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

QUARTERLY REPORT FOR CYCLE COUNTRY ACCESSORIES CORP.

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 10-Q/A

(Amendment No. 1)

(Mark one)

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

For the quarterly period ended December 31, 2010

OR

o 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 x No o

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 x No o

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company x |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant's common stock, par value $0.0001 per share, outstanding as of February 14, 2011 is 6,990,662

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EXPLANATORY NOTE

We are filing this Amended Quarterly Report on Form 10-Q/A (the "Amended Filing") to our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2010 (the "Original Filing"), to correct errors relating to the number of shares outstanding, the valuation and timing of the expense recognition of employee equity awards, and the amount, timing and income statement classification of sales discounts, allowances and expenses related to a customer incentive program that was put into place by former management. In addition, our correction of 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 overstate total revenue and selling expenses related to our customer incentive program, while understating our stock-based compensation expense. 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 months ended December 31, 2010. The effects of these restatements are disclosed in Note 10- Restatement of Consolidated Financial Statements.

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.

Part I Financial Information

Item 1. Financial Statements

Cycle Country Accessories Corp. and Subsidiaries
Condensed Consolidated Balance Sheet

| | December 31, 2010 (Restated)(1) (Unaudited) | September 30, 2010 (Restated)(1) |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $ 133,821 | $ 28,939 |
| Accounts receivable, net | 1,854,305 | 1,963,548 |
| Inventories, net | 2,947,827 | 3,208,749 |
| Income taxes receivable | 638,164 | 640,733 |
| Deferred income taxes | 338,000 | 366,000 |
| Prepaid expenses and other | 100,844 | 320,475 |
| Total current assets | 6,012,961 | 6,528,444 |
| | | |
| Property, plant and equipment, net | 9,826,636 | 10,028,623 |
| Intangible assets, net | 160,387 | 161,957 |
| Other assets | 5,419 | 7,413 |
| | | |
| Total assets | $ 16,005,403 | $ 16,726,437 |
| | | |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Disbursements in excess of bank balances | $ 121,639 | $ 387,141 |
| Accounts payable | 1,502,063 | 695,241 |
| Accrued expenses | 1,116,407 | 1,055,583 |
| Bank line of credit | 2,193,998 | 2,700,000 |
| Current portion of notes payable | 583,697 | 699,681 |
| Current portion of deferred gain | - | 27,754 |
| Total current liabilities | 5,517,804 | 5,565,400 |
| | | |
| Long-Term Liabilities | | |
| Notes payable, less current portion | 2,371,120 | 2,478,279 |
| Deferred income taxes | 1,409,000 | 1,587,000 |
| Total long term liabilities | 3,780,120 | 4,065,279 |
| Total liabilities | 9,297,924 | 9,630,679 |

| | | | | |
|---|---|---|---|---|
| Stockholders' Equity | | | | |
| Common stock, $.0001 par value; 100,000,000 shares authorized; 6,990,662 and 8,046,471 shares issued and outstanding, respectively | | 699 | | 805 |
| Additional paid-in capital | | 12,416,823 | | 12,495,917 |
| Accumulated deficit | | (5,710,043) | | (5,400,964) |
| Total stockholders' equity | | 6,707,479 | | 7,095,758 |
| | | | | |
| Total liabilities and stockholders' equity | $ | 16,005,403 | $ | 16,726,437 |

(1)See Note 10- 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 December 31, 2010 (Restated)(1) (Unaudited) | 2009 (Unaudited) |
|---|---|---|
| Revenue | | |
| Net sales | $ 4,214,851 | $ 4,128,681 |
| Freight income | 22,455 | 24,567 |
| Total revenues | 4,237,306 | 4,153,248 |
| Cost of goods sold | 3,470,728 | 2,895,712 |
| Gross profit | 766,578 | 1,257,536 |
| Selling, general, and administrative expenses | 1,149,984 | 857,584 |
| Income (loss) from operations | (383,406) | 399,952 |
| Other income (expense) | | |
| Interest expense | (98,749) | (82,388) |
| Interest income | - | 2 |
| Miscellaneous | 27,075 | 34,488 |
| Total other expense, net | (71,674) | (47,898) |
| Income (loss) before income tax provision (benefit) | (455,080) | 352,054 |
| Provision for (benefit) from income taxes | (146,001) | 124,777 |
| Net income (loss) | $ (309,079) | $ 227,277 |
| Weighted average shares of common stock | | |
| Basic | 8,030,474 | 6,072,307 |
| Diluted | 8,030,474 | 6,097,307 |
| Income (loss) per common share: | | |
| Basic | $ (0.04) | $ 0.04 |
| Diluted | $ (0.04) | $ 0.04 |

(1)See Note 10- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial Statements

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Three Months ended December 31, 2010 (Restated)(1) (Unaudited) | 2009 (Unaudited) |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | $ (309,079) | $ 227,277 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 177,471 | 203,099 |
| Amortization | 1,571 | 1,475 |
| Reserve for bad debts | 60,000 | - |
| Stock-based compensation | 49,542 | 6,874 |
| (Gain) loss on sale of property, plant and equipment | 23,141 | (34,411) |
| Deferred income taxes | (150,000) | 250,000 |
| Change in: | | |
| Accounts receivable | 49,243 | 8,399 |
| Inventories | 260,922 | 227,695 |
| Income tax receivable | 2,569 | (45,446) |
| Prepaid expenses and other, net | 219,631 | 46,799 |
| Other assets | 1,994 | 1,994 |
| Accounts payable, net | 806,822 | (198,341) |
| Accrued expenses | (67,922) | (160,143) |
| Net cash provided by operating activities | 1,125,905 | 535,271 |
| Cash Flows from Investing Activities: | | |
| Purchase of property, plant and equipment | (28,744) | (51,725) |
| Purchase of intangible assets, net | - | (1,426) |
| Proceeds from sale of property, plant and equipment | 2,368 | 500 |
| Net cash used for investing activities | (26,376) | (52,651) |
| Cash Flows from Financing Activities: | | |
| Disbursements in excess of bank balances | (265,502) | (266,673) |
| Payments on bank notes payable | (223,143) | (207,756) |
| Bank line of credit, net | (506,002) | 5,078 |
| Net cash used for financing activities | (994,647) | (469,351) |
| Net increase in cash and cash equivalents | 104,882 | 13,269 |
| Cash and cash equivalents, beginning of period | 28,939 | 27,490 |
| Cash and cash equivalents, end of period | $ 133,821 | $ 40,759 |

(1)See Note 10- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial Statements

See accompanying notes to the unaudited condensed consolidated financial statements.

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

| | Three Months ended December 31, | |
|---|---|---|
| | 2010 Restated(1) | 2009 |
| | (Unaudited) | (Unaudited) |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 93,922 | $ 82,351 |
| Supplemental schedule of non-cash investing and financing: | | |
| Treasury stock purchased included in accrued expense | $ 128,744 | $ - |
| Disposal of fixed assets | $ 53,264 | $ - |

(1)See Note 10- Restatement of Consolidated Financial Statements- of Notes to Condensed Consolidated Financial Statements

See accompanying notes to the unaudited condensed consolidated financial statements.

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Summary of Significant Accounting Policies:

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements for the three months ended December 31, 2010 and 2009 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. It is the opinion of management that the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods ended December 31, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year. These interim condensed consolidated financial statements should be read in conjunction with the September 30, 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 four distinct segments engaged in the design, manufacture, sale and distribution of products. Three of the segments have 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 and retail dealers throughout the United States of America, Canada, Mexico, South America, Europe, and Asia. Plazco manufactures, sells, and distributes injection-molded plastic products for vehicles such as golf cars, lawn mowers, and low-speed vehicles (LSVs). Perf-Form manufactures, sells, and distributes oil filters for the powersports industry, including ATVs, UTVs and Motorcycles. Additionally, Imdyne is engaged in the design, manufacture and assembly of an array of parts for original equipment manufacturers (OEMs) and other customers. The Company has offices in Minnetonka, MN and Spencer, IA, and has approximately 260,000 square feet of modern manufacturing facilities in Spencer and leased space in Milford, IA.

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

Certain costs associated with the shipping and handling of products to customers are billed to the customer and included as freight income in the accompanying 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, returns and allowances were approximately $308,000 (restated) and $377,000 for the three months ended December 31, 2010 and 2009, 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.

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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 December 31, 2010 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. The Company determined that indicators of potential impairment existed because the Company experienced a decrease in the Company's market capitalization for a sustained period of time. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If these projected cash flows are less than the carrying amount, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third party appraisals, as considered necessary. In accordance with ASC 360, the Company evaluated its long-lived assets using an undiscounted cash flow analysis. This analysis supported the carrying value of the long-lived assets and, therefore, no impairment was recorded. The Company's analysis uses significant estimates in its evaluation. It is reasonably possible that its estimates and assumptions could change in the near future, which could lead to further impairment of long-lived assets. The estimated useful lives are as follows:

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

Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized.

Intangible Assets - Intangible assets with estimable useful lives are amortized over their respective estimated useful lives.

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.

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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 2007. 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, 2009 or December 31, 2010 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 (loss) 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 $33,000 in the three month period ended December 31, 2010 and 2009, 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 $73,000 (restated) and $86,000 in the three month period ended December 31, 2010 and 2009, 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 $64,000 and $68,000 in the three month period ended December 31, 2010 and 2009, 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 property, plant, and equipment; valuation of intangible 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 FASB ASC 820 "Fair Value Measurements" which defines fair value, outlines a framework for measuring fair value (although it does not expand the required use of fair value) and details the required disclosures about fair value measurements. At December 31, 2010, the Company does not have any financial or nonfinancial assets or liabilities that would require fair value recognition or disclosures under ASC 820.

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and debt approximates fair value. The Company estimates that the fair value of all financial instruments at December 31, 2010 approximates their carrying values in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using appropriate valuation methodologies.

Note 2. Misappropriation of Funds:

The Company previously reported the misappropriation of funds by its then-Chairman of the Board of Directors and its Audit Committee, 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. At this time, it is not believed that this will result in restitution to the Company in the foreseeable future, based on the previous 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 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.

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The major components of inventories are as follows:

| | December 31, 2010 (Unaudited) | September 30, 2010 |
|---|---|---|
| Raw Material | $ 1,398,420 | $ 1,386,948 |
| Work in Process | 151,437 | 69,481 |
| Finished Goods | 1,547,970 | 1,902,320 |
| Inventory Reserve | (150,000) | (150,000) |
| Total Inventories | $ 2,947,827 | $ 3,208,749 |

Inventories are stated at the lower of cost or market determined using the weighted average cost method. Inventory consists of raw material, work in process, and finished goods. Management has evaluated the Company's inventory reserve based on historical experience and current economic conditions and determined that an inventory reserve of approximately $150,000 at December 31, 2010 and September 30, 2010 was appropriate. It is reasonably possible the inventory reserve will change in the near future.

Note 4. Line of Credit:

The Company has a line of credit ("Line of Credit One") for the lesser of $1,000,000 or 80% of eligible accounts receivable and 35% of eligible inventory. Line of Credit One bears interest at prime (3.25% at December 31, 2010 and September 30, 2010) plus 0.50% with a ceiling of 10.5% and a floor of 6.5%. At December 31, 2010 and September 30, 2010, the rate was 6.5%. At December 31, 2010 and September 30, 2010 there was $1,000,000 due on Line of Credit One.

On September 30, 2009, the Company and its commercial lender entered into an additional secured credit agreement, ("Line of Credit Two"), dated September 30, 2009, as a temporary expansion of its credit facility Under the terms of Line of Credit Two, the Company added an additional line of credit for the lesser of $500,000 or 80% of eligible accounts receivable and 35% of eligible inventory. The line was subsequently increased to $600,000. The interest rate on Line of Credit Two was at 6.5%. There was no amount due on Line of Credit Two at December 31, 2010 or September 30, 2010.

On July 16, 2010, the Company entered into an agreement with its commercial 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 35% of inventory and bears interest at 6.75%. The note is collateralized by all of the Company's assets. The balance of Line of Credit Three was $1,193,998 and $1,700,000 as of December 31, 2010 and September 30, 2010, respectively.

Lines of Credit One, Two and Three contain conditions and covenants that prevent or restrict the Company from engaging in certain transactions without the consent of the commercial lender and require the Company to maintain certain financial ratios, including term debt coverage and maximum leverage. In addition, the Company is required to maintain a minimum working capital and shall not declare or pay any dividends or any other distributions without the consent of the lender. As more fully described in Note 5, as of and for the three months ending December 31, 2010, the Company was not in compliance with all of its covenants with the lender.

As of January 17, 2011, the Company and its lender entered into the Seventh Amendment to the Secured Credit Agreement and Waiver ("Amendment 7"). Amendment 7 replaces Line of Credit One, Line of Credit Two and Line of Credit Three with a Revolving Credit Agreement in an amount not to exceed $2,700,000, maturing on March 31, 2011.

As part of Amendment 7, the Company has agreed to engage an advisor to assist in obtaining replacement financing to refinance Line of Credit One and Line of Credit Three with one or more replacement lenders; and further, to receive a commitment from such replacement lenders to fully take out and refinance Line of Credit One and Line of Credit Three.

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 5. Long-Term Debt:
Long term debt consists of the following:

| | December 31, 2010 (Unaudited) | September 30, 2010 |
|---|---|---|
| Note 1 to commercial lender payable in equal monthly installments of $42,049 including interest at 6.125%. The note matures April 2011 and is secured by all Company assets. | $ 161,853 | $ 284,263 |
| Note 2 to commercial lender payable in equal monthly installments of $33,449 including interest fixed at 6.125% until April 2011. Beginning April 2011, the interest 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. | 2,355,276 | 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. | 377,688 | 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 |
| Total | 2,954,817 | 3,177,960 |
| Less current maturities | (583,697) | (699,681) |
| Net | $ 2,371,120 | $ 2,478,279 |

These secured credit agreements contain conditions and covenants that prevent or restrict the Company from engaging in certain transactions without the consent of the commercial lender and require the Company to maintain certain financial ratios, including term debt coverage and maximum leverage. As of and for the three months ended December 31, 2010, the Company was not in compliance with the term debt coverage requirement or the working capital requirement of the agreement.

As of January 17, 2011, the Company and its 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, 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 of September 30, 2010, December 31, 2010, and the Company's anticipated noncompliance with the Term Debt Coverage Ratio through October 1, 2011.

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 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.

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(Unaudited)

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 of $309,079 (restated) for the three months ended December 31, 2010. 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 months ended December 31, 2010. There were no common stock equivalents for the three months ended December 31, 2010 or 2009.

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

| | For the three months ended December 31, 2010 (Unaudited) | | | For the three months ended December 31, 2009 (Unaudited) | | |
|---|---|---|---|---|---|---|
| | Restated Loss (numerator) | Restated Weighted Average Shares (denominator) | Restated Per share amount | Earnings (numerator) | Weighted Average Shares (denominator) | Per share amount |
| Basic EPS | | | | | | |
| Earnings (loss) available to common stockholders | $ (309,079) | 8,030,474 | $ (0.04) | $ 227,277 | 6,072,307 | $ 0.04 |
| Diluted EPS | | | | | | |
| Earnings (loss) available to common stockholders | $ (309,079) | 8,030,474 | $ (0.04) | $ 227,277 | 6,097,307 | $ 0.04 |

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. This represents a change in the way the Company reports segment results. Management believes segments are more accurately analyzed if costs are allocated to each segment. Prior periods have been re-stated using segment allocations. This resulted in no change to net income.

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.

"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.

"Plazco", the Company's plastic products division, designs, manufactures, markets, and distributes injection-molded plastic products for vehicles such as golf cars, lawn mowers, and low-speed vehicles (LSVs).

"Perf-Form", the Company's oil filter division, is engaged in the design, manufacture, sale, and distribution of oil filters for the powersports industry including ATVs, UTVs, LSVs and Motorcycles.

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"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/A for the fiscal year ended September 30, 2010.

The following is a summary of certain financial information related to the four segments:

| For the Three Months Ended December 31, 2010 (Restated) (Unaudited) | Cycle Country ATV Accessories | Plazco | Perf-Form | Imdyne | Total |
|---|---|---|---|---|---|
| Net sales | $ 3,423,350 | $ 73,455 | $ 28,670 | $ 689,376 | $ 4,214,851 |
| Freight income | 18,188 | 449 | 225 | 3,593 | 22,455 |
| Total Revenue | 3,441,538 | 73,904 | 28,895 | 692,969 | 4,237,306 |
| | | | | | |
| Cost of goods sold | 2,706,925 | 78,509 | 34,792 | 650,502 | 3,470,728 |
| | | | | | |
| Gross profit (loss) | $ 734,613 | $ (4,606) | $ (5,896) | $ 42,467 | 766,578 |
| | | | | | |
| Sales, general & admin | | | | | (1,149,984) |
| Interest expense, net | | | | | (98,749) |
| Other income /expense, net | | | | | 27,075 |
| Income tax benefit | | | | | 146,001 |
| Net loss | | | | | $ (309,079) |

| For the Three Months Ended December 31, 2009 (Unaudited) | Cycle Country ATV Accessories | Plazco | Perf-Form | Imdyne | Total |
|---|---|---|---|---|---|
| Net sales | $ 3,256,158 | $ 75,886 | $ 21,880 | $ 774,757 | $ 4,128,681 |
| Freight income | 17,197 | 983 | 491 | 5,896 | 24,567 |
| Total Revenue | 3,273,355 | 76,869 | 22,371 | 780,653 | 4,153,248 |
| | | | | | |
| Cost of goods sold | 2,054,654 | 95,716 | 37,251 | 708,091 | 2,895,712 |
| | | | | | |
| Gross profit (loss) | $ 1,218,701 | $ (18,847) | $ (14,880) | $ 72,562 | 1,257,536 |
| | | | | | |
| Sales, general & admin | | | | | (857,584) |
| Interest expense, net | | | | | (82,386) |
| Other income /expense, net | | | | | 34,488 |
| Income tax expense | | | | | (124,777) |
| Net income | | | | | $ 227,277 |

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

GEOGRAPHIC REVENUE

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

| | For the three months ended December 31, (Unaudited) | | | |
|---|---|---|---|---|
| | 2010 Restated | | 2009 | |
| United States | $ | 3,833,632 | $ | 3,908,481 |
| Other Countries | | 403,674 | | 244,767 |
| Total Revenue | $ | 4,237,306 | $ | 4,153,248 |

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

The Company had sales to two major customers that were approximately 20.30% and 18.97% of total sales respectively for the three months ended December 31, 2010. During the three months ended December 31, 2009, sales to the same customers were approximately 27.82% and 14.70% of total sales, respectively.

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 April 7, 2011. For the three months ended December 31, 2009, $6,875 was recognized as compensation expense. As of December 31, 2009, there was $48,125 of total unrecognized compensation cost related to the unvested shares. 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 December 31, 2010 or December 31, 2009.

Effective 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, subject to shareholder approval, to each such shares of common stock equal to 12.5% on a fully-diluted basis of the common stock, but not less than 1,005,809 shares, 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 the common shares.

Both Mr. Tetzlaff and Mr. Davis elected 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 for book purpose, and that the stock award included multiple vesting dates that covered multi-year service periods. As part of the restatement further described in Note 10, 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. For the three months ended December 31, 2010, $48,293 (restated) was recognized as officer restricted stock compensation expense.

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 based on years of service.

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 months ended December 31, 2010, $1,249 (restated) was recognized as director restricted stock compensation expense.

As of December 31, 2010 $191,440 (restated) of total unrecognized compensation cost related to the remaining unvested shares. These remaining shares will become vested over the next 3 years.

Note 9. 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 December 31, 2010, the Company incurred a net loss of approximately

Cycle Country Accessories Corp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

$309,000 (restated). As of December 31, 2010, the Company had an accumulated deficit of approximately $5,710,000 (restated). As discussed in Note 5, as of December 31, 2010, the Company was in violation of covenants with its lender, a waiver for which was received. 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.

The Company expects the existing cash balances, cash flow generated from operating activities, and the available borrowing capacity under the revolving line of credit agreement to be sufficient to fund operations. Short term cash can be generated through the aggressive collection of accounts receivable and by reducing inventory balances. The Company will file for income tax refunds due of approximately $600,000, the timing of which cannot be estimated. The Company is in the process of securing replacement financing through an asset-based lender for its Revolving Credit Agreement which matures March 31, 2011.

Note 10. Restatement of Consolidated Financial Statements:

These financial statements were restated to correct errors relating to the number of shares outstanding, the valuation and timing of the expense recognition of employee equity awards, and the amount, timing and income statement classification of sales discounts and allowances and selling expenses related to a customer incentive program that was put in place by former management. In addition, the Company, corrected 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 the Company to overstate total revenue and selling expenses related to our customer incentive program, while understating our stock-based compensation expense. 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 months ended December 31, 2010.

The following tables show the specific effects of the restatement on the condensed consolidated financial statements as of and for the three months ended December 31, 2010:

Cycle Country Accessories Corp. and Subsidiaries
Condensed Consolidated Balance Sheet

| (Unaudited) | December 31, 2010 ORIGINAL | ADJUSTMENTS | December 31, 2010 RESTATED |
|---|---|---|---|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 133,821 | $ - | $ 133,821 |
| Accounts receivable, net | 1,854,305 | - | 1,854,305 |
| Inventories, net | 2,947,827 | - | 2,947,827 |
| Income taxes receivable | 638,164 | - | 638,164 |
| Deferred income taxes | 259,000 | 79,000 | 338,000 |
| Prepaid expenses and other | 100,844 | - | 100,844 |
| Total current assets | 5,933,961 | 79,000 | 6,012,961 |
| Property, plant, and equipment, net | 9,826,636 | - | 9,826,636 |
| Intangible assets, net | 160,387 | - | 160,387 |
| Other assets | 5,419 | - | 5,419 |
| Total assets | $ 15,926,403 | $ 79,000 | $ 16,005,403 |
| Liabilities and Stockholders' Equity | | | |
| Current Liabilities: | | | |
| Disbursements in excess of bank balances | $ 121,639 | $ - | $ 121,639 |
| Accounts payable | 1,502,063 | - | 1,502,063 |
| Accrued expenses | 919,920 | 196,487 | 1,116,407 |
| Bank line of credit | 2,193,998 | - | 2,193,998 |
| Current portion of notes payable | 583,697 | - | 583,697 |
| Total current liabilities | 5,321,317 | 196,487 | 5,517,804 |
| Long-Term Liabilities: | | | |
| Notes payable, less current portion | 2,371,120 | - | 2,371,120 |
| Deferred income taxes | 1,382,000 | 27,000 | 1,409,000 |
| Total long term liabilities | 3,753,120 | 27,000 | 3,780,120 |
| Total liabilities | 9,074,437 | 223,487 | 9,297,924 |
| Stockholders' Equity: | | | |
| Common stock, $.0001 par value; 100,000,000 shares authorized; 6,990,662 shares issued and outstanding | 633 | 66 | 699 |
| Additional paid-in capital | 12,217,178 | 199,645 | 12,416,823 |
| Accumulated deficit | (5,365,845) | (344,198) | (5,710,043) |
| Total stockholders' equity | 6,851,966 | (144,487) | 6,707,479 |
| Total liabilities and stockholders' equity | $ 15,926,403 | $ 79,000 | $ 16,005,403 |

Cycle Country Accessories Corp. and Subsidiaries
Condensed Consolidated Statement of Operations
For the Three Months Ended December 31, 2010

| (Unaudited) | ORIGINAL | ADJUSTMENTS | RESTATED |
|---|---|---|---|
| Revenues: | | | |
| Net sales | $ 4,336,737 | $ (121,886) | $ 4,214,851 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Freight income | | 22,455 | | - | | 22,455 |
| Total revenues | | 4,359,192 | | (121,886) | | 4,237,306 |
| Cost of goods sold | | 3,470,728 | | - | | 3,470,728 |
| Gross profit | | 888,464 | | (121,886) | | 766,578 |
| Selling, general, and administrative expenses | | 1,264,652 | | (114,668) | | 1,149,984 |
| Loss from operations | | (376,188) | | (7,218) | | (383,406) |
| Other income (expense): | | | | | | |
| Interest expense | | (98,749) | | - | | (98,749) |
| Miscellaneous | | 27,075 | | - | | 27,075 |
| Total other expense, net | | (71,674) | | - | | (71,674) |
| Loss before income tax benefit | | (447,862) | | (7,218) | | (455,080) |
| Income tax benefit | | 161,001 | | (15,000) | | 146,001 |
| Net loss | $ | (286,861) | $ | (22,218) | $ | (309,079) |
| Weighted average shares of common stock outstanding: | | | | | | |
| Basic | | 6,337,177 | | 1,693,297 | | 8,030,474 |
| Diluted | | 6,337,177 | | 1,693,297 | | 8,030,474 |
| Loss per common share: | | | | | | |
| Basic | $ | (0.05) | $ | 0.01 | $ | (0.04) |
| Diluted | $ | (0.05) | $ | 0.01 | $ | (0.04) |

Cycle Country Accessories Corp. and Subsidiaries
Condensed Consolidated Statement of Cash Flows
For the Three Months Ended December 31, 2010

| (Unaudited) | | ORIGINAL | | ADJUSTMENTS | | RESTATED |
|---|---|---|---|---|---|---|
| Cash Flows from Operating Activities: | | | | | | |
| Net loss | $ | (286,861) | $ | (22,218) | $ | (309,079) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | | | | |
| Depreciation | | 177,471 | | - | | 177,471 |
| Amortization | | 1,571 | | - | | 1,571 |
| Reserve for bad debts | | 60,000 | | - | | 60,000 |
| Stock-based compensation | | - | | 49,542 | | 49,542 |
| Loss on sale of property, plant and equipment | | 23,141 | | - | | 23,141 |
| Deferred income taxes | | (165,000) | | 15,000 | | (150,000) |
| Change in: | | | | | | |
| Accounts receivable | | 49,243 | | - | | 49,243 |

| | | | |
|---|---|---|---|
| Inventories | 260,922 | - | 260,922 |
| Income tax receivable | 2,569 | - | 2,569 |
| Prepaid expenses and other, net | 219,631 | - | 219,631 |
| Other assets | 1,994 | - | 1,994 |
| Accounts payable, net | 806,822 | - | 806,822 |
| Accrued expenses | (25,598) | (42,324) | (67,922) |
| | | | |
| Net cash used for operating activities | 1,125,905 | - | 1,125,905 |
| | | | |
| Cash Flows from Investing Activities: | | | |
| Purchase of property, plant and equipment | (28,744) | - | (28,744) |
| Proceeds from sale of property, plant and equipment | 2,368 | - | 2,368 |
| | | | |
| Net cash used for investing activities | (26,376) | - | (26,376) |
| | | | |
| Cash Flows from Financing Activities: | | | |
| Disbursements in excess of bank balances | (265,502) | - | (265,502) |
| Payments on bank notes payable | (223,143) | - | (223,143) |
| Bank line of credit, net | (506,002) | - | (506,002) |
| | | | |
| Net cash provided by financing activities | (994,647) | - | (994,647) |
| | | | |
| Net increase in cash and cash equivalents | 104,882 | - | 104,882 |
| | | | |
| Cash and cash equivalents, beginning of period | 28,939 | - | 28,939 |
| | | | |
| Cash and cash equivalents, end of period | $ 133,821 | - | $ 133,821 |

Cycle Country Accessories Corp. and Subsidiaries
Condensed Consolidated Statement of Cash Flows
For the Three Months Ended December 31, 2010

| (Unaudited) | ORIGINAL | ADJUSTMENTS | RESTATED |
|---|---|---|---|
| Supplemental disclosures of cash flow information: | | | |
| | | | |
| Cash paid during the period for: | | | |
| | | | |
| Interest | $ 93,922 | - | |