LEATT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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DECEMBER 31, 2009 AND 2008

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FITZGERALD & CO., CPAs, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Leatt Corporation

We have audited the consolidated balance sheets of **LEATT CORPORATION** as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **LEATT CORPORATION** as of December 31, 2009 and 2008, and the results of operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Fitzgerald & Co., CPAs, P.C.

McLean, Virginia
March 31, 2010

LEATT CORPORATION
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

ASSETS

	2009	2008
Current Assets		
Cash and cash equivalents	$ 2,021,101	$ 2,059,371
Short-term investments	307,466	302,545
Accounts receivable	1,091,622	604,317
Inventory	3,012,961	3,127,517
Payments in advance	98,177	206,475
Income tax refunds receivable	377,443	964,206
Due from related party	7,273	99,649
Deferred tax assets	32,700	-
Prepaid expenses and other current assets	212,805	284,182
Total current assets	7,161,548	7,648,262
Property and equipment, net	1,294,722	878,686
Other Assets		
Deposits	7,896	4,633
Deferred tax assets	-	23,139
Intangible assets	127,456	99,682
Total other assets	135,352	127,454
Total Assets	$ 8,591,622	$ 8,654,402

LIABILITIES AND STOCKHOLDERS' EQUITY

	2009	2008
Current Liabilities		
Accounts payable and accrued expenses	$ 1,020,329	$ 1,210,053
Income taxes payable	-	123,597
Deferred tax liabilities	-	15,988
Customer deposits	124,662	226,894
Short term loan, net of finance charges	121,674	140,920
Total current liabilities	1,266,665	1,717,452
Deferred tax liabilities	12,800	-
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $.001 par value, 28,000,000 shares authorized, 3,000,000 issued and outstanding	3,000	3,000
Common stock, $.001 par value, 700,000,000 shares authorized, 131,922,336 shares issued and outstanding	131,922	131,589
Additional paid - in capital	7,395,943	7,346,276
Accumulated other comprehensive income (loss)	350,682	(104,094)
Accumulated deficit	(569,390)	(439,821)
Total stockholders' equity	7,312,157	6,936,950
Total Liabilities and Stockholders' Equity	$ 8,591,622	$ 8,654,402

The accompanying notes are an integral part of these consolidated financial statements.

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Revenues	$ 13,743,107	$ 18,778,412
Cost of Revenues	4,622,532	6,782,762
Gross Profit	9,120,575	11,995,650
Operating Expenses		
Salaries and wages	3,638,625	2,660,719
Commissions and consulting expenses	543,218	516,190
Professional fees	1,389,224	2,026,726
Advertising and marketing	1,557,603	1,640,496
Office rent and expenses	224,832	168,607
Research and development costs	122,042	123,745
Bad debt expense	16,103	21,660
General and administrative expenses	1,304,949	1,390,810
Depreciation	428,626	426,563
Total operating expenses	9,225,222	8,975,516
Income (Loss) from Operations	(104,647)	3,020,134
Other Income (Expense)		
Fair value adjustment relating to obligation to issue preferred and common shares	-	(264,739)
Interest and other income, net	47,074	53,427
Total other income (expense)	47,074	(211,312)
Income (Loss) Before Income Taxes	(57,573)	2,808,822
Income Taxes	71,996	781,919
Net Income (Loss)	(129,569)	2,026,903
Foreign Currency Remeasurement	-	(59,417)
Net Income (Loss) Available to Common Shareholders	$ (129,569)	$ 1,967,486
Net Income per Common Share		
Basic	$ 0.00	$ 0.02
Diluted	$ 0.00	$ 0.02
Weighted Average Number of Common Shares Outstanding		
Basic	131,922,336	115,839,002
Diluted	131,922,336	115,893,547
Comprehensive Income		
Net Income (Loss)	$ (129,569)	$ 1,967,486
Other comprehensive income, net of $-0- and $53,624 deferred income taxes in 2009 and 2008		
Foreign currency translation	454,776	(104,094)
Reclassification adjustment for foreign currency remeasurement	-	38,570
Total comprehensive income	$ 325,207	$ 1,901,962

The accompanying notes are an integral part of these consolidated financial statements.

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Preferred Stock A		Common Stock		Additional	Accumulated Other Comprensive	(Accumulated	
	Shares	Amount	Shares	Amount	Paid - In Capital	Income (Loss)	Deficit)	Total
Balance, January 1, 2008	-	$ -	110,589,002	$ 110,589	$ 1,091,254	$ (38,570)	$ (2,407,307)	$ (1,244,034)
Warrants issued for services	-	-	-	-	17,776	-	-	17,776
Shares issued to satisfy obligation of June 17, 2005	3,000,000	3,000	21,000,000	21,000	6,237,246	-	-	6,261,246
Net income	-	-	-	-	-	-	1,967,486	1,967,486
Reclassification adjustment for foreign currency remeasurement	-	-	-	-	-	38,570	-	38,570
Foreign currency translation adjustment	-	-	-	-	-	(104,094)	-	(104,094)
Balance, December 31, 2008	3,000,000	$ 3,000	131,589,002	$ 131,589	$ 7,346,276	$ (104,094)	$ (439,821)	$ 6,936,950
Shares issued to satisfy obligation	-	-	333,334	333	49,667	-	-	50,000
Net income	-	-	-	-	-	-	(129,569)	(129,569)
Foreign currency translation adjustment	-	-	-	-	-	454,776	-	454,776
Balance, December 31, 2009	3,000,000	$ 3,000	131,922,336	$ 131,922	$ 7,395,943	$ 350,682	$ (569,390)	$ 7,312,157

The accompanying notes are an integral part of these consolidated financial statements.

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash flows from operating activities		
Net income (loss)	$ (129,569)	$ 1,967,486
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	428,626	426,563
Deferred income taxes	(12,750)	(14,601)
Stock-based compensation	50,000	17,776
Allowance for doubtful accounts	13,018	(34,359)
Fair value adjustment relating to obligation to issue preferred and common shares	-	264,739
Foreign currency remeasurement	-	59,417
(Increase) decrease in:		
Accounts receivable	(500,323)	663,491
Inventory	114,556	(1,286,199)
Payments in advance	108,298	1,054,608
Prepaid expenses and other current assets	71,377	(119,232)
Income tax refunds receivable	586,763	(964,206)
Deposits	(3,263)	(4,633)
Increase (decrease) in:		
Accounts payable and accrued expenses	(189,724)	(1,744,424)
Income taxes payable	(123,597)	(1,815,745)
Customer deposits	(102,232)	(65,079)
Net cash provided by (used in) operating activities	311,180	(1,594,398)
Cash flows from investing activities		
Capital expenditures	(643,672)	(716,044)
Acquisition of patents	-	(99,682)
Payments from related party, net	92,376	52,168
Redemption of (proceeds from) short-term investments, net	(4,921)	2,720,308
Net cash provided by (used in) investing activities	(556,217)	1,956,750
Cash flows from financing activities		
Proceeds from (repayments of) short-term loan, net	(19,246)	140,920
Net cash provided by (used in) financing activities	(19,246)	140,920
Effect of exchange rates on cash and cash equivalents	226,013	(124,939)
Net increase (decrease) in cash and cash equivalents	(38,270)	378,333
Cash and cash equivalents - beginning of year	2,059,371	1,681,038
Cash and cash equivalents - end of year	$ 2,021,101	$ 2,059,371
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 489	$ 1,377
Cash paid for income taxes	$ 585,600	$ 4,652,000
Other noncash investing and financing activities		
Common stock issued for services	$ 50,000	$ -
Warrants issued for services	$ -	$ 17,776
Issuance of preferred and common shares in satisfaction of obligation	$ -	$ 6,261,246

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 - DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Leatt Corporation (the "Company") was incorporated in the State of Nevada on March 11, 2005, under the name Treadzone, Inc. On June 17, 2005, the Company changed its name to Leatt Corporation in connection with the Company's acquisition of rights to use the Leatt Neck Brace patents and trademarks. The Company designs, manufactures and markets personal protective equipment for all forms of motor sports, based on the Leatt-Brace ® system, a patented neck protection system for all helmeted sports. The Company's products are manufactured in China and sold to customers worldwide through a global network of distributors and retailers. The Company's revenues are generated solely from the sale of Leatt-Brace ® products.

The Company conducts business in South Africa as a foreign registered branch, and in the United States through the Company's wholly-owned subsidiary, Two Eleven Distribution, LLC ("Two Eleven") a California limited liability company. Two Eleven acts as a distributor of the Leatt-Brace ® in the United States. Research and development efforts, global sales and marketing are managed out of the Company's foreign registered branch located in Cape Town, South Africa. United States sales are managed by Two Eleven located in Valencia, California. The Company also has a wholly-owned subsidiary, Three Eleven Distribution ("Three Eleven") which was an inactive South African incorporated company until December 2008, when it acquired South African registered patents relating to products unrelated to the Leatt-Brace ® from Xceed Holdings (Pty) Ltd. ("Holdings"), a South African incorporated company controlled by the Company's founder. The Company established a new wholly owned subsidiary, Leatt New Zealand Limited during the first quarter of 2009. This Company acts as the distributor of the Leatt-Brace ® in New Zealand.

The Company has the exclusive global manufacturing and distribution rights to the Leatt-Brace® which is an injection molded neck protection system designed to prevent potentially devastating motor sport injuries to the cervical spine and neck. The patents and all rights for the Leatt-Brace® are held by Holdings except for those patents recently acquired by Three Eleven. There is a license agreement between Holdings and the Company which gives the Company the exclusive worldwide right and license to manufacture, sell and use apparatus embodying, employing and containing the Leatt-Brace® technology.

Market for Common Stock - In order to enhance the ability of the Company's shareholders to trade their common stock, the Company has proceeded with efforts to quote its common stock on the Pink Sheets, LLC and, effective August 12, 2009, the Company's common stock commenced quotation on the Pink Sheets (Symbol: Leatt.pk) with Landenburg Thalman & Co. acting as the Company's primary market maker.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Leatt Corporation and its wholly-owned subsidiaries: Two Eleven Distribution, LLC, Three Eleven Distribution and Leatt New Zealand Limited. All significant intercompany transactions have been eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue and Cost Recognition - All manufacturing of the Leatt-Brace ® is performed by third party subcontractors in China.

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 customer.

International sales are generally drop-shipped directly from the third party manufacturer to the Company's customers. Revenue and related cost of revenue is recognized at the time of shipment from the manufacturer's port when shipping terms are Free On Board ("FOB") shipping point as legal title and risk of loss to the product pass to the customer. For FOB destination point arrangements, revenue is recorded upon receipt at the customer's location.

Short-term investments - The Company's short-term investments consists of certificates of deposit with a maturity of greater than three months but less than twelve months.

Accounts Receivable - Accounts receivable consist of amounts due to the Company from normal business activities. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables as well as historical collection information. Credit is granted to substantially all customers on an unsecured basis. In determining the amount of the allowance, management is required to make certain estimates and assumptions. The allowance for doubtful accounts for the years ended December 31, 2009 and 2008 was $13,277 and $259, respectively.

Inventory – 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, 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.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the respective assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (continued) - The estimated useful lives of assets for financial reporting purposes are as follows: moulds and tools, 2 to 5 years; computer equipment and software, 2 to 3 years; office and other equipment, 3 to 6 years; vehicles, 3 to 5 years; leasehold improvements, 3 years. The costs of improvements that extend the lives of the assets are capitalized. Repairs and maintenance are expensed as incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Impairment of Long-Lived Assets – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows to be generated by the assets. If these assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Based on these reviews, no asset impairment charges were made to the carrying value of long-lived assets during the years ended December 31, 2009 and 2008.

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 years ended December 31, 2009 and 2008 was zero. There was no impairment of intangible assets at December 31, 2009 or 2008.

Shipping and Handling Costs – The Company includes shipping and handling fees billed to customers in revenues and shipping and handling costs incurred in cost of revenues.

Advertising - Costs of advertising and marketing are expensed as incurred.

Patent Costs - Legal costs in connection with approved patents (including those owned by Holdings) and patent applications are expensed as incurred and classified as professional fees in the consolidated statements of operations. Patent costs totaled $231,876 and $106,623, respectively for the years ended December 31, 2009 and 2008.

Research and Development – Research and development costs are expensed as incurred.

Foreign Currency Translation and Foreign Currency Transactions—The U.S. dollar is the Company's reporting currency. Assets and liabilities of the Company's foreign operations, consisting of its South African Branch and Leatt New Zealand Limited, denominated in their local currency, SA RAND and NEW ZEALAND DOLLAR respectively, are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the rate of exchange at the date of the transaction in the applicable period.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation and Foreign Currency Transactions (continued) - Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income in stockholders' equity. Gains and losses generated by transactions denominated in foreign currencies are recorded in the accompanying statement of operations in the period in which they occur.

Net realized gains and losses on foreign currency transactions was a foreign currency remeasurement loss of $-0- and $59,417 for the years ended December 31, 2009 and 2008 respectively. Net unrealized gains (losses) on foreign currency transactions totaled $454,776 and ($104,094), respectively, as of December 31, 2009 and 2008.

Stock-Based Compensation - The Company accounts for stock based compensation in accordance with the fair-value-base method set forth in FASB ASC Topic 718-10, Stock-Based Compensation, which require the measurement and recognition of compensation expense for all stock-based awards made to employees and directors, including employees stock options, based on the estimated fair values on the date of grant or the fair value of the services performed

The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a pro rata basis over the requisite service period of each vesting tranche of each award. The Company considers voluntary termination behavior as well as trends of actual option forfeitures when estimating the forfeiture rate.

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 year 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 December 31, 2009 and 2008, the Company has no unrecognized tax benefits and the Company currently has no federal or state tax examinations in progress.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 shares and dilutive potential common shares outstanding during the period. For the years ended December 31, 2009 and 2008, the Company had 3,000,000 potential common shares outstanding that were anti-dilutive and therefore not included in diluted net income per share.

Comprehensive Income - Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. Accumulated comprehensive gain at December 31, 2009 and loss at December 31, 2008 represents cumulative translation adjustments related to the Company's foreign registered branch offices. The Company presents comprehensive income in the consolidated statements of operations and comprehensive income.

Fair Value of Financial Instruments - The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, short-term investments, accounts receivable, inventory, payments in advance, customer deposits, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.

Concentration of Credit Risk - The Company maintains cash and cash equivalent balances at several financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of December 31, 2009 and 2008, the Company's uninsured bank balances totaled $1,985,292 and $1,281,602 respectively. The Company has not experienced any significant losses on its cash and cash equivalents.

The Company's trade receivables are derived from sales to distributors and dealers. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of the Company's end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for potential credit losses as needed and has not experienced any significant losses related to the collection of its accounts receivable.

The Company has derived, and believes that it will continue to derive, a significant portion of its revenue from a limited number of customers. For the years ended December 31, 2009 and 2008, the Company's US revenue was concentrated in five and three customers that accounted for approximately 38% and 34%, respectively, of annual US revenue. For the years ended December 31, 2009 and 2008, the Company's international revenue was concentrated in five and four customers that accounted for approximately 41% and 65%, respectively, of annual international revenue. The Company generates revenue both in the United States and internationally. For the years ended December 31, 2009 and 2008, annual revenues associated with international customers was $7,480,053 and $8,800,817, or 54% and 47% of total revenue, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows - The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less from the date of purchase to be cash equivalents.

Recent Accounting Pronouncements - In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance to establish the FASB Accounting Standards Codification (ASC) as the single source of authoritative accounting principles to be applied to financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This guidance is effective for financial statements issued for interim and annual periods ended after September 15, 2009. The provisions of this code were reflected in the Company's interim reporting period ended September 30, 2009 and only impacts references for accounting guidance.

In April 2008, the FASB issued guidance under the "Intangible — Goodwill and Others" topic regarding the determination of the useful life of intangible assets. The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The Company adopted the guidance as of January 1, 2009. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In May 2009, the FASB issued new standards for accounting and reporting of subsequent events. The new standards address the accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. They also set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company adopted this guidance as of the interim period ended June 30, 2009. The adoption of this guidance had no impact on the consolidated financial statements.

In August 2009, the FASB issued guidance on the measurement of liabilities at fair value. The guidance provides clarification in measuring the fair value of liabilities. The guidance is effective for the first reporting period beginning after issuance. The Company adopted the guidance as of October 1, 2009. The adoption of this guidance had no impact on the consolidated financial statements.

In October 2009, the FASB issued guidance on "Revenue Recognition— Multiple-Deliverable Revenue Arrangements". This guidance modifies the fair value requirements of "Revenue Recognition-Multiple Element Arrangements" by allowing the use of the “best estimate of selling price” for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when vendor specific objective evidence or third-party evidence of the selling price cannot be determined.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (continued) - In addition, the residual method of allocating arrangement consideration is no longer permitted. This guidance is effective for fiscal years beginning on or after June 15, 2010. The Company does not expect the adoption of this guidance to have a significant impact on the consolidated financial statements.

In January 2010, the FASB issued guidance to address implementation issues related to the changes in ownership provisions in the "Consolidation" topic. The guidance clarifies the scope of the decrease in ownership provisions and expands the disclosures about the deconsolidation of a subsidiary or de-recognition of a group of assets within its scope. The guidance is effective beginning in the first interim or annual reporting period ending on or after December 15, 2009, and should be applied retrospectively to the first period that the guidance was adopted. The Company does not expect the adoption of this guidance to have a significant impact on the consolidated financial statements.

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance provides amendments to require new disclosures regarding transfers in and out of Levels 1 and 2 of the fair value measurement hierarchy, and activity in Level 3, and to clarify existing disclosures regarding the level of disaggregation, inputs and valuation techniques. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the new disclosures regarding purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect the adoption of this guidance to have a significant impact on the consolidated financial statements.

NOTE 3 - INVENTORY

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. All products are manufactured by third parties in China and shipped to either a warehouse in California, the corporate offices in South Africa, a warehouse in New Zealand or to distributors throughout South America, Africa, Europe, Asia and Australia. There was no reserve for obsolescence on the inventory for the years ended December 31, 2009 and 2008.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2009 and 2008 consisted of the following:

	2009	2008
Land	$ 655,226	$ 512,446
Moulds and tools	802,406	684,982
Computer equipment and software	497,078	294,973
Office and other equipment	251,880	32,950
Vehicles	63,408	45,382
Leasehold improvements	168,022	24,934
	2,438,020	1,595,667
Less accumulated depreciation	(1,143,298)	(716,981)
Property and equipment, net	$ 1,294,722	$ 878,686

NOTE 5 - CUSTOMER DEPOSITS AND PAYMENTS IN ADVANCE

Customer deposits represent payments received from customers prior to completion and shipment of the order. If the customer decides to cancel the order after the deposit has been paid, the Company will return the deposit or apply the deposit to a new order, however, the deposit will not be recorded as revenue. Payments in advance represent upfront payments made to contract manufacturers for the manufacturing of the braces.

Customer deposits totaled $124,662 and $226,894 as of December 31, 2009 and 2008, and are recorded in current liabilities; and payments in advance of $98,177 and $206,475 as of December 31, 2009 and 2008 are recorded in current assets on the consolidated balance sheets.

NOTE 6 - STOCKHOLDERS' EQUITY

As of December 31, 2009, there were 700,000,000 shares authorized, and 131,922,336 shares issued and outstanding of the Company's common stock with a par value of $.001 and 28,000,000 shares authorized, and 3,000,000 shares issued and outstanding of the Company's preferred stock with a par value of $.001.

In connection with a certain asset purchase agreement dated June 17, 2005, in September 2008, the Company entered into a settlement and release agreement, whereby the Company agreed to amend their Articles of Incorporation to establish a Series A Voting Convertible Preferred Stock which authorized 28,000,000 shares, with a par value of $.001. The amended Articles of Incorporation authorized the Company to have the authority to establish additional series of preferred stock with such rights, preferences, and designations as determined by the Board of Directors.

NOTE 6 - STOCKHOLDERS' EQUITY (continued)

Pursuant to these amendments, the Company established a Series A Voting Convertible Preferred Stock ("Preferred Stock"), with a par value of $.001, which is convertible on a 1:1 ratio to common stock. The Company authorized 3,000,000 shares of this series of Preferred Stock. Each holder of the Preferred Stock is entitled to receive dividends and is entitled to 100 votes for each one share of Preferred Stock.

The Company had an obligation to issue preferred and common stock to the founders of the Company in the amount of $5,996,507 as of December 31, 2007. In September 2008, the Company entered into a settlement agreement to satisfy the obligation, which at the time of settlement was $6,261,246. In accordance with the settlement agreement, 3,000,000 shares of the Preferred Stock and 21,000,000 shares of common stock were issued to the principals to satisfy the Company's obligation.

The Company had performed a valuation to determine the fair value of the Company's obligation. The Company recorded a fair value adjustment in the amount of $264,739 for the year ended December 31, 2008.

Stock-based Compensation

On March 1, 2008, the Company issued 200,000 warrants to an investment relations firm for services provided to the Company. The Company recorded stock-based compensation expense in the amount of $17,776, based on an option price of $0.0889. The Company estimated the fair value of the warrants issued on the date of grant using the Black-Scholes option-pricing model. The assumptions used in calculating the fair value of the warrants issued during the year ended December 31, 2008 are as follows:

Dividend yield	0.0%
Risk-free interest rate	4.37%
Expected life (years)	5
Expected volatility	6.19%

The expected dividend yield is based on the Company's dividend history and expectations of future dividend payments. The risk-free interest rate is based on the US Treasury rate in effect at the time of grant. The expected life in years represents the period of time that options granted are expected to be outstanding. The expected volatility was determined with reference to the historical volatility of the Company's stock.

Effective January 1, 2009, the President is entitled to receive 333,334 shares of common stock valued at $0.15, or $50,000, based on the fair value of the common stock at the date of grant. (See Note 9).

NOTE 7 - INCOME TAXES

The Company's income tax expense (benefit) for the years ended December 31, 2009 and 2008 consist of the following components:

	2009	2008
Current		
Federal	$ 83,146	$ 795,720
State	1,600	800
	84,746	796,520
Deferred		
Federal	(12,750)	(20,748)
Foreign	-	6,147
	(12,750)	(14,601)
Income tax expense	$ 71,996	$ 781,919

The Company's effective income tax expense (benefit) differs from the federal statutory amount because of the effect of the following items:

	2009	2008
Federal tax at statutory rate	0.00%	34.00%
Effect of prior year (over) under provision	105.00%	-8.00%
Timing and permanent differences	-230.00%	1.20%
Effect of fair value adjustment	0.00%	9.00%
Utilization of foreign exchange loss	0.00%	-7.70%
	-125.00%	28.50%

Deferred income taxes (benefit) reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts of income tax purposes, and the tax effects of net operating losses that are available to offset future taxable income. Significant components of the Company's deferred tax assets (liabilities) at December 31, 2009 and 2008 consist of the following:

	2009	2008
Deferred tax assets:		
Accounts receivable	$ 5,700	$ 88
Vacation accrual	27,000	-
Depreciation	-	23,051
Net operating loss carryforwards	219,900	69,720
Less valuation allowance	(219,900)	(69,720)
Deferred tax assets, net	$ 32,700	$ 23,139
Deferred tax liabilities:		
Accrued expenses	-	15,988
Depreciation	12,800	-
Deferred tax assets, net	$ 12,800	$ 15,988

NOTE 7 - INCOME TAXES (continued)

In assessing the ultimate realization of deferred tax assets and liabilities, management considers whether it is more likely than not that some or all of them will not be realized. Based on the Company's anticipation of fluctuations in the Company's net earnings for state tax purposes, the Company has established a valuation allowance due to the uncertainty as to the realization of the net operating loss carryforwards. As of December 31, 2009 and 2008, the Company has approximately $2,500,000 and $800,000 of net operating loss carryforwards to offset certain future state taxable income, expiring in 2028.

The Company files a consolidated federal and separate company state income tax returns in the United States. The Company is not presently undergoing any significant tax audits. As of December 31, 2009, the tax years that remain subject to examination are 2006 to 2009 for federal and 2008 to 2009 for state.

The Company has reviewed its open tax positions and determined that no exposures exist that require an adjustment as of December 31, 2009 or 2008. While the Company believes that it has performed adequate procedures to identify all reasonably identifiable exposures, it is possible that exposures exist and that these exposures will need to be assessed and may potentially have a material impact on the Company's consolidated financial statements.

NOTE 8 - RELATED PARTY TRANSACTIONS

As of December 31, 2009 and 2008, the Company had $-0- and $48,066 due from Holdings, a company that is controlled by the Chief Executive Officer of the Company, and $-0- and $12,016 due from a related individual for royalty fees associated with the sales of Leatt-Brace® products. Royalties are based on 5% of the net sales of braces worldwide and totaled $693,387 and $925,551 for the years ended December 31, 2009 and 2008. The term of the royalty agreement is for the life of the intellectual property.

The Company purchased its computer equipment through a company that is owned by the head of its information technology department. Computer purchases totaled $10,538 and $43,078, respectively, for the years ended December 31, 2009 and 2008.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Employment Agreements

Effective January 1, 2008, the Company entered into an employment agreement with its President for a period of three years. Under the agreement, the Company will compensate its President $240,000 per year. In addition the Company has granted 1,000,000 shares of common stock to its President that vest over the same three year period. Effective January 1, 2009, the President is entitled to receive 333,333 shares of common stock valued at $0.15, or $50,000 based on the fair value of the common stock at the date of grant.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

Employment Agreements (continued)

Effective October 1, 2008, the Company has an employment agreement with the Marketing Manager of the South African branch office providing for annual compensation of $150,000. The employment is subject to termination by either party upon three month's prior written termination notice, and subject to the terms of the employment agreement.

The Company's obligations under the employment and executive service agreements accrue as services are rendered.

Office / Warehouse Lease

The Company is leasing through a sublease agreement with its United States sales manager, office and warehouse space in Valencia, California. The lease commenced on April 1, 2007 and continues through March 31, 2010. The lease agreement calls for monthly rent in the amount of $10,958 for the entire length of the lease.

In addition, the Company's South African branch leases space in South Africa. The lease commenced on December 15, 2008 and continues through December 15, 2011. The lease agreement calls for an initial monthly rent of $5,195 with an annual escalation percentage of 10%.

The Company's New Zealand entity leases premises in New Zealand. The lease commenced on June 1, 2008 and continues through February 28, 2010. The monthly rent amount in terms of the lease agreement is $ 993 for the entire length of the lease.

All other operating leases are on a month-to-month basis.

Minimum lease payments under operating leases in each of the years subsequent to December 31, 2009 are as follows:

2010	$ 107,130
2011	$ 74,256

Rent expense totaled $224,832 and $168,607, respectively, for the years ended December 31, 2009 and 2008.

Litigation/Potential Litigation

In the normal course of business, the Company is subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are often not predictable with assurance.

On October 28, 2009, the Company was named a Defendant in a lawsuit filed in the Yuba County Superior Court. The claim is for alleged product defects and breach of product warranties. There is no liability accrued for potential losses as the Company believes the claims are without merit and will vigorously defend against this action.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

Litigation/Potential Litigation (continued)

On March 11, 2009, the Company was named a Defendant in a lawsuit filed in the United State District Court for the Eastern District of Kentucky. The claim is for alleged defective product design and breach of product warranties. There is no liability accrued for potential losses as the Company believes the claims are without merit and will vigorously defend against this action. The case is in the process of discovery.

On December 4, 2009, an Arbitration Award was granted in favour of the Company and Xceed Holdings (Pty) Ltd in its action requesting a restraining order against two former employees and a third party, which order permanently restrains the former employees and third party from commercial exploitation of the related product and disclosure of the related proprietary information. The Company alleged that the two former employees were seeking to sell a neck brace based on confidential information and trade secrets through a California company in violation of the Company's proprietary rights. The Company is waiting for a legal cost award as well as a damages hearing in the Company's favour.

Related to the aforementioned point the Company has filed a lawsuit in the United States District Court, Southern District of California on the 16th of June 2009 against the aforementioned California Company and other related parties to temporarily restrain the parties from exploitation of the aforementioned neck brace.

On November 12, 2009, the Superior Court of the State of California, for the County of Los Angeles approved a motion for Determination of Good Faith Settlement of a lawsuit brought in the Los Angeles Circuit Court in 2008. The settlement terms are confidential and the settlement was within the company's insurance limits. No financial impact was anticipated on the Company's financial condition.

The lawsuit arose out of a 2007 motorcycle accident and the plaintiff sued several defendants, including the motorcycle manufacturer and dirt bike course owner. Although the plaintiff did not allege any injuries to the cervical spine, including areas protected by the Leatt Club Moto Brace worn by the plaintiff, and the Company continues to believe that the plaintiff's claims against the Company were without merit, the protracted nature of the proceedings and cost of litigation argued for settlement.

NOTE 10 – SUBSEQUENT EVENT

The Company has evaluated all subsequent events through March 31, 2010, the date the financial statements were released.

The Company's wholly owned subsidiary, Two Eleven Distributors LLC, entered into a lease agreement for office and warehouse space in Santa Clarita, California for a period of three years. The agreement commences on April 15, 2010 and requires monthly lease payments of $3,884 for the first year of the lease. The lease payment escalates to $ 4,401 on April 1, 2011 and to $5,126 on April 1, 2012.