
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **March 31, 2018**

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

For the transition period from _____ to _____

Commission File No. **000-54693**

LEATT CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-2819367

(I.R.S. Employer Identification No.)

**12 Kiepersol Drive, Atlas Gardens, Contermanskloof Road,
Durbanville, Western Cape, South Africa, 7441**

(Address of principal executive offices)

+(27) 21-557-7257

(Registrant's telephone number, including area code)

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

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial standards provided pursuant to Section 13(a) of the Exchange Act. [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The number of shares outstanding of each of the issuer's classes of common stock, as of May 3, 2018 is as follows:

<u>Class of Securities</u>	Shares Outstanding
<u>Common Stock, \$0.001 par value</u>	<u>5,366,382</u>

LEATT CORPORATION

Quarterly Report on Form 10-Q
Three Months Ended March 31, 2018

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LEATT CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2018	December 31, 2017
	Unaudited	Audited
Current Assets		
Cash and cash equivalents	\$ 1,445,845	\$ 1,518,157
Short-term investments	58,225	58,221
Accounts receivable	2,656,560	2,420,656
Inventory	5,034,375	5,034,310
Payments in advance	435,203	565,124
Income tax refunds receivable	83,232	130,171
Prepaid expenses and other current assets	473,626	847,442
Total current assets	10,187,066	10,574,081
Property and equipment, net	2,161,304	2,113,855
Other Assets		
Deposits	26,417	26,081
Intangible assets	79,867	76,364
Total other assets	106,284	102,445
Total Assets	\$ 12,454,654	\$ 12,790,381

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable and accrued expenses	\$ 3,921,359	\$ 4,433,665
Short term loan, net of finance charges	345,326	518,130
Total current liabilities	4,266,685	4,951,795
Deferred tax liabilities, net	38,100	38,100
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$.001 par value, 1,120,000 shares authorized, 120,000 shares issued and outstanding	3,000	3,000
Common stock, \$.001 par value, 28,000,000 shares authorized, 5,366,382 shares issued and outstanding	130,053	130,053
Additional paid - in capital	7,837,699	7,687,367
Accumulated other comprehensive loss	(427,054)	(485,286)
Retained earnings	606,171	465,352
Total stockholders' equity	8,149,869	7,800,486
Total Liabilities and Stockholders' Equity	\$ 12,454,654	\$ 12,790,381

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended	
	March 31	
	2018	2017
	Unaudited	Unaudited
Revenues	\$ 5,502,542	\$ 5,817,769
Cost of Revenues	<u>2,746,097</u>	<u>2,907,670</u>
Gross Profit	<u>2,756,445</u>	<u>2,910,099</u>
Product Royalty Income	12,309	10,956
Operating Expenses		
Salaries and wages	777,763	759,243
Commissions and consulting expenses	125,339	153,048
Professional fees	168,471	310,791
Advertising and marketing	504,162	401,554
Office rent and expenses	70,438	66,051
Research and development costs	323,280	323,243
Bad debt expense (recovery)	9,767	(4,641)
General and administrative expenses	435,560	401,413
Depreciation	162,764	88,965
Total operating expenses	<u>2,577,544</u>	<u>2,499,667</u>
Income from Operations	<u>191,210</u>	<u>421,388</u>
Other Expenses		
Interest and other expenses, net	<u>(3,452)</u>	<u>(2,988)</u>
Total other expenses	<u>(3,452)</u>	<u>(2,988)</u>
Income Before Income Taxes	187,758	418,400
Income Taxes	<u>46,939</u>	<u>146,440</u>
Net Income Available to Common Shareholders	<u>\$ 140,819</u>	<u>\$ 271,960</u>
Net Income per Common Share		
Basic	<u>\$ 0.03</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.05</u>
Weighted Average Number of Common Shares Outstanding		
Basic	<u>5,366,382</u>	<u>5,362,992</u>
Diluted	<u>5,545,564</u>	<u>5,499,103</u>
Comprehensive Income		
Net Income	\$ 140,819	\$ 271,960
Other comprehensive income, net of \$0 and \$0 deferred income taxes in 2018 and 2017		
Foreign currency translation	<u>58,232</u>	<u>52,721</u>
Total Comprehensive Income	<u>\$ 199,051</u>	<u>\$ 324,681</u>

LEATT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2018

	Preferred Stock A		Common Stock		Additional Paid - In Capital	Accumulated Other Comprehensive (Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance, January 1, 2018	120,000	\$ 3,000	5,366,382	\$ 130,053	\$ 7,687,367	\$ (485,286)	\$ 465,352	\$ 7,800,486
Compensation cost recognized in connection with stock options	-	-	-	-	150,332	-	-	150,332
Net income	-	-	-	-	-	-	140,819	140,819
Foreign currency translation adjustment	-	-	-	-	-	58,232	-	58,232
Balance, March 31, 2018	120,000	\$ 3,000	5,366,382	\$ 130,053	\$ 7,837,699	\$ (427,054)	\$ 606,171	\$ 8,149,869

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Net income	\$ 140,819	\$ 271,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	162,764	88,965
Deferred income taxes	-	(62,000)
Stock-based compensation	150,332	177,113
Bad debts	6,503	(6,717)
Inventory reserve	16,522	117,039
(Increase) decrease in:		
Accounts receivable	(242,407)	(739,731)
Inventory	(16,587)	948,717
Payments in advance	129,921	(177,481)
Prepaid expenses and other current assets	373,816	385,604
Income tax refunds receivable	46,939	83,567
Deposits	(336)	(602)
Increase (decrease) in:		
Accounts payable and accrued expenses	(512,306)	(834,598)
Income taxes payable	-	64,391
Net cash provided by operating activities	<u>255,980</u>	<u>316,227</u>
Cash flows from investing activities		
Capital expenditures	(201,157)	(61,267)
Increase in short-term investment, net	<u>(4)</u>	<u>(5)</u>
Net cash used in investing activities	<u>(201,161)</u>	<u>(61,272)</u>
Cash flows from financing activities		
Repayments of short-term loan, net	<u>(172,804)</u>	<u>(241,759)</u>
Net cash used in financing activities	<u>(172,804)</u>	<u>(241,759)</u>
Effect of exchange rates on cash and cash equivalents	<u>45,673</u>	<u>27,310</u>
Net increase (decrease) in cash and cash equivalents	(72,312)	40,506
Cash and cash equivalents - beginning of period	<u>1,518,157</u>	<u>1,103,003</u>
Cash and cash equivalents - end of period	<u>\$ 1,445,845</u>	<u>\$ 1,143,509</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 4,085</u>	<u>\$ 3,443</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 60,482</u>
Other non-cash investing and financing activities		
Common stock issued for services	<u>\$ 150,332</u>	<u>\$ 177,113</u>

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Basis of presentation

The consolidated balance sheet as of December 31, 2017 was audited and appears in the Form 10-K filed by the Company with the Securities and Exchange Commission on March 19, 2018. The consolidated balance sheet as of March 31, 2018 and the consolidated statements of operations and comprehensive income for the three months ended March 31, 2018 and 2017, changes in stockholders' equity for the three months ended March 31, 2018, cash flows for the three months ended March 31, 2018 and 2017, and the related information contained in these notes have been prepared by management without audit. In the opinion of management, all adjustments (which include only normal recurring items) necessary to present fairly the financial position, results of operations and cash flows in conformity with generally accepted accounting principles as of March 31, 2018 and for all periods presented have been made. Interim operating results are not necessarily indicative of operating results for a full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. While management of the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017 as filed with the Securities and Exchange Commission in the Company's Form 10-K.

Note 2 - Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, the Company utilizes historical experience as well as current market information. The reserve for obsolescence as of the three months ended March 31, 2018 and 2017 was \$74,330 and \$283,146 respectively.

Note 3 - Intangible Assets

The Company's intangible assets consist of acquired patents with an indefinite useful life and are thus not amortized. Intangible assets are carried at cost less impairment. Amortization expense for the three months ended March 31, 2018 was zero. There was no impairment of intangible assets at March 31, 2018.

Note 4 - Short-term Loan

The Company carries product liability insurance policies with a U.S. and South African-based insurance carrier. The Company finances payment of both of its product liability insurance premiums over the period of coverage which is generally twelve months. The U.S. short-term loan is payable in monthly installments of \$55,071 over eleven months including interest at 4.150% and the South African short-term loan is payable in monthly installments of \$2,006 over a ten-month period at a flat interest rate of 4.00% .

The Company carries various short-term insurance policies in the U.S. The Company finances payment of its short-term insurance premiums over the period of coverage, which is generally twelve months. The short-term loan is payable in eleven payments of \$8,315 at 3.900% annual interest rate.

Note 5 - Revenue and Cost Recognition

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method, and due to the immaterial difference, there was no adjustment to the opening balance of retained earnings at January 1, 2018. Based upon the Company's review, and the interpretive guidance that has been issued and examined, the adoption of this standard has not had a material impact on our consolidated financial statements. In particular, the Company has performed a detailed review of its revenue arrangements, which includes product sales and royalty payments in compliance with FASB ASC topic 606. The Company has and will continue to review its performance obligations in terms of material customer contractual arrangements in order to verify that revenue is recognized when performance obligations are satisfied on a periodic basis.



All manufacturing of Leatt-Brace products is performed by third party subcontractors in China. The Company's products are sold worldwide to a global network of distributors and dealers, and directly to consumers when there are no dealers or distributors in their geographic area or where consumers choose to purchase directly via the Company's e-commerce website (collectively the "customers").

Revenues from product sales are recognized when earned, net of applicable provisions for discounts and returns and allowances in the event of product defect where no exchange of product is possible. Revenues are recognized when our performance obligations are satisfied as evidenced by transfer of control of promised goods to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Product royalty income, representing less than 1% of total revenues, is recorded as the underlying product sales occur, in accordance with the related licensing arrangements.

Our distributor payment terms range from pre-payment in full to 60 days after shipment and subsequent sales of our products by distributors have no effect on the amount and timing of payments due to us. Furthermore, products purchased by distributors may not be returned to us in the event that any such distributor relationship is terminated.

Since the Company (through its wholly-owned subsidiary) serves as the distributor of Leatt products in the United States, the Company records its revenue and related cost of revenue for its product sales in the United States upon shipment of the merchandise to the dealer or to the ultimate consumer when there is no dealer in the geographic area or the consumer chooses to purchase directly from the Company's e-commerce website and the sales order was received directly from, and paid by, the ultimate consumer. Since the Company (through its South African branch) serves as the distributor of Leatt products in South Africa, the Company records its revenue and related cost of revenue for its product sales in South Africa upon shipment of the merchandise from the branch to the dealer.

The Company's standard terms and conditions of sale for non-consumer direct or web-based sales do not allow for product returns other than under warranty.

International sales (other than in the United States and South Africa) are generally drop-shipped directly from the third-party manufacturer to the international distributors. Revenue and related cost of revenue is recognized at the time of shipment from the manufacturer's port when the shipping terms are Free On Board ("FOB") shipping point, Cost and Freight ("CFR") or Cost and Insurance to named place ("CIP") as legal title and risk of loss to the product pass to the distributor. Sales to all customers (distributors, dealers and consumers) are generally final; however, in limited instances, product may be returned and exchanged due to product quality issues. Historically, returns due to product quality issues have not been material and there have been no distributor terminations that resulted in product returns. Cost of revenues also includes royalty fees associated with sales of Leatt-Brace products. Product royalty income is recorded as the underlying product sales occur, in accordance with the related licensing arrangements.

In the following table, revenue is disaggregated by the source of revenue:

	Three months ended March 31,			
	2018	% of Revenues	2017	% of Revenues
Consumer and athlete direct revenues	\$ 262,896	5%	\$ 247,008	4%
Dealer direct revenues	2,079,521	38%	1,794,696	31%
International distributor revenues	3,160,125	57%	3,776,065	65%
	<u>\$ 5,502,542</u>	<u>100%</u>	<u>\$ 5,817,769</u>	<u>100%</u>

The Company reviews the reserves for customer returns at each reporting period and adjusts them to reflect data available at that time. To estimate reserves for returns, the Company estimates the expected returns and claims based on historical rates as well as events and circumstances that indicate changes to historical rates of product returns and claims. Historically, returns due to product quality issues have not been material and there have been no distributor terminations that resulted in product returns. The provision for estimated returns for the three months ended March 31, 2018 and December 31, 2017 was \$-0-, and \$-0-, respectively.

Sales commissions are expensed when incurred, which is generally at the time of sale or cash received from customers, because the amortization period would have been one year or less. These costs are recorded in commissions and consulting expenses within operating expense in the accompanying consolidated statements of operations and comprehensive income.

Shipping and handling activities associated with outbound freight, after control over a product has transferred to a customer, are accounted for as a fulfillment cost and are included in revenues and cost of revenues in the accompanying consolidated statements of operations and comprehensive income.

Revenue recognized from contracts with customers is recorded net of sales taxes, value added taxes, or similar taxes that are collected on behalf of local taxing authorities.

For the three months ended March 31, 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future period related to remaining performance obligations is not material. As of March 31, 2018, contract liabilities, if any, were not material.

Note 6 - Income Taxes

The Company uses the asset and liability approach to account for income taxes. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the income tax basis of assets and liabilities. A valuation allowance is applied against any net deferred tax asset if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The provision for income taxes included taxes currently payable, if any, plus the net change during the period in deferred tax assets and liabilities recorded by the Company.

The Company applies the provisions of FASB ASC Topic 740-10, Accounting for Uncertainty in Income Taxes ("Standard"), which provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if the position is more likely than not of being sustained upon an examination by tax authorities. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, the standard provides guidance on derecognition, classification, interest and penalties; accounting in interim periods, disclosure and transition, and any amounts when incurred would be recorded under these provisions.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of March 31, 2018, the Company has no unrecognized tax benefits.

Note 7 - Net Income Per Share of Common Stock

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common stock shares and dilutive potential common shares outstanding during the period. For the three months ended March 31, 2018, the Company had 636,000 potential common shares, consisting of 120,000 preferred shares, options to purchase 193,000 shares, outstanding that were dilutive, and options to purchase 323,000 shares that were anti-dilutive and therefore, not included in diluted net income per share.

Note 8 - Common Stock

Stock-based compensation expense related to vested stock options during the quarter ended March 31, 2018 was \$150,332. As of March 31, 2018, there was \$166,400 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a 3 year vesting period.

Note 9 - Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. The updated guidance, and subsequent clarifications, collectively referred to as ASC 606, require an entity to recognize revenue when it transfers control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing and

uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard, utilizing the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings. Accordingly, comparative prior period information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the timing of revenue recognition for its significant revenue streams to remain substantially unchanged, with no material effect on net sales. The adoption of this ASU did not have a material impact on its financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting", which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. If an award is not probable of vesting at the time a change is made, the new guidance clarifies that no new measurement date will be required if there is no change to the fair value, vesting conditions, and classification. This ASU will be applied prospectively and is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

In January 2017, the FASB issued ASU 2017-01, "Clarifying the Definition of a Business," which further clarifies the definition of a business in an effort to assist entities in evaluating whether a set of transferred assets constitutes a business. Under this new guidance, if substantially all of the fair value of gross assets acquired is concentrated in a single asset or similar asset group, the set of transferred assets would not meet the definition of a business and no further evaluation is necessary. If this threshold is not met, the entity would then evaluate whether the set of transferred assets and activities meets the requirement that a business include, at a minimum, an input and a process that together have the ability to create an output. This guidance is effective for annual and quarterly periods beginning after December 15, 2017, with early adoption permitted. The Company expects to adopt the ASU beginning January 1, 2018.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, "Statement of Cash Flows" ("ASU 2016-15"). ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for the Company in the first quarter of 2018, with early adoption permitted, and is to be applied using a retrospective approach. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). The ASU clarifies the accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The ASU is effective for the Company in the first quarter of 2018, with early adoption permitted, and is to be applied using a modified retrospective approach. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)." The ASU requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are to be included with cash and cash equivalents when reconciling the beginning of period and end of period amounts shown on the statement of cash flows. The ASU is effective for the Company for annual reporting periods beginning after December 15, 2017 and is required to be adopted using a retrospective approach, if applicable, with early adoption permitted. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

Accounting Pronouncements Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which provides for an election to reclassify stranded tax effects within accumulated other comprehensive income/(loss) to retained earnings due to the U.S. federal corporate income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company does not expect this new guidance will have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill. Rather, the goodwill impairment is calculated by comparing the fair value of a reporting unit to its carrying value, and an impairment loss is recognized for the amount by which the carrying amount exceeds the fair value, limited to the total goodwill allocated to the reporting unit. All reporting units apply the same impairment test under the new standard. The Company is required to adopt this ASU for its annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect this new guidance will have a material impact on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” This ASU is a comprehensive new lease standard that amends various aspects of existing accounting guidance for leases. The core principle of this ASU will require lessees to present the assets and liabilities that arise from leases on their balance sheets. The ASU is effective for public companies for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the new standard to determine the impact on the Company’s consolidated financial statements.

Note 10 - Litigation

In the ordinary course of business, the Company is involved in various legal proceedings involving product liability and personal injury and intellectual property litigation. The Company is insured against loss for certain of these matters. The Company will record contingent liabilities resulting from asserted and unasserted claims against it when it is probable that the liability has been incurred and the amount of the loss is reasonably estimable. The Company will disclose contingent liabilities when there is a reasonable possibility that the ultimate loss will exceed the recorded liability. While the outcome of currently pending litigation is not yet determinable, the ultimate exposure with respect to these matters cannot be ascertained. However, based on the information currently available to the Company, the Company does not expect that any liabilities or costs that might be incurred to resolve these matters will have a material adverse effect on the financial condition, results of operations, liquidity or cash flows of the Company.

Note 11 - Subsequent Events

The Company has evaluated all subsequent events through the date the financial statements were released.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This report contains forward-looking statements that are contained principally in the sections entitled “Our Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the factors described in the section captioned “Risk Factors” above. In some cases, you can identify forward-looking statements by terms such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “would” and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding growth in the motor sports market;
- our expectation regarding increasing demand for protective equipment used in the motor sports market;
- our belief that we will be able to effectively compete with our competitors and increase our market share;
- our expectations with respect to increased revenue growth and our ability to achieve profitability resulting from increases in our production volumes; and
- our future business development, results of operations and financial condition.

Also, forward-looking statements represent our estimates and assumptions only as of the date of this annual report. You should read this annual report and the documents that we reference and filed as exhibits to the annual report completely and with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Use of Certain Defined Terms

Except as otherwise indicated by the context, references in this quarterly report to:

- “Leatt,” “we,” “us,” “our,” the “Registrant” or the “Company” are to the combined business of Leatt Corporation, a Nevada corporation, its South African branch, Leatt SA, and its direct, wholly-owned subsidiaries, Two Eleven and Three Eleven;
- “Leatt SA” are to the Company’s branch office known as ‘Leatt Corporation (Incorporated in the State of Nevada)’ incorporated under the laws of South Africa with registration number: 2007/032780/10;
- “Leatt USA” are to Leatt USA, LLC, a Nevada Limited Liability Company;
- “PRC”, and “China” are to the People’s Republic of China;
- “Two Eleven” refers to Two Eleven Distribution, LLC, a California limited liability company;
- “Three Eleven” are to Three Eleven Distribution (Pty) Limited, a South African Company;
- “Securities Act” are to the Securities Act of 1933, as amended, and to “Exchange Act” are to Securities Exchange Act of 1934, as amended;
- “South Africa” are to the Republic of South Africa;
- “U.S. dollar,” “\$” and “US\$” are to the legal currency of the United States.
- “Xceed Holdings” refers to Xceed Holdings CC., a close corporation incorporated under the laws of South

Africa, and wholly-owned by The Leatt Family Trust, of which Dr. Christopher J. Leatt, the Company's chairman, is a Trustee and Beneficiary; and

- "ZAR" refers to the South African Rand, the legal currency of South Africa. For all ZAR amounts reported, the dollar amount has been calculated on the basis that \$1 = ZAR11.8131 for its March 31, 2018 balance sheet.

Overview of our Business

We were incorporated in the State of Nevada on March 11, 2005 under the name Treadzone, Inc. We were a shell company with little or no operations until March 1, 2006, when we acquired the exclusive global manufacturing, distribution, sale and use rights to the Leatt-Brace®, pursuant to a license agreement between the Company and Xceed Holdings, a company owned and controlled by the Company's Chairman and founder, Dr. Christopher Leatt. On May 25, 2005, we changed our name to Leatt Corporation in connection with our anticipated acquisition of the Leatt-Brace® rights. Leatt designs, develops, markets and distributes personal protective equipment for participants in all forms of motor sports and leisure activities, including riders of motorcycles, bicycles, snowmobiles and ATVs. The Company sells its products to customers worldwide through a global network of distributors and retailers. Leatt also acts as the original equipment manufacturer for neck braces sold by other international brands.

The Company's flagship products are based on the Leatt-Brace® system, a patented injection molded neck protection system owned by Xceed Holdings, designed to prevent potentially devastating injuries to the cervical spine and neck. The Company has the exclusive global manufacturing, distribution, sale and use rights to the Leatt-Brace®, pursuant to a license agreement between the Company and Xceed Holdings, a company owned and controlled by the Company's Chairman and founder, Dr. Christopher Leatt. The Company also has the right to use apparatus embodying, employing and containing the Leatt-Brace® technology and has designed, developed, marketed and distributed other personal protective equipment using this technology, as well as its own developed technology, including the Company's new body protection products which it markets under the Leatt Protection Range brand.

The Company's research and development efforts are conducted at its research facilities, located at its executive headquarters in Cape Town, South Africa. The Company employs 4 full-time employees who are dedicated exclusively to research, development, and testing. The Company also utilizes consultants, academic institutions and engineering companies as independent contractors or consultants, from time to time, to assist it with its research and development efforts. Leatt products have been tested and reviewed internally and by external bodies. All Leatt products are compliant with applicable European Union directives, or CE certified, where appropriate. Certain products, such as the Moto GPX was tested by BMW Motorrad (Germany) and reviewed by KTM (Austria).

Our products are manufactured in China under outsource manufacturing arrangements with third-party manufacturers located there. The Company utilizes outside consultants and its own employees to ensure the quality of its products through regular on-site product inspections. Products purchased through international sales are usually shipped directly from our manufacturers' warehouses or points of dispatch to customers or their import agents.

Leatt earns revenues through the sale of its products through approximately 100 distributors worldwide, who in turn sell its products to retailers. Leatt distributors are required to follow certain standard business terms and guidelines for the sale and distribution of Leatt products. Two Eleven and Leatt SA directly distribute Leatt products to retailers in the United States and South Africa, respectively.

Principal Factors Affecting Our Financial Performance

We believe that the following factors will continue to affect our financial performance:

- **Global Economic Fragility** – The ongoing turmoil in the global economy, especially in the U.S., South America and Europe, may have an impact on our business and our financial condition, and we may face challenges if economic conditions do not improve. These economic conditions impact levels of consumer spending. If demand for our products fluctuates as a result of these economic conditions or otherwise, our revenue and gross margin could be harmed.
- **Fuel Prices** – Significant fluctuations in fuel prices could have both a positive and negative effect on our business and operations. A significant portion of our revenue is derived from international sales and significant fluctuations in world fuel prices could significantly increase the price of shipping or transporting our products which we may not be able to pass on to our customers. On the other hand, fluctuations in fuel prices lead to higher commuter costs which may encourage the increased use of motorcycles and bicycles as alternative modes of transportation and lead to an increase in the market for our protection products.
- **Product Liability Litigation** – We face an inherent business risk of exposure to product liability claims arising from the claimed failure of our products to help prevent the types of personal injury or death against which they

are designed to help protect. Therefore, we have acquired very costly product liability insurance worldwide. We have not experienced any material uninsured losses due to product liability claims, but it is possible that we could experience material losses in the future. After a two-week trial in the United States District Court for the Northern District of Ohio (Eastern) ending on April 17, 2014, a federal jury returned a defense verdict for the Company in the first Leatt- Brace® product liability lawsuit to be tried in the United States. The plaintiffs in that case had alleged that defective product design and failure to warn had caused a then fifteen-year-old motocross rider, to suffer multiple mid- thoracic spine fractures, causing immediate and permanent paraplegia, when he crashed at a relatively low speed on February 13, 2011. When the accident occurred, he was wearing a helmet and other safety gear from several different companies, including the Company's acclaimed Leatt-Brace®. The Company produced evidence at trial showing that his thoracic paraplegia was an unavoidable consequence of his fall, not the result of wearing a Leatt- Brace®, and that the neck brace likely saved his life (or saved him from quadriplegia) by preventing cervical spine injury. The Company had maintained from the onset that this and a small handful of other lawsuits are without merit and that it will vigorously defend itself in each case. In this case, the plaintiffs subsequently appealed the court's decision and the parties reached an amicable settlement. Although we carry product liability insurance, a successful claim brought against us could significantly harm our business and financial condition and have an adverse impact on our ability to renew our product liability insurance or secure new coverage.

- ***Protection of Intellectual Property*** – We believe that the continued success of our business is dependent on our intellectual property portfolio consisting of globally registered trademarks, design patents and utility patents related to the Leatt-Brace®. We believe that a loss of these rights would harm or cause a material disruption to our business and, our corporate strategy is to aggressively take legal action against any violators of our intellectual property rights, regardless of where they may be. From time to time, we have had to enforce our intellectual property rights through litigation and we may be required to do so in the future. Such litigation may result in substantial costs and could divert resources and management attention from the operations of our business.
- ***Fluctuations in Foreign Currencies*** – We are exposed to foreign exchange risk as our revenues and consolidated results of operations may be affected by fluctuations in foreign currency as we translate these currencies into U.S. dollars when we consolidate our financial results. While our reporting currency is the U.S. Dollar, a portion of our consolidated revenues are denominated in South African Rand, or ZAR, certain of our assets are denominated in ZAR, and our research and marketing operations in South Africa utilize South African labor sources. A decrease in the value of the U.S. dollar in relation to the ZAR could increase our cost of doing business in South Africa. If the ZAR depreciates against the U.S. Dollar, the value of our ZAR revenues, earnings and assets as expressed in our U.S. Dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk. Furthermore since 62% of our sales is derived outside the U.S. where the U.S. dollar is not the primary currency, significant fluctuations in exchange rates such as the strengthening of the dollar versus our customers' local currency can adversely affect our ability to remain competitive in those areas.

Results of Operations

The following summary of our results of operations should be read in conjunction with our financial statements and the notes thereto for the three-month periods ended March 31, 2018 and 2017 included herein.

Three Months Ended March 31, 2018 compared to the Three Months Ended March 31, 2017

The following table summarizes the results of our operations during the three-month periods ended March 31, 2018 and 2017 and provides information regarding the dollar and percentage increase or (decrease) in such periods:

Item	Three Months Ended March 31,		Percentage	
	2018	2017	\$ Increase (Decrease)	Increase (Decrease)
REVENUES	\$ 5,502,542	\$ 5,817,769	\$ (315,227)	-5%
COST OF REVENUES	2,746,097	2,907,670	\$ (161,573)	-6%
GROSS PROFIT	2,756,445	2,910,099	\$ (153,654)	-5%
PRODUCT ROYALTY INCOME	12,309	10,956	\$ 1,353	12%
OPERATING EXPENSES				
Salaries and Wages	777,763	759,243	\$ 18,520	2%
Commissions and Consulting	125,339	153,048	\$ (27,709)	-18%
Professional Fees	168,471	310,791	\$ (142,320)	-46%
Advertising and Marketing	504,162	401,554	\$ 102,608	26%
Office Rent and Expenses	70,438	66,051	\$ 4,387	7%
Research and Development Costs	323,280	323,243	\$ 37	0%
Bad Debt Expense (Recovery)	9,767	(4,641)	\$ 14,408	310%
General and Administrative	435,560	401,413	\$ 34,147	9%
Depreciation	162,764	88,965	\$ 73,799	83%
Total Operating Expenses	2,577,544	2,499,667	\$ 77,877	3%
INCOME FROM OPERATIONS	191,210	421,388	\$ (230,178)	-55%
Other Expenses	(3,452)	(2,988)	\$ (464)	-16%
INCOME BEFORE INCOME TAXES	187,758	418,400	\$ (230,642)	-55%
Income Taxes	46,939	146,440	\$ (99,501)	-68%
NET INCOME	\$ 140,819	\$ 271,960	\$ (131,141)	-48%

Revenues – We earn revenues from the sale of our protective gear comprising of neck braces, body armor, helmets and other products, parts and accessories both in the United States and abroad. Revenues the three months ended March 31, 2018 were \$5.50 million, a 5% decrease, compared to revenues of \$5.82 million for the quarter ended March 31, 2017. Revenues generated from sales to our customers in the United States increased from \$1.83 million to \$2.11 million, for the three months ended March 31, 2017 and 2018, respectively. Revenues associated with international customers were \$3.39 million and \$3.99 million, or 62% and 69% of revenues, respectively, for the three months ended March 31, 2018 and 2017. This decrease in worldwide revenues is primarily attributable to a \$0.35 million decrease in neck brace sales, a \$0.47 million decrease in body armor sales that were partially offset by a \$0.29 million increase in helmet sales and a \$0.23 million increase in sales of other products, parts and accessories.

The following table sets forth our revenues by product line for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,			
	2018	% of Revenues	2017	% of Revenues
Neck braces	\$ 1,657,713	30%	\$ 2,010,574	35%
Body armor	2,278,959	42%	2,753,522	47%
Helmets	898,737	16%	611,252	10%
Other Products, Parts and Accessories	667,133	12%	442,421	8%
	\$ 5,502,542	100%	\$ 5,817,769	100%

Sales of our flagship neck brace accounted for \$1.66 million and \$2.01 million, or 30% and 35% of our revenues for the quarters ended March 31, 2018 and 2017, respectively. The 18% decrease in neck brace revenues is primarily attributable to a decrease in the volume of neck braces sold to our customers worldwide. Although the Company shipped the highly anticipated and award winning 3.5 neck brace during the first quarter of 2018, neck brace sales during the first quarter of 2017 increased by 26% from the first quarter of 2016 as our customers restocked to account for increased demand.

Our body armor products are comprised of chest protectors, full upper body protectors, upper body protection vests, back protectors, knee braces and knee and elbow guards. Body armor sales accounted for \$2.28 million and \$2.75 million, or 42% and 47% of our revenues for the quarters ended March 31, 2018 and 2017, respectively. The 17% decrease in body armor revenues was primarily the result of a decrease in the volume of upper body protectors sold during the period. Although the Company continued to see increased sales of its knee brace line, body armor sales increased by 26% during the first quarter of 2017 from the first quarter of 2016 as our customers replenished stock levels.

Our helmets accounted for \$0.90 million or 16% of our revenues for the three months ended March 31, 2018, as compared to \$0.61 million or 10% of our revenues for the same 2017 period. The \$0.29 million increase in helmet sales is primarily the result of continued shipment of our highly anticipated DBX 3.0 Enduro and All Mountain helmets as well as the initial shipment of our award winning DBX 2.0 helmet for bicycle use.

Our other products, parts and accessories are comprised of apparel, aftermarket support items required primarily to replace worn or damaged parts through our global distribution network, as well as clothing, outerwear and accessories that include hats, jackets, bags, hydration kits and cooling garments. Other products, parts and accessories sales accounted for \$0.67 million and \$0.44 million, or 12% and 8% of our revenues for the quarters ended March 31, 2018 and 2017, respectively. The 51% increase in revenues from the sale of other products, parts and accessories is primarily due to market acceptance and increased sales volume of our GPX and DBX apparel designed for off-road motorcycle and bicycle use respectively.

Cost of Revenues and Gross Profit – Cost of revenues for the quarters ended March 31, 2018 and 2017 were \$2.75 million and \$2.91 million, respectively. Gross Profit for the quarters ended March 31, 2018 and 2017 were \$2.76 million and \$2.91 million, respectively, or 50% and 50% of revenues, respectively. Our neck brace products continue to generate a higher gross profit margin than our other product categories. Although our Neck brace revenues accounted for 30% and 35% of our revenues for the quarters ended March 31, 2018 and 2017 respectively, we continue to generate improved gross profit margins from our helmet products. Helmet revenues accounted for 16% and 10% of our revenues for the quarters ended March 31, 2018 and 2017 respectively.

Product Royalty Income – Product royalty income is earned on sales to distributors that have royalty agreements in place, as well as on sales of licensed products by third parties that have licensing agreements in place. Product royalty income for the quarters ended March 31, 2018 and 2017 were \$12,309 and \$10,956, respectively. The 12% increase in product royalty income is due to an increase in the sale of licensed products by licensees in the 2018 period.

Salaries and Wages – Salaries and wages for the quarters ended March 31, 2018 and 2017 were \$777,763 and \$759,243, respectively. This 2% increase in salaries and wages during the 2018 period was primarily due to the employment of additional sales personnel in the United States and annual increases granted to personnel globally in the first quarter of 2018, that were partially offset by a decrease in share based compensation costs incurred.

Commissions and Consulting Expense – During the quarters ended March 31, 2018 and 2017, commissions and consulting expenses were \$125,339 and \$153,048, respectively. This 18% decrease in commissions and consulting expenses is primarily the result of a decrease in sales commissions paid in the United States as the Company continues to employ professional sales personnel on a permanent basis.

Professional Fees – Professional fees consist of costs incurred for audit, tax and regulatory filings, as well as patent protection and product liability litigation expenses incurred as the Company continues to expand. Professional fees for the quarters ended March 31, 2018 and 2017 were \$168,471 and \$310,791, respectively. This 46% decrease in professional fees is primarily due to decreased spending on product liability litigation during the 2018 period.

Advertising and Marketing – The Company places paid advertising in various motorsport magazines and online media, and sponsors a number of events, teams and individuals to increase product and brand visibility. Advertising and marketing expenses for the quarters ended March 31, 2018 and 2017 were \$504,162 and \$401,554, respectively. The 26% increase in advertising and marketing expenditures during the 2018 period is primarily due to the production and implementation of global marketing campaigns and sales conferences designed to support and promote the Company's widening product range, global brand awareness and market penetration strategies during the 2018 period.



Office Rent and Expenses – Office rent and expenses for the quarters ended March 31, 2018 and 2017 were \$70,438 and \$66,051, respectively. This 7% increase in office rent and expenses during the 2018 period is in line with lease escalation clauses for the Company’s worldwide facilities.

Research and Development Costs – These costs consist of the salaries of personnel who are directly involved in the research and development of innovative products, as well as the direct costs associated with developing these products. Research and development costs for the quarters ended March 31, 2018 and 2017, increased marginally to \$323,280, from \$323,243, during the same 2017 quarter. Research and Development costs were consistent with the prior period as the Company continues to develop products and product categories that reach wider consumer groups.

Bad Debt Expense (Recovery) – Bad Debt Expense (Recovery) for the quarters ended March 31, 2018 and 2017 were \$9,767 and (\$4,641), respectively. This increase in Bad Debt Expense (Recovery) is the result of the write off of higher value unrecoverable debts owing to the Company during the 2018 period.

General and Administrative Expenses – General and administrative expenses consist of insurance, travel, merchant fees, telephone, office and computer supplies. General and administrative expenses for the quarters ended March 31, 2018 and 2017 were \$435,560 and \$401,413, respectively. The 9% increase in general and administrative expenses is primarily due to increased travel expenditure incurred on sales conferences and dealer visits globally that were partially offset by a decrease in product liability insurance premiums.

Depreciation Expense – Depreciation Expense for the quarters ended March 31, 2018 and 2017 were \$162,764 and \$88,965, respectively. This 83% increase in depreciation is primarily due to the addition of molds and tooling utilized in the production of the Company’s widening product range.

Total Operating Expenses – Total operating expenses increased by \$77,877, to \$2.58 million in the three months ended March 31, 2018, or 3%, compared to \$2.50 million in the 2017 period. This increase is primarily due to increased advertising and marketing, depreciation and general and administrative costs that were partially offset by a decrease in professional fees during the period.

Net Income – The net income after income taxes for the quarter ended March 31, 2018 was \$140,819 as opposed to a net income of \$271,960 for the quarter ended March 31, 2017. This decrease in net income is primarily due to the decrease in revenues and increase in operating costs discussed above.

Liquidity and Capital Resources

At March 31, 2018, we had cash and cash equivalents of \$1.45 million and \$0.06 million of short-term investments. The following table sets forth a summary of our cash flows for the periods indicated:

	March 31,	
	2018	2017
Net cash provided by operating activities	\$ 255,980	\$ 316,227
Net cash used in investing activities	\$ (201,161)	\$ (61,272)
Net cash used in financing activities	\$ (172,804)	\$ (241,759)
Effect of exchange rate changes on cash and cash equivalents	\$ 45,673	\$ 27,310
Net increase (decrease) in cash and cash equivalents	\$ (72,312)	\$ 40,506
Cash and cash equivalents at the beginning of period	\$ 1,518,157	\$ 1,103,003
Cash and cash equivalents at the end of period	\$ 1,445,845	\$ 1,143,509

Cash decreased by \$72,312, or 5%, for the three months ended March 31, 2018. The primary uses of cash for the three months ended March 31, 2018 were increased accounts receivables of \$242,407, decreased accounts payable and accrued expenses of \$512,306, capital expenditures of \$201,157, and short-term loan repayments of \$172,804. The primary sources of cash for the three months ended March 31, 2018 were increased prepaid expenses and other current assets of \$373,816 and net income of \$140,819. As of March 31, 2018, we did not have any credit facilities or significant amounts owed to third party lenders.



The Company is currently meeting its working capital needs through cash on hand as well as internally generated cash from operations. Management believes that its current cash and cash equivalent balances, along with the net cash generated by operations are sufficient to meet its anticipated operating cash requirements for at least the next twelve months. There are currently no plans for any major capital expenditures in the next twelve months. Our long-term financing requirements depend on our growth strategy, which relates primarily to our desire to increase revenue both in the U.S. and abroad.

Obligations under Material Contracts

Pursuant to our Licensing Agreement with Xceed Holdings, a company owned and controlled by Dr. Christopher Leatt, our founder, chairman and head of research and development, we pay Xceed Holdings, 4% of all neck brace sales revenue billed and received by the Company on a quarterly basis, based on sales of the previous quarter. In addition, pursuant to a separate license agreement between the Company and Mr. J. P. De Villiers, our former director, the Company is obligated to pay a royalty fee of 1% of all our billed and received neck brace sales revenue, in quarterly installments, based on sales of the previous quarter, to a trust that is beneficially owned and controlled by Mr. De Villiers. During the quarter ended March 31, 2018 and 2017, the Company paid an aggregate of \$14,255 and \$14,977 in licensing fees to Mr. De Villiers.

On July 8, 2015, the Company entered into a consulting agreement with Innovate Services Limited, or Innovate, a Seychelles limited company in which, Dr. Leatt is an indirect beneficiary. Pursuant to the terms of the Consulting Agreement, as amended, Innovate has agreed to serve as the Company's exclusive research, development and marketing consultant, in exchange for a monthly fee of \$38,062; provided that Dr. Leatt personally performs the services to be performed by Innovate under the Agreement, pursuant to a separate employment agreement between Innovate and Dr. Leatt. The parties further agreed that all intellectual property generated in connection with the services provided under the Consulting Agreement will be the sole property of the Company. The Consulting Agreement was effective as of May 15, 2015 and will continue unless terminated by either party in accordance with its terms. Either party has the right to terminate the Consulting Agreement upon 6 months' prior written notice, except that the Consulting Agreement may be terminated immediately without notice if the services to be performed under the Consulting Agreement cease to be performed by Dr. Leatt, or for any other material breach of the Agreement. The parties have agreed to settle any dispute under the Consulting Agreement through arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (AAA), and that the resulting arbitration award will be final and binding on both parties and will not be subject to any appeal. The foregoing description is qualified in its entirety by reference to the Consulting Agreement filed as Exhibit 10.14 to the Company's report on Form 10-K for the year ended December 31, 2017.

On October 16, 2017, the Company entered into a new Premium Finance Agreement with AFCO to finance its U.S. short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$593,400 in eleven payments of \$55,071, at an annual interest rate of 4.150%, commencing on November 1, 2017 and ending on September 1, 2018. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of March 31, 2018, the Company had not defaulted on its payment obligations under this agreement.

Pursuant to a Premium Finance Agreement, dated May 22, 2017, between the Company and AFCO, the Company is obligated to pay AFCO an aggregate sum of \$89,708 in eleven payments of \$8,315 at a 3.900% annual interest rate, commencing on June 1, 2017 and ending on April 1, 2018. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of March 31, 2018, the Company had not defaulted on its payment obligations under this agreement.

Critical Accounting Policies

Our discussion and analysis of financial condition and results of operations are based upon our 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. We have identified the following as the items that require the most significant judgment and often involve complex estimation: revenue recognition, estimating allowances for doubtful accounts receivable, inventory valuation, impairment of long-lived assets and accounting for income taxes.

Revenue and Cost Recognition - On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method, and due to the immaterial difference, there was no adjustment to the opening balance of retained earnings at January 1, 2018. Based upon the Company's review, and the interpretive guidance that has been issued and examined, the adoption of

this standard has not had a material impact on our consolidated financial statements. In particular, the Company has performed a detailed review of its revenue arrangements, which includes product sales and royalty payments in compliance with FASB ASC topic 606. The Company has and will continue to review its performance obligations in terms of material customer contractual arrangements in order to verify that revenue is recognized when performance obligations are satisfied on a periodic basis.

All manufacturing of Leatt-Brace products is performed by third party subcontractors in China. The Company's products are sold worldwide to a global network of distributors and dealers, and directly to consumers when there are no dealers or distributors in their geographic area or where consumers choose to purchase directly via the Company's e-commerce website (collectively the "customers").

Revenues from product sales are recognized when earned, net of applicable provisions for discounts and returns and allowances in the event of product defect where no exchange of product is possible. Revenues are recognized when our performance obligations are satisfied as evidenced by transfer of control of promised goods to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Product royalty income, representing less than 1% of total revenues, is recorded as the underlying product sales occur, in accordance with the related licensing arrangements.

Our distributor payment terms range from pre-payment in full to 60 days after shipment and subsequent sales of our products by distributors have no effect on the amount and timing of payments due to us. Furthermore, products purchased by distributors may not be returned to us in the event that any such distributor relationship is terminated.

Since the Company (through its wholly-owned subsidiary) serves as the distributor of Leatt products in the United States, the Company records its revenue and related cost of revenue for its product sales in the United States upon shipment of the merchandise to the dealer or to the ultimate consumer when there is no dealer in the geographic area or the consumer chooses to purchase directly from the Company's e-commerce website and the sales order was received directly from, and paid by, the ultimate consumer. Since the Company (through its South African branch) serves as the distributor of Leatt products in South Africa, the Company records its revenue and related cost of revenue for its product sales in South Africa upon shipment of the merchandise from the branch to the dealer.

The Company's standard terms and conditions of sale for non-consumer direct or web-based sales do not allow for product returns other than under warranty.

International sales (other than in the United States and South Africa) are generally drop-shipped directly from the third-party manufacturer to the international distributors. Revenue and related cost of revenue is recognized at the time of shipment from the manufacturer's port when the shipping terms are Free On Board ("FOB") shipping point, Cost and Freight ("CFR") or Cost and Insurance to named place ("CIP") as legal title and risk of loss to the product pass to the distributor. Sales to all customers (distributors, dealers and consumers) are generally final; however, in limited instances, product may be returned and exchanged due to product quality issues. Historically, returns due to product quality issues have not been material and there have been no distributor terminations that resulted in product returns. Cost of revenues also includes royalty fees associated with sales of Leatt-Brace products. Product royalty income is recorded as the underlying product sales occur, in accordance with the related licensing arrangements.

In the following table, revenue is disaggregated by the source of revenue:

	Three months ended March 31,			
	2018	% of Revenues	2017	% of Revenues
Consumer and athlete direct revenues	\$ 262,896	5%	\$ 247,008	4%
Dealer direct revenues	2,079,521	38%	1,794,696	31%
International distributor revenues	3,160,125	57%	3,776,065	65%
	<u>\$ 5,502,542</u>	<u>100%</u>	<u>\$ 5,817,769</u>	<u>100%</u>

The Company reviews the reserves for customer returns at each reporting period and adjusts them to reflect data available at that time. To estimate reserves for returns, the Company estimates the expected returns and claims based on historical rates as well as events and circumstances that indicate changes to historical rates of product returns and claims. Historically, returns due to product quality issues have not been material and there have been no distributor terminations that resulted in product returns. The provision for estimated returns for the three months ended March 31, 2018 and December 31, 2017 was \$-0-, and \$-0-, respectively.

Sales commissions are expensed when incurred, which is generally at the time of sale or cash received from customers, because the amortization period would have been one year or less. These costs are recorded in commissions and consulting expenses within operating expense in the accompanying consolidated statements of operations and comprehensive income.

Shipping and handling activities associated with outbound freight, after control over a product has transferred to a customer, are accounted for as a fulfillment cost and are included in revenues and cost of revenues in the accompanying consolidated statements of operations and comprehensive income.

Revenue recognized from contracts with customers is recorded net of sales taxes, value added taxes, or similar taxes that are collected on behalf of local taxing authorities.

For the three months ended March 31, 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future period related to remaining performance obligations is not material. As of March 31, 2018, contract liabilities, if any, were not material.

Allowance for Doubtful Accounts Receivable - Accounts receivable consist of amounts due to the Company from normal business activities. Credit is granted to substantially all distributors on an unsecured basis. We continuously monitor collections and payments from customers and maintain an allowance for doubtful accounts receivable based upon historical experience and any specific customer collection issues that have been identified. In determining the amount of the allowance, we are required to make certain estimates and assumptions. Accounts receivable balances that are still outstanding after we have used reasonable collection efforts are written off as uncollectible. While such credit losses have historically been minimal, within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of any of our significant customers could have a material adverse effect on the collectability of our accounts receivable and our future operating results.

Inventory Valuation – Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, we make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, we utilize historical experience as well as current market information. The reserve for obsolescence as of the quarters ended March 31, 2018 and 2017, was \$74,330 and \$283,146, respectively.

Impairment of Long-Lived Assets – Our long-lived assets include property and equipment. We evaluate our long-lived assets for recoverability whenever events or changes in circumstances indicate that an asset may be impaired. In evaluating an asset for recoverability, we estimate the future cash flow expected to result from the use of the asset and eventual disposition. If the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. We have determined there was no impairment charge during the quarters ended March 31, 2018 and 2017.

Income Taxes - As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax provision (benefit) in each of the jurisdictions in which we operate. This process involves estimating our current income tax provision (benefit) together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We regularly evaluate our ability to recover the reported amount of our deferred income taxes considering several factors, including our estimate the likelihood of the Company generating sufficient taxable income in future years during the period over which the temporary differences reverse.

Recent Accounting Pronouncements

See Note 9, “Recent Accounting Pronouncements” in the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the respective dates of adoption, or expected adoption and effects of our consolidated financial position, results of operations and cash flows.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to its stockholders.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of March 31, 2018, the Company's management, under the direction of its Chief Executive Officer and the Chief Financial Officer, Mr. Sean Macdonald, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer determined that the Company's disclosure controls and procedures were deemed to be effective.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal controls over financial reporting during the period ended March 31, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings in the ordinary course of our business. Other than as set forth below, we are currently not aware of any legal proceedings the ultimate outcome of which, in our judgment based on information currently available, would have a material adverse effect on our business, financial condition or operating results.

On August 7, 2017, a lawsuit was filed against the Company and one other defendant on behalf of a motorcycle rider in the Southern District Court of Iowa for strict liability, breach of warranty, negligence, gross negligence and consumer fraud. On May 3, 2018 the Federal Court dismissed the Plaintiff's entire complaint against Leatt Corporation in this matter.

On April 3, 2018, a wrongful death lawsuit was filed against the Company and three other defendants in Superior Court of California, County of Imperial. The claims being asserted against the defendants is strict liability, negligence, failure to warn, and breach of implied and express warranties. The litigation is in the initial stage and no hearing date has yet been set. The Company believes that the lawsuit is without merit and intends to vigorously defend itself.

ITEM 1A. RISK FACTORS.

There are no material changes from the risk factors previously disclosed in Item 1A "Risk Factors" of our annual report on Form 10-K for the period ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

We have no information to disclose that was required to be in a report on Form 8-K during the period covered by this report, but was not reported. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

ITEM 6. EXHIBITS.

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit No.	Description
<u>31.1</u>	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	Interactive data files pursuant to Rule 405 of Regulation S-T

* Filed with this Form 10-Q for Leatt Corporation. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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.

Date: May 10, 2018

LEATT CORPORATION

By: /s/ Sean Macdonald

Sean Macdonald

Chief Executive Officer and Chief Financial Officer

(Principal Executive, Financial and Accounting Officer)

EXHIBIT INDEX

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101* Interactive data files pursuant to Rule 405 of Regulation S-T

* Filed with this Form 10-Q for Leatt Corporation. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

CERTIFICATIONS

I, Sean Macdonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Leatt Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

/s/ Sean Macdonald
Sean Macdonald
Chief Executive Officer
(Principal Executive Officer)



CERTIFICATIONS

I, Sean Macdonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Leatt Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

/s/ Sean Macdonald
Sean Macdonald
Chief Financial Officer
(Principal Financial and Accounting Officer)



**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Sean Macdonald, the Chief Executive Officer of LEATT CORPORATION (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this statement this 10th day of May, 2018.

/s/ Sean Macdonald
Sean Macdonald
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to Leatt Corporation and will be retained by Leatt Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Sean Macdonald, the Chief Financial Officer of LEATT CORPORATION (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this statement this 10th day of May, 2018.

/s/ Sean Macdonald
Sean Macdonald
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to Leatt Corporation and will be retained by Leatt Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.
