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CYCLE COUNTRY ACCESSORIES CORP  
Form 10KSB  
December 31, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-KSB

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

For the fiscal year ended September 30, 2001

Commission File Number 000-25563

CYCLE COUNTRY ACCESSORIES CORP.  
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(Exact name of registrant as specified in its charter)

|   |   |
|---|---|
| Nevada  | 42-1523809                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

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

(712) 338-2701  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.0001 per share  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Company's revenues for the year ended September 30, 2001 were \$13,313,826.

As of September 30, 2001, the aggregate market value of the voting stock held by non-affiliates of the registrant (based on an assumed value of \$5.00 per share held by non-affiliates on September 30, 2001) was \$18,125,000.

As of September 30, 2001, there were 3,625,000 shares of the registrant's Common Stock outstanding.

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PART I.

Item 1. DESCRIPTION OF THE BUSINESS

GENERAL

Cycle Country Accessories Corp. (a Nevada corporation) (the Successor Company) was incorporated in the state of Nevada on August 15, 2001 as a C corporation. On August 21, 2001, we entered into an agreement to purchase all of the outstanding common stock of Cycle Country Accessories Corp. (an Iowa corporation) (the Predecessor Company) for \$4,500,000 in cash and 1,375,000 shares of our common stock. Cycle Country Accessories Corp. (an Iowa corporation) (the Predecessor Company) was originally incorporated on August 8, 1983 and is headquartered in Milford, Iowa. In addition, on August 14, 2001, Cycle Country Accessories Corp. (an Iowa corporation) (the Predecessor Company) merged with Okoboji Industries Corporation. Okoboji Industries Corporation manufactured the plastic wheel covers for what is considered our Plastic Wheel Cover segment. As a result of these transactions we are the Successor Company to the business of both companies.

We are the one of the world's largest manufacturers of accessories for all terrain vehicles ("ATVs"). We manufacture a complete line of branded products, including snowplow blades, lawnmowers, spreader, sprayers, tillage equipment, winch mounts, utility boxes, wheel covers and an assortment of other ATV accessory products. These products custom fit essentially all ATV models from Honda, Yamaha, Kawasaki, Suzuki, Polaris, Arctic Cat and Bombardier. We design, engineer and assemble all accessory products at our headquarters and subcontract the manufacturer of many original equipment components. Additionally, we recently made the decision to enter the Lawn and Garden industry.

We are recognized as a leader in the manufacturing of high quality ATV accessory products. This reputation has enabled us to develop key, long term relationships with ATV manufacturers and distributors. We have sold our products to 16 distributors in the United States for the past 20 years. The distributors call on and sell Cycle Country products to virtually every ATV dealer in North America. Similar strategic arrangements have also been developed internationally. We currently have 19 international distributors distributing our products to 35 countries.

Additionally, we are the largest manufacturer of golf car hubcaps in the world. We estimate that we maintain 90% of the original equipment manufacturer ("OEM") hubcap business. We have always sold directly to golf car manufacturers and we believe that we have an excellent distribution network that reaches the after market throughout the United States, Europe and Asia.

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Our three largest customers accounted for approximately 43% of our net sales in the year ended September 30, 2001. These three

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customers have represented a significant amount of our business every year for at least the past 16 years. While the percentage of total net sales these customers represent should decrease as our sales grow in other areas, such as Lawn and Garden, we do anticipate these customers will continue to represent a significant amount of our business.

### INDUSTRY OVERVIEW

#### ATV Accessories:

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In today's ATV market there are several OEMs competing for market share. Honda has been the world leader followed by Polaris, Yamaha, Kawasaki, Suzuki, Arctic Cat and Bombardier. According to ATV Magazine, in 2000 there were 800,000 ATV's sold worldwide. This represented a 19.2% increase over 1999. Of those 800,000 units 75% were Utility and 40% were Sport Quads. We consider the Utility Division to be our target market.

Our market research tells us that the manufacturers of garden tractors and utility vehicles need accessories similar to those available in the ATV industry. We are currently working with some of these companies and expect to substantially expand that market in the very near future. In addition to our accessory line we manufacture several products under private label and we intend to expand on that market.

#### Wheel Covers:

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The golf car industry continues to expand each year and is currently dominated by E-Z-Go, Club Car and Yamaha. Global, Par Car and a few other OEM's compete for the remainder of the market. We estimate that we maintain 90% of the OEM hubcap business and are the largest manufacturer of golf car hubcaps in the world. We have always sold directly to all the golf car manufacturers and we have an excellent distribution network throughout the United States, Europe and Asia to reach the after market.

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### COMPANY HISTORY

Cycle Country's market research has been a continued work in process for the past 20 years and that work still continues today. Our success was accomplished by constant market research and a constant effort to adjust to the changes in the industry. When we started in the ATV accessory industry ATV's were much smaller. They were small 3-wheeled vehicles with two-wheel drive. Today they are powerful 4-wheel drive vehicles capable of doing many more tasks. The ATV industry falls within both recreational and machinery industry depending on the product and consumer. In 2000, approximately 800,000 units were sold worldwide and there are approximately 3 million units on the market today. Prospective ATV

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buyers lean toward a new purchase because of the strides manufacturers have made in product development. Partly due to our line of utility products the ATV manufacturers have focused their efforts to incorporate four wheel drive and making larger ATV's for greater hauling and work capacity.

The idea for our business was born in 1981 when Jim Danbom recognized that an ATV could be used to plow snow. He manufactured and sold 100 snow plow kits that year. He sold more the next year and then in 1983 decided to incorporate. The business has grown every year since. Now in addition to snowplows, Cycle Country manufactures and sells a full range of farm products designed for the new and more powerful ATV's. These products include mowers, sprayers, 3-point hitch, moldboard plow, disc harrow, furrower, cultivator, rake, row planter, and seeder. We also manufacture winch mounts, chains, gun racks, and a very unique 5th wheel trailer.

Over the last several years, we have expanded into manufacturing injected molded wheel covers primarily for the golf car industry. We are now crossing over into the lawn & garden industry with some current products as well as creating new items specifically for that industry.

### PRODUCTS

#### ATV Accessories

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We offer a complete line of ATV accessories. Our products enhance the functionality and versatility of the ATV. The ATV was initially designed as a recreational vehicle but is rapidly becoming a multi-purpose vehicle serving both recreational and utility functions. Our products help ATV owners perform many of their utility needs. We estimate that approximately 75% of all the ATV's currently sold are for these utility functions. We offer a standard one-year warranty on all products except snow plows, on which we offer a limited lifetime warranty.

Seven manufacturers dominate the ATV industry. We manufacture accessories for all of the major manufacturer's ATV models.

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We manufacture our products from high-quality parts produced by local metal fabricators and metal stampers, with final assembly and packaging performed at our headquarters. The following lists the major ATV accessory products and their proportion of total sales of the ATV accessory segment for the year ended September 30, 2001, which approximates 85% of total company segment sales: (a) Blades: 71%, (b) Mowers: 8%, (c) Winches and Winch Mounting Kits: 6%, (d) Tillage Equipment: 3%, (e) Sprayers: 3%, (f) Spreaders: 1%. "Other" products comprise the remaining 8% of our sales.

Our major ATV accessory products include:

Blades.

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We manufacture four sizes of steel straight blades which include a 42", 48", 60" and 72" models. We also offer a 52" State Plow, a Power "V" blade and a 60" plastic blade. Standard blade configuration features a universal manual lift or a universal electric lift. The blades can also be lifted with a winch.

Winches and Winch Mounts.

We offer a complete line of electric winches and winch mounts to fit all ATV models. Models include 1,500 and 2,000 pound capacity winches.

Mowers.

We offer two mowing systems, the "Quicksilver 54 Finish Cut" mower and the "Rough Cut" mower. The Quicksilver 54 is a 54" finish cut mower that can be mounted to the front of an ATV or towed behind any tractor or ATV. It is powered by a 10.5 horsepower engine by Briggs & Stratton. The Rough Cut is a 48" mower that is designed to cut thick weeds and overgrown brush. It's powered by a 12.5 horsepower engine by Briggs & Stratton and is pulled behind the ATV. The Rough Cut offers an offset hitch, which allows mowing to the left, right or directly behind the ATV.

Tillage Equipment.

We manufacture a three-point hitch that transforms the ATV into a small working tractor. The three-point hitch is designed to fit on most four-wheel drive ATVs. The hitch is effective because it locks in the rear suspension and has built-in float to provide the smooth operation of attached implements. The three-point hitch meets engineering standards for zero category hitches. The hitch design allows the use of implements such as cultivators, moldboard plow, disc harrow, furrower, rake, one row planter and a rear blade. We manufacture and sell all of these implements.

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Sprayers.

We offer two styles of sprayers. The first is rack-mounted on the ATV and the other is trailer mounted. Rack-mounted sprayers are offered in both 15 and 25-gallon sizes. There are three different models of rear-mounted sprayers available depending on spraying needs: Econo Spot, Deluxe and Ag-Commercial. Trailer mounted sprayers are offered in 25 and 55 gallon sizes. Both the rack-mounted sprayers and the trailer-mounted sprayers can be purchased with either a 43" or 120" spray boom.

Spreaders.

We offer a 100-pound capacity hopper for front or rear mounting. This product is used for spreading everything from fertilizer to seed.

Other.

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Additionally, we offer a wide array of products such as tire chains, rack boxes, CV boot guards, spotlights, trailers, gun racks and bed lift kits for select utility vehicles. We also recently entered the lawn & garden market, and are currently working with several OEM's to design a new line of accessories for small tractors. We are also pursuing retail outlets as markets for these products as well. The response that we have experienced suggests that this market will expand at an accelerated rate. Sales of these products began in the third quarter of fiscal 2001 and we believe that this market will represent sales increases in excess of \$1 million annually for the next three years.

### Wheel Covers

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We are a leading producer of injection-molded plastic specialty vehicle wheel covers for vehicles such as golf cars, riding lawn mowers and light duty trailers. This segment represents approximately 15% of our total segment sales. Wheel cover products include 6", 8" and 10" sizes offered in a variety of color options in both hot-stamped or metalized options.

### PRODUCT DEVELOPMENT

We have remained competitive and grown over the past years by designing and marketing new products continually. We employ an experienced staff of three product design professionals that work with CAD/CAM technology in the design of new products. This R&D group serves two primary functions: product retrofitting and new product design. Retrofitting of existing products accounts for roughly 50 percent of the engineers' time. Management considers the engineering group a critical factor to the company's future and current success.

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New products introduced in 2000 included: the Light Force plastic snow blade, Grablight, Quicksilver 54 mower, front and rear steel mesh baskets and a new rear drop steel mesh basket. New products introduced in 2001 included: the Work Power 1500 winch, universal 3 point frame, and a 72" heavy duty blade for utility vehicles. Management feels that adding new products for the ATV accessory market is a key to continued growth.

There are no products presently being developed that will require a material investment of our resources.

### PATENTS AND TRADEMARKS

We maintain trademarks for all of our product names. In addition, we maintain patents for wheel covers, 3-point hitches, Snowmobile Chariot, rack utility boxes, work power lift system, rub block on work power lift, grablight and the 5th wheel trailer.

### SUPPLIERS

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During the year ended September 30, 2001, we purchased approximately \$4,839,000 of goods from Simonsen Iron Works, Inc., our largest supplier who does the majority of our ironworks. This represented approximately 63% of our raw goods purchases during that year. In order to reduce the possibility of any adverse consequence of this concentration, over the past two years we have begun using additional suppliers.

### MARKETING - CHANNELS OF DISTRIBUTION:

#### ATV Accessories:

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#### Domestic Distribution

We distribute our products domestically through 16 distributors that specialize in motorcycle and ATV accessories. These distributors are either regional or national. We believe that virtually every ATV dealer in the United States is served by at least two of these distributors. Because of this overlap we believe that we would experience a minimal decline in sales if any one of our distributors decided to stop selling our products. Most of these distributors have been customers of Cycle Country since we first began selling ATV accessories. Our most recent distributor was added approximately four years ago.

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During the year ended September 30, 2001, Domestic accessory sales represent approximately 93% of our total ATV Accessory sales. For 2001, our largest distributor accounted for 22% of our domestic accessory sales and our five largest distributors accounted for 74% of our domestic accessory sales.

We are currently negotiating with lawn & garden equipment manufacturers regarding the development of a product line similar to the one offered for the ATV market. We are also working with national retail outlets for potential distribution.

#### International Distribution

We are rapidly expanding our international distributor network. There are currently 19 distributors that sell our products in 35 countries. This department is in its 5th year of existence and has provided us with a profitable expansion of the ATV Accessory segment of business. We were recognized as the Iowa Small Business Exporter of the year in 1997 and received the Governor's Export Award in that same year.

International accessory sales represent approximately 7% of our total ATV Accessory sales. We believe that the international market will be a significant contributor to our long-term sales growth.

#### Wheel Covers:

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We market wheel covers to virtually all golf car manufacturers. We estimate we provide approximately 90% of all wheel covers sold to these golf car manufacturers. Sales to these golf car OEMs are made

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directly by our sales force.

We also market our wheel covers to golf courses and golf car dealers through an extensive network of golf equipment distributors. Management estimates that this distributor network allows us to achieve an 80% market share of the golf car after market wheel cover sales.

### Sales and Promotion

#### ATV Accessories:

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We employ a sales force of five people to market our ATV products. Our primary method of penetrating the market of ATV dealers is to leverage the sales work to the representatives employed by our distributors. These representatives call on every ATV dealer in the United States and each of the 35 countries represented by our distributors. We view our job as educating these representatives so they can effectively sell our product line.

Each year we produce a catalog of our entire product line and make a new video that demonstrates the applicability of our products.

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Distributors are allowed unlimited quantities of these sales tools. Sales programs such as an early order program that allows for a discount off of distributor price and an annual rebate incentive based on achievement of predefined sales targets are utilized to promote the product line throughout the year.

Our representatives exhibit at several international trade shows each year in conjunction with our distributors. These representatives also travel to each of our domestic distributors each year to demonstrate new products and address concerns that may arise. In addition, we attend the Dealernews International Powersports Dealer Expo to demonstrate our new products to our distributors as well as ATV dealers.

#### Golf Market:

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The primary means we use to sell our wheel covers is to attend semi-annual golf industry trade shows and produce a brochure for distribution to interested parties. Distributor representatives assist in after market sales.

### Advertising

We advertise our ATV Accessories in national trade magazines, professionally developed videos, annual catalog, magazine and television advertising campaigns. Additionally we have an Internet site located at: [www.cyclecountry.com](http://www.cyclecountry.com).

### COMPETITION

We are one of the largest ATV accessory manufacturers in the world. Management estimates that we maintain a 50% market share in



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the domestic ATV accessories market, with the next largest manufacturer, Cambridge Metal and Plastics having an estimated 20% share of the domestic market. Management also estimates that we control approximately 50% of the international ATV market in the countries in which we distribute. Additionally, management estimates that we control 90% market share of the OEM golf car hubcap market and 80% of the golf car aftermarket.

As with any industry we are faced with competition. However, due to our aggressive marketing and innovative product line, we maintain the largest market share in the ATV Utility Accessory Market as well as the wheel cover market. With our recent entry into the lawn & garden market, our goal is to achieve a leading market share in that market.

However, the markets for all of our products are competitive. We expect the markets for our products to become even more competitive if and when more companies enter them and offer competition in price, support, additional value added services, and quality, among other factors.

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### EMPLOYEES

As of September 30, 2001, we have 65 full-time employees, including 39 in production, 5 in sales, 4 in administration, 10 general office, 4 in research and development and 3 drivers. We presently have no labor union contract between us and any union and we do not anticipate unionization of our personnel in the foreseeable future. We believe our relationship with our employees is good. From time to time, we hire part time employees, ranging from a minimum of 1 to a maximum of 6.

### Item 2. DESCRIPTION OF PROPERTIES

Our principal office facility is a modern 78,000 square foot facility located at 2188 Highway 86, Milford, Iowa, which is located on 10 acres at the intersection of two major highways which allows for easy entry and exit for truck traffic. This property is zoned light industrial and will support an additional 74,000 square foot building expansion. We own this facility and it is used as collateral for our Bank Midwest loan. Additionally, we lease one storage building in Sioux Rapids, Iowa, which is 35 miles from our principal facility on a month to month lease at \$500.00 per month.

### Item 3. LEGAL PROCEEDINGS

At times we are involved in lawsuits in the ordinary course of business. These lawsuits primarily involve claims for damages arising out of the use of our products. As of the date of this filing, we are not a party to any material legal proceedings, other than two product liability cases, both of which involve a failed winch switch. We currently carry two million dollars of product liability insurance. Our attorneys for each case have informed us that they do not anticipate any judgment exceeding our insurance coverage.

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### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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## PART II.

### Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The Company consummated an initial public offering of its Common Stock, par value \$0.0001 per share pursuant to a registration statement declared effective by the Commission on November 28, 2001, File No. 333-68570 ("Registration Statement").

(b) As of December 20, 2001 there were approximately 150 holders of record of Common Stock inclusive of those brokerage firms and/or clearing houses holding the Company's Common Stock in street name for their clientele (with each such brokerage house and/or clearing house being considered as one holder).

### Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following is a discussion of our results of operations and our liquidity and capital resources. 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 "Risks Associated With Forward Looking statements". The following should be read in conjunction with our Financial Statements and the related Notes included elsewhere in this filing.

#### Overview

Cycle Country Accessories Corp. (a Nevada corporation) was incorporated in the state of Nevada on August 15, 2001 as a C corporation. The initial capitalization consisted of 3,625,000 shares of common stock. On August 21, 2001, we entered into an agreement to purchase all of the outstanding common stock of Cycle Country Accessories Corp. (an Iowa corporation) for \$4,500,000 in cash and 1,375,000 shares of our common stock. Cycle Country Accessories Corp. (an Iowa corporation) was originally incorporated on August 8, 1983 and is headquartered in Milford, Iowa. Since both Companies are under common control by virtue of majority ownership and common management by the same three individuals, this transaction was accounted for in a manner similar to a pooling of interests. We used the proceeds from a \$4,500,000 term note (the "Note") entered into with a commercial lender to purchase all of the outstanding common stock of Cycle Country Accessories Corp. (an Iowa corporation). The Note is collateralized by all of the Companies assets, is payable in monthly installments from September 2001 to July 2006, which includes principal and interest at prime + 0.75%

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(6.75% at September 30, 2001), 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 any of the 2,000,000 outstanding warrants shall be

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applied to any outstanding balance on the Note. At September 30, 2001, \$4,440,512 was outstanding on the Note.

On August 21, 2001, Cycle Country Accessories Corp. (an Iowa corporation) acquired its operating facility, which consisted of land and building with a fair value of \$1,500,000, from certain stockholders. The consideration given was comprised of \$300,000 in cash and 390,000 shares of common stock of Cycle Country Accessories Corp. (a Nevada corporation). On August 14, 2001, Cycle Country Accessories Corp. (an Iowa corporation) merged with Okoboji Industries Corporation. Since both Companies were owned and managed by the same three individuals, this transaction was also accounted for in a manner similar to a pooling of interests.

As a result of the transactions described above, we are the Successor Company to the business activities of the aforementioned companies.

We are the one of the world's largest manufacturers of accessories for all terrain vehicles ("ATVs"). We manufacture a complete line of branded products, including snowplow blades, lawnmowers, spreaders, sprayers, tillage equipment, winch mounts, utility boxes, wheel covers and an assortment of other ATV accessory products. These products custom fit essentially all ATV models from Honda, Yamaha, Kawasaki, Suzuki, Polaris, Arctic Cat and Bombardier. We design, engineer and assemble all accessory products at our headquarters and subcontract the manufacturer of many original equipment components.

We are recognized as a leader in the manufacturing of high quality ATV accessory products. This reputation has enabled us to develop key, long term relationships with ATV manufacturers and distributors. We have sold our products to 16 distributors in the United States for the past 20 years. The distributors call on and sell Cycle Country products to virtually every ATV dealer in North America. Similar strategic arrangements have also been developed internationally. We currently have 19 international distributors distributing our products to 35 countries.

Additionally, we are the largest manufacturer of golf car hubcaps in the world. We estimate that we maintain 90% of the Original Equipment Manufacturer hubcap business. We have always sold directly to golf car manufacturers and we believe that we have an excellent distribution network that reaches the after market throughout the United States, Europe and Asia.

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Results of Operations - Year ended September 30, 2001 vs Year ended September 30, 2000

OVERALL. Revenues for the year ended September 30, 2001 increased \$534,355, or 4.2%, to \$13,313,826 from \$12,779,471 for the year ended September 30, 2000. Cost of goods sold increased \$119,381, or 1.3%, to \$9,257,543 for the year ended September 30, 2001 from \$9,138,162 for fiscal 2000. Additionally, gross profit as a percentage of revenue was 30.5% for the year ended September 30, 2001 compared to 28.5% for fiscal 2000. The increase in gross margin during fiscal 2001 of 2% is mainly attributable to an increase in unit sales volume of our most profitable product, Snowplow Blades, as well as operational labor efficiencies in our Plastic Wheel Cover segment and a slight decrease of manufacturing overhead costs as a percentage of sales (8.3% of sales in fiscal 2001 versus 8.4% of sales in fiscal 2000). Selling, general and administrative expenses increased \$332,510 or 12.6%, to \$2,978,841 for the year ended September 30, 2001 from \$2,646,331 for fiscal 2000. The increase in operating expenses is primarily a result of additional spending of approximately \$79,000 in professional fees, approximately \$67,000 in advertising and promotions, approximately \$89,000 in sales & marketing rebates, approximately \$38,000 in insurance, approximately \$25,000 in travel costs, approximately \$21,000 each in vehicle repairs and depreciation, and approximately \$15,000 in research and development costs coupled with a decrease of approximately \$18,000 in freight costs and \$15,000 in building rent. Non-operating income increased \$15,401, or 59.7%, to \$41,199 for the year ended September 30, 2001, from \$25,798 for fiscal 2000. The increase is primarily due to increases of approximately \$10,000 of interest income, approximately \$32,000 of consulting income earned and approximately \$34,000 of interest expense coupled with a decrease of approximately \$14,000 in royalty income and approximately \$10,000 in gains on sale of equipment during the year ended September 30, 2001 and the write-off of an investment of the Company of approximately \$28,000 during fiscal 2000.

BUSINESS SEGMENTS As more fully described in Note 17 to the Consolidated Financial Statements, 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 are vertically integrated in our Plastic Wheel Cover segment.

ATV ACCESSORIES Revenues for the year ended September 30, 2001 increased \$569,725, or 5.2%, to \$11,592,047 from \$11,022,322 for the year ended September 30, 2000. The increase is attributable to an increase in unit volume of our Snowplow Blades.

Cost of goods sold increased \$136,887, or 1.8%, to \$7,901,782 for the year ended September 30, 2001 from \$7,764,895 for fiscal 2000. The increase is due to an increase in material costs during fiscal 2001 as compared to fiscal 2000. Gross profit as a percent of revenues was 31.8% for fiscal 2001 compared to 29.6% for the corresponding period in 2000. The increase in gross profit for the year ended September 30, 2001 was attributable to the increase in

unit sales volume of our most profitable product, the Snowplow Blade as discussed above.

**PLASTIC WHEEL COVERS** Revenues for the year ended September 30, 2001 remained relatively constant, increasing \$5,699, or 0.3%, to \$1,984,006 from \$1,978,307 for the year ended September 30, 2000. The slight increase in revenue was attributable to changes in current market conditions. Our new product will address the needs of the new market.

Cost of goods sold decreased \$258,131, or 28.6%, to \$644,026 for the year ended September 30, 2001 from \$902,157 for fiscal 2000. Gross profit as a percent of revenue was 67.5% for the year ended September 30, 2001 compared to 54.4% for the corresponding period in fiscal 2000. The increase in gross profit for the year ended September 30, 2001 was attributable to raw material price savings and labor efficiencies obtained in the production process.

**GEOGRAPHIC REVENUE** During fiscal 2001, revenue in the United States increased \$487,817, or 4.1%, to \$12,476,848 from \$11,989,031 for the year ended September 30, 2000. Revenue from other countries increased \$46,538, or 5.9%, to \$836,978 from \$790,440 for the year ended September 30, 2000.

Results of Operations - Year ended September 30, 2000 vs Year ended September 30, 1999

**OVERALL.** Revenues for the year ended September 30, 2000 increased \$1,309,969, or 11.4%, to \$12,779,471 from \$11,469,502 for the year ended September 30, 1999. Cost of goods sold increased \$1,279,773, or 16.3%, to \$9,138,162 for the year ended September 30, 2000 from \$7,858,389 for the corresponding period in fiscal 1999. Gross profit as a percentage of revenue was 28.5% in fiscal 2000 compared to 31.5% in fiscal 1999. Selling, general and administrative expenses decreased \$66,849, or 2.5%, to \$2,646,331 for the year ended September 30, 2000, from \$2,713,180 for the corresponding period in fiscal 1999. The decrease in operating expenses is primarily the result of decreases of approximately \$82,000 in sales & marketing rebates, approximately \$21,000 in freight costs, approximately \$12,000 in advertising, and approximately \$10,000 in salaries & related benefits coupled with increases of approximately \$25,000 in office expense & shipping supplies, approximately \$20,000 in fuel costs and approximately \$10,000 in vehicle repairs. Non-operating income decreased \$72,184, or 73.7%, to \$25,798 for the year ended September 30, 2000, from \$97,982 for the corresponding period in fiscal 1999. The decrease is primarily due to decreases of approximately \$25,000 in royalty income, approximately \$27,000 in truck lease income and approximately \$28,000 for the write-off of an investment of the Company during fiscal 2000 coupled with an increase of approximately \$7,000 from gains on sale of equipment during fiscal 2000.

**ATV ACCESSORIES** Revenues for the year ended September 30, 2000

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increased \$1,286,799, or 13.2%, to \$11,022,322 from \$9,735,523 for the year ended September 30, 1999. The increase was largely attributable to an increase in unit volume of our Snowplow Blades which accounted for approximately \$880,000 of the increase in revenue of the ATV Accessories segment. Approximately \$340,000 of the increase in revenue was caused by the introduction of a new product, an Electric Blade Lift, during fiscal 2000. The remaining increase is attributable to a general increase in product sales during the fiscal year.

Cost of goods sold increased \$858,437, or 12.4%, to \$7,764,895 for the year ended September 30, 2000 from \$6,906,458 for the corresponding period in fiscal 1999. The increase is attributable to the increase in revenues during the same period. Gross profit as a percentage of revenue was 29.6% in fiscal 2000 compared to 29.1% in fiscal 1999. The increase in gross profit for fiscal 2000 was primarily due to raw material cost savings due to additional purchases during fiscal 2000.

**PLASTIC WHEEL COVERS** Revenues for the year ended September 30, 2000 increased \$142,703, or 7.7%, to \$1,978,307 from \$1,835,604 for the year ended September 30, 1999. The increase in revenue for the period was attributable to an increase in unit volume of plastic wheel covers sold.

Cost of goods sold increased \$239,288, or 36.1%, to \$902,157 for the year ended September 30, 2000 from \$662,869 for the corresponding period in fiscal 1999. The increase was attributable to the increase in revenue, a better allocation of manufacturing overhead between the ATV Accessories & Plastic Wheel Cover segments and additional work that needed to be performed on some plastic wheel covers during fiscal 2000. The additional work required during fiscal 2000 is not indicative of future costs and should not be a reoccurring cost in fiscal 2001. Gross profit as a percent of revenue was 54.4% in fiscal 2000 compared with 63.9% in fiscal 1999. The decrease in gross profit for fiscal 2000 was primarily due the increases in cost of goods sold as discussed above.

**GEOGRAPHIC REVENUE** During fiscal 2000, revenue in the United States increased by \$1,393,975, or 13.2%, to \$11,989,031 for the year ended September 30, 2000 from \$10,595,056 for the corresponding period in fiscal 1999. The increase in revenue is due to the large amount of snow received in the United States during fiscal 2000 which caused an increase in sales of Snow Plow Blades and other related equipment. Revenue from other countries decreased by \$84,006 during fiscal 2000. The decrease in revenues is primarily due to fewer sales in the Central & South America region.

### Liquidity and Capital Resources

Our primary source of liquidity has been cash generated by our operations.

Cash and cash equivalents were \$274,089 at September 30, 2001 compared to \$368,797 as of September 30, 2000. Net working capital was \$ 1,995,007 at September 30, 2001 compared to \$2,989,420 at September 30, 2000. Inventories decreased to \$2,638,714 at September 30, 2001 from \$2,791,317 at September 30, 2000.

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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 includes principal and interest at prime + 0.75% (6.75% at September 30, 2001), 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 September 30, 2001, \$4,440,512 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% (7.25% at September 30, 2001) and is collateralized by all of the Company's assets. The Line of Credit matures on August 25, 2002. There are no outstanding borrowings under the Line of Credit at September 30, 2001.

At September 30, 2000, we had a short-term note payable of \$100,000 that has been subsequently repaid.

Consistent with normal practice, management believes that the Company's operations are not expected to require significant capital expenditures during fiscal year 2001. Management believes that existing cash balances, cash flow to be generated from operating activities and available borrowing capacity under its line of credit agreement 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.

### Forward Looking Statements

Certain statements in this report are forward-looking statements within the meaning of the federal securities laws. Although the Company believes that the expectations reflected in its forward-looking statements are based on reasonable assumptions, there are risks and uncertainties that may cause actual results to differ materially from expectations. These risks and uncertainties include, but are not limited to, competitive pricing 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, and the impact of marketing and cost-management programs.

### Recent Accounting Pronouncements

SFAS No. 141, "Business Combinations", establishes financial accounting and reporting standards for business combinations and supercedes APB Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased

Enterprises". All business combinations in the scope of SFAS No. 141 are to be accounted for using the purchase method of accounting. Adoption of SFAS No. 141 is not expected to have a material effect on the Company, inasmuch as the Company has historically not participated in any business combinations.

SFAS No. 142, "Goodwill and Other Intangible Assets", establishes financial accounting and reporting standards for acquired goodwill and other intangible assets and supercedes APB Opinion No. 17, "Intangible Assets". SFAS No. 142 establishes standards as to how intangible assets that are acquired (but not acquired in a business combination) should be accounted for in financial statements upon their acquisition. In addition, SFAS No. 142 establishes standards how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Adoption of SFAS No. 142 is not expected to have a material effect on the Company, inasmuch as the Company has historically not had a material amount of intangible assets and no goodwill recorded in the financial statements.

Item 7. FINANCIAL STATEMENTS

The Financial Statements are included with this report commencing on page F-1.

Item 8. CHANGES IN ACCOUNTANTS AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III.

Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Directors and Executive Officers

Our directors, executive officers and key employees are as follows:

| Name                 | Age | Position                        | Director Since |
|----------------------|-----|---------------------------------|----------------|
| ----                 | --- | -----                           | -----          |
| Ron Hickman          | 51  | President and Director          | 2001           |
| Dave Davis           | 36  | Chief Financial Officer         | -              |
| Dick Downing         | 51  | Vice President of Engineering   | -              |
| Marie Matthieson     | 39  | Vice President of Manufacturing | -              |
| Ken Horner           | 54  | Vice President of Marketing     | -              |
| Richard Wagner       | 75  | Director                        | 2001           |
| Jim Danbom           | 58  | Director                        | 2001           |
| L.G. Bob Hancher Jr. | 48  | Director                        | 2001           |



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Richard J.Groeneweg 55

Director

2001

Richard A. Wagner has served on various Boards throughout his career. Mr. Wagner retired as President-CEO of Beneficial Finance as well as serving on the Board of Directors. Mr. Wagner was employed by Beneficial Finance from 1948-1982. He acted as a consultant and was on the Board of First plus Financial from 1989 - 1996. Since 1996 Mr. Wagner currently has operated a consulting business in the financial field. Mr. Wagner will participate on the audit, compensation and operations committees of the board. Mr. Wagner is currently serving a two-year term, which will end in 2003.

Jim Danbom was our founder and served as our president from 1981 to 2001. Mr. Danbom will lead the Operations and Planning committees of the board. He has successfully created numerous businesses in his 25 year career. Having successfully created our products at Cycle Country, Mr. Danbom will now focus on acquisitions and new product development. Mr. Danbom is currently serving a three-year term which will end in 2004.

L.G. Bob Hancher Jr. has served as Chief Financial Officer of Commerce Street Venture Group since 2000. Mr. Hancher graduated from Iowa University in 1974. He served as Field Auditor and Territory Manager of Shell Oil Co from 1974 to 1978 and the Director of Marketing of Raynor Garage from 1978 to 1988. In 1993, Mr. Hancher co-founded, and is now a past President of International Sports Management, leaving in 2000 to co-found Commerce Street Venture Group. Mr. Hancher will participate on the compensation and audit committees of the board. Mr. Hancher is currently serving a three-year term, which will end in 2004.

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Richard J. Groeneweg has served as the President of Residential Resources Inc. since 1991. Residential Resources is an asset-backed lender specializing in the area of Bond securitization and IPO and Pre-IPO work. Mr. Groeneweg, a native Iowan will participate on the audit and compensation and planning committees. Mr. Groeneweg is currently serving a two-year term, which will end in 2003.

Ron Hickman, who became our President on August 1, 2001, has been a CPA for 25 years, and was our accountant from our inception until he took a position as General Manager for us in 1996. Mr. Hickman will be on the Operations, and Planning committees of the company. Mr. Hickman is currently serving a three-year term, which will end in 2004.

### Directors' Remuneration

Our directors are presently not compensated for serving on the board of directors.

### Executive Compensation

### Employment Agreements

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We have entered into employment agreements with certain of our key executive as follows:

We entered into an employment agreement with Ron Hickman, our President, effective August 1, 2001 for a period of five years under which we have hired him to continue as our President. The agreement calls for Mr. Hickman to receive an annual income of \$150,000 per year plus a bonus equal to three percent (3%) of our net income before taxes. The agreement also provides for Mr. Hickman to receive standard benefits such as health insurance coverage, sick and vacation time and use of an automobile.

We entered into an employment agreement with Jim Danbom, our former President, effective August 1, 2001 for a period of a minimum of three years under which we have hired him to continue as a consultant on an "as needed" basis. The agreement calls for Mr. Danbom to receive an annual income of \$75,000 per year and to receive standard benefits such as health insurance coverage, sick and vacation time and use of an automobile.

### Section 16(a) Beneficial Ownership Reporting Compliance

The Company is not aware of any director, officer or beneficial owner of more than ten percent of the Company's Common Stock that, during fiscal year 2001, failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act of 1934.

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### Item 10. EXECUTIVE COMPENSATION

#### Summary Compensation Table

The following table sets forth the total compensation paid to or accrued for the fiscal years ended September 30, 2001, 2000 and 1999 to our Chief Executive Officer and our other most highly compensated executive officers who were serving as executive officers at the end of our last fiscal year.

#### Annual Compensation

| Name and<br>Principal Position<br>----- | Fiscal<br>Year<br>----- | Salary<br>----- | Bonus<br>----- | Other<br>Annual<br>Compensation<br>----- | Restricted<br>Stock<br>Awards<br>----- | Securi<br>Underl<br>Optio<br>----- |
|---|-------------------------|-----------------|----------------|--|--|------------------------------------|
| Ronald Hickman,<br>President            | 2001                    | 104,808         | 30,000         | 500 (F1)                                 | 0                                      | 0                                  |
|   | 2000                    | 100,000         | 130,500        | 0  | 0                                      | 0                                  |
|   | 1999                    | 100,000         | 130,500        | 0  | 0                                      | 0                                  |
| Jim Danbom,<br>Past President           | 2001                    | 156,817         | 0              | 0  | 0                                      | 0                                  |
|   |                         | 165,467         | 0              | 0  | 0                                      | 0                                  |

165,467

0

0

0

0