CYCLE COUNTRY ACCESSORIES CORP
Form 10QSB
August 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 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)

(712) 338-2701
(Issuer's telephone number)

(Former name, former address and formal fiscal year, if changed since last report)

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 $0.0001 per share, outstanding as of August 13, 2002 was 3,918,250 and there were 335 stockholders of record.

Transitional Small Business Disclosure Format (Check one): Yes__ No X

Cycle Country Accessories Corp.
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Part I. Financial Information

Item 1. Financial Statements

Cycle Country Accessories Corp. and Subsidiaries

Condensed Consolidated Balance Sheet
June 30, 2002
(Unaudited)

Assets

Current Assets:	
Cash and cash equivalents	$ 87,723
Accounts receivable, net	659,461
Inventories	3,081,455
Prepaid income taxes	57,161
Deferred income taxes	83,843
Prepaid expenses and other	56,817
Total current assets	4,026,460
Property, plant, and equipment, net	2,597,135
Intangible assets, net	280,046
Other assets	78,660
Total assets	$ 6,982,301

Liabilities and Stockholders' Equity

Current Liabilities:	
Accounts payable	$ 524,842
Accrued expenses	179,032
Bank line of credit	500,000
Accrued interest payable	3,306
Due to related parties	2,761
Current portion of bank note payable	867,528
Total current liabilities	2,077,469
Long-Term Liabilities:	
Bank note payable, less current portion	2,948,333
Deferred income taxes	28,483
Total long-term liabilities	2,976,816
Total liabilities	5,054,285
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; 3,918,250 shares issued and outstanding	392
Additional paid-in capital	1,654,319
Retained earnings	273,305
Total stockholders' equity	1,928,016
Total liabilities and stockholders' equity	$ 6,982,301

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended June 30, 2002 (Unaudited)	2001 (Unaudited)
Revenues:		
Net sales	$ 2,256,472	$ 2,222,460
Freight income	29,919	24,420
Total revenues	2,286,391	2,246,880
Cost of goods sold	(1,488,600)	(1,635,450)
Gross profit	797,791	611,430
Selling, general, and administrative expenses	(600,447)	(552,789)
Income from operations	197,344	58,641
Other Income (Expense):		
Interest expense	(64,741)	-
Interest income	724	6,221
Miscellaneous	6,101	(6,274)
Total other expense	(57,916)	(53)
Income before provision for income taxes	139,428	58,588
Provision for income taxes as a C corporation	(48,214)	-
Net income	$ 91,214	$ 58,588
Weighted average shares outstanding:		
Basic	3,704,019	3,698,250
Diluted	3,704,019	4,098,250
Earnings per share:		
Basic	$ 0.03	$ 0.02
Diluted	$ 0.03	$ 0.01
Pro forma net income data (1):		
Net income reported		$ 58,588
Provision for income taxes		(31,199)
Pro forma net income		$ 27,389

Pro forma weighted average shares outstanding (1):	
Basic	3,698,250
Diluted	4,098,250
Pro forma earnings per share (1):	
Basic	$ 0.01
Diluted	$ 0.01

(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.

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

	Six Months Ended June 30, 2002	2001
	(Unaudited)	(Unaudited)
Revenues:		
Net sales	$ 9,242,751	$ 9,605,894
Freight income	78,463	88,959
Total revenues	9,321,214	9,694,853
Cost of goods sold	(6,530,651)	(6,931,328)
Gross profit	2,790,563	2,763,525
Selling, general, and administrative expenses	(2,009,215)	(1,822,419)
Income from operations	781,348	941,106
Other Income (Expense):		
Interest expense	(192,981)	(452)
Interest income	5,011	28,197
Miscellaneous	25,314	40,572
Total other income (expense)	(162,656)	68,317
Income before provision for income taxes	618,692	1,009,423
Provision for income taxes as a C corporation	(222,729)	-

Net income	$ 395,963	$ 1,009,423
Weighted average shares outstanding:		
Basic	3,700,255	3,698,250
Diluted	3,728,461	4,098,250
Earnings per share:		
Basic	$ 0.11	$ 0.27
Diluted	$ 0.11	$ 0.25
Pro forma net income data (1):		
Net income reported		$ 1,009,423
Provision for income taxes		(373,500)
Pro forma net income		$ 635,923
Pro forma weighted average shares outstanding (1):		
Basic		3,698,250
Diluted		4,098,250
Pro forma earnings per share (1):		
Basic		$ 0.17
Diluted		$ 0.16

(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.

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

	Six Months Ended June 30, 2002	2001
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities:		
Net income	$ 395,963	$ 1,009,423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	209,221	166,379

Amortization	6,654	-
Inventory reserve	18,000	-
Gain on sale of equipment	(17,010)	-
(Increase) decrease in assets:		
Accounts receivable, net	398,822	23,435
Inventories	(310,176)	499,930
Prepaid income taxes	(57,161)	-
Taxes receivable	100,517	-
Prepaid expenses and other	8,673	(12,524)
Increase (decrease) in liabilities:		
Accounts payable	(533,729)	(116,561)
Accrued expenses	(57,005)	(144,328)
Due to related party	2,761	-
Accrued interest payable	(313)	-
Net cash provided by operating activities	165,217	1,425,754
Cash Flows from Investing Activities:		
Purchase of equipment	(236,753)	(240,698)
Acquisition of net assets - subsidiary	(12,065)	-
Proceeds from sale of equipment	21,886	22,079
Payment received on notes receivable	-	46,000
Net cash used in investing activities	(226,932)	(172,619)
Cash Flows from Financing Activities:		
Payments on bank note payable	(624,651)	-
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 used in financing activities	(124,651)	(1,105,600)
Net increase (decrease) in cash and cash equivalents	(186,366)	147,535
Cash and cash equivalents, beginning of period	274,089	368,797
Cash and Cash Equivalents, end of period	$ 87,723	$ 516,332

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended June 30,	
	2002	2001

	(Unaudited)	(Unaudited)
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 193,294	$ 1,682
Income taxes	$ 279,890	$ -
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	$ -
Extinguishment of due to related parties through issuance of common stock	$ 566,700	$ -
Issuance of common stock for payment of accrued bonus and employee compensation	$ 64,500	$ -
Issuance of common stock for acquisition of net assets of Weekend Warrior	$ 28,500	$ -

See accompanying notes to the condensed consolidated financial statements.

Cycle Country Accessories Corp. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine Months Ended June 30, 2002 and 2001
(Unaudited)

1. Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements for the three and nine months ended June 30, 2002 and 2001 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-QSB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented.

The results of operations for the interim periods ended June 30, 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, $12,121 and $21,953 as of the three months ended June 30, 2002 and 2001, respectively, and $226,273 and $309,583 as of the nine months ended June 30, 2002 and 2001, respectively, were reclassified as a reduction 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. 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.

Cycle Country Accessories Corp. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine Months Ended June 30, 2002 and 2001
(Unaudited)

2. Acquisition of Assets, Continued:

On June 13, 2002, the Company entered into an asset purchase agreement to purchase certain assets from Weekend Warrior, Inc. ("Weekend Warrior") for 10,000 shares of the Company's common stock for a total purchase price of approximately $28,500. The shares of the Company's common stock were valued at the market price on the date of acquisition. Weekend Warrior manufactures, sells, and distributes a full line of heavy-duty agricultural equipment for the Lawn and Garden and ATV industries. As a result of the acquisition, the Company expects to be able to accelerate it's new product introductions for the Lawn & Garden industry.

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

At June 13, 2002		
Inventory	$	3,500
Trademark		9,000
Covenant not-to-compete agreement		8,000
Patent		8,000
Total assets acquired	$	28,500

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

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 trademarks arising from the Company's March 11, 2002 and June 13, 2002 acquisitions (see Note 2) have been deemed to have an indefinite life and as such will not be amortized. The covenant not-to-compete agreements are being amortized over their estimated useful life (5 years for both) and the patents are being amortized over their remaining useful life of 11 years and 12 years, respectively.

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 June 30, 2002 are summarized as follows:

Raw materials	$ 1,509,764
Work in progress	72,743
Finished goods	1,498,948
Total inventories	$ 3,081,455

Cycle Country Accessories Corp. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine Months Ended June 30, 2002 and 2001
(Unaudited)

5. Accrued Expenses:

The major components of accrued expenses at June 30, 2002 are summarized as follows:

Accrued salaries and related benefits	$ 114,204
Accrued warranty expense	42,000
Distributor rebate payable	12,121
Royalties payable	10,707
Total accrued expenses	$ 179,032

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.

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, 2002 and 2001:

	For the three months ended June 30, 2002			For the nine months ended June 30, 2002		
	Income (numerator)	Shares (denominator)	Per-share amount	Income (Numerator)	Shares (denominator)	Per- amo
Basic EPS						
Income available to common stockholders	$ 91,214	3,704,019	$ 0.03	$ 395,963	3,700,255	$
Effect of Dilutive Securities						
Warrants	-	-	-	-	28,206	
Diluted EPS						
Income available to common stockholders	$ 91,214	3,704,019	$ 0.03	$ 395,963	3,728,461	$

Cycle Country Accessories Corp. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine Months Ended June 30, 2002 and 2001
(Unaudited)

7. Earnings Per Share, Continued:

	For the three months ended June 30,2001			For the nine months ended June 30, 2001		
	Income (numerator)	Shares (denominator)	Per-share amount	Income (numerator)	Shares (Denominator)	Per- amo
Basic EPS						
Income available to common stockholders	$ 58,588	3,698,250	$ 0.02	$ 1,009,423	3,698,250	$
Effect of Dilutive Securities						
Warrants (1)	-	400,000	-	-	400,000	
Diluted EPS						
Income available to common stockholders	$ 58,588	4,098,250	$ 0.01	$ 1,009,423	4,098,250	$

(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.

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, utility boxes, and oil filters. 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 27% and 38% of ATV Accessories revenues during the three months ended June 30, 2002 and 2001, respectively, and approximately 64% and 67% of ATV Accessories revenues during the nine months ended June 30, 2002 and 2001, respectively. In addition, sales of snowplow blades comprised approximately 20% and 30% of the Company's consolidated total revenues during the three months ended June 30, 2002 and 2001, respectively, and approximately 55% and 60% of the Company's consolidated total revenues during the nine months ended June 30, 2002 and 2001, respectively. Sales of mowers comprised approximately 17% and 26% of ATV accessories revenues during the three months ended June 30, 2002 and 2001, respectively, and approximately 5% and 10% of ATV accessories revenues during the nine months ended June 30, 2002 and 2001, respectively. In addition, sales of mowers comprised approximately 12% and 20% of consolidated total revenues during the three months ended June 30, 2002 and 2001, respectively. Sales of oil filters comprised approximately 11% of ATV accessories revenues during the three months ended June 30, 2002 and less than 10% in all other periods presented. Sales of winches comprised approximately 12% of ATV accessories revenues during the three months ended June 30, 2002 and approximately 10% of ATV accessories revenues during the nine months ended June 30, 2002 and less than 10% in all other periods presented.

Cycle Country Accessories Corp. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Nine Months Ended June 30, 2002 and 2001
(Unaudited)

8. Segment Information, Continued:

The following is a summary of certain financial information related to the two segments during the three months and nine months ended June 30, 2002 and 2001:

	Three months ended June 30,		Nine months ended June 30,	
	2002	2001	2002	2001
Total revenues by segment				
ATV Accessories	$ 1,697,227	$ 1,714,790	$ 7,800,224	$ 8,331,668
Plastic Wheel Covers	591,901	558,636	1,686,178	1,506,587
Total revenues by segment	2,289,128	2,273,426	9,486,402	9,838,255
Freight income	29,919	24,420	78,463	88,959
Sales allowances	(32,656)	(50,966)	(243,651)	(232,361)
Total revenues	$ 2,286,391	$ 2,246,880	$ 9,321,214	$ 9,694,853
Operating profit by segment				
ATV Accessories	$ 767,655	$ 636,789	$ 3,020,088	$ 2,985,971
Plastic Wheel Covers	401,498	369,943	1,166,689	1,081,893
Freight income	29,919	24,420	78,463	88,959
Sales allowances	(32,656)	(50,966)	(243,651)	(232,361)
Factory overhead	(368,625)	(368,757)	(1,231,026)	(1,160,937)
Selling, general, and administrative	(600,447)	(552,788)	(2,009,215)	(1,822,419)
Interest income (expense),net	(64,017)	5,899	(187,970)	27,745
Other income (expense), net	6,101	(5,952)	25,314	40,572

Provision for income taxes	(48,214)	-	(222,729)	-
Net income (loss)	$ 91,214	$ 58,588	$ 395,963	$ 1,009,423

The following is a summary of the Company's revenue in different geographic areas during the three months and nine months ended June 30, 2002 and 2001:

	Three months ended June 30, 2002	2001	Nine months ended March 31, 2002	2001
United States of America	$ 2,046,608	$ 1,974,062	$ 8,476,348	$ 9,036,704
Other countries	239,783	272,818	844,866	658,149
Total revenue	$ 2,286,391	$ 2,246,880	$ 9,321,214	$ 9,694,853

As of June 30, 2002, all of the Company's long-lived assets are located in the United States of America.

ATV Accessories sales to major customers, which exceeded 10% of net revenues, accounted for approximately 14.7% of net revenues during the three months ended June 30, 2002, and approximately 15.5% and 11.1% each of net revenues during the three months ended June 30, 2001. Plastic Wheel Covers did not have sales to any individual customer greater than 10% of net revenues during the three months ended June 30, 2002 or 2001.

ATV Accessories sales to major customers, which exceeded 10% of net revenues, accounted for approximately 17.2% and 15% each of net revenues during the nine months ended June 30, 2002, and approximately 17%, 15.6%, and 11.4% each of net revenues during the nine months ended June 30, 2001. Plastic Wheel Covers did not have sales to any individual customer greater than 10% of net revenues during the nine months ended June 30, 2002 or 2001.

9. Commitments and Contingencies:
   Legal Matters

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

Registration Statement

On July 25, 2002, the Company filed a Registration Statement on Form SB-2 (Amendment No. 1) with the Securities and Exchange Commission ("SEC") which registered a total of 500,000 shares of our common stock, 155,000 of which are being offered by a selling shareholder at an estimated price of $3.00 per share and 345,000 of which the Company is offering at a price of $3.00 per share. The proceeds will be used for construction of a new facility for expansion of our operations and reduction of short and long term debt. The Registration Statement was declared effective by the SEC on July 25, 2002, File No. 333-92002.

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 material effect on its financial position or results of operations.

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 June 30, 2002 and 2001

Revenues for the three months ended June 30, 2002 increased $39,511, or 1.8%, to $2,286,391 from $2,246,880 for the three months ended June 30, 2001. Cost of goods sold decreased $146,850, or 9.0%, to $1,488,600 for the three months ended June 30, 2002 from $1,635,450 for the three months ended June 30, 2001. Additionally, gross profit as a percentage of revenue was 34.9% for the third quarter ended June 30, 2002 compared to 27.2% for the third quarter ended June 30, 2001. The increase in revenues during the third quarter ended June 30, 2002 is mainly attributable to a change in the mix of products sold during the third quarter of fiscal 2002 versus the third quarter of fiscal 2001. Decreased Snowplow Blade (our mainstay product) unit sales of approximately $204,000 and decreased mower unit sales of approximately $164,000 were offset by increases in our Plastic Wheel Cover sales of approximately $33,000, ATV accessories sales to Original Equipment Manufacturers (OEMs) of approximately $96,000 and sales of our recently acquired Perf-Form premium oil products of approximately $180,000 for the three months ended June 30, 2002 as compared to the three months ended June 30, 2001. The decrease in our mainstay product, Snowplow Blades, during the third quarter ended June 30, 2002 from the third quarter ended June 30, 2001 primarily was the result of, in part, a milder winter and less precipitation during the second fiscal quarter of 2002 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 increased new orders early at the start of the following season. The decrease in revenues was also attributable to a decline in our production of mowers and sales. The increase of 7.7% in gross profit is primarily the result of lower material costs and manufacturing input costs realized in our Plastic Wheel Cover segment through gains in more efficient use of labor and better manufacturing processes and the increased gross margins contributed by our premium oil filter products. Another factor in the increased gross profit is the reduction in rent of approximately $58,000 that is included as part of the overhead expenses allocated to cost of goods sold.

Selling, general, and administrative expenses increased $47,658, or 8.6%, to $600,447 for the three months ended June 30, 2002 from $552,789 for the three months ended June 30, 2001. Increases in operating expenses of approximately $21,000 in research and development costs, approximately $22,000 in depreciation expense, approximately $11,000 in insurance costs, approximately $10,000 in warranty expense, approximately $8,000 in machine repair expenses, approximately $6,000 in show expenses, and approximately $8,400 in licenses and fees were offset by a reduction in legal and accounting expenses of approximately $30,000, and a reduction in rent expense of approximately $13,000 due to the Company acquiring its operating facility during the fourth quarter of fiscal 2001 (which consisted of land and building) from certain stockholders that was previously leased.

Interest and miscellaneous income increased approximately $6,880 from the third quarter of fiscal 2001 to the third quarter of 2002. The increase is due to an increase in miscellaneous income of $12,375 during the third quarter of fiscal 2002 versus the third quarter of fiscal 2001 which was offset by a reduction of $5,497 in interest income earned during the same period. Interest expense increased 100% to $64,741 for the three months ended June 30, 2002 from $0 for the first three months ended June 30, 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 third quarter of 2002, interest expense over the fourth quarter of fiscal 2002 should remain approximately the same as interest that is paid on the Company's bank line of credit will likely offset the reduced interest charges realized by the principal balance continually being reduced on the bank note.

The income tax expense increased 100% to $48,214 for the third quarter ended June 30, 2002 from $0 for the third quarter ended June 30, 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.

OVERALL RESULTS OF OPERATIONS - Nine months Ended June 30, 2002 and 2001

Revenues for the nine months June 30, 2002 decreased $373,639, or 3.8%, to $9,321,214 from $9,694,853 for the nine months ended June 30, 2001. Cost of goods sold decreased $400,677, or 5.8%, to $6,530,651 for the nine months ended June 30, 2002 from $6,931,328 for the nine months ended June 30, 2001. Additionally, gross profit as a percentage of revenue was 29.9% for the nine months ended June 30, 2002 compared to 28.5% for the nine months ended June 30, 2001. The decrease in blade products sales of approximately $709,000 for the nine months ended June 30, 2002 as compared to the nine months ended June 30, 2001 and the decrease in mower sales of approximately $496,000 for the nine months ended June 30, 2002 as compared to the nine months ended June 30, 2001 have been offset, somewhat, by increased sales of ATV accessories to Original Equipment Manufacturers (OEMs) of approximately $96,000, increased Plastic Wheel Cover sales of approximately $174,000, increased sales of our winch products of approximately $239,000, and new sales of our premium oil filter products of approximately $220,000 for the nine months ended June 30, 2002 as compared to the nine months ended June 30, 2001. The decrease in revenues during the nine months ended June 30, 2002 is mainly attributable to a decrease in unit sales volume of our mainstay product, Snowplow Blades, in the second and third quarters of fiscal 2002 as compared to the same period of fiscal 2001 which was caused, in part, by a milder winter and less precipitation during the second 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 increased new orders early at the start of the following season. The decrease in revenues was also attributable to a decline in our production of mowers and sales. The slight increase of 1.4% in gross profit as a percentage of revenue is primarily the result of increased gross margins being contributed by our premium oil filter products and reduced costs of goods sold in our Plastic Wheel Cover segment through improved efficiencies in manufacturing processes and technologies. The reduction in rent of approximately $166,000 that is included as part of the overhead expenses allocated to cost of goods sold also contributed to the increase in gross profit.

Selling, general, and administrative expenses increased $186,796, or 10.3%, to $2,009,215 for the nine months ended June 30, 2002 from $1,822,419 for the nine months ended June 30, 2001. The increase in operating expenses is a result of additional spending of approximately $82,000 in research and development costs, approximately $36,000 in salaries, commissions and other related benefits, approximately $71,000 in increased advertising, approximately $25,000 in legal and accounting costs, approximately $12,000 in warranty expense, approximately $13,000 in licenses and fees, and approximately $37,000 in office related expenses. The increases were offset by a reduction in rent expense of approximately $95,000 due to the Company acquiring its operating facility during the fourth quarter of fiscal 2001 (which consisted of land and building) from certain stockholders that was previously leased.

Interest and miscellaneous income decreased approximately $38,400 from the first nine months of fiscal 2001 to the first nine 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 nine months of fiscal 2001 and approximately $23,000 reduction in interest income earned during the first nine months of fiscal 2002 versus the first nine months of fiscal 2001. The decrease in interest income is mainly due to the Company having less surplus cash available to invest during the nine months ended June 30, 2002 as compared to the nine months ended June 30, 2001. Interest expense increased $192,529 to $192,981 for the nine months ended June 30, 2002 from $452 for the first nine months ended June 30, 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 nine months of 2002, interest expense over the remaining three months of fiscal 2002 should remain approximately the same as interest that is paid on the Company's bank line of credit will likely offset the reduced interest charges realized by the principal balance continually being reduced on the bank note.

The provision for income taxes increased 100% to $222,729 for the nine months ended June 30, 2002 from $0 for the nine months ended June 30, 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 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 fourth quarter 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 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 final quarter of fiscal 2002 through increased usage of existing manufacturing capacity of our operating facilities from increased production of new and existing products.

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 June 30, 2002 and 2001

Revenues for the three months ended June 30, 2002 decreased $17,563, or 1.0%, to $1,697,227 from $1,714,790 for the three months ended June 30, 2001. The slight decrease is mainly attributable to a change in the mix of products sold as discussed above (See OVERALL RESULTS OF OPERATIONS).

Cost of goods sold for the three months ended June 30, 2002 decreased $148,429, or 13.8%, to $929,572 from $1,078,001 for the three months ended June 30, 2001. Gross profit as a percent of revenues was 45.2% for the three months ended June 30, 2002 compared to 37.1% for the corresponding period in fiscal 2001. The increase in gross profit for the three months ended June 30, 2002 as compared to the corresponding period in fiscal 2001 was attributable to a lower rebate program expense of approximately $9,800 and increased gross margins contributed by sales of the Company's recently acquired Perf-Form premium oil filter products.

PLASTIC WHEEL COVERS - Three Months Ended June 30, 2002 and 2001

Revenues for the three months ended June 30, 2002 increased $33,265, or 6.0%, to $591,901 from $558,636 for the three months ended June 30, 2001. The increase is attributable to changes in current market conditions. The introduction of our new product and successful implementation of our new manufacturing process has also contributed to the increased revenues and will address the needs of the new market as well.

Cost of goods sold for the three months ended June 30, 2002 increased $1,710, or 1.0%, to $190,403 from $188,693 for the three months ended June 30, 2001. Gross profit as a percent of revenue was 67.8% for the three months ended June 30, 2002 compared to 66.2% for the corresponding period in fiscal 2001. The slight increase in gross profit during the three months ended June 30, 2002 as compared to the corresponding period in fiscal 2001 was directly attributable to reduced raw material and manufacturing input costs created by changes in production methods. The continual development of new production methods and technology to produce a higher quality product will position us well for the expanding golf cart industry.

GEOGRAPHIC REVENUE - Three Months Ended June 30, 2002 and 2001

During the three months ended June 30, 2002, revenue in the United States of America increased $72,546, or 3.7%, to $2,046,608 from $1,974,062 for the three months ended June 30, 2001. Revenue from other countries decreased $33,035, or 12.1%, to $239,783 from $272,818 for the three months ended June 30, 2001. The increase during the three months ended June 30, 2002 in U.S. revenue is due to a general increase across all regions previously serviced in the United States of America. The decrease during the three months ended June 30, 2002 in revenue from other countries is due to a decrease of sales in Canada.

ATV ACCESSORIES - Nine months Ended June 30, 2002 and 2001

Revenues for the nine months ended June 30, 2002 decreased $531,444, or 6.4%, to $7,800,224 from $8,331,668 for the nine months ended June 30, 2001. The decrease is mainly attributable to a decrease in unit volume sales of our Snowplow Blade as discussed above (See OVERALL RESULTS OF OPERATIONS).

Cost of goods sold for the nine months ended June 30, 2002 decreased $565,561, or 10.6%, to $4,780,136 from $5,345,697 for the nine months ended June 30, 2001. Gross profit as a percent of revenues was 38.7% for the nine months ended June 30, 2002 compared to 35.8% for the corresponding period in fiscal 2001. The increase in gross profit for the nine months ended June 30, 2002 as compared to the corresponding period in fiscal 2001 was attributable to a decrease in our rebate program expense and a decrease in the rent expense included in overhead expenses allocated to cost of goods sold.

PLASTIC WHEEL COVERS - Nine months Ended June 30, 2002 and 2001

Revenues for the nine months ended June 30, 2002 increased $179,591, or 11.9%, to $1,686,178 from $1,506,587 for the nine months ended June 30, 2001. The increase is attributable to changes in current market conditions. The introduction of our new product and successful implementation of our new manufacturing process has also contributed to the increased revenues and will address the needs of the new market as well.

Cost of goods sold for the nine months ended June 30, 2002 increased $94,795, or 22.3%, to $519,489 from $424,694 for the nine months ended June 30, 2001. Gross profit as a percent of revenue was 69.2% for the nine months ended June 30, 2002 compared to 71.8% for the corresponding period in fiscal 2001. The increase in cost of goods and the decrease in gross profit during the nine months ended June 30, 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 continual development of new production methods and technology to produce a higher quality product that will position us well for the expanding golf cart industry. The increase in cost of goods sold was also attributable to increased labor and overhead costs incurred during the second quarter of fiscal 2002 as a result of increased market demand.

GEOGRAPHIC REVENUE - Nine months Ended June 30, 2002 and 2001

During the nine months ended June 30, 2002, revenue in the United States of America decreased $560,356, or 6.2%, to $8,476,348 from $9,036,704 for the nine months ended June 30, 2001. Revenue from other countries increased $186,717, or 28.4%, to $844,866 from $658,149 for the nine months ended June 30, 2001. The decrease during the nine months ended June 30, 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 nine months ended June 30, 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 June 30, 2002, we had $87,723 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 $1,948,991 at June 30, 2002 compared to $1,995,007 at September 30, 2001. The change in working capital is primarily due to the following: inventories increased by $442,741, or 16.8%, to $3,081,455 at June 30, 2002 from $2,638,714 at September 30, 2001, accounts receivable decreased by $398,822, or 37.7%, to $659,461 at June 30, 2002 from $1,058,283 at September 30, 2001, accounts payable decreased by $533,729, or 50.4%, to $524,842 at June

30, 2002 from $1,058,571 at September 30, 2001 and the bank line of credit increased 100% to $500,000 at June 30, 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 June 30, 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 June 30, 2002, $3,815,861 was outstanding on the Note.

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 June 30, 2002), and is collateralized by all of the Company's assets. The Line of Credit matures September 1, 2003. At June 30, 2002, $500,000 was outstanding on the Line of Credit. On August 7, 2002, the bank increased the Company's borrowing capacity $500,000 to a total of $1,000,000 under the Company's Line of Credit. The additional borrowing capacity is available to the Company until May 1, 2003. As of August 13, 2002, none of the additional $500,000 borrowing capacity had been utilized.

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.

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: competitive prices pressures at both the wholesale and retail levels, changes in market demand, changing interest rates, adverse weather conditions that reduce sales 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.

Part II - Other Information

Item 1. Legal Proceedings

The Company is involved in two separate claims relating to an allegation of a patent infringement and one claim relating to alleged product liability. The claims are in the preliminary phases. The amount of liability, if any, from the claims cannot be determined with certainty; however, management is of the opinion that the outcomes 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

The Company did not file any reports on Form 8-K during the three month period ended June 30, 2002.

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: August 14, 2002   By: /s/ Ronald C. Hickman

Ronald C. Hickman
Principal Executive Officer,
President and Director

Dated: August 14, 2002   By: /s/ David J. Davis

David J. Davis
Principal Finance Officer and
Principal Accounting Officer