

**LEATT CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE QUARTER ENDED MARCH 31, 2009**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

**Overview**

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 patents and trademarks initially developed by the Company's founder. The Company designs, manufactures and markets personal protective equipment for all forms of motor sports, based on the Leatt-Brace<sup>®</sup> 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<sup>®</sup> 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<sup>®</sup> 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 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 Corporation New Zealand during the first quarter of 2009. This company will act as the distributor of the Leatt-Brace<sup>®</sup> in New Zealand.

The Company has the exclusive global manufacturing and distribution rights to the Leatt-Brace<sup>®</sup> 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<sup>®</sup> 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 right and license to manufacture, sell and use apparatus embodying, employing and containing the Leatt-Brace<sup>®</sup> technology.

**Basis of presentation**

The consolidated balance sheet as of December 31, 2008 was audited. The consolidated balance sheet as of March 31, 2009 and the consolidated statement of operations for the three months ended March 31, 2009 and the related information contained in these notes have been prepared by management without audit. Certain information and note disclosures normally included in the company's annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the company's consolidated financial statements for the year ended December 31, 2008.

**Market for Common Stock** - In order to enhance the ability of the Company's shareholders to trade their common stock, the Company is currently proceeding with efforts to quote its common stock on the Pink Sheets, LLC. The Company is aware of its shareholders' desire for a more dynamic public market for the Company's common stock. The Company is endeavoring to address this issue and will have a public announcement when events warrant and allow for a public disclosure.

### **Critical Accounting Policies**

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 Corporation New Zealand. All significant intercompany transactions have been eliminated. 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. The most significant areas involving our judgments and estimates are described below.

**Revenue and Cost Recognition** - All manufacturing of the Leatt-Brace<sup>®</sup> 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.

**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.

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, 7 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 quarter ended March 31, 2009.

**Intangible Assets** – The Company’s intangible assets consist of acquired patents and are amortized on a straight-line basis over the estimated useful lives of the respective asset. Intangible assets are carried at cost less accumulated amortization and are reviewed for impairment. Amortization expense for the quarter ended March 31, 2009 was \$ 0. There was no impairment of intangible assets at March 31, 2009.

**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.

**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, denominated in its local currency, SA RAND, 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. 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.

**Stock-Based Compensation** - The Company accounts for stock based compensation using the provisions of revised Statement of Financial Accounting Standards (“SFAS”) No. 123, *Share-Based Payment* (“SFAS 123R”), including the provisions of Staff Accounting Bulletins No. 107 (“SAB 107”) and No. 110 (“SAB 110”), which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors, including employee stock options, based on estimated fair values.

Stock-based compensation expense for all awards granted is based on the grant-date fair values estimated in accordance with the provisions of SFAS 123R. 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 Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109* (“FIN 48”), which clarifies the accounting for uncertainty in tax positions. FIN 48 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, FIN 48 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, 2009, the Company has no unrecognized tax benefits and the Company currently has no federal or state tax examinations in progress.

**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). At March 31, 2009, the Company's bank balances totaled \$2,701,970. The Company has not experienced any significant losses on its cash and cash equivalents.

The company's bank is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all non-interest bearing transaction accounts at participating institutions are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to, and separate from, the coverage available under the FDIC's general deposit insurance rules.

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.

**Commitments and Contingencies** - The company was recently named as a defendant in Kentucky federal court lawsuit. The claim is for alleged product defects and breach of product warranties. The Company believes the claims are without merit and will vigorously defend against this action.

## Results of Operations

For the three months ended March 31, 2009 and 2008

**Sales** - For the period ended March 31, 2009 sales were \$4,345,323 compared to \$5,996,039 for the same period in 2008 - a decrease of 28%. This decrease is primarily the effect of the global recession. The company has responded to this situation by intensifying its global sales and marketing efforts.

For the quarters ending March 31, 2009 and 2008, international sales approximated 59% and 47% respectively of total sales.

**Cost of goods sold and gross profit** - Costs of goods sold and gross profit for the three months ended March 31, 2009 were \$1,376,758 and \$2,968,565 respectively. For the same period in 2008, costs of goods sold and gross profit were \$1,918,732 and \$4,077,307 respectively. Gross profit margin as a percentage of sales for the three months ended March 31, 2009 and 2008 were 68.3% and 68% respectively. We believe that profit margins will be maintained through on-going management of manufacturing costs.

**Salaries and wages** - Salaries and wages for the quarters ending March 31, 2009 and 2008 were \$902,338 and \$590,623 respectively. This increase in salaries and wages are the result of adding specialized expertise in sales and marketing as the company expands into various market segments. Additionally other staff were added for operations as well as finance control. Salaries and wages for the period ending 31 March 2009 also includes \$ 100,000 relating to the Company's stock-based compensation plan.

**Commission and consulting expense** - Commission and consulting expense for the quarters ending March 31, 2009 and 2008 were \$114,581 and \$201,442 respectively. This decrease in commission and consulting expense were as a result of adding in-house finance and selling expertise.

**Professional fees** - Professional fees for the quarters ending March 31, 2009 and 2008 were \$406,327 and \$478,307 respectively. These are costs incurred for audit, tax and quarterly reporting requirements, patent protection and litigation expense, SEC filings, product testing and certification outsourcing and other costs incurred as the company continues to expand.

**Advertising and marketing** - Advertising and marketing expenses for the quarters ending March 31, 2009 and 2008 were \$284,485 and \$415,921 respectively. Initially the company relied on word of mouth, but in early 2008 made the decision to place paid advertising in various motorsport magazines and to sponsor a number of events and teams to increase exposure. Analysis of the results of this advertising campaign has enabled the company to refine the campaign and strategically continue to invest in those results that yielded the most benefit. Further advertising and marketing expenses are expected in the second and third quarters of 2009 in line with the above mentioned strategy.

**Office rent and expenses** - Office rent and expenses for the quarters ending March 31, 2009 and 2008 were \$54,791 and \$42,958 respectively. With the increase in staff additional space was required.

**Research and development costs** - Research and development costs for the quarters ending March 31, 2009 and 2008 were \$18,322 and \$15,537 respectively. Costs were incurred to review competitor products and continue to develop new products.

**General and administrative expenses** - General and administrative expenses the quarters ending March 31, 2009 and 2008 were \$283,555 and \$434,533 respectively. These costs consist of insurance, travel, merchant fees, telephone, office and computer supplies and other sundry expenses; with insurance and travel comprising the bulk of these expenses. Extensive travel was required in early 2008 in line with the advertising and marketing effort. Such travel was not required in the 1<sup>st</sup> quarter of 2009. Insurance needs continue to be reviewed and revised as appropriate and the company continues to review and scrutinize all discretionary spending.

## **Liquidity and Capital Reserves**

At March 31, 2009 the company had cash, cash equivalents and short term investments of \$3.2 million. We are currently meeting our working capital needs through cash on hand as well as internally generated cash from operations.

The company believes that cash flow from operations, along with our cash on hand, should be sufficient to meet the operating cash requirements over the next twelve month period as currently contemplated. Our long-term financing requirements depend on our growth strategy, which relates primarily to our desire to increase revenue both domestically as well as internationally.

**LEATT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

	<b>March 31 2009 Unaudited</b>	<b>December 31 2008 Audited</b>
Current Assets		
Cash and cash equivalents	\$ 2,898,213	\$ 2,059,371
Short-term investments	303,756	302,545
Accounts receivable	947,479	604,317
Inventory	2,343,213	3,127,517
Payments in advance	187,576	206,475
Income tax refunds receivable	245,609	964,206
Due from related parties	55,276	99,649
Prepaid expenses and other current assets	415,532	284,182
Total current assets	7,396,655	7,648,262
Property and equipment, net	1,006,933	878,686
Other Assets		
Deposits	6,013	4,633
Deferred tax assets	23,139	23,139
Intangible assets, net	97,061	99,682
Total other assets	126,213	127,454
Total Assets	\$ 8,529,800	\$ 8,654,402

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities		
Accounts payable and accrued expenses	\$ 527,973	\$ 1,210,053
Income taxes payable	304,504	123,597
Deferred tax liabilities	15,827	15,988
Customer deposits	68,419	226,894
Short term loan, net of finance charges	70,115	140,920
Total current liabilities	986,838	1,717,452
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, 132,256,002 and 131,589,002 shares issued and outstanding at 31 March 2009 and 31 December 2008 respectively	132,256	131,589
Additional paid - in capital	7,445,609	7,346,276
Accumulated other comprehensive loss	(100,945)	(104,094)
Accumulated deficit	(439,821)	(439,821)
Net income available to common shareholders	502,862	-
Total stockholders' equity	7,542,962	6,936,950
Total Liabilities and Stockholders' Equity	\$ 8,529,800	\$ 8,654,402

**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2009</b>	<b>2008</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Revenues	\$ 4,345,323	\$ 5,996,039
Cost of Revenues	<u>1,376,758</u>	<u>1,918,732</u>
Gross Profit	<u>2,968,565</u>	<u>4,077,307</u>
Operating Expenses		
Salaries and wages	902,338	590,623
Commissions and consulting expenses	114,581	201,442
Professional fees	406,327	478,307
Advertising and marketing	284,485	415,921
Office rent and expenses	54,791	42,958
Research and development costs	18,322	15,537
General and administrative expenses	283,555	434,533
Depreciation	<u>112,592</u>	<u>93,304</u>
Total operating expenses	<u>2,176,992</u>	<u>2,272,625</u>
Income from Operations	<u>791,573</u>	<u>1,804,682</u>
Other Income (Expense)		
Fair value adjustment relating to obligation to issue preferred and common shares	-	(132,369)
Interest and other income, net	<u>15,794</u>	<u>45,075</u>
Total other income (expense)	<u>15,794</u>	<u>(87,294)</u>
Income Before Income Taxes	807,366	1,717,388
Income Taxes	<u>304,504</u>	<u>409,000</u>
Net Income Available to Common Shareholders	<u>\$ 502,862</u>	<u>\$ 1,308,388</u>