with SEC filing requirements and legal and audit expenses, including those related to the Hancher fraud matter and the departure of the former Chief Executive Officer.

## Liquidity and Capital Resources

## Overview

Cash and cash equivalents were \$23,350 as of June 30, 2011 compared to \$28,939 as of September 30, 2010. Until required for operations, our policy is to invest any excess cash reserves in bank deposits, money market funds, and certificates of deposit after first repaying any built up balance on our bank line of credit.

## Working Capital

Net working capital was a deficit of \$1,668,253 (restated) as of June 30, 2011 compared to a surplus of \$1,182,316 (restated) as of September 30, 2010. The working capital ratio was 0.72 (restated) and 1.21 (restated) as of June 30, 2011 and September 30, 2010, respectively. The following table summarizes the Company's sources and uses of cash and equivalents for the periods indicated:

|  | Nine Months Ended June 30, |                     |
|--|----------------------------|---------------------|
|  | 2011<br>(Unaudited)        | 2010<br>(Unaudited) |
| Net cash provided by operating activities from continuing operations | \$ 1,625,578               | \$ 604,473          |
| Net cash used for investing activities in continuing operations      | (112,045)                  | (224,736)           |
| Net cash used for financing activities from continuing operations    | (1,559,472)                | (317,511)           |
| Net cash provided by (used for) discontinued operations              | 40,350                     | (39,919)            |
|  | \$ (5,589)                 | \$ 22,307           |

The Company's principal uses of cash are to pay operating expenses, acquire necessary equipment and to make debt service payments. During the nine months ended June 30, 2011, the Company used cash to make principal payments of approximately \$594,000 against long-term debt.

## Capital Resources

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 for the next twelve months. The Company is not considering any major capital expenditures for at least the next six months.

As of June 30, 2011 and as of September 30, 2010, the Company was in violation of its current ratio and term debt coverage ratio covenants in its loan agreements with its Lender. On January 17, 2011, the Company and its Lender entered into the Seventh Amendment to the Secured Credit Agreement and Waiver ("Amendment 7"). Under the terms of Amendment 7, the Lender agreed to waive the noncompliance by the Company with the required ratio of current assets to current liabilities as of September 30, 2010 and December 31, 2010 and the Company's anticipated noncompliance with the required ratio of current assets to current liabilities through October 1, 2011 and further, to waive the Company's noncompliance with the Term Debt Coverage Ratio as of September 30, 2010 and December 31, 2010, and the Company's anticipated noncompliance with the Term Debt Coverage Ratio through October 1, 2011.

On March 31, 2011, the Company and its lender entered into an Eighth Amendment to the Secured Credit Agreement and Waiver ("Amendment 8"). Amendment 8 replaces Amendment 7 with a Revolving Credit Agreement in an amount not to exceed \$2,000,000, which matured on August 1, 2011. See Note 10 to the Condensed Consolidated Financial Statements for further explanation.

Our continued existence is dependent upon our ability to generate cash and to market and sell our products successfully. However, there are no assurances that we will be able to borrow further funds from our lender or that we will increase our revenues and/or control our expenses to a level sufficient to provide positive cash flow.

## 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, inventory valuations of long lived assets and the recoverability of fraud expense. 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.

#### Allowance for Doubtful Accounts

The Company recognizes revenue when title and risk of ownership have passed to the buyer. Allowances for doubtful accounts are estimated based on estimates of losses related to customer accounts receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates and any specific customer collection issues the Company identifies could have a favorable or unfavorable effect on required reserve balances.

#### Inventories

Inventories are stated at the lower of cost or market using the weighted average method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Management regularly reviews inventory quantities on hand, future product demand and the estimated utility of inventory. If the review indicates a reduction in utility below carrying value, management would reduce the Company's inventory to a new cost basis through a charge to cost of goods sold.

#### Deferred Taxes

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Likewise, should the Company determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets long lived asset valuation would increase income in the period such determination was made.

#### Stock-Based Compensation

The Company accounts for stock-based compensation on a fair value basis. The estimated grant date fair value of each stock-based award is recognized in expense over the requisite service period (generally the vesting period).

#### Item 3. Quantitative and Qualitative Disclosure about Market Risk

As a smaller reporting company, the Company is not required to provide this information.

#### Item 4. Controls and Procedures

##### Disclosure Controls and Procedures

Based on management's evaluation (with the participation of our former Chief Executive Officer and Chief Financial Officer) as of the end of the period covered by this report, our former Chief Executive Officer and Chief Financial Officer have concluded that the Company's 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), are ineffective, due to the material weakness in our internal control over financial reporting as discussed below, to provide reasonable assurance that the information to be disclosed by the Company in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer as appropriate to allow timely decisions regarding required disclosures. Subsequent to the evaluation made in connection with the Original Filing, and in connection with the restatement and filing our prior 10-K/A, our management, including our current Chief Executive Officer and Chief Financial Officer, re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures and concluded that, because of the material weakness in our internal control over financial reporting of the Company's stock-based compensation plans and customer incentive programs, our disclosure controls and procedures continued to be ineffective as of June 30, 2011. Notwithstanding the material weaknesses discussed below, our management, including our current Chief Executive Officer and Chief Financial

Officer, has concluded that the consolidated financial statements included in our recent 10-K/A present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

**Changes in Internal Control over Financial Reporting**

Our management, including our principal executive officer and principal financial officer, have reviewed and evaluated any changes in our internal control over financial reporting that occurred as of June 30, 2011. Our management is in the process of addressing the above material weakness, as updated above, and is utilizing the services of an outside accounting firm to assist with this process. We believe this will help remediate the material weakness by focusing additional attention and resources in our internal accounting functions. However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively

**Part II - Other Information**

**Item 1. Legal Proceedings**

Please refer to the disclosure set forth in Note 2 to our Condensed Consolidated Financial Statements included in this report.

**Item 1A. Risk Factors**

Please refer to the discussion of risk factors included in the Company's annual report on Form 10-K/A for the fiscal year ended September 30, 2010.

**Item 6. Exhibits**

(10.1) Settlement Agreement with Lowell G. Hancher Jr. dated May 9, 2011 (previously filed)

(31.1) Certification of Principal Executive and 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 and 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 Securities Exchange Act, the registrant caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized, on April 16, 2012.

CYCLE COUNTRY ACCESSORIES CORP.

By: /s/ Robert Davis  
Robert Davis  
Chief Financial Officer, Chief Operating  
Officer, Chief Executive Officer, Treasurer,  
Secretary and Director  
(principal executive, financial and accounting  
officer)

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