

CYCLE COUNTRY ACCESSORIES CORP

Form 10-Q/A

May 17, 2010

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QUARTERLY REPORT FOR CYCLE COUNTRY ACCESSORIES CORP.

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

(Amendment No. 1)

(Mark one)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from                      to

Commission file number: 001-31715

## Cycle Country Accessories Corp.

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**42-1523809**

(IRS Employer Identification No.)

**1701 38th Ave W, Spencer, Iowa 51301**

(Address of principal executive offices)

**P: (712) 262-4191**

**F: (712) 262-0248**

**www.cyclecountry.com**

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

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

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

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

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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 June 30, 2009 was 6,072,307.

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Explanatory Note

This amendment to our quarterly report on Form 10-Q/A (this Amendment) is being filed to amend our quarterly report on Form 10-Q for the quarter ended June 30, 2009, which was originally filed on August 19, 2009 (the Original Filing). The consolidated financial statements for the three and nine months ended June 30, 2009 and related disclosures in this Amendment have been restated in accordance with the changes described below. The principal reason for the restatement is the correction and reclassification of information due to the previously discovered and disclosed misappropriation by the former Chairman of the 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 financial statements as a result of this restatement are more fully reflected in the tables included at Note 2 to our condensed consolidated financial statements included in Part 1, Item 1 Unaudited Financial Statements of this Form 10 Q/A.

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 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 Amendment.

In addition, during the fiscal quarter ended March 31, 2009, as part of this purported Stock Buyback transaction, Mr. Hancher directed the Company to pay \$50,000 to a consulting brokerage firm. These funds were originally recorded as a prepaid expense, and were to be used to pay future legal and other advisory costs. As a result of the Company's investigation of this entire matter, management has determined that the \$50,000 in prepaid expenses also should be re-characterized as fraud expense.

In this Amendment, the Company also has reclassified some stock-based compensation to its outside directors. Mr. Hancher was responsible for issuing stock-based compensation to the other directors in accordance with the Company's approved plan. However, as part of the investigation, it was discovered that some of the shares that Mr. Hancher was to issue were not in fact issued. Consequently, we corrected the stock-based compensation by correcting the additional paid-in capital and accrued expense accounts, each by the amount of \$6,000, to correct

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the previous misstatement.

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

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

All of the adjustments made as a result of the restatement are more fully described in Note 2 to our condensed consolidated financial statements included in Part I, 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

	June 30, 2009 (Unaudited)	September 30, 2008 (Audited)
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 147,472	\$ 194,576
Accounts receivable, net	453,684	2,935,647
Inventories	4,177,851	5,110,499
Income taxes receivable	675,417	14,780
Deferred income taxes	769,000	345,920
Prepaid expenses and other	88,827	209,617
Total current assets	6,312,251	8,811,039
Property, plant, and equipment, net	10,968,976	11,449,369
Intangible assets, net	183,015	177,812
Goodwill	0	4,890,146
Other assets	42,382	48,363
Total assets	\$ 17,506,624	\$ 25,376,729
<b>Liabilities and Stockholders Equity</b>		
Current Liabilities:		
Accounts payable	\$ 150,287	\$ 577,278
Accrued interest payable	6,401	3,871
Accrued expenses	572,852	721,211
Bank line of credit	820,000	1,000,000
Current portion of bank notes payable	844,701	811,053
Current portion of deferred gain	166,524	166,524
Total current liabilities	2,560,765	3,279,937
Long-Term Liabilities:		
Bank notes payable, less current portion	3,336,050	3,971,525
Deferred gain, less current portion	69,385	194,278
Deferred income taxes	2,174,000	2,360,812
Total long term liabilities	5,579,435	6,526,615
Total liabilities	8,140,200	9,806,552
Stockholders Equity:		
Common stock, \$.0001 par value; 100,000,000 shares authorized; 6,072,307 shares issued and outstanding net of treasury stock	748	743
Additional paid-in capital	14,842,457	14,729,338
Retained Earnings	(2,895,145)	3,421,732

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Treasury stock, at cost, 1,410,730 shares	(2,581,636)	(2,581,636)
Total stockholders' equity	9,366,424	15,570,177
Total liabilities and stockholders' equity	\$ 17,506,624	\$ 25,376,729

See accompanying notes to the condensed consolidated financial statements.



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenues:</b>		
Net sales	\$ 1,199,459	\$ 3,454,529
Freight income	21,234	14,729
<b>Total revenues</b>	<b>1,220,693</b>	<b>3,469,258</b>
Cost of goods sold	(1,268,844)	(2,852,489)
Inventory adjustment	(610,105)	
<b>Gross profit</b>	<b>(658,257)</b>	<b>616,769</b>
Selling, general, and administrative expenses	(943,161)	(1,156,992)
Goodwill impairment	(4,890,146)	
Fraud expense		
<b>Income from operations</b>	<b>(6,491,564)</b>	<b>(540,223)</b>
<b>Other Income (Expense):</b>		
Interest expense	(76,743)	(90,397)
Interest income	161	1,930
Gain on sale of assets	41,631	41,355
Miscellaneous	2,519	(540)
<b>Total other income (expense)</b>	<b>(32,432)</b>	<b>(47,652)</b>
<b>Income (loss) before provision for (benefit from) income taxes</b>	<b>(6,523,996)</b>	<b>(587,875)</b>
<b>Provision for (benefit from) income taxes</b>	<b>(983,572)</b>	<b>(217,514)</b>
<b>Net income (loss)</b>	<b>\$ (5,540,424)</b>	<b>\$ (370,361)</b>
<b>Weighted average shares of common stock outstanding:</b>		
Basic	6,072,307	6,006,415
Diluted	6,072,307	6,006,415
<b>Earnings per common share:</b>		
Basic	\$ (.91)	\$ (0.06)
Diluted	\$ (.91)	\$ (0.06)

See accompanying notes to the condensed consolidated financial statements.



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Nine Months Ended June 30,	
	2009	2008
	(Unaudited)	(Unaudited)
<b>Revenues:</b>		
Net sales	\$ 7,091,748	\$ 12,324,462
Freight income	73,812	58,038
<b>Total revenues</b>	<b>7,165,560</b>	<b>12,382,500</b>
Cost of goods sold	(5,878,775)	(8,213,684)
Inventory adjustment	(610,105)	
<b>Gross profit</b>	<b>676,680</b>	<b>4,168,816</b>
Selling, general, and administrative expenses	(2,764,081)	(3,344,376)
Goodwill impairment	(4,890,146)	
Fraud Expense	(620,000)	
<b>Income from operations</b>	<b>(7,597,547)</b>	<b>824,440</b>
<b>Other Income (Expense):</b>		
Interest expense	(263,937)	(259,792)
Interest income	1,674	19,248
Gain on sale of assets	121,345	321,402
Miscellaneous	5,586	35,441
<b>Total other income (expense)</b>	<b>(135,332)</b>	<b>116,299</b>
<b>Income (loss) before provision for (benefit from) income taxes</b>	<b>(7,732,879)</b>	<b>940,739</b>
<b>Provision for (benefit from) income taxes</b>	<b>(1,416,000)</b>	<b>344,643</b>
<b>Net income (loss)</b>	<b>\$ (6,316,879)</b>	<b>\$ 596,096</b>
<b>Weighted average shares of common stock outstanding:</b>		
Basic	6,055,640	6,223,886
Diluted	6,055,640	6,223,886
<b>Earnings per common share:</b>		
Basic	\$ (1.04)	\$ 0.10
Diluted	\$ (1.04)	\$ 0.10

See accompanying notes to the condensed consolidated financial statements.



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	<b>Nine Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Cash Flows from Operating Activities:</b>		
Net income (loss)	\$ (6,316,879)	\$ 596,096
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	624,699	600,355
Amortization	4,426	4,381
Inventory reserve	474,870	27,000
Share-based expense	125,125	51,625
Provision for doubtful accounts		
Gain on sale of equipment	(121,345)	(321,402)
Goodwill impairment	4,890,146	
Change in:		
Accounts receivable, net	2,481,964	454,109
Inventories	457,777	(1,378,454)
Taxes receivable	(660,637)	82,921
Prepaid expenses and other	126,771	(10,952)
Accounts payable	(424,926)	236,200
Deferred income taxes	(609,892)	
Accrued expenses	(160,358)	105,314
Income taxes payable		
Accrued interest payable	2,531	(558)
<b>Net cash provided by operating activities</b>	<b>894,272</b>	<b>446,635</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of equipment	(157,436)	(1,172,868)
Purchase of intangible assets	(9,630)	
Proceeds from sale of equipment	7,517	
<b>Net cash used in investing activities</b>	<b>(159,549)</b>	<b>(1,172,868)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from bank notes payable		750,000
Payments on bank notes payable	(601,827)	(485,097)
Payments on bank loan costs		(15,000)
Bank Line of Credit, net	(180,000)	200,000
Purchase of Treasury Stock		9,390
<b>Net cash used in financing activities</b>	<b>(781,827)</b>	<b>459,293</b>
<b>Net change in cash and cash equivalents</b>	<b>(47,104)</b>	<b>(266,940)</b>
Cash and cash equivalents, beginning of period	194,576	454,848
Cash and cash equivalents, end of period	\$ 147,472	\$ 187,908

See accompanying notes to the condensed consolidated financial statements.

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	<b>Nine Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 261,407	\$ 260,350
Income taxes	\$	\$ 261,722
<b>Supplemental schedule of non-cash investing and financing</b>		
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	\$	\$
Issuance of common stock for payment of consultant fees	\$ 22,500	\$ 91,500
Issuance of common stock for payment of director fees	\$	\$ 11,000

See accompanying notes to the condensed consolidated financial statements.

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**1. Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements for the three months and nine months ended June 30, 2009 and 2008 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Except as otherwise noted in Item 4T., Controls and Procedures, (see below), it is the opinion of management that the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods ended June 30, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. These interim consolidated financial statements should be read in conjunction with the September 30, 2008 consolidated financial statements and related notes included in the Company's Annual Report on Forms 10-KSB and 10-K/A for the year ended September 30, 2008.

**2. Restatement**

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

Mr. L.G. Hancher, Jr., the then-Chairman of the Company's Board of Directors and 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 Amendment.



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In addition, during the fiscal quarter ended March 31, 2009, as part of this purported Stock Buyback transaction, Mr. Hancher directed the Company to pay \$50,000 to a consulting brokerage firm. These funds were originally recorded as a prepaid expense, and were to be used to pay future legal and other advisory costs. As a result of the Company's investigation of this entire matter, management has determined that the \$50,000 in prepaid expenses also should be re-characterized as fraud expense.

In this Amendment, the Company also has reclassified some stock-based compensation to its outside directors. Mr. Hancher was responsible for issuing stock-based compensation to the other directors in accordance with the Company's approved plan. However, as part of the investigation, it was discovered that some of the shares that Mr. Hancher was to issue were not in fact issued. Consequently, we corrected the stock-based compensation by correcting the additional paid-in capital and accrued expense accounts, each by the amount of \$6,000, to correct the previous misstatement.

The following tables show the specific effects of the restatement on the consolidated financial statements as of and for the three and nine month periods ended June 30, 2009:

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet

June 30, 2009

	June 30, 2009 (Unaudited) ORIGINAL	ADJUSTMENTS	June 30, 2009 (Unaudited) RESTATED
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 147,472	\$	\$ 147,472
Accounts receivable, net	453,684		453,684
Inventories	4,177,851		4,177,851
Income taxes receivable	675,417		675,417
Deferred income taxes	558,000	211,000	769,000
Prepaid expenses and other	138,827	(50,000)	88,827
Total current assets	6,151,251	161,000	6,312,251
Property, plant, and equipment, net	10,968,976		10,968,976
Intangible assets, net	183,015		183,015
Goodwill			
Other assets	42,382		42,382
Total assets	\$ 17,345,624	\$ 161,000	\$ 17,506,624
<b>Liabilities and Stockholders Equity</b>			
Current Liabilities:			
Accounts payable	\$ 150,287	\$	\$ 150,287
Accrued interest payable	6,401		6,401
Accrued expenses	566,852	6,000	572,852
Bank line of credit	820,000		820,000
Current portion of bank notes payable	844,701		844,701
Current portion of deferred gain	166,524		166,524
Total current liabilities	2,554,765	6,000	2,560,765
Long-Term Liabilities:			
Bank notes payable, less current portion	3,336,050		3,336,050
Deferred gain, less current portion	69,385		69,385
Deferred income taxes	2,174,000		2,174,000
Total long term liabilities	5,579,435		5,579,435
Total liabilities	8,134,200	6,000	8,140,200
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	14,848,457	(6,000)	14,842,457
Retained Earnings	(2,486,145)	(409,000)	(2,895,145)
Treasury stock, at cost, 1,410,730 shares	(3,151,636)	570,000	(2,581,636)
Total stockholders equity	9,211,424	155,000	9,366,424
Total liabilities and stockholders equity	\$ 17,345,624	\$ 161,000	\$ 17,506,624



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
<b>Revenues:</b>			
Net sales	\$ 1,199,459	\$	\$ 1,199,459
Freight income	21,234		21,234
<b>Total revenues</b>	<b>1,220,693</b>		<b>1,220,693</b>
Cost of goods sold	(1,268,844)		(1,268,844)
Inventory adjustment	(610,105)		(610,105)
<b>Gross profit</b>	<b>(658,257)</b>		<b>(658,257)</b>
Selling, general, and administrative expenses	(943,161)		(943,161)
Goodwill impairment	(4,890,146)		(4,890,146)
Fraud expense			
<b>Income from operations</b>	<b>(6,491,564)</b>		<b>(6,491,564)</b>
<b>Other Income (Expense):</b>			
Interest expense	(76,743)		(76,743)
Interest income	161		161
Gain on sale of assets	41,631		41,631
Miscellaneous	2,519		2,519
<b>Total other income (expense)</b>	<b>(32,432)</b>		<b>(32,432)</b>
<b>Income (loss) before provision for (benefit from) income taxes</b>	<b>(6,523,996)</b>		<b>(6,523,996)</b>
Provision for (benefit from) income taxes	(983,572)		(983,572)
<b>Net income (loss)</b>	<b>\$ (5,540,424)</b>	<b>\$</b>	<b>\$ (5,540,424)</b>
<b>Weighted average shares of common stock outstanding:</b>			
Basic	5,328,666	743,641	6,072,307
Diluted	5,328,666	743,641	6,072,307
<b>Earnings per common share:</b>			
Basic	\$ (1.04)	\$ 0.13	\$ (0.91)
Diluted	\$ (1.04)	\$ 0.13	\$ (0.91)

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Operations

	Nine Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
<b>Revenues:</b>			
Net sales	\$ 7,091,748	\$	\$ 7,091,748
Freight income	73,812		73,812
<b>Total revenues</b>	<b>7,165,560</b>		<b>7,165,560</b>
Cost of goods sold	(5,878,775)		(5,878,775)
Inventory adjustment	(610,105)		(610,105)
<b>Gross profit</b>	<b>676,680</b>		<b>676,680</b>
Selling, general, and administrative expenses	(2,764,081)		(2,764,081)
Goodwill impairment	(4,890,146)		(4,890,146)
Fraud expense		(620,000)	(620,000)
<b>Income from operations</b>	<b>(6,977,547)</b>	<b>(620,000)</b>	<b>(7,597,547)</b>
<b>Other Income (Expense):</b>			
Interest expense	(263,937)		(263,937)
Interest income	1,674		1,674
Gain on sale of assets	121,345		121,345
Miscellaneous	5,586		5,586
<b>Total other income (expense)</b>	<b>(135,332)</b>		<b>(135,332)</b>
<b>Income before provision for (benefit from) income taxes</b>	<b>(7,112,879)</b>	<b>(620,000)</b>	<b>(7,732,879)</b>
Provision for (benefit from) income taxes	(1,205,000)	(211,000)	(1,416,000)
<b>Net income (loss)</b>	<b>\$ (5,907,879)</b>	<b>\$ (409,000)</b>	<b>\$ (6,316,879)</b>
<b>Weighted average shares of common stock outstanding:</b>			
Basic	5,477,817	577,823	6,055,640
Diluted	5,477,817	577,823	6,055,640
<b>Earnings per common share:</b>			
Basic	\$ (1.08)	\$ 0.04	\$ (1.04)
Diluted	\$ (1.08)	\$ 0.04	\$ (1.04)

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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ (5,907,879)	\$ (409,000)	\$ (6,316,879)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	624,699		624,699
Amortization	4,426		4,426
Inventory reserve	474,870		474,870
Share-based Expense	119,125	6,000	125,125
Gain on sale of equipment	(121,345)		(121,345)
Goodwill impairment	4,890,146		4,890,146
Change in:			
Accounts receivable, net	2,481,964		2,481,964
Inventories	457,777		457,777
Taxes receivable	(660,637)		(660,637)
Prepaid expenses and other	76,771	50,000	126,771
Accounts payable	(424,926)		(424,926)
Deferred income taxes	(398,892)	(211,000)	(609,892)
Accrued expenses	(154,358)	(6,000)	(160,358)
Accrued interest payable	2,531		2,531
Net cash provided by operating activities	1,464,272	(570,000)	894,272
<b>Cash Flows from Investing Activities:</b>			
Purchase of equipment	(157,436)		(157,436)
Purchase of intangible assets	(9,630)		(9,630)
Proceeds from sale of equipment	7,517		7,517
Net cash used in investing activities	(159,549)		(159,549)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from bank notes payable			
Payments on bank notes payable	(601,827)		(601,827)
Payments on bank loan costs			
Bank Line of Credit, net	(180,000)		(180,000)
Purchase of treasury stock	(570,000)	570,000	
Net cash used in financing activities	(1,351,827)	570,000	(781,827)
Net change in cash and cash equivalents	(47,104)		(47,104)
Cash and cash equivalents, beginning of period	194,576		194,576
Cash and cash equivalents, end of period	\$ 147,472	\$	\$ 147,472



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Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended June 30,		
	2009 (Unaudited) ORIGINAL	ADJUSTMENTS	2009 (Unaudited) RESTATED
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 261,407		\$ 261,407
Income taxes	\$		\$
Supplemental schedule of non-cash investing and financing			
Acquisition of common stock from sale of property, plant, and equipment	\$		\$
Issuance of common stock for payment of CEO bonus	\$		\$
Issuance of stock and Options for payment of CEO	\$	\$	\$
Issuance of common stock for payment of consultant fees	\$ 22,500		\$ 22,500
Issuance of common stock for payment of director fees	\$ 6,000	\$ (6,000)	\$

**3. Inventories:**

The major components of inventories, as of June 30, 2009 and September 30, 2008 are as follows:

	2009		2008	
Raw materials	\$	1,381,603	\$	2,474,459
Work in progress		76,532		533,344
Finished goods		3,492,055		2,237,930
Inventory reserve		(772,339)		(135,234)
Total inventories	\$	4,177,851	\$	5,110,499

During the third quarter of 2009, while undergoing lean manufacturing process improvements and upgrades to the ERP software used to manage the Company, management spent significant time evaluating the inventory processes, inventory quantities on hand, future product demand and the estimated utility of our inventory. During this review, management made the determination that some of our inventory on-hand was obsolete or needed to be written down to the current market values. Accordingly, the Company increased the reserve by approximately \$600,000



to approximately \$772,000 during third quarter, until management could complete the review.

**4. Earnings (Loss) Per Share:**

Basic earnings (loss) per share ( EPS ) is calculated by dividing net income (loss) 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 stock options or other share-based awards were exercised. As of June 30, 2009, the Company has approximately 50,000 common stock-equivalents related to outstanding share-based awards. At June 30, 2009, the effects of the common stock equivalents are excluded from the computation of diluted earnings per share, as their effects would be anti-dilutive.

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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 June 30, 2009:

	<b>For the three months ended June 30, 2009</b>		
	<b>Income(Loss) (numerator)</b>	<b>Shares (denominator)</b>	<b>Per-share amount</b>
<b>Basic EPS</b>			
Income (loss) available to common stockholders	\$ (5,540,424)	6,072,307	\$ (.91)