

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

CYCLE COUNTRY ACCESSORIES CORP  
Form 10QSB  
May 16, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

-----

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended March 31, 2002

or

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT OF 1934  
For the transition period from to

-----

Commission file number: 333-68570

Cycle Country Accessories Corp.  
(Exact Name of Small Business Issuer as Specified in Its Charter)

-----

Nevada 42-1523809  
(State of incorporation) (I.R.S. Employer Identification No.)

2188 Highway 86  
Milford, Iowa 51351  
(Address of principal executive offices)

Registrant's telephone number: (712) 338-2701

-----

Check whether the issuer: (1) filed all reports required to be filed by  
Section 13 or 15(d) of the 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 --

--

The number of shares of the registrant's common stock, par value  
\$.0001 per share, outstanding as of May 13, 2002 was 3,698,250 and  
there were 306 stockholders of record.

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

1

Cycle Country Accessories Corp. Index to Form 10-QSB

Part 1	Financial Information	Page
		----
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheet - March 31, 2002.....	2
	Condensed Consolidated Statements of Income - Three Months and Six Months Ended March 31, 2002 and 2001.....	3
	Condensed Consolidated Statements of Cash Flows - Six Months Ended March 31, 2002 and 2001 .....	5
	Notes to Condensed Consolidated Financial Statements.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	12
Part II	Other Information	
Item 6.	Exhibits and Reports on Form 8-K.....	17
	Signatures.....	18

2

Part I. Financial Information

Item 1. Financial Statements

Cycle Country Accessories Corp. and Subsidiaries  
Condensed Consolidated Balance Sheet  
March 31, 2002  
(Unaudited)

Assets

Current Assets:

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Cash and cash equivalents	\$ 108,021
Accounts receivable, net	899,579
Inventories	3,099,033
Taxes receivable	100,517
Deferred income taxes	83,843
Prepaid expenses and other	129,618
	-----
Total current assets	4,420,611
	-----
Property, plant, and equipment, net	2,552,644
Intangible assets, net	260,478
Other assets	79,220
	-----
Total assets	\$ 7,312,953
	=====
Liabilities and Stockholders' Equity	
Current Liabilities:	
Accounts payable	\$ 437,853
Due to related parties	576,700
Accrued expenses	561,710
Bank line of credit	500,000
Accrued interest payable	3,311
Current portion of bank note payable	854,003
	-----
Total current liabilities	2,933,577
	-----
Long-Term Liabilities:	
Bank note payable, less current portion	3,173,791
Deferred income taxes	28,483
	-----
Total long-term liabilities	3,202,274
	-----
Total liabilities	6,135,851
	-----
Stockholders' Equity:	
Preferred stock, \$.0001 par value; 20,000,000 shares authorized; no shares issued or outstanding	-
Common stock, \$.0001 par value; 100,000,000 shares authorized; 3,698,250 shares issued and outstanding	370
Additional paid-in capital	994,641
Retained earnings	182,091
	-----
Total stockholders' equity	1,177,102
	-----
Total liabilities and stockholders' equity	\$ 7,312,953
	=====

See accompanying notes to the condensed consolidated financial statements.

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

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

	Three Months Ended March 31,	
	2002	2001
	(Unaudited)	(Unaudited)
Revenues:		
Net sales	\$ 2,201,108	\$ 3,469,801
Freight income	22,291	31,444
Total revenues	2,223,399	3,501,245
Cost of goods sold	(1,516,030)	(2,429,338)
Gross profit	707,369	1,071,907
Selling, general, and administrative expenses	(717,142)	(683,265)
Income (loss) from operations	(9,773)	388,642
Other Income (Expense):		
Interest expense	(64,172)	-
Interest income	2,792	13,839
Miscellaneous	16,532	15,008
Total other income (expense)	(44,848)	28,847
Income (loss) before provision for income taxes	(54,621)	417,489
Provision for income taxes as a C corporation	17,683	-
Net income (loss)	\$ (36,938)	\$ 417,489
Weighted average shares outstanding:		
Basic	3,698,250	3,698,250
Diluted	3,856,938	4,098,250
Earnings per share:		
Basic	\$ (0.01)	\$ 0.11
Diluted	\$ (0.01)	\$ 0.10
Pro forma net income data (1):		
Net income reported		\$ 417,489
Provision for income taxes		(150,296)
Pro forma net income		\$ 267,193
Pro forma weighted average shares outstanding (1):		
Basic		3,698,250
Diluted		4,098,250
Pro forma earnings per share (1):		

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Basic	\$	0.07
	=====	
Diluted	\$	0.07
	=====	

(1) The pro forma reflects the effect of the transaction in which all of the outstanding stock of Cycle Country Accessories Corp. (an Iowa corporation) was purchased by Cycle Country Accessories Corp. (a Nevada corporation), a C corporation. As a result, Cycle Country Accessories Corp. (an Iowa corporation) converted from an S corporation to a C corporation and a provision for income taxes has been included due to this conversion.

See accompanying notes to the condensed consolidated financial statements.

Page 3

4

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

	Six Months Ended March 31,	
	2002	2001
	(Unaudited)	(Unaudited)
Revenues:		
Net sales	\$ 6,986,279	\$ 7,383,434
Freight income	48,544	64,539
Total revenues	7,034,823	7,447,973
Cost of goods sold	(5,042,051)	(5,295,878)
Gross profit	1,992,772	2,152,095
Selling, general, and administrative expenses	(1,408,768)	(1,269,630)
Income from operations	584,004	882,465
Other Income (Expense):		
Interest expense	(128,240)	(452)
Interest income	4,287	21,976
Miscellaneous	19,213	46,846
Total other income (expense)	(104,740)	68,370
Income before provision for income taxes	479,264	950,835
Provision for income taxes as a C corporation	(174,515)	-
Net income	\$ 304,749	\$ 950,835
Weighted average shares outstanding:		
Basic	3,698,250	3,698,250
Diluted	3,982,839	4,098,250

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Earnings per share:		
Basic	\$ 0.08	\$ 0.26
	=====	=====
Diluted	\$ 0.08	\$ 0.23
	=====	=====
Pro forma net income data (1):		
Net income reported		\$ 950,835
Provision for income taxes		(342,301)
		-----
Pro forma net income		\$ 608,534
		=====
Pro forma weighted average shares outstanding (1):		
Basic		3,698,250
		=====
Diluted		4,098,250
		=====
Pro forma earnings per share (1):		
Basic		\$ 0.16
		=====
Diluted		\$ 0.15
		=====

(1) The pro forma reflects the effect of the transaction in which all of the outstanding stock of Cycle Country Accessories Corp. (an Iowa corporation) was purchased by Cycle Country Accessories Corp. (a Nevada corporation), a C corporation. As a result, Cycle Country Accessories Corp. (an Iowa corporation) converted from an S corporation to a C corporation and a provision for income taxes has been included due to this conversion.

See accompanying notes to the condensed consolidated financial statements.

Page 4

5

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

	Six Months Ended March 31, 2002	2001
	----- (Unaudited)	----- (Unaudited)
Cash Flows from Operating Activities:		
Net income	\$ 304,749	\$ 950,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	133,062	112,047
Amortization	1,222	-
Inventory reserve	18,000	-
Gain on sale of equipment	(17,010)	(8,778)
(Increase) decrease in assets:		
Accounts receivable, net	158,704	(53,609)
Inventories	(331,254)	182,715
Prepaid expenses and other	(54,688)	(20,127)
Increase (decrease) in liabilities:		

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Accounts payable	(620,718)	(226,610)
Accrued expenses	261,173	231,518
Accrued interest payable	(308)	(1,230)
	-----	-----
Net cash provided by (used in) operating activities	(147,068)	1,166,761
	-----	-----
Cash Flows from Investing Activities:		
Purchase of equipment	(116,103)	(194,033)
Acquisition of net assets - subsidiary	(12,065)	-
Proceeds from sale of equipment	21,886	22,079
Payment received on notes receivable	-	1,000
	-----	-----
Net cash used in investing activities	(106,282)	(170,954)
	-----	-----
Cash Flows from Financing Activities:		
Payments on bank note payable	(412,718)	-
Payments on short-term note payable	-	(100,000)
Net borrowings from bank line of credit	500,000	-
Distributions paid to stockholders as an S corporation	-	(1,005,600)
	-----	-----
Net cash provided by (used in) financing activities	87,282	(1,105,600)
	-----	-----
Net decrease in cash and cash equivalents	(166,068)	(109,793)
Cash and cash equivalents, beginning of period	274,089	368,797
	-----	-----
Cash and Cash Equivalents, end of period	\$ 108,021	\$ 259,004
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 128,548	\$ 1,682
	=====	=====
Income taxes	\$ 196,970	\$ -
	=====	=====

Supplemental schedule of non-cash  
investing and financing activities:

Acquisition of net assets - subsidiary included in due to related parties	\$ 516,700	\$ -
	=====	=====
Increase in prepaid expenses - included in due to related parties	\$ 60,000	\$ -
	=====	=====

See accompanying notes to the condensed consolidated financial statements.

Cycle Country Accessories Corp. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
Six Months Ended March 31, 2002 and 2001  
(Unaudited)

1. Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements for the three and six months ended March 31, 2002 and 2001, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles 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 March 31, 2002 and 2001 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, 2001 consolidated financial statements and related notes included in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2001.

In November 2001, the Emerging Issues Task Force released Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products) (EITF 01-09). Upon adoption of EITF 01-09 on January 1, 2002, the Company was required to classify certain payments to its customers as a reduction of sales. The Company previously classified these payments as selling, general, and administrative expenses in its consolidated statements of income. Upon adoption of EITF 01-09, \$(38,896) and \$98,213 as of the three months ended March 31, 2002 and 2001, respectively, and \$214,152 and \$287,630 as of the six months ended March 31, 2002 and 2001, respectively, were reclassified as a reduction (increase) in revenue. Because adoption of EITF 01-09 solely resulted in reclassification within the consolidated statements of income, there is no impact on the Company's financial condition, operating income, or net income.

2. Acquisition of Assets

On March 11, 2002, the Company entered into an asset purchase agreement to purchase certain assets from Perf-form Products, Inc. ("Perf-form Products") for approximately \$462,100 in cash and 22,500 shares of the Company's common stock for a total purchase price of approximately \$528,800. The shares of the Company's common stock were valued at the market price on the date of acquisition. Perf-form Products manufactures, sells, and distributes premium oil filters and related products for the motorcycle and ATV industries.



## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

As a result of the acquisition, the Company expects to be able to provide Perf-form Products a much larger distribution channel through it's existing distributor network in the United States and abroad; thereby, allowing Perf-form Products to accelerate its growth.

The acquisition was accounted for under the purchase method of accounting; accordingly, the purchase price has been allocated to reflect the fair value of assets acquired at the date of acquisition. The acquisition resulted in goodwill of approximately \$41,700; however, as discussed in Note 3, this goodwill recorded will not be amortized as a result of SFAS No. 142 transition provisions.

The following table summarizes the estimated fair values of the assets acquired at the date of acquisition:

At March 11, 2002	
-----	
Inventory	\$ 147,065
Property and equipment	120,000
Trademark	100,000
Covenant not-to-compete agreement	70,000
Patent	50,000
	-----
Total assets acquired	\$ 487,065
	=====

The results of operations of the acquired business have been included in the accompanying condensed consolidated financial statements from the date of acquisition.

Page 6

7

Cycle Country Accessories Corp. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
Six Months Ended March 31, 2002 and 2001  
(Unaudited)

### 3. Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of assets acquired. Goodwill arising from the Company's March 11, 2002 acquisition (see Note 2) is not being amortized in accordance with Statement of Financial Accounting Standards No. 142 (SFAS No. 142), Goodwill and Other Intangible Assets.

SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangibles. Under a nonamortization approach, goodwill and certain intangibles would not be amortized into results of operations, but instead would be reviewed for impairment at least annually and written down and charged to results of operations in the periods in which the recorded value of goodwill and certain intangibles are determined to be greater than their fair value.

The trademark has been deemed to have an indefinite life and as such

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

will not be amortized. The covenant not-to-compete agreement is being amortized over its estimated useful life (5 years) and the patent is being amortized over its remaining useful life of 11 years.

### 4. Inventories:

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. The major components of inventories at March 31, 2002 are summarized as follows:

Raw materials	\$	1,519,383
Work in progress		46,651
Finished goods		1,532,999
		-----
Total inventories	\$	3,099,033
		=====

### 5. Accrued Expenses:

The major components of accrued expenses at March 31, 2002 are summarized as follows:

Distributor rebate payable	\$	382,177
Accrued salaries and related benefits		136,869
Accrued warranty expense		32,000
Royalties payable		10,664
		-----
Total accrued expenses	\$	561,710
		=====

### 6. Income Taxes:

The Company converted to a C corporation effective August 21, 2001. Prior to August 21, 2001, the Company had elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under these provisions, the stockholders reported their proportionate share of the Company's income on their individual tax returns. Therefore, no provision or liability for federal or state income taxes has been included in the Condensed Consolidated Financial Statements prior to August 21, 2001.

### 7. Earnings 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.

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Six Months Ended March 31, 2002 and 2001  
(Unaudited)

### 7. Earnings Per Share, Continued:

The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the three months and six months ended March 31, 2002 and 2001:

	For the three months ended March 31, 2002			For the six months ended March 31, 2002		
	Income (numerator)	Shares (denominator)	Per-share amount	Income (Numerator)	Shares (denominator)	Per- amo
Basic EPS						
Income available to common stockholders	\$ (36,938)	3,698,250	\$ (0.01)	\$ 304,749	3,698,250	\$ 0
Effect of Dilutive Securities						
Warrants	-	158,688	-	-	284,589	
Diluted EPS						
Income available to common stockholders	\$ (36,938)	3,856,938	\$ (0.01)	\$ 304,749	3,982,839	\$ 0

	For the three months ended March 31, 2001			For the six months ended March 31, 2001		
	Income (numerator)	Shares (denominator)	Per-share amount	Income (numerator)	Shares (Denominator)	Per- amo
Basic EPS						
Income available to common stockholders	\$ 417,849	3,698,250	\$ 0.11	\$ 950,835	3,698,250	\$ 0
Effect of Dilutive Securities						
Warrants (1)	-	400,000	-	-	400,000	
Diluted EPS						
Income available to common stockholders	\$ 417,849	4,098,250	\$ 0.10	\$ 950,835	4,098,250	\$ 0

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

- (1) The calculation of the effect of dilutive securities assumes a value of \$5.00 for each share of the Company's common stock until traded on the open market on February 11, 2002.

Page 8

9

Cycle Country Accessories Corp. and Subsidiaries  
 Notes to Condensed Consolidated Financial Statements  
 Six Months Ended March 31, 2002 and 2001  
 (Unaudited)

### 8. 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 two operating segments which assemble, manufacture, and sell a variety of products: ATV Accessories and Plastic Wheel Covers. ATV Accessories is engaged in the design, assembly, and sale of ATV accessories such as snowplow blades, lawnmowers, spreaders, sprayers, tillage equipment, winch mounts, and utility boxes. Plastic Wheel Covers manufactures and sells injection-molded plastic wheel covers for vehicles such as golf carts, lawnmowers, and light-duty trailers. 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-KSB for the year ended September 30, 2001. Sales of snowplow blades comprised approximately 51% and 72% of ATV Accessories revenues during the three months ended March 31, 2002 and 2001, respectively and approximately 76% and 78% of ATV Accessories revenues during the six months ended March 31, 2002 and 2001, respectively. In addition, sales of snowplow blades comprised approximately 36% and 62% of the Company's consolidated total revenues during the three months ended March 31, 2002 and 2001, respectively and approximately 66% and 69% of the Company's consolidated total revenues during the six months ended March 31, 2002 and 2001, respectively.

The following is a summary of certain financial information related to the two segments during the three months and six months ended March 31, 2002 and 2001:

	Three months ended March 31,		Six months ended March 31,	
	2002	2001	2002	2001
Total revenues by segment				
ATV Accessories	\$ 1,569,733	\$ 3,007,474	\$ 6,102,997	\$ 6,616,878

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Plastic Wheel Covers	671,155	530,327	1,094,277	947,951
Total revenues by segment	2,240,888	3,537,801	7,197,274	7,564,829
Freight income	22,290	31,444	48,544	64,539
Sales allowances	(39,779)	(68,000)	(210,995)	(181,395)
Total revenues	\$ 2,223,399	\$ 3,501,245	\$ 7,034,823	\$ 7,447,973
Operating profit by segment				
ATV Accessories	\$ 655,421	\$ 1,078,213	\$ 2,252,433	\$ 2,349,182
Plastic Wheel Covers	477,284	418,996	765,191	711,950
Freight income	22,290	31,444	48,544	64,539
Sales allowances	(39,779)	(68,000)	(210,995)	(181,395)
Factory overhead	(407,847)	(388,746)	(862,401)	(792,180)
Selling, general, and administrative	(717,142)	(683,265)	(1,408,768)	(1,269,631)
Interest income (expense), net	(61,380)	14,161	(123,953)	21,846
Other income (expense), net	16,532	14,686	19,213	46,524
Provision for income taxes	17,683	-	(174,515)	-
Net income (loss)	\$ (36,938)	\$ 417,489	\$ 304,749	\$ 950,835

Page 9

10

Cycle Country Accessories Corp. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
Six Months Ended March 31, 2002 and 2001  
(Unaudited)

8. Segment Information, Continued:

The following is a summary of the Company's revenue in different geographic areas during the three months and six months ended March 31, 2002 and 2001:

	Three months ended March 31,		Six months ended March 31,	
	2002	2001	2002	2001
United States of America	\$ 1,997,693	\$ 3,285,860	\$ 6,429,740	\$ 7,062,642
Other countries	225,706	215,385	605,083	385,331
Total revenue	\$ 2,223,399	\$ 3,501,245	\$ 7,034,823	\$ 7,447,973

As of March 31, 2002, all of the Company's long-lived assets are located in the United States of America.

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

ATV Accessories sales to major customers, which exceeded 10% of net revenues, accounted for approximately 24.3% of net revenues during the three months ended March 31, 2002, and approximately 19.9%, 13.5%, and 13.5% each of net revenues during the three months ended March 31, 2001. Plastic Wheel Covers did not have sales to any individual customer greater than 10% of net revenues during the three months ended March 31, 2002 or 2001.

ATV Accessories sales to major customers, which exceeded 10% of net revenues, accounted for approximately 19.8%, 15.1%, and 10% each of net revenues during the six months ended March 31, 2002, and approximately 18.6%, 15.6%, 13.1% and 11.2% each of net revenues during the six months ended March 31, 2001. Plastic Wheel Covers did not have sales to any individual customer greater than 10% of net revenues during the six months ended March 31, 2002 or 2001.

### 9. Contingencies: Legal Matters

The Company is involved in a claim relating to an allegation of patent infringement. The claim is in the preliminary phases. The amount of liability, if any, from the claim cannot be determined with certainty; however, management is of the opinion that the outcome will not have a material adverse effect on the consolidated financial position or operations of the Company.

Page 10

11

### 10. New Accounting Standards

As more fully described in Note 1 of the Notes to Condensed Consolidated Financial Statements, on January 1, 2002, the Company was required to adopt EITF 01-09. For a discussion of the impact of this new accounting standard upon the Company, see Note 1.

In June 2001, the FASB issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 requires the use of a non-amortization approach to account for purchased goodwill and certain intangibles. Under a non-amortization approach, goodwill and certain intangibles will not be amortized into results of operations, but instead would be reviewed for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 was adopted by the Company on January 1, 2002. Accordingly, adoption of these statements had no effect on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 addresses accounting and reporting for the impairment and disposal of long-lived assets disposed of after December 15, 2001. SFAS No. 144 supersedes SFAS No. 121 and the accounting and reporting provisions of Accounting Principals Board (APB) Opinion No. 30, and amends Accounting Research Bulletin (ARB) No. 51 to eliminate the exception to consolidation for a subsidiary. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale. The Company does not expect the adoption of this statement to have material effect on its financial statements.

Page 11

12

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

The following is a discussion and analysis of our results of operations and our liquidity and capital resources and should be read in conjunction with the Condensed Consolidated Financial Statements and the related Notes thereto included elsewhere in this filing. 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. Additional risk factors are also identified in our annual report to the Securities and Exchange Commission filed on Form 10-KSB and in other SEC filings.

OVERALL RESULTS OF OPERATIONS - Three Months Ended March 31, 2002 and 2001

Revenues for the three months March 31, 2002 decreased \$1,277,846, or 36.5%, to \$2,223,399 from \$3,501,245 for the three months ended March 31, 2001. Cost of goods sold decreased \$913,308, or 37.6%, to \$1,516,030 for the three months ended March 31, 2002 from \$2,429,338 for the three months ended March 31, 2001. Additionally, gross profit as a percentage of revenue was 31.8% for the second quarter ended March 31, 2002 compared to 30.6% for the second quarter ended March 31, 2001. The decrease in revenues during the second quarter ended March 31, 2002 is mainly attributable to a decrease in unit sales volume of our mainstay product, Snowplow Blades, as compared to the second quarter of fiscal 2001 which was caused, in part, by a milder winter and less precipitation this fiscal quarter than the same quarter of fiscal 2001 across the entire country. The second quarter of fiscal 2001 also had unusually high sales of blade products as our distributors ordered late in the quarter to achieve rebate program goals, which did not occur in the fiscal 2002 second quarter as the distributors achieved program goals earlier. When large orders occur at a season-end, such as occurred in the second quarter fiscal 2001, the inventory that is sold is considered to be for the following season. Although this effects the quarter sales, when a late season surge in orders does not occur it means less inventory must be moved at the retail level and leads to new orders early at the start of the following season. The decrease was also

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

attributable to a later than usual start on our mower production and sales. The slight increase of 1.2% in gross profit is primarily the result of a lower rebate program expense in the second quarter of fiscal 2002 as compared to the second quarter of fiscal 2001. These decreases were offset, somewhat, by a reduction in rent of approximately \$53,000 that is included as part of the overhead expenses allocated to cost of goods sold.

Selling, general, and administrative expenses increased \$33,877, or 5.0%, to \$717,142 for the three months ended March 31, 2002 from \$683,265 for the three months ended March 31, 2001. Increases in operating expenses of approximately \$17,000 in advertising, approximately \$48,000 in legal and accounting costs, approximately \$14,900 in research and development costs, and approximately \$17,000 in office related expenses were offset by a reduction in insurance of approximately \$12,000, and a reduction in rent expense of approximately \$35,000 due to the Company acquiring its operating facility (which consisted of land and building) from certain stockholders that was previously leased under an operating lease during the fourth quarter of fiscal 2001.

Interest and miscellaneous income decreased approximately \$9,500 from the second quarter of fiscal 2001 to the second quarter of 2002. The decrease is due to a reduction of \$11,047 in interest income earned during the second quarter of fiscal 2002 versus the second quarter of fiscal 2001. Interest expense increased 100% to \$64,172 for the three months ended March 31, 2002 from \$0 for the first three months ended March 31, 2001 due to the Company entering into a bank note payable for \$4,500,000 in the fourth quarter of fiscal 2001. As compared to the second quarter of 2002, interest expense over the remaining quarters of fiscal 2002 should decrease slightly as the principal balance is continually reduced on the bank note and interest rates remain relatively low.

The income tax benefit increased 100% to \$17,683 for the second quarter ended March 31, 2002 from \$0 for the second quarter ended March 31, 2001. The change is due to the Company converting to a C corporation effective August 21, 2001. This conversion requires the Company to make the applicable federal and state income tax payments. Prior to August 21, 2001, the Company had elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code, which requires the stockholders to report their proportionate share of the Company's income on their individual tax returns. Therefore, prior to August 21, 2001, no provision or liability for federal or state income taxes has been included in the Company's Condensed Consolidated Financial Statements.

Page 12

13

### OVERALL RESULTS OF OPERATIONS - Six Months Ended March 31, 2002 and 2001

Revenues for the six months March 31, 2002 decreased \$413,150, or 5.5%, to \$7,034,823 from \$7,447,973 for the six months ended March 31, 2001. Cost of goods sold decreased \$253,827, or 4.8%, to \$5,042,051 for the six months ended March 31, 2002 from \$5,295,878 for the six months ended March 31, 2001. Additionally, gross profit as a percentage of revenue was 28.3% for the six months ended March



## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

31, 2002 compared to 28.9% for the six months ended March 31, 2001. The decrease in revenues during the six months ended March 31, 2002 is mainly attributable to a decrease in unit sales volume of our mainstay product, Snowplow Blades, in the second quarter of fiscal 2002 as compared to the second quarter of fiscal 2001 which was caused, in part, by a milder winter and less precipitation this fiscal quarter than the same quarter of fiscal 2001 across the entire country. The second quarter of fiscal 2001 also had unusually high sales of blade products as our distributors ordered late in the quarter to achieve rebate program goals, which did not occur in the fiscal 2002 second quarter as the distributors achieved program goals earlier. When large orders occur at a season-end, such as occurred in the second quarter fiscal 2001, the inventory that is sold is considered to be for the following season. Although this effects the quarter sales, when a late season surge in orders does not occur it means less inventory must be moved at the retail level and leads to new orders early at the start of the following season. The decrease was also attributable to a later than usual start on our mower production and sales. The slight decrease of 0.6% in gross profit is primarily the result of the establishment of an obsolescence reserve for the Plastic Wheel Cover business segment and the mix of slightly more lower-profit products that made up the sales for the six months ended March 31, 2002 versus the six months ended March 31, 2001. These factors were offset, somewhat, by a reduction in rent of approximately \$108,000 that is included as part of the overhead expenses allocated to cost of goods sold.

Selling, general, and administrative expenses increased \$139,137, or 11.0%, to \$1,408,768 for the six months ended March 31, 2002 from \$1,269,630 for the six months ended March 31, 2001. The increase in operating expenses is a result of additional spending of approximately \$52,000 in salaries, commissions and other related benefits, approximately \$48,000 in increased advertising, approximately \$50,000 in legal and accounting costs, and approximately \$37,000 in office related expenses. The increases were offset by a reduction in rent expense of approximately \$65,000 due to the Company acquiring its operating facility (which consisted of land and building) from certain stockholders that was previously leased under an operating lease during the fourth quarter of fiscal 2001.

Interest and miscellaneous income decreased approximately \$45,320 from the first six months of fiscal 2001 to the first six months of fiscal 2002. The decrease is primarily due to a one-time consulting fee of approximately \$31,600 that was earned during the first six months of fiscal 2001 and approximately \$17,690 reduction in interest income earned during the first six months of fiscal 2002 versus the first six months of fiscal 2001. Interest expense increased \$127,788 to \$128,240 for the six months ended March 31, 2002 from \$452 for the first six months ended March 31, 2001 due to the Company entering into a bank note payable for \$4,500,000 in the fourth quarter of fiscal 2001. As compared to the first six months of 2002, interest expense over the remaining six months of fiscal 2002 should decrease slightly as the principal balance is continually reduced on the bank note and interest rates remain relatively low.

The provision for income taxes increased 100% to \$174,515 for the six months ended March 31, 2002 from \$0 for the six months ended March 31, 2001. The increase is due to the Company converting to a C corporation effective August 21, 2001. This conversion requires the Company to make the applicable federal and state income tax payments. Prior to August 21, 2001, the Company had elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code, which

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

requires the stockholders to report their proportionate share of the Company's income on their individual tax returns. Therefore, prior to August 21, 2001, no provision or liability for federal or state income taxes has been included in the Company's Condensed Consolidated Financial Statements.

We anticipate our revenues to increase during the third and fourth quarters of fiscal 2002 as product inventories within the network of distribution and market channels are relatively low, which historically leads to increased orders and sales activity. Other factors contributing to our projection of increased third and fourth quarter revenues include the successful development and incorporation of new products, re-engineering of our mainstay products, and the successful acquisition of Perf-Form and its premium oil products for motorcycles and ATV's. The seasonality of the ATV accessories market is a factor that we are continually addressing with increased sales and marketing efforts to our existing distributors, our focus on new distributors in untapped geographic locations, and expansion into new markets, such as lawn and garden. We also foresee selling, general and administrative expenses remaining consistent or decreasing slightly as a percent of revenues during the remainder of fiscal 2002 through increased usage of existing manufacturing capacity of our operating facility from increased production of new and existing products.

Page 13

14

### BUSINESS SEGMENTS

As more fully described in Note 8 to the Condensed Consolidated Financial Statements included elsewhere in this filing, the Company operates two reportable business segments: ATV Accessories and Plastic Wheel Covers. The gross margins are vastly different in our two reportable business segments due to the fact that we assemble our ATV accessories (i.e. we outsource the ironworks to our main product supplier) and we are vertically integrated in our Plastic Wheel Cover segment.

ATV ACCESSORIES - Three Months Ended March 31, 2002 and 2001  
Revenues for the three months ended March 31, 2002 decreased \$1,437,741, or 47.8%, to \$1,569,733 from \$3,007,474 for the three months ended March 31, 2001. The decrease is mainly attributable to a decrease in unit volume of our Snowplow Blade and mowers as discussed above (See OVERALL RESULTS OF OPERATIONS).  
Cost of goods sold for the three months ended March 31, 2002 decreased \$1,014,949, or 52.6%, to \$914,312 from \$1,929,261 for the three months ended March 31, 2001. Gross profit as a percent of revenues was 41.8% for the three months ended March 31, 2002 compared to 35.9% for the corresponding period in fiscal 2001. The increase in gross profit for the three months ended March 31, 2002 as compared to the corresponding period in fiscal 2001 was attributable to a lower rebate program expense as discussed above (See OVERALL RESULTS OF OPERATIONS).

PLASTIC WHEEL COVERS - Three Months Ended March 31, 2002 and 2001  
Revenues for the three months ended March 31, 2002 increased \$140,828, or 26.5%, to \$671,155 from \$530,327 for the three months

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

ended March 31, 2001. The increase is attributable to changes in current market conditions. Our new product and process will address the needs of the new market.

Cost of goods sold for the three months ended March 31, 2002 increased \$82,540, or 74.1%, to \$193,871 from \$111,331 for the three months ended March 31, 2001. Gross profit as a percent of revenue was 71.1% for the three months ended March 31, 2002 compared to 79.0% for the corresponding period in fiscal 2001. The increase in cost of goods and the decrease in gross profit during the three months ended March 31, 2002 as compared to the corresponding period in fiscal 2001 were directly attributable to an increase in direct labor and factory overhead caused by increased market demands and changes in production methods. The development of new production methods and technology of a higher quality product will position us well for the expanding golf cart industry.

**GEOGRAPHIC REVENUE - Three Months Ended March 31, 2002 and 2001**  
During the three months ended March 31, 2002, revenue in the United States of America decreased \$1,288,167, or 39.2%, to \$1,997,693 from \$3,285,860 for the three months ended March 31, 2001. Revenue from other countries increased \$10,321, or 4.8%, to \$225,706 from \$215,385 for the three months ended March 31, 2001. The decrease during the three months ended March 31, 2002 in U.S. revenue is due to a general decrease across all regions previously serviced in the United States of America, as discussed previously (See OVERALL RESULTS OF OPERATIONS). The increase during the three months ended March 31, 2002 in revenue from other countries is due to an increase of sales in Canada.

**ATV ACCESSORIES - Six Months Ended March 31, 2002 and 2001**  
Revenues for the six months ended March 31, 2002 decreased \$513,881, or 7.8%, to \$6,102,997 from \$6,616,878 for the six months ended March 31, 2001. The decrease is mainly attributable to a decrease in unit volume of our Snowplow Blade and our mowers as discussed above (See OVERALL RESULTS OF OPERATIONS).

Cost of goods sold for the six months ended March 31, 2002 decreased \$417,132, or 9.8%, to \$3,850,564 from \$4,267,696 for the six months ended March 31, 2001. Gross profit as a percent of revenues was 36.9% for the six months ended March 31, 2002 compared to 35.5% for the corresponding period in fiscal 2001. The slight increase in gross profit for the six months ended March 31, 2002 as compared to the corresponding period in fiscal 2001 was attributable to a decrease in our rebate program expense, which was offset somewhat by changes in the mix of products sold as discussed above (See OVERALL RESULTS OF OPERATIONS).

Page 14

15

**PLASTIC WHEEL COVERS - Six Months Ended March 31, 2002 and 2001**  
Revenues for the six months ended March 31, 2002 increased \$146,326, or 15.4%, to \$1,094,277 from \$947,951 for the six months ended March 31, 2001. The increase is attributable to changes in current market conditions. Our new product and process will address the needs of the new market.

Cost of goods sold for the six months ended March 31, 2002 increased \$93,085, or 39.4%, to \$329,086 from \$236,001 for the six months ended

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

March 31, 2001. Gross profit as a percent of revenue was 69.9% for the six months ended March 31, 2002 compared to 75.1% for the corresponding period in fiscal 2001. The increase in cost of goods and the decrease in gross profit during the six months ended March 31, 2002 as compared to the corresponding period in fiscal 2001 were directly attributable to an increase in our inventory reserve for some potentially excess and/or obsolete plastic wheel covers and was offset, somewhat, with operational efficiencies. This potential excess/obsolescence is due to the development of new production methods and technology of a higher quality product that will position us well for the expanding golf cart industry.

GEOGRAPHIC REVENUE - Six Months Ended March 31, 2002 and 2001  
During the six months ended March 31, 2002, revenue in the United States of America decreased \$632,902, or 9.0%, to \$6,429,740 from \$7,062,642 for the six months ended March 31, 2001. Revenue from other countries increased \$219,752, or 57.0%, to \$605,083 from \$385,331 for the six months ended March 31, 2001. The decrease during the six months ended March 31, 2002 in U.S. revenue is due to a general decrease across all regions previously serviced in the United States of America, as discussed previously (See OVERALL RESULTS OF OPERATIONS). The increase during the six months ended March 31, 2002 in revenue from other countries is due to an increase of sales in Canada and Europe.

### Liquidity and Capital Resources

Our primary source of liquidity has been cash generated by our operations and borrowings under our bank line of credit.

At March 31, 2002, we had \$108,021 in cash and cash equivalents, compared to \$274,089 at September 30, 2001. Until required for operations, our policy is to invest any excess cash reserves in bank deposits, money market funds, and certificates of deposit. Net working capital was \$1,487,034 at March 31, 2002 compared to \$1,995,007 at September 30, 2001. The change in working capital is primarily due to the following: inventories increased by \$460,319, or 17.4%, to \$3,099,033 at March 31, 2002 from \$2,638,714 at September 30, 2001, accounts receivable decreased by \$158,704, or 15.0%, to \$899,579 at March 31, 2002 from \$1,058,283 at September 30, 2001, accounts payable decreased by \$620,718, or 58.6%, to \$437,853 at March 31, 2002 from \$1,058,571 at September 30, 2001 and the bank line of credit increased 100% to \$500,000 at March 31, 2002 from \$0 at September 30, 2001.

On August 21, 2001, under the terms of a secured credit agreement, the Company entered into a note payable for \$4,500,000 (the "Note") with a commercial lender. The Note is collateralized by all of the Company's assets, is payable in monthly installments from September 2001 until July 2006, which included principal and interest at prime + 0.75% (6.0% at March 31, 2002), with a final payment upon maturity on July 25, 2006. The variable interest rate can never exceed 9% or be lower than 6%. The monthly payment is \$90,155 and is applied to interest first based on the interest rate in effect, with the balance applied to principal. The interest rate is adjusted daily. Additionally, any proceeds from the sale of stock received from the exercise of warrants shall be applied to any outstanding balance on the Note or the Line of Credit described below. At March 31, 2002, \$4,027,794 was outstanding on the Note.

## Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Under the terms of the secured credit agreement noted above, the Company has a Line of Credit for the lesser of \$500,000 or 80% of eligible accounts receivable and 35% of eligible inventory. The Line of Credit bears interest at prime plus 1.25% (6.0% at March 31, 2002), and is collateralized by all of the Company's assets. The Line of Credit matures August 25, 2002. At March 31, 2002, \$500,000 was outstanding on the Line of Credit.

Consistent with normal practice, management believes that the Company's operations are not expected to require significant capital expenditures during the remainder of fiscal 2002. Management believes that existing cash balances, cash flow to be generated from operating activities and available borrowing capacity under its Line of Credit will be sufficient to fund operations, and capital expenditure requirements for at least the next twelve months. At this time management is not aware of any factors that would have a materially adverse impact on cash flow during this period.

Page 15

16

### Special Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filings with the Securities and Exchange Commission and in its reports to stockholders. Generally, the inclusion of the words "believe", "expect", "intend", "estimate", "anticipate", "will", and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections.

All statements addressing operating performance, events, or developments that the Company expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results (in particular, statements under Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations), contain forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements but there can be no assurance that the statement of expectation or belief will result or be achieved or accomplished. In addition, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

By their nature, all forward-looking statements involve risk and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including but not limited to: competitive prices pressures at both the wholesale and retail levels, changes in market demand, changing interest rates, adverse weather conditions that reduce sales

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

at distributors, the risk of assembly and manufacturing plant shutdowns due to storms or other factors, the impact of marketing and cost-management programs, and general economic, financial and business conditions.

Page 16

17

Part II - Other Information

Item 1. Legal Proceedings

The Company is involved in a claim relating to an allegation of a patent infringement. The claim is in the preliminary phases. The amount of liability, if any, from the claim cannot be determined with certainty; however, management is of the opinion that the outcome will not have a material adverse effect on the consolidated financial position or operations of the Company.

THERE ARE NO REPORTABLE EVENTS FOR ITEM 2 THROUGH ITEM 5.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

During the second quarter of 2002, the Company filed a report on Form 8-K dated February 20, 2002. The Form 8-K is attached and made a part of this 10-QSB for the quarterly period ended March 31, 2002.

Page 17

18

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CYCLE COUNTRY ACCESSORIES CORP.

Dated: May 15, 2002

By: /s/ Ronald C. Hickman

-----  
Ronald C. Hickman  
Principal Executive Officer,  
President and Director

Edgar Filing: CYCLE COUNTRY ACCESSORIES CORP - Form 10QSB

Dated: May 15, 2002

By: /s/ David J. Davis

-----  
David J. Davis  
Principal Finance Officer and  
Principal Accounting Officer

Page 18

19