HASBRO INC
Form 4
July 06, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
MALONE CLAUDINE B/CA
(Last) (First) (Middle)
C/O SAIC, 10260 CAMPUS POINT DR M/SF3
(Street)
SAN DIEGO, CA 92121
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HASBRO INC [HAS]

3. Date of Earliest Transaction (Month/Day/Year)
06/30/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)				(Instr. 5)		
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Phantom Stock Units (1)	$ 0 (2)	06/30/2005		A		209		(3)(4)	(3)(4)	Common Stock	209	$ 20.7

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MALONE CLAUDINE B/CA C/O SAIC 10260 CAMPUS POINT DR M/SF3 SAN DIEGO, CA 92121	X			

Signatures

Tarrant Sibley, p/o/a for Claudine B. Malone	07/06/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) All of the phantom stock units were acquired pursuant to the Hasbro, Inc. Deferred Compensation Plan for Non-Employee Directors in accordance with Section 16b-3.

(2) Units correspond 1-for-1 with common stock.

(3) Units are settled only in cash and are payable after the reporting person ceases to be a director.

(4) Vesting of 9 units will occur on the earlier of 12/31/05 (provided the reporting person is still a director as of such date) and the death, disability or retirement (after age 72) of the reporting person. Vesting of 9 units will occur on the earlier of 12/31/06 (provided the reporting person is still a director as of such date) and the death, disability or retirement (after age 72) of the reporting person. The remainder of the units are immediately vested.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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432,826

48,092

480,918

Gross profit (loss)

$

(241,525

)

Explanation of Responses:

$

(90,203

)

(331,728

)

$

641,067

$

90,577

731,644

Sales, general & admin

(1,394,157

)

(1,005,343

)

Fraud expense

(134,775

)

Interest expense, net

(73,567

)

(70,855

)

Other income /expense, net

60,171

46,543

Income tax benefit

598,394

172,742

Net loss from continuing operations

$

(1,140,887

)

$

(260,044

Explanation of Responses:

)

	For the Six Months Ended March 31, 2011 (Unaudited)			For the Six Months Ended March 31, 2010 (Unaudited)		
	Cycle Country ATV Accessories	**Imdyne**	**Total**	**Cycle Country ATV Accessories**	**Imdyne**	**Total**
Net sales	$ 5,496,779	$ 1,341,825	$ 6,838,604	$ 4,642,778	$ 1,548,131	$ 6,190,909
Freight income	45,943	11,364	57,307	34,970	15,512	50,482
Total Revenue	5,542,722	1,353,189	6,895,911	4,677,748	1,563,643	6,241,391
Cost of goods sold	4,553,422	1,352,833	5,906,255	2,817,980	1,400,504	4,218,484
Lower of cost or market adjustment	432,826	48,092	480,918			
Gross profit (loss)	$ 556,474	$ (47,736)	508,738	$ 1,859,768	$ 163,139	2,022,907
Sales, general & admin			(2,568,470)			(1,854,964)
Fraud expense						(134,775)
Interest expense, net			(172,316)			(153,242)
Other income /expense, net			87,246			81,031
Income tax benefit			744,021			20,385
Net loss from continuing operations			$ (1,400,781)			$ (18,658)

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GEOGRAPHIC REVENUE

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

	For the three months ended March 31, (Unaudited)		For the six months ended March 31, (Unaudited)	
	2011	**2010**	**2011**	**2010**
United States	$ 2,581,991	$ 2,060,571	$ 6,376,210	$ 5,869,812
Other Countries	116,027	126,812	519,701	371,579
Total Revenue	$ 2,698,018	$ 2,187,383	$ 6,895,911	$ 6,241,391

As of March 31, 2011, all of the Company s long-lived assets are located in the United States of America.

The Company had sales to three major customers that were approximately 29%, 16% and 17% of total sales respectively for the three months ended March 31, 2011. During the three months ended March 31, 2010, sales to the same customers were approximately 18%, 11% and 14% of total sales, respectively. For the six months ended March 31, 2011, sales to the same customers were approximately 24%, 18% and 12% of total sales. Sales to two customers exceeded 10% for the six months ended March 31, 2010 and were 25% and 14% of total sales.

Note 8. Stock Based Compensation:

The Company accounts for share-based payments using the related accounting guidance, which requires share-based payment transactions to be accounted for using a fair value based method and the recognition of the related expense in the results of operations.

The Company s employment agreement dated June 24, 2008 with its former chief executive officer, Jeffrey M. Tetzlaff, provided for the grant of 50,000 shares of stock in the Company, vesting over a three-year period. At the end of the first and second full year of employment, Mr. Tetzlaff became vested in and received 16,666 shares of stock each year. During the year ended September 30, 2010, the Board accelerated the vesting of the final installment of 16,668 shares of stock which otherwise would have vested on April 7, 2011. For the six months ended March 31, 2010, $6,875 was recognized as compensation expense. The compensation expense was fully recognized in fiscal year 2010.

Under the 2008 employment agreement, Mr. Tetzlaff also received an option to purchase up to an additional 500,000 shares of the Company s common stock. Effective July 1, 2010, the option to purchase these shares was terminated.

Effective July 1, 2010, the Company entered into new employment agreements with Mr. Tetzlaff and Robert Davis, as the Chief Operating Officer and Chief Financial Officer. Under the terms of these agreements, the Company granted to each 1,005,809 shares of common stock equal to 12.5% on a fully-diluted basis of the common stock. Which vest in four installments during the respective terms of the agreements with the first installment of 40% vesting October 1, 2010 and which vesting is subject to acceleration on the occurrence of certain events, including a change of control. These awards were approved by the Company s stockholders at the 2010 annual meeting.

Effective December 31, 2010, Mr. Tetzlaff resigned and the Company and Mr. Tetzlaff entered into a Separation Agreement and Release of Claims. In accordance with the terms of that agreement, Mr. Tetzlaff surrendered the 402,234 shares that vested October 1, 2010, and forfeited his unvested shares.

There were no outstanding options as of March 31, 2011 or March 31, 2010.

Note 9. Discontinued Operations

The Company concluded that the Perf-Form and Plazco segments do not fit with the long term strategic plans of the Company. Both of these segments are outside of the Company s core product lines and/or our core customer relationships. Both of these segments have seen substantial decline in the past three years in sales and profitability as they lacked adequate sales, marketing, and operational leadership. Further, the Company has no internal expertise in engineering in either of these product segments. As a result, with the changes in the senior management of the Company, the determination was made that these segments no longer fit the Company s strategic plan, and as a result, these segments are reported as discontinued operations in the condensed consolidated financial statement.

In addition, the value of the Perf-Form segment did not support the carrying value of the intangible assets, and therefore, an impairment charge in the amount of $110,186 for trademarks and unamortized patents was recognized in the three months

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ended March 31, 2011. The carrying amounts of the major classes of assets and liabilities for these segments are presented below:

	As of March 31, 2011 (Unaudited)			As of September 30, 2010		
	Plazco	Perf-Form	Total	Plazco	Perf-Form	Total
Assets:						
Accounts Receivable	$ 58,003	$ 6,312	$ 64,315	$ 70,719	$ 13,337	$ 84,056
Inventories	29,889	15,186	45,075	367,604	124,507	492,111
Net Property, Equip and Intangibles	78,346	1,514	79,860	105,032	114,240	219,272
Assets	$ 166,238	$ 23,012	$ 189,250	$ 543,355	$ 252,084	$ 795,439
Liabilities:						
Accounts Payable	$ 16,229	$ 4,325	$ 20,554	$ 6,024	$ 187	$ 6,211
Accrued Expenses	1,942	2,499	4,441	3,684	2,514	6,198
Total Liabilities	$ 18,171	$ 6,824	$ 24,995	$ 9,708	$ 2,701	$ 12,409

Losses from discontinued operations, net of income taxes for all periods presented include the operating results of Perf-Form and Plazco and are as follows:

	For the Three Months Ended March 31, 2011 (Unaudited)			For the Three Months Ended March 31, 2010 (Unaudited)		
	Plazco	Perf-Form	Total	Plazco	Perf-Form	Total
Net sales	$ 94,137	$ 25,834	$ 119,971	$ 104,304	$ 43,966	$ 148,270
Freight income	1,110	370	1,480	1,166	583	1,749
Total Revenue	95,247	26,204	121,451	105,470	44,549	150,019
Cost of goods sold	86,443	45,913	132,356	99,874	32,924	132,798
Lower of cost or market adjustment	148,000	75,134	223,134			
Gross profit (loss)	$ (139,196)	$ (94,843)	(234,039)	$ 5,596	$ 11,625	17,221
Sales, general & admin			(62,740)			(64,531)
Impairment of intangibles			(110,186)			
Income tax benefit			139,605			18,883
Net loss from discontinued operations			$ (267,360)			$ (28,427)

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	For the Six Months Ended March 31, 2011 (Unaudited)			For the Six Months Ended March 31, 2010 (Unaudited)		
	Plazco	Perf-Form	Total	Plazco	Perf-Form	Total
Net sales	$ 167,592	$ 54,504	$ 222,096	$ 180,190	$ 65,846	$ 246,036
Freight income	1,559	595	2,154	2,149	1,074	3,223
Total Revenue	169,151	55,099	224,250	182,339	66,920	249,259
Cost of goods sold	164,952	80,705	245,657	195,590	70,175	265,765
Lower of cost or market adjustment	148,000	75,134	223,134			
Gross profit (loss)	$ (143,801)	$ (100,740)	(244,541)	$ (13,251)	$ (3,255)	(16,506)
Sales, general & admin			(94,578)			(72,495)
Impairment of intangibles			(110,186)			
Income tax benefit			154,978			46,465
Net loss from discontinued operations			$ (294,327)			$ (42,536)

Note 10. Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. During the three months ended March 31, 2011, the Company incurred a net loss of approximately $1,408,000 and for the six months ended March 31, 2011, the Company incurred a net loss of approximately $1,695,000. As of March 31, 2011, the Company had an accumulated deficit of approximately $6,774,000. As discussed in Note 5, as of March 31, 2011, the Company was in violation of covenants with its lender, a waiver for which was received. If the Company is unable to generate profits and unable to continue to obtain financing or renew existing financing for its working capital requirements, it may have to curtail its business sharply or cease business altogether. These unaudited condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or the amounts and classification of liabilities that might be necessary in the event the Company does not continue as a going concern.

The Company expects the existing cash balances, cash flow generated from operating activities, and the available borrowing capacity under the revolving line of credit agreement to be sufficient to fund operations. Short term cash can be generated through the aggressive collection of accounts receivable and by reducing inventory balances. The Company is in the process of securing replacement financing through an asset-based lender for its Revolving Credit Agreement which matures June 1, 2011.

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

Cautionary Note about Forward Looking Statements.

Certain matters discussed in this Form 10-Q are forward-looking statements, and the Company intends these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of those safe harbor provisions. These forward-looking statements can generally be identified as such because they include phrases such as the Company expects, believes, anticipates or other words of similar meaning. Similarly, statements that describe the Company s future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which could cause actual results or outcomes to differ materially from those currently anticipated. Factors that could affect actual results or outcomes include the matters described under the caption Risk Factors in Item 1A of Form 10-K for the year ended September 30, 2010. Shareholders, potential investors and other readers are urged to consider these factors in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included herein are only made as of the date of this filing. The Company assumes no obligation, and disclaims any obligation, to update such forward-looking statements to reflect subsequent events or circumstances.

Executive-Level Overview

This discussion relates to Cycle Country Accessories Corp. and its consolidated subsidiary (the Company) and should be read in conjunction with our consolidated financial statements as of September 30, 2010, and the fiscal year then ended, and Management s Discussion and Analysis of Financial Condition and Results of Operations, both contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

We intend for this discussion to provide the reader with information that will assist in understanding our condensed consolidated financial statements, the changes in certain key items in those condensed consolidated financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our condensed consolidated financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of the Company as a whole. 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.

As of January 1, 2011, the Company has a completely restructured management team. With the resignation of the former CEO and one of the Company s outside directors on December 31, 2010, and the elevation of the Chief Financial Officer to the role of the Interim Chief Executive Officer, the Company has been able to rebuild a team of former leaders of the Company and the industry. The Company has rehired the former Vice President of Sales and the Vice President of Product Innovation, as well as retained and elevated two key people in the positions of Vice President of Product Implementation and the Vice President of Risk Management and Strategic Projects. This group constitutes a new level of experienced, qualified, professional managers for the Company.

In addition, the Company has hired a new General Manager for the Operations of the Spencer and Milford production facilities, and has re-built the remaining manufacturing management team, with the combination of experience and tribal knowledge of our products and industry, combined with the lean manufacturing leadership and execution skills that the Company lacked previously.

These changes have accelerated the internal operational and financial reorganization efforts that started in 2009, as well as the external strengthening of relationships and opportunities. While we have made significant progress, especially in the areas of rebuilding customer trust and credibility, and in accelerating operational changes, the challenges the Company has been working through will take some more time to show effect.

As noted in our condensed consolidated financial statements, the Company has become even more aggressive in analyzing and acting on the opportunities for growth and opportunities for risk management. We have made aggressive, bold changes to clean up underperforming segments and assets. The internal reorganization and initiatives have eliminated the unprofitable and/or unnecessary aspects of the business, allowing us to focus our efforts on our core customers, core products, and our core people.

Looking ahead to the balance of fiscal 2011, management is projecting a continuation of the seasonal pattern experienced by the Company, with sales reaching annual lows in the third quarter of our fiscal year, and a strong finish in the fourth quarter. During the normally slow sales period of the third quarter, the Company will focus on implementing

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long-term lean initiatives and preparing manufacturing operations for the next 24 month period, while we build inventory for the coming season. The third quarter is historically a period of very light sales, and therefore heavy losses from operations. We do not anticipate that changing this year, as we continue to make the long-overdue changes to our manufacturing processes to optimize our long-term efficiencies. We believe that the work we are doing should make this year the last year of the seasonally heavy losses in this time of year, with better balance between the lows and the highs of our seasonality in the years ahead.

Looking further out over the next 12-24 months, management projects growth in both revenues and margins, based on many factors, including the response of the industry to the initiatives mentioned above, as well as the continued operational efficiencies gained from the efforts and initiatives of the past 24 months. The Company anticipates contribution margins over the next 12-24 month period to range between 25% and 45% of revenue, depending on the segment. The ATV Accessories segment is expected to maintain its long-time average of 40% and above contribution margins. The Imdyne segment is expected to have contribution margins in the range of 25%-30% of revenue. Overall gross margins, after manufacturing overhead, are expected to exceed 30% of revenues in that same period. Further, for the next 12-24 months, management believes we can reduce our operating expenses to average between 20%-25% of revenues.

Current management and the Board of Directors has a strong focus on returning the Company to profitability and feels that the recent changes and aggressive implementation of the sales, marketing and operating style previously used by Cycle Country will return the Company to the profitability of its past. Focusing on delivering value to our core customers through dependable, high-quality products in our core product line, backed by an experienced, professional team of our core people will continue to bring us back market share that has been lost through expensive, distracted, previously used by initiatives, while giving us operating efficiencies that return us to profitability.

Overview for the Three Months Ended March 31, 2011 and 2010 (Unaudited)

The following is a summary of the results of operations for the three months ended March 31, 2011 and March 31, 2010 (Unaudited):

	Three Months Ended March 31,					
		2011 (Unaudited)			**2010 (Unaudited)**	
Total revenue	$	2,698,018	100.00%	$	2,187,383	100.00%
Cost of goods sold		2,548,828	94.47%		1,455,739	66.55%
Lower of cost or market adjustment		480,918	17.82%			0.00%
Gross profit (loss)		(331,728)	(12.29)%		731,644	33.45%
Selling, general, and administrative expenses		(1,394,157)	(51.67)%		(1,005,343)	(45.96)%
Fraud expense			0.00%		(134,775)	(6.16)%
Loss from operations		(1,725,885)	(63.96)%		(408,474)	(18.67)%
Other expense (net)		(13,396)	(0.50)%		(24,312)	(1.11)%
Loss before benefit from income taxes		(1,739,281)	(64.46)%		(432,786)	(19.78)%

Income tax benefit		598,394	22.18%		172,742	7.90%
Net loss from continuing operations		(1,140,887)	(42.28)%		(260,044)	(11.88)%
Loss from discontinued operations, net of tax		(267,360)	(9.91)%		(28,427)	(1.30)%
Net loss	$	(1,408,247)	(52.19)%	$	(288,471)	(13.18)%

For the three months ended March 31, 2011, the Company reported a net loss of $1,408,247 or 52% of total revenue. This compares to the three months ending March 31, 2010 during which the Company recorded a net loss of $288,471 or 13%

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of total revenue. These losses include significant one-time charges, such as $480,918 for lower of cost or market inventory adjustments, $267,360 for losses from discontinued operations, and approximately $250,000 related to discounts and allowances under a program which is no longer offered. These one-time, non-recurring expenses account for approximately $1,000,000 of the loss. In addition, our steel-based commodity material expenses increased over 50%, causing our total materials expense to increase 17% over the three-month period.

Net revenues for the period increased approximately 23% over the same period in fiscal year 2010. However, after adjusting for the loss of approximately 17% of our total revenue for the same period last year from the unprofitable customers that we discontinued serving, as noted elsewhere, our total revenue is up closer to 40%. Revenue increased for the Cycle Country ATV Accessories segment by approximately 45%, due to continued seasonally favorable weather throughout the winter, as well as additional sales due to strengthened customer relationships. Net revenues were discounted approximately $249,500, or approximately 8% of the gross sales of the quarter ending March 31, 2011, due to the accrual of additional expenses related to a discontinued, unnecessary marketing program. Sales in the Imdyne segment decreased approximately 16%, though when adjusted for the loss of the unprofitable customers, the Imdyne segment was up approximately 50%.

Gross margins for the quarter ending March 31, 2011 were a negative 12.29% of revenue, after the adjustments for one-time charges. However, without the one-time charges, the gross margins for the quarter would have been a positive 14.65% of revenue.

The following is a summary of the results of operations by segment for the three months ended March 31, 2011 and March 31, 2010 (unaudited):

	For the Three Months Ended March 31, 2011 (Unaudited)	March 31, 2010 (Unaudited)	Increase (Decrease) $	Increase (Decrease) %
Net revenue by segment				
Cycle Country ATV Accessories	$ 2,010,043	$ 1,386,620	$ 623,423	44.96%
Imdyne	652,449	773,374	(120,925)	(15.64)%
Total segment revenue	2,662,492	2,159,994	502,498	23.26%
Freight income	35,526	27,389	8,137	29.71%
Total combined revenue	$ 2,698,018	$ 2,187,383	$ 510,635	23.34%
Gross profit (loss) by segment				
Cycle Country ATV Accessories	$ (241,525)	$ 641,067	$ (882,592)	(137.68)%
Imdyne	(90,203)	90,577	(180,781)	(199.59)%
Total gross profit (loss)	(331,728)	731,644	(1,063,372)	(145.34)%
Sales, general and administrative	(1,394,157)	(1,005,343)	(388,814)	38.67%
Fraud expense		(134,775)	134,775	(100.00)%
Interest income and expense	(73,567)	(70,855)	(2,712)	3.83%
Other income and expense	60,171	46,543	13,628	29.28%
Income tax benefit	598,394	172,742	425,652	246.41%
Net loss from continuing operations	(1,140,887)	(260,044)	(880,843)	338.73%

Loss from discontinued operations, net of tax		(267,360)		(28,427)	(238,933)	840.50%
Net loss	$	(1,408,247)	$	(288,471)	$ (1,119,776)	388.18%

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Overview for the Six Months Ended March 31, 2011 and 2010 (Unaudited)

The following is a summary of the results of operations for the six months ended March 31, 2011 and March 31, 2010 (Unaudited):

	Six Months Ended March 31, 2011 (Unaudited)		Six Months Ended March 31, 2010 (Unaudited)	
Total revenue	$ 6,895,911	100.00%	$ 6,241,391	100.00%
Cost of goods sold	5,906,255	85.65%	4,218,484	67.59%
Lower of cost or market adjustment	480,918	6.97%		0.00%
Gross profit	508,738	7.38%	2,022,907	32.41%
Selling, general, and administrative expenses	(2,568,470)	(37.25)%	(1,854,964)	(29.72)%
Fraud expense		0.00%	(134,775)	(2.16)%
Loss from operations	(2,059,732)	(29.87)%	33,168	0.53%
Other expense (net)	(85,070)	(1.23)%	(72,211)	(1.16)%
Loss before benefit from income taxes	(2,144,802)	(31.10)%	(39,043)	(0.63)%
Income tax benefit	744,021	10.79%	20,385	0.33%
Net loss from continuing operations	(1,400,781)	(20.31)%	(18,658)	(0.30)%
Loss from discontinued operations, net of tax	(294,327)	(4.27)%	(42,536)	(0.68)%
Net loss	$ (1,695,108)	(24.58)%	$ (61,194)	(0.98)%

For the six months ended March 31, 2011, the Company reported a net loss of $1,695,108 or 25% of total revenue. This compares to the six months ending March 31, 2010 during which the Company recorded a net loss of $61,194 or about 1% of total revenue. These losses in the first six months of fiscal year 2011 include significant nonrecurring charges, such as approximately $270,000 for one-time severance expense and signing bonuses, $480,918 for lower of cost or market inventory adjustments, $294,327 for losses from discontinued operations, and approximately $308,000 for discounts and allowances related to a program no longer offered. These one-time, non-recurring expenses account for approximately $1,100,000 of the loss. In addition, our steel-based commodity material expenses increased over 50%, causing our total materials expense to increase 11% over the six-month period.

Net revenues for the period increased approximately 10% over the same period in fiscal year 2010. However, after adjusting for the loss in revenue from the unprofitable customers that we discontinued serving, as noted elsewhere, our total revenue for the six month period is up closer to 25%. Revenue increased for the Cycle Country ATV Accessories segment by approximately 18%, due to continued seasonally favorable weather throughout the six months of our busy season. Sales in the Imdyne segment decreased approximately 13%, though when adjusted for the loss of the unprofitable customers, the core Imdyne segment grew approximately 50% for the six-month period.

Gross margins for the six months ending March 31, 2011 were 7.38% of revenue, after the adjustments for one-time charges. However, without the one-time charges, the gross margins would have been 18.02% of revenue.

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The following is a summary of the results of operations by segment for the six months ended March 31, 2011 and March 31, 2010 (Unaudited):

	For the Six Months Ended March 31, 2011	2010	Increase (Decrease) $	Increase (Decrease) %
	(Unaudited)			
Net revenue by segment				
Cycle Country ATV Accessories	$ 5,496,779	$ 4,642,778	$ 854,001	18.39%
Imdyne	1,341,825	1,548,131	(206,306)	(13.33)%
Net revenue by segment	6,838,604	6,190,909	647,695	10.46%
Freight income	57,307	50,482	6,825	13.52%
Total combined revenue	$ 6,895,911	$ 6,241,391	$ 654,520	10.49%
Gross profit (loss) by segment				
Cycle Country ATV Accessories	$ 556,474	$ 1,859,768	$ (1,303,294)	(70.08)%
Imdyne	(47,736)	163,139	(210,876)	(129.26)%
Total gross profit	508,738	2,022,907	(1,514,169)	(74.85)%
Sales, general and administrative	(2,568,470)	(1,854,964)	(713,506)	38.46%
Impairment of intangibles		(134,775)	134,775	(100.00)%
Interest income and expense	(172,316)	(153,242)	(19,074)	12.45%
Other income and expense	87,246	81,031	6,215	7.67%
Income tax benefit	744,021	20,385	723,636	3,549.85%
Net loss from continuing operations	(1,400,781)	(18,658)	(1,382,123)	7,407.51%
Loss from discontinued operations, net of tax	(294,327)	(42,536)	(251,791)	591.95%
Net loss	$ (1,695,108)	$ (61,194)	$ (1,633,914)	2,670.05%

BUSINESS SEGMENTS

As more fully described above in Note 7 to the condensed consolidated financial statements included elsewhere in this filing, the Company operates four reportable business segments. As described in Note 9 to the condensed consolidated financial statements, the Company has segregated two of the segments into discontinued operations.

Cycle Country ATV Accessories is vertically integrated and utilizes a two-step distribution method. Our contract manufacturing segment, Imdyne, deals directly with other original equipment manufacturers (OEMs).

Revenue

Revenue increased approximately 45% or $623,000 for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 in the Cycle Country ATV Accessories segment. Sales for the six months ended March 31, 2011 increased to approximately $5,497,000 for this segment compared to approximately $4,643,000 for the six months ended March 31, 2010. The increase of approximately $854,000 is due to increased sales throughout our customer base as this segment benefited from increased snow fall throughout North America and Europe this winter.

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The Imdyne segment reported sales of approximately $652,000 and $773,000 for the three months ended March 31, 2011 and March 31, 2010, respectively. As of October 1, 2010, management made the decision to discontinue processing orders for customers that were not profitable for the Company, which resulted in a decrease in sales from those customers. These customers represented approximately 17% of last year s total sales or approximately 65% of the sales of the Imdyne segment in the fiscal year ended September 30, 2010. However, sales increased for other, more profitable, existing customers, replacing much of those sales that were those lost, resulting in a net decrease for the period of only approximately $121,000. Revenues for the segment were approximately $1,342,000 and $1,548,000 for the six month periods ended March 31, 2011 and March 31, 2010, respectively, a decrease of 14% for the six month period, again, due to sales to customers which were deliberately discontinued.

Cost of Goods Sold

The following table details components of direct costs of goods sold by segment as a percentage of sales:

	For the Three Months Ended			
	March 31, 2011 (Unaudited)		March 31, 2010 (Unaudited)	
	ATV	Imdyne	ATV	Imdyne
	% of Net Sales		% of Net Sales	
Materials	57.46%	64.26%	39.87%	61.60%
Direct labor	4.64%	7.66%	3.82%	6.85%
Mfg variance	(0.54)%	(1.04)%	(1.72)%	1.02%
Subcontract	1.03%	1.19%	0.59%	1.53%
Royalty	0.13%	0.00%	0.44%	0.00%
Burden	14.21%	12.57%	7.22%	7.28%
Mfg overhead	14.93%	23.01%	4.83%	11.25%
	91.86%	107.65%	55.05%	89.53%

The cost of materials as a percentage of revenue has increased significantly this year. The cost of material for the Cycle Country ATV Accessories segment increased from approximately 40% for the three months ended March 31, 2010 to approximately 57% for the three months ended March 31, 2011. The biggest change came in our steel-based raw materials and component parts. The Company attempted to manage the rapid increase in steel prices, but was only able to mitigate, rather than prevent, the impact on the cost of goods sold and, therefore, margins. On average, the commodity steel market is up approximately 50% since October 1, 2011. As our products are primarily steel-based, our total costs of materials are up 17% overall for the quarter ended March 31, 2011.

Direct labor increased for all segments which is due, in part, to additional wages paid to prosecution employees, as well as to additional labor expenses allocated.

Manufacturing overhead applied to burden increased and for the three months ended March 31, 2011 was approximately $368,000 compared to approximately $156,000 applied for the three months ended March 31, 2010.

Manufacturing overhead increased for the Cycle Country ATV Accessories and Imdyne segment as we were unable to absorb all of the manufacturing overhead into our products.

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	For the Six Months Ended			
	March 31, 2011 (Unaudited)		March 31, 2010 (Unaudited)	
	ATV	Imdyne	ATV	Indyne
	% of Net Sales		% of Net Sales	
Materials	53.11%	59.63%	42.17%	59.34%
Direct labor	4.61%	7.13%	3.51%	6.65%
Mfg variance	0.07%	1.56%	(0.20)%	1.13%
Subcontract	0.99%	1.18%	0.67%	1.18%
Royalty	0.12%	0.00%	0.27%	0.00%
Burden	14.04%	16.21%	9.31%	12.55%
Mfg overhead	9.90%	15.11%	4.97%	9.61%
	82.84%	100.82%	60.70%	90.46%

The cost of materials increased from approximately 42% of net sales to approximately 53% of net sales for the six months ended March 31, 2011 as compared to the six months ended March 31, 2010. On average, the commodity steel market is up approximately 50% since October 1, 2011. As our products are primarily steel-based, our total costs of materials are up 11% overall for the six months ended March 31, 2011.

Direct labor as a percentage of sales increased for both segments which is due to increases in wages paid to production employees.

Burden expense increased from approximately $432,000 to approximately $771,000 in the Cycle Country ATV Accessories segment for the six months ended March 31, 2010 and 2011, respectively. For the same periods, burden for the Imdyne segment was approximately $194,000 and $217,000. The increase in the Cycle Country ATV Accessories segment is due, in part, to increased sales.

Expenses

Our selling, general and administrative expenses were approximately $1,394,000 and $1,005,000 for the three months ended March 31, 2011 and March 31, 2010, respectively.

The significant changes in expenses for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 were:

- Wage expense increased approximately $270,000 due to the one-time charges related to the hiring of sales, engineering, and operational management and the severance expense of prior management. One-time signing bonuses of $195,000 were accrued and severance and other expenses were accrued in the amount of $75,000 totaling $270,000 for the quarter.

- Promotion expense increased due to costs associated with a non-recurring, failed marketing program, based on the Company s prior sales and marketing management s unnecessary dealer incentives. In addition, the Company retained a full-service marketing agency with a cost of $30,000 for the three-month period.

For the six months ended March 31, 2011 and 2010, selling, general and administrative expenses were approximately $2,568,000 and $1,859,000, respectively.

The significant changes in expenses for the six months ended March 31, 2011 as compared to the six months ended March 31, 2010 were:

- Wage expense increased approximately $420,000 due in part to charges related to the hiring of sales, engineering, and operational management and the one-time severance expense of the prior CEO and other employees. Signing bonuses of $195,000 were accrued and severance and other expenses were accrued in the amount of $75,000. Effective July 1, 2010, the Company entered into an employment agreement with Robert Davis, its Chief Financial Officer and Chief Operating Officer. Prior to that time, Mr. Davis had been the Interim Chief Financial Officer and was compensated as a consultant.

- Promotion expense increased on costs associated with marketing promotions, an agency retainer, and buyback programs.

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• Professional fees increased approximately $100,000 due, in part, to fees associated with SEC filing requirements and legal and audit expenses, including those related to the departure of the former Chief Executive Officer.

Liquidity and Capital Resources

Overview

Cash and cash equivalents were $147,830 as of March 31, 2011 compared to $28,939 as of September 30, 2010. Until required for operations, our policy is to invest any excess cash reserves in bank deposits, money market funds, and certificates of deposit after first repaying any built up balance on our bank line of credit.

Working Capital

Net working capital was a negative $1,047,984 as of March 31, 2011 compared to positive $1,205,268 as of September 30, 2010. The working capital ratio was 0.80 and 1.22 as of March 31, 2011 and September 30, 2010, respectively.

The following table summarizes the Company s sources and uses of cash and equivalents for the periods indicated:

	Six Months Ended March 31, 2011 (Unaudited)	2010 (Unaudited)
Net cash provided by operating activities from continuing operations	$ 1,606,159	$ 1,329,498
Net cash used for investing activities in continuing operations	(73,326)	(154,637)
Net cash used for financing activities from continuing operations	(1,771,123)	(1,150,047)
Net cash provided by discontinued operations	357,181	14,443
	$ 118,891	$ 39,257

The Company s principal uses of cash are to pay operating expenses, acquire necessary equipment and to make debt service payments. During the six months ended March 31, 2011, the Company used cash to make principal payments of approximately $451,000 against long-term debt and paid down approximately $1,172,000 on its lines of credit.

Capital Resources

Management believes that existing cash balances, cash flow to be generated from operating activities, and income tax refunds receivable and available borrowing capacity under its line of credit agreement will be sufficient to fund normal operations and capital expenditure requirements for the next twelve months. Subsequent to March 31, 2011, the Company received the federal tax refund receivable noted on the condensed consolidated balance sheet. The Company is not considering any major capital investment for at least the next three months.

As of March 31, 2011 and as of September 30, 2010, the Company was in violation of its current ratio and term debt coverage ratio covenants in its loan agreements with its lender. As of January 17, 2011, the Company and its lender entered into the Seventh Amendment to the Secured Credit Agreement and Waiver (Amendment 7). Under the terms of Amendment 7, the lender agreed to waive the noncompliance by the Company with the required ratio of current assets to current liabilities as of September 30, 2010, December 31, 2010 and the Company s anticipated noncompliance with the required ratio of current assets to current liabilities through October 1, 2011 and further, to waive the Company s noncompliance with the Term Debt Coverage Ratio as of September 30, 2010, December 31, 2010, and the Company s anticipated noncompliance with the Term Debt Coverage Ratio through October 1, 2011.

As of March 30, 2011, the Company and its lender entered into an Eighth Amendment to the Secured Credit Agreement and Waiver (Amendment 8). Amendment 8 replaces Amendment 7 with a Revolving Credit Agreement in an amount not to exceed $2,000,000, maturing on June 1, 2011.

Management expects to be able to comply with the requirements of Amendment 8 and has been working steadily to secure a commitment for funding from an asset-based lender. Management believes this is an appropriate financing vehicle for its operations and expects this action to have a positive impact on the Company s working capital through fiscal year 2011 and beyond. Further, this funding will help to continue the stabilization and turnaround of the Company while facilitating continued growth. The failure to obtain a replacement lender by June 1, 2011 could result in the lender foreclosing on its security interest resulting in a significant disruption to the Company s operations.

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Our continued existence is dependent upon or ability to generate cash and to market and sell our products successfully. However, there are no assurances whatsoever that we will be able to borrow further funds from our lender or that we will increase our revenues and/or control our expenses to a level sufficient to provide positive cash flow.

Critical Accounting Policies and Estimates

The Company s discussion and analysis of its financial condition and results of operations are based upon its condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates including those related to bad debts, inventory valuations of long lived assets and the recoverability of fraud expense. The Company bases its estimates on historical experiences and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Allowance for Doubtful Accounts

The Company recognizes revenue when title and risk of ownership have passed to the buyer. Allowances for doubtful accounts are estimated based on estimates of losses related to customer accounts receivable balances. Estimates are developed by using standard quantitative measures based on historical losses, adjusting for current economic conditions and, in some cases, evaluating specific customer accounts for risk of loss. The establishment of reserves requires the use of judgment and assumptions regarding the potential for losses on receivable balances. Though the Company considers these balances adequate and proper, changes in economic conditions in specific markets in which the Company operates and any specific customer collection issues the Company identifies could have a favorable or unfavorable effect on required reserve balances.

Inventories

Inventories are stated at the lower of cost or market using the weighted average method. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. Management regularly reviews inventory quantities on hand, future product demand and the estimated utility of inventory. If the review indicates a reduction in utility below carrying value, management would reduce the Company s inventory to a new cost basis through a charge to cost of goods sold.

Deferred Taxes

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Likewise, should the Company determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets long lived asset valuation would increase income in the period such determination was made.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

As a smaller reporting company, the Company is not required to provide this information.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

The Company s management is responsible for maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. In addition, the disclosure controls and procedures must ensure that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial and other required disclosures.

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At the end of the period covered by this report, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13(a)-15(e) and 15(d)-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) was carried out under the supervision and with the participation of our Principal Executive Officer and our Principal Financial and Accounting Officer. Based on their evaluation of our disclosure controls and procedures, they have concluded that during the period covered by this report, such disclosure controls and procedures were not effective to detect the inappropriate application of US GAAP standards. This was due to deficiencies that existed in the design or operation of our internal control over financial reporting as of September 30, 2010 that adversely affected our disclosure controls and that may be considered to be a material weakness.

As of September 30, 2010, the Principal Executive Officer and Principal Financial Officer have identified the following specific material weaknesses in the Company s internal controls over its financial reporting processes:

• Financial Reporting Segregation of Duties Currently, the Company has an issue regarding a general lack of segregation of duties. Requisite segregation of duties is not clearly defined or established throughout the financial reporting related business processes. The lack of segregation of duties amounts to a material weakness to the Company s internal controls over its financial reporting processes.

In light of the foregoing, management is in the process of developing the following additional procedures to help address this material weakness:

• The Company will continue to create and refine a structure in which critical accounting policies and estimates are identified, and together with other complex areas, are subject to multiple reviews by accounting personnel. In addition, the Company will enhance and test our year-end financial close process. Additionally, the Company s audit committee will increase its review of our disclosure controls and procedures. We also intend to more frequently engage an external accounting firm to assist us with our review of financial information relative to our financing arrangements.

We believe these actions will remediate the disclosure control ineffectiveness by focusing additional attention and resources in our internal accounting functions.

Changes in Internal Control over Financial Reporting

Our management, including our principal executive officer and principal financial officer, have reviewed and evaluated any changes in our internal control over financial reporting that occurred as of March 31, 2011. Our management is in the process of addressing the above material weakness, as updated above, and is utilizing the services of an outside accounting firm to assist with this process. We believe this will help remediate the material weakness by focusing additional attention and resources in our internal accounting functions. However, the material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Part II - Other Information

ITEM 1. Legal Proceedings

Please refer to the disclosure set forth in Note 2 to our Condensed Consolidated Financial Statements included in this report.

ITEM 1A. Risk Factors

Please refer to the discussion of risk factors included in the Company s annual report on Form 10-K for the fiscal year ended September 30, 2010.

ITEM 6. Exhibits

(31.1) Certification of Principal Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) Certification of Principal Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

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(32.1) Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 23, 2011.

CYCLE COUNTRY ACCESSORIES CORP.

By: /s/ Robert Davis
Robert Davis
Interim Chief Executive Officer

In accordance with the requirements of the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated.

Name and Signature	Title	Date
/s/ Robert Davis Robert Davis	Chief Financial Officer, Chief Operating Officer, Interim Chief Executive Officer, Treasurer, Secretary and Director (principal executive, financial and accounting officer)	May 23, 2011
/s/ Paul DeShaw Paul DeShaw	Director	May 23, 2011