

CYCLE COUNTRY ACCESSORIES CORP
Form 10-Q/A
May 17, 2010
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QUARTERLY REPORT FOR CYCLE COUNTRY ACCESSORIES CORP.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

(Mark one)

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

For the quarterly period ended December 31, 2008

OR

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

For the transition period from to

Commission file number: 001-31715

Cycle Country Accessories Corp.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

42-1523809

(IRS Employer Identification No.)

1701 38th Ave W, Spencer, Iowa 51301

(Address of principal executive offices)

P: (712) 262-4191

F: (712) 262-0248

www.cyclecountry.com

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

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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(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

The number of shares of the registrant's common stock, par value \$0.0001 per share, outstanding as of December 31, 2008 was 6,072,307.

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Explanatory Note

This amendment to our quarterly report on Form 10-Q/A (this Second Amendment) is being filed to amend our quarterly report on Form 10-Q for the quarter ended December 31, 2008, which was originally filed on February 18, 2009 (the Original Filing) and was amended in a filing on March 24, 2009 (the First Amendment). The condensed consolidated financial statements for the three months ended December 31, 2008 and related disclosures in this Amendment have been restated in accordance with the changes described below. The principal reason for the restatement is the correction and reclassification of information due to the previously discovered and disclosed misappropriation by the former Chairman of the Company s Board. In the process of completing the restatement, the Company has made some additional changes to correct certain small mathematical errors. All of the changes to the condensed consolidated financial statements as a result of this restatement are more fully reflected in the tables included at Note 2 to our condensed consolidated financial statements included in Part I, Item 1 Unaudited Financial Statements of this Second Amendment.

The Company originally reported the acquisition by the Company of 747,250 shares of its own stock at an average cost of \$.72 per share price for a total cost of \$570,000 in cash (the Stock Buyback) during the fiscal quarter ending December 31, 2008 of fiscal 2009. In the process of completing the audit of its financial statements for the fiscal year ended September 30, 2009, the Company was unable to obtain satisfactory documentation confirming the Stock Buyback.

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

In the process of investigating matters relating to the Stock Buyback, a number of irregularities surrounding the purported transactions surfaced. In response to ongoing inquiries from management for appropriate documentation on the use of \$570,000 provided by the Company to complete the Stock Buyback, on January 6, 2010, the Company received a letter from Mr. Hancher that stated \$400,000 of the funds advanced to him by the Company were not used to purchase shares of Company stock. The Company continues to work to recover all of the amounts misappropriated, but any such recoveries will impact subsequent periods and will be reported for in the periods in which such recoveries occur.

The funds reported as used for the Stock Buyback have been re-characterized as fraud expense in this Amendment. Also as a result of the misappropriation, the number of outstanding shares was incorrectly reported in each of the Company s quarterly reports on Form 10-Q for fiscal 2009, including the Original Filing and have been corrected in this Second Amendment.

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

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

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

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

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Cycle Country Accessories Corp.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

December 31, 2008

	December 31, 2008 (Unaudited)	September 30, 2008 (Audited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 206,510	\$ 194,576
Accounts receivable, net	2,524,378	2,935,647
Inventories	4,739,925	5,110,499
Income taxes receivable	20,741	14,780
Deferred income taxes	627,886	345,920
Prepaid expenses and other	106,679	209,617
Total current assets	8,226,119	8,811,039
Property, plant, and equipment, net	11,292,082	11,449,369
Intangible assets, net	201,999	177,812
Goodwill	4,890,146	4,890,146
Other assets	26,500	48,363
Total assets	\$ 24,636,846	\$ 25,376,729
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 180,030	\$ 577,278
Accrued interest payable	2,567	3,871
Accrued expenses	626,054	721,211
Bank line of credit	750,000	1,000,000
Current portion of bank notes payable	823,437	811,053
Current portion of deferred gain	166,524	166,524
Total current liabilities	2,548,612	3,279,937
Long-Term Liabilities:		
Bank notes payable, less current portion	3,762,802	3,971,525
Deferred gain, less current portion	152,647	194,278
Deferred income taxes	2,558,002	2,360,812
Total long term liabilities	6,473,451	6,526,615
Total liabilities	9,022,063	9,806,552
Stockholders Equity:		
Common stock, \$.0001 par value; 100,000,000 shares authorized; 6,072,307 and 6,022,307 shares issued and outstanding at December 31, 2008 and September 30, 2008 respectively net	748	743

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of treasury stock			
Additional paid-in capital	14,767,833		14,729,338
Retained Earnings	3,427,838		3,421,732
Treasury stock, at cost, 1,410,730 shares	(2,581,636)		(2,581,636)
Total stockholders' equity	15,614,783		15,570,177
Total liabilities and stockholders' equity	\$ 24,636,846	\$	25,376,729

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended December 31,	
	2008	2007
	(Unaudited)	(Unaudited)
Revenues:		
Net sales	\$ 4,309,053	\$ 4,978,194
Freight income	24,561	23,364
Total revenues	4,333,614	5,001,558
Cost of goods sold	(2,917,578)	(2,986,229)
Gross profit	1,416,036	2,015,329
Selling, general, and administrative expenses	(883,982)	(1,025,251)
Fraud expense	(570,000)	
Income from operations	(37,946)	990,078
Other Income (Expense):		
Interest expense	(85,560)	(89,283)
Interest income	684	9,632
Gain on sale of assets	38,216	238,432
Miscellaneous	(25)	1,791
Total other income (expense)	(46,685)	160,572
Income before provision for (benefit from) income taxes	(84,631)	1,150,650
Provision for (benefit from) income taxes	(90,737)	(416,092)
Net income (loss)	\$ 6,106	\$ 734,558
Weighted average shares of common stock outstanding:		
Basic	6,023,065	6,645,647
Diluted	6,023,065	6,645,647
Earnings per common share:		
Basic	\$	\$ 0.11
Diluted	\$	\$ 0.11

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Three Months Ended December 31,	
	2008	2007
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities:		
Net income (loss)	\$ 6,106	\$ 734,558
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	205,235	192,416
Amortization	1,475	1,431
Inventory reserve	9,000	9,000
Share-based expense	38,500	
Provision for doubtful accounts		5,000
Gain on sale of equipment	(23,236)	(238,431)
Change in:		
Accounts receivable, net	411,270	348,143
Inventories	348,763	(304,121)
Taxes receivable	(5,961)	(29,533)
Prepaid expenses and other	116,241	74,111
Accounts payable	(397,249)	286,432
Deferred income taxes	(84,776)	
Accrued expenses	(95,154)	30,388
Income taxes payable		416,092
Accrued interest payable	(1,304)	(153)
Net cash provided by operating activities	528,910	1,525,333
Cash Flows from Investing Activities:		
Purchase of equipment	(59,343)	(68,573)
Purchase of intangible assets	(4,295)	
Proceeds from sale of equipment	(7,000)	995
Net cash used in investing activities	(70,638)	(67,578)
Cash Flows from Financing Activities:		
Payments on bank notes payable	(196,338)	(149,057)
Bank Line of Credit, net	(250,000)	
Net cash used in financing activities	(446,338)	(149,057)
Net change in cash and cash equivalents	11,934	1,308,698
Cash and cash equivalents, beginning of period	194,576	454,848
Cash and cash equivalents, end of period	\$ 206,510	\$ 1,763,546

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Three Months Ended December 31,	
	2008	2007
	(Unaudited)	(Unaudited)
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 86,864	\$ 89,436
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of common stock from sale of property, plant, and equipment	\$	\$ 2,581,636
Issuance of common stock for payment of CEO bonus	\$	\$ 25,000
Issuance of stock and Options for payment of CEO	\$ 16,500	\$
Issuance of common stock for payment of consultant fees	\$ 22,500	\$ 91,500
Issuance of common stock for payment of director fees	\$	\$ 11,000

See accompanying notes to the condensed consolidated financial statements.

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1. Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements for the three months ended December 31, 2008 and 2007 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. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods ended December 31, 2008 and 2007 are not necessarily indicative of the results to be expected for the full year. These interim consolidated financial statements should be read in conjunction with the September 30, 2008 consolidated financial statements and related notes included in the Company's Annual Report on Forms 10-K and 10-K/A for the year ended September 30, 2008.

2. Restatement

In January 2010, the Company determined it would need to restate its condensed consolidated financial statements for the three months ended December 31, 2008. The Company originally reported the acquisition by the Company of 747,250 shares of its own stock at an average cost of \$.72 per share price for a total cost of \$570,000 in cash during the first fiscal quarter ending December 31, 2008 (the "Stock Buyback") of fiscal 2009. In the process of completing the audit of its financial statements for the fiscal year ended September 30, 2009, the Company was unable to obtain satisfactory documentation confirming the Stock Buyback.

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

In the process of investigating matters relating to the Stock Buyback, a number of irregularities surrounding the purported transactions surfaced. In response to ongoing inquiries from management for appropriate documentation on the use of \$570,000 in cash provided by the Company to complete the Stock Buyback, on January 6, 2010, the Company received a letter from Mr. Hancher that stated \$400,000 of the funds advanced to him by the Company were not used to purchase shares of Company stock. The Company continues to work to recover all of the amounts misappropriated, but any such recoveries will impact subsequent periods and will be reported for in the periods in which such recoveries occur.

The funds reported as used for the Stock Buyback have been re-characterized as fraud expense in this Amendment. Also as a result of the misappropriation, the number of outstanding shares was incorrectly reported in each of the Company's quarterly reports on Form 10-Q for fiscal 2009, including the Original Filing and have been corrected in this Second Amendment.

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The following tables show the specific effects of the restatement on the consolidated financial statements as of and for the three month period ended December 31, 2008:

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

December 31, 2008

	December 31, 2008 (Unaudited) ORIGINAL	ADJUSTMENTS	December 31, 2008 (Unaudited) RESTATED
Assets			
Current Assets:			
Cash and cash equivalents	\$ 206,510		\$ 206,510
Accounts receivable, net	2,524,378		2,524,378
Inventories	4,739,925		4,739,925
Income taxes receivable	20,741		20,741
Deferred income taxes	433,886	194,000	627,886
Prepaid expenses and other	106,679		106,679
Total current assets	8,032,119	194,000	8,226,119
Property, plant, and equipment, net	11,292,082		11,292,082
Intangible assets, net	201,999		201,999
Goodwill	4,890,146		4,890,146
Other assets	26,500		26,500
Total assets	\$ 24,442,846	\$ 194,000	\$ 24,636,846
Liabilities and Stockholders Equity			
Current Liabilities:			
Accounts payable	\$ 180,030		\$ 180,030
Accrued interest payable	2,567		2,567
Accrued expenses	626,054		626,054
Bank line of credit	750,000		750,000
Current portion of bank notes payable	823,437		823,437
Current portion of deferred gain	166,524		166,524
Total current liabilities	2,548,612		2,548,612
Long-Term Liabilities:			
Bank notes payable, less current portion	3,762,802		3,762,802
Deferred gain, less current portion	152,647		152,647
Deferred income taxes	2,558,002		2,558,002
Total long term liabilities	6,473,451		6,473,451
Total liabilities	9,022,063		9,022,063
Stockholders Equity:			
Common stock, \$.0001 par value; 100,000,000 shares authorized; 6,072,307 shares issued and outstanding, net of treasury stock	748		748
Additional paid-in capital	14,767,833		14,767,833
Retained Earnings	3,803,838	(376,000)	3,427,838
Treasury stock, at cost, 1,410,730 shares	(3,151,636)	570,000	(2,581,636)
Total stockholders equity	15,420,783	194,000	15,614,783
Total liabilities and stockholders equity	\$ 24,442,846	\$ 194,000	\$ 24,636,846

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended December 31,		
	2008 (Unaudited) ORIGINAL	ADJUSTMENTS	2008 (Unaudited) RESTATED
Revenues:			
Net sales	\$ 4,309,053	\$	\$ 4,309,053
Freight income	24,561		24,561
Total revenues	4,333,614		4,333,614
Cost of goods sold	(2,917,578)		(2,917,578)
Inventory adjustment			
Gross profit	1,416,036		1,416,036
Selling, general, and administrative expenses	(883,982)		(883,982)
Goodwill impairment			
Fraud expense		(570,000)	(570,000)
Income from operations	532,054	(570,000)	(37,946)
Other Income (Expense):			
Interest expense	(85,560)		(85,560)
Interest income	684		684
Gain on sale of assets	38,216		38,216
Miscellaneous	(25)		(25)
Total other income (expense)	(46,685)		(46,685)
Income before provision for (benefit from) income taxes	485,369	(570,000)	(84,631)
Provision for (benefit from) income taxes	103,263	(194,000)	(90,737)
Net income (loss)	\$ 382,106	\$ (376,000)	\$ 6,106
Weighted average shares of common stock outstanding:			
Basic	5,687,818	335,247	6,023,065
Diluted	5,687,818	335,247	6,023,065
Earnings per common share:			
Basic	\$ 0.07	\$ (0.07)	\$ 0.00
Diluted	\$ 0.07	\$ (0.07)	\$ 0.00

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Three Months Ended December 31, 2008 (Unaudited) ORIGINAL	ADJUSTMENTS	2008 (Unaudited) RESTATED
Cash Flows from Operating Activities:			
Net income	\$ 382,106	\$ (376,000)	\$ 6,106
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	205,235		205,235
Amortization	1,475		1,475
Inventory reserve	9,000		9,000
Share-based Expense	38,500		38,500
Gain on sale of equipment	(23,236)		(23,236)
Goodwill impairment			
Change in:			
Accounts receivable, net	411,270		411,270
Inventories	348,763		348,763
Taxes receivable	(5,961)		(5,961)
Prepaid expenses and other	116,241		116,241
Accounts payable	(397,249)		(397,249)
Deferred income taxes	109,224	(194,000)	(84,776)
Accrued expenses	(95,154)		(95,154)
Income taxes payable			
Accrued interest payable	(1,304)		(1,304)
Net cash provided by operating activities	1,098,910	(570,000)	528,910
Cash Flows from Investing Activities:			
Purchase of equipment	(59,343)		(59,343)
Purchase of intangible assets	(4,295)		(4,295)
Proceeds from sale of equipment	(7,000)		(7,000)
Net cash used in investing activities	(70,638)		(70,638)
Cash Flows from Financing Activities:			
Payments on bank notes payable	(196,338)		(196,338)
Bank Line of Credit, net	(250,000)		(250,000)
Purchase of treasury stock	(570,000)	570,000	
Net cash used in financing activities	(1,016,338)	570,000	(446,338)
Net change in cash and cash equivalents	11,934		11,934
Cash and cash equivalents, beginning of period	194,576		194,576
Cash and cash equivalents, end of period	\$ 206,510	\$	\$ 206,510

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

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

See accompanying notes to the condensed consolidated financial statements.

3. Inventories:

The major components of inventories at December 31, 2008 are as follows:

Raw materials	\$ 2,284,037
Work in progress	213,823
Finished goods	2,242,065
Total inventories	\$ 4,739,925

4. Earnings (Loss) Per Share:

Basic earnings per share (EPS) is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed in a manner consistent with that of basic EPS while giving effect to the potential dilution that could occur if warrants to issue common stock were exercised. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three months and nine months ended December 31, 2008 and 2007:

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	For the three months ended December 31, 2008		
	Income (numerator)	Shares (denominator)	Per-share amount
Basic EPS			
Income available to common stockholders	\$ 6,106	6,023,065	\$.00
Effect of Dilutive Securities Warrants			
Diluted EPS			
Income available to common stockholders	\$ 6,106	6,023,065	\$.00

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	Income (numerator)	For the three months ended December 31, 2007 Shares (denominator)	Per-share amount
Basic EPS			
Income available to common stockholders	\$ 734,558	6,645,647	\$ 0.11
Effect of Dilutive Securities Warrants			
Diluted EPS			
Income available to common stockholders	\$ 734,558	6,645,647	\$ 0.11

5. Segment Information:

Segment information has been presented on a basis consistent with how business activities are reported internally to management. Management solely evaluates operating profit by segment by direct costs of manufacturing its products without an allocation of indirect costs. In determining the total revenues by segment, freight income and sales discounts are not allocated to each of the segments for internal reporting purposes. The Company has four operating segments that assemble, manufacture, and sell a variety of products: ATV Accessories, Plastic Wheel Covers, Weekend Warrior, and Contract Manufacturing. ATV Accessories is engaged in the design, assembly, and sale of ATV accessories such as snowplow blades, lawnmowers, spreaders, sprayers, tillage equipment, winch mounts, utility boxes, and oil filters. Plastic Wheel Covers manufactures and sells injection-molded plastic wheel covers for vehicles such as golf cars, light-duty trailers, and lawn mowers. Weekend Warrior is engaged in the design, assembly, and sale of ATV and utility vehicle accessories that includes lawnmowers, spreaders, sprayers, tillage equipment, and a newly patented universal plow system. Contract Manufacturing is engaged in the design, manufacture and assembly of a wide array of parts, components, and other products for non-competing Original Equipment Manufacturers (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 and 10-K/A for the year ended September 30, 2008.

The following is a summary of certain financial information related to the four segments during the three months December 31, 2008 and 2007:

ATV ACCESSORIES - Three Months Ended December 31, 2008 and 2007

	Three Months Ended Dec 31, 2008	Three Months Ended Dec 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 4,094,462	\$ 4,224,679	\$ (130,217)	(3.08)%
Cost of goods sold	\$ 1,925,186	\$ 1,751,875	\$ 173,311	9.89%
Gross profit	\$ 2,169,276	\$ 2,472,804	\$ (303,527)	(12.27)%
Gross profit %	53.0%	58.5%		(5.5)%

PLASTIC WHEEL COVERS - Three Months Ended Dec 31, 2008 and 2007

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	Three Months Ended Dec 31, 2008		Three Months Ended Dec 31, 2007		Increase (Decrease) \$		Increase (Decrease) %	
Revenue	\$	109,117	\$	420,687	\$	(311,570)		(74.0)%
Cost of goods sold	\$	39,649	\$	169,192	\$	(129,543)		(76.5)%
Gross profit	\$	69,468	\$	251,495	\$	(182,027)		(72.3)%
Gross profit %		63.7%		59.8%				3.9%

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WEEKEND WARRIOR - Three Months Ended Dec 31, 2008 and 2007

	Three Months Ended Dec 31, 2008	Three Months Ended Dec 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 73,829	\$ 80,068	\$ (6,239)	(7.79)%
Cost of goods sold	\$ 60,388	\$ 41,797	\$ 18,591	44.5%
Gross profit	\$ 13,441	\$ 38,271	\$ (24,830)	(64.9)%
Gross profit %	18.2%	47.8%		(29.6)%

CONTRACT MANUFACTURING - Three Months Ended Dec 31, 2008 and 2007

	Three Months Ended Dec 31, 2008	Three Months Ended Dec 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 296,599	\$ 455,893	\$ (159,294)	(34.9)%
Cost of goods sold	\$ 192,613	\$ 192,980	\$ (367)	(.2)%
Gross profit	\$ 103,986	\$ 262,913	\$ (158,927)	(60.4)%
Gross profit %	35.1%	57.7%		(22.6)%

The following is a summary of the Company's revenue in different geographic areas during the three months ended December 31, 2008 and 2007:

GEOGRAPHIC REVENUE - Three Months Ended Dec 31, 2008 and 2007

Country	Three Months Ended Dec 31, 2008	Three Months Ended Dec 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
United States	\$ 3,887,605	\$ 4,540,560	\$ (652,955)	(14.3)%
All Other Countries	\$ 446,009	\$ 460,998	\$ (14,989)	(3.2)%

As of December 31, 2008, all of the Company's long-lived assets are located in the United States of America. ATV Accessories sales to major customers which exceeded 10% of net revenues, accounted for approximately 30.4% and 15.0% of net revenue for three months ending December 31, 2008 and approximately 23.8% and 10.0% of revenue for three months ending December 31, 2007. Plastic Wheel Covers, Weekend Warrior, and Contract Manufacturing did not have sales to any individual customer greater than 10% of net revenues during the three months ended December 31, 2008 or 2007

6. Stock Based Compensation:

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During the quarter ended December 31, 2008, the Company adopted Statement on Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment, which requires share-based payment transactions to be accounted for using a fair value based method and the recognition of the related expense in the results of operations. SFAS No. 123(R) allows companies to choose one of two transition methods: the modified prospective transition method or the modified retrospective transition method.

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

The June 2008 President s Executive Employment Agreement provides for the grant of 50,000 shares of stock in the Company, vesting over a three year period. At the end of the first and second full year of employment, the President shall become vested in and receive 16,666 shares of stock each year. At the completion of the President s third full year of employment, he shall become vested in and receive the final 16,668 shares of stock. Total compensation expense recognized during the three month period ended December 31, 2008 as \$6,875. As of December 31, 2008, there was \$61,875 of total unrecognized compensation cost related to the non-vested share-based compensation arrangement under the plan. The cost is expected to be recognized over a three year period.

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

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Under the provisions of SFAS No. 123(R), stock-based compensation cost is estimated at the grant date based on the fair value of the award and compensation cost is recognized as an expense over the requisite service period of the award. The fair value of non-vested stock awards was determined by reference to the fair market value of the Company's common stock on the date of the grant. Consistent with the valuation method the Company used for disclosure-only purposes under the provisions of SFAS No. 123(R), Accounting for Stock-Based Compensation, the Company uses the lattice valuation model to estimate the fair value of option awards. Determining the appropriate fair value model and related assumptions requires judgment, including estimating stock price volatility, forfeiture rates and expected terms.

The following assumptions were utilized to estimate the fair value of the Company's stock option awards during the three-month periods ended December 31, 2008 and 2007:

	Three months ended December 31,	
	2008	2007
Expected stock price volatility	40%	
Risk-free interest rate	3%	
Expected life of options	3 yrs	
Expected annual dividends	0%	

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

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

With the adoption of SFAS No. 123(R), the Company recorded stock-based employee compensation expense related to stock options of approximately \$6,200, net of a tax benefit in the amount of \$2,900, and net of estimated forfeitures, for the three-month period ended December 31, 2008. The Company recognized the full amount of the stock-based employee compensation expense of its equity incentive plans in the consolidated statements of operations for the three-month period ended December 31, 2008 and did not capitalize any such costs in the condensed consolidated balance sheets other than in the general overhead pool for inventory costs. The weighted-average grant-date fair value per share of options granted during the three-month period ended December 31, 2008 was \$0.219 per share. No options were granted for the three month period ended December 31, 2007.

The following table lists stock option activity for the three-month period ended December 31, 2008:

	Options	Price	Extended Value
Outstanding at September 30, 2008			
Granted	500,000	\$ 1.68	\$ 840,000
Exercised		\$	\$

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Canceled		\$		\$	
Outstanding at December 31, 2008	500,000	\$	1.68	\$	840,000
Options vested and exercisable at December 31, 2008	500,000	\$	1.68	\$	840,000

As of December 31, 2008, there was \$47,125 of total compensation cost related to this stock option arrangement granted under the plan. The cost is expected to be recognized over a three year period. Prior to the adoption of SFAS No. 123(R), the company maintained an employment agreement with their former CEO which provides for \$100,000 in restricted Company common stock with 25% issued upon the first day of employment and 25% issued each anniversary date for the next three years as an employment bonus.

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The value of the entire restricted stock award was determined by the closing price, \$2 per share, on the Presidents first day of employment. As of December 31, 2008, there were no remaining compensation costs to be recognized under the plan due to his leaving the company. There is however 12,500 shares to be issued on September 18, 2009.

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

	Three months ended December 31,	
	2008	2007
Cost of Sales	\$	\$
Selling, General and Administrative Expense	\$ 16,000	\$
Research and Development Expense	\$	\$
Stock-Based Compensation Expense before Income Tax	\$ 16,000	\$
Less:Income Tax Benefit	\$ 5,760	\$
Net Stock-Based Compensation Expense after Income Tax	\$ 10,240	\$

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

This discussion relates to Cycle Country Accessories Corp. and its consolidated subsidiaries (the Company) and should be read in conjunction with our consolidated financial statements as of September 30, 2008, and the year then ended, and Management's Discussion and Analysis of Financial Condition and Results of Operations, both contained in our Annual Report on Form 10-K and 10-K/A for the year ended September 30, 2008.

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

Critical Accounting Policies and Estimates

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The Company's discussion and analysis of its financial condition and results of operations are based upon its Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates including those related to bad debts and inventories. The Company bases its estimates on historical experiences and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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Accounts Receivable - Trade credit is generally extended to customers on a short-term basis. These receivables do not bear interest, although a finance charge may be applied to balances more than 30 days past due. Trade accounts receivable are carried on the books at their estimated collectible value. Individual trade accounts receivable are periodically evaluated for collectability based on past credit history and their current financial condition. Trade accounts receivable are charged against the allowance for doubtful accounts when such receivables are deemed to be uncollectible.

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

Inventories - 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 our 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.

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

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

Goodwill and Other Intangibles - Goodwill and other intangible assets are reviewed and assessed for impairment at least annually or when indicators of potential impairment exist, using a fair-value based approach. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives.

In accordance with ASC 360, the Company evaluated its long-lived assets and other intangible assets, using an undiscounted cash flow analysis prior to evaluating goodwill. This analysis supported the carrying value of the long-lived assets and other intangible assets, but would only support a minimal amount of goodwill. Therefore, management determined that no impairment was necessary of the long-lived assets and other intangible assets.

In evaluating goodwill, the Company evaluated the market capitalization at December 31, 2008 and performed an evaluation based on multiples of earnings and discounted cash flow analysis as evidence of the fair value of the entity. It was determined that the fair value exceeded the carrying amount of goodwill, and accordingly, the Company did not take an impairment charge..

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The Company's analysis uses significant estimates in the evaluation of long-lived assets, other intangibles, and goodwill, such as estimated cash flows from continuing operations, estimated future revenues, cost of goods sold and gross margin. It is reasonably possible that our estimates and assumptions could change in the near future, which could lead to further impairment of long-lived assets and other intangibles

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

Accounting for Income Taxes - The Company is required to estimate income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax exposure for the Company together with assessing temporary differences resulting from differing treatment of items, such as property, plant and equipment depreciation, for tax and accounting purposes. Actual income taxes could vary from these estimates due to future changes in income tax law or results from final tax exam reviews. At December 31, 2008, the Company assessed the need for a valuation allowance on its deferred tax assets. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon the historical operating profits and the near certainty regarding sufficient near term taxable income, management believes that there is no need to establish a valuation allowance. Should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, a valuation allowance may be required.

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for

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

The Company adopted the provisions of FIN 48 on October 1, 2007. At December 31, 2008, no uncertain positions were identified. To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income taxes, such amounts would be accrued and classified as a component of income tax expense on the condensed consolidated statement of income.

OVERALL RESULTS OF OPERATIONS - Three Months Ended December 31, 2008 and 2007

	Three Months Ended Dec. 31, 2008	Three Months Ended Dec. 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 4,333,614	\$ 5,001,559	\$ (667,945)	(13.4)%
Cost of goods sold	\$ 2,917,578	\$ 2,986,229	\$ 68,651	2.3%
Gross profit	\$ 1,416,036	\$ 2,015,329	\$ 599,293	(29.7)%
Gross profit %	32.7%	40.3%		(7.6)%

The decrease in revenues for the three months ended December 31, 2008 was mainly attributable to our ATV accessories business segment, which had a decrease in sales of approximately 13% this quarter compared to the same quarter last year, as well as a decline in our Plastic Wheel Cover segment. The decrease in gross profit as a percentage of revenue was mainly attributable to an increase in raw material costs. The company experienced significant increases in the costs of raw steel and metal purchased parts. While the company implemented a significant price increase of its own, the full increase was not able to be realized within our two business segments that utilize steel as a raw material, ATV accessories and Contract Manufacturing. To remain competitive and maintain, or grow market share, the company was not able to pass on the full price increase to its distributors and customers. As the company continues to implement its business plan, Cycle Country is starting to become known for more than just snowplow blades. Our business plan places major emphasis on aggressively developing new products, new markets, and product innovations to vigorously grow revenues and reduce our seasonality.

	Three Months Ended Dec. 31, 2008	Three Months Ended Dec. 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
Selling, general and administrative expenses	\$ 883,982	\$ 1,025,251	\$ (141,269)	(13.8)%

As a percentage of revenue, selling, general, and administrative expenses were 20.4% for the three months ended December 31, 2008 compared to 20.5% for the three months ended December 31, 2007.

In addition to the selling, general and administrative expenses, the Company recorded \$570,000 in fraud expense for the three months ending December 31, 2008, due to the misappropriation of funds as discussed in Note 2 to the condensed consolidated financial statements.

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

	Increase (Decrease)	Increase (Decrease)
	\$	%
Advertising	\$ (84,480)	(84.2)%
Commissions	\$ (27,249)	(66.2)%
Warranty	\$ (3,874)	(17.9)%
Other professional fees	\$ 22,308	265.9%
Lease expense	\$ 21,239	88%

The decrease in commission expense was a result of the decrease in revenues during the first quarter of fiscal 2009 in the ATV Accessories business segment. Warranty expense increased for the three months ended December 31, 2008, as compared to the three months ended December 31, 2007. Other professional fees increased for the three months ended December 31, 2008, as compared to the three months ended December 31, 2007, due to additional consulting work related to the Company's Sarbanes-Oxley Act compliance initiatives. The increase in lease expense was due to the sale and subsequent leasing back of the Company's Milford

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facility, as described elsewhere in this filing.

	Three Months Ended Dec. 31, 2008	Three Months Ended Dec. 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
Interest and miscellaneous income	\$ 684	\$ 11,423	\$ (10,793)	(94.0)%
Gain on sale of assets	\$ 38,216	\$ 238,432	\$ (200,216)	(83.9)%
Interest expense	\$ 85,560	\$ 89,283	\$ (3,723)	(4.2)%

The decrease in interest and miscellaneous income was primarily due to a decrease in interest income of approximately \$8,900. The gain on sale of assets decrease of approximately \$200,000 for the three months ended December 31, 2008 as compared to the three months ended December 31, 2007 was due to the Company having sold its Milford facility and certain other assets in the prior year. Interest expense decreased as the principal balance on the bank notes continues to decrease. Interest expense will decrease in the second quarter of fiscal 2009 as the principal balances continue to decrease under fixed rate notes going forward.

Looking ahead to the second quarter of fiscal 2009, we project growth in revenues as new products, new markets, and effective marketing initiatives continue to be the focus of management and the entire Company. The company anticipates gross profits will be within the range of 25% to 30% of revenue as profitability will continue to be impacted by raw steel and other metal parts. Management has, and will, continue to seek out and implement production efficiencies and cost reduction initiatives wherever possible and will pass as much of the net input costs increases on to its customers as possible. Remaining competitive in the markets we are in and maintaining our strong market shares within those markets may hinder management's ability to pass on the full amount of our net input costs increases. We project selling, general and administrative expenses during the remainder of fiscal 2009 to be 20-25% of total revenue as we continue our focus on cost reduction initiatives, launching new products and maximizing the efficiencies the recently implemented new accounting and manufacturing software provides us, all while maintaining a consistent level of administrative support.

BUSINESS SEGMENTS

As more fully described in Note 5 to the Condensed Consolidated Financial Statements included elsewhere in this filing, the Company operates four reportable business segments:

ATV Accessories, Plastic Wheel Covers, Weekend Warrior, and Contract Manufacturing. ATV accessories is vertically integrated and utilizes a two-step distribution method, we are vertically integrated in our Plastic Wheel Cover segment and utilize both direct and two-step distribution methods, Weekend Warrior utilizes a single-step distribution method, and our Contract Manufacturing segment deals directly with other OE manufacturers and businesses in various industries.

ATV ACCESSORIES - Three Months Ended December 31, 2008 and 2007

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	Three Months Ended Dec 31, 2008		Three Months Ended Dec 31, 2007		Increase (Decrease) \$		Increase (Decrease) %	
Revenue	\$	4,094,462	\$	4,224,679	\$	(130,217)		(3.08)%
Cost of goods sold	\$	1,925,186	\$	1,751,875	\$	173,311		9.89%
Gross profit	\$	2,169,276	\$	2,472,804	\$	(303,527)		(12.27)%
Gross profit %		53.0%		58.5%				(5.5)%

The decrease in ATV Accessories revenue for the first quarter of fiscal 2009 reflects the continued growth of our blade sales but with some decline in sales of our parts categories compared to the prior year. There was a minor decrease in gross profit as a percentage of revenue, which was mainly attributable to an increase in raw material costs. The company experienced significant increases in the costs of raw steel and metal purchased parts. While the company implemented a significant price increase of its own, the full increase was not able to be realized within this business segment due to existing market conditions. To remain competitive and to maintain, or grow market share, the company was not able to pass on the full price increase to its distributors. Management has, and will, continue to seek out and implement production efficiencies and cost reduction initiatives wherever possible and will pass as much of the net input costs increases on to its customers as possible going forward. Remaining competitive in the ATV Accessory market and maintaining our strong market share within this market may hinder management's ability to pass on the full amount of our net input costs increases.

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PLASTIC WHEEL COVERS - Three Months Ended Dec 31, 2008 and 2007

	Three Months Ended Dec 31, 2008	Three Months Ended Dec 31, 2007	Increase (Decrease) \$	Increase (Decrease) %
Revenue	\$ 109,117			