LEATT CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

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DECEMBER 31, 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 sheet of **LEATT CORPORATION** as of December 31, 2008, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2008, and their results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Fitzgerald & Co., CPAs, P.C.

McLean, Virginia
April 3, 2009

7900 Westpark Drive • Suite T600 • Tysons Corner • McLean, VA 22102
Phone: 703.847.4600 • Fax: 703.356.4821 • Email: fc@fcocpas.com • Website: http://www.fcocpas.com
Members of: American Institute of Certified Public Accountants PCPS/CAQ • Virginia Society of Certified Public Accountants
CPA Associates International, Inc. with Associated Offices in Principal U.S. and International Cities

LEATT CORPORATION
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2008

ASSETS

Current Assets		
Cash and cash equivalents	$	2,059,371
Short-term investments		302,545
Accounts receivable		604,317
Inventory		3,127,517
Payments in advance		206,475
Income tax refunds receivable		964,206
Due from related party		99,649
Prepaid expenses and other current assets		284,182
Total current assets		7,648,262
Property and equipment, net		878,686
Other Assets		
Deposits		4,633
Deferred tax assets		23,139
Intangible assets		99,682
Total other assets		127,454
Total Assets	$	8,654,402

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable and accrued expenses	$	1,210,053
Income taxes payable		123,597
Deferred tax liabilities		15,988
Customer deposits		226,894
Short term loan, net of finance charges		140,920
Total current liabilities		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
Common stock, $.001 par value, 700,000,000 shares authorized, 131,589,002 shares issued and outstanding		131,589
Additional paid - in capital		7,346,276
Accumulated other comprehensive loss		(104,094)
Accumulated deficit		(439,821)
Total stockholders' equity		6,936,950
Total Liabilities and Stockholders' Equity	$	8,654,402

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

LEATT CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2008

Revenues	$ 18,778,412
Cost of Revenues	6,782,762
Gross Profit	11,995,650
Operating Expenses	
Salaries and wages	2,660,719
Commissions and consulting expenses	516,190
Professional fees	2,026,726
Advertising and marketing	1,640,496
Office rent and expenses	168,607
Research and development costs	123,745
Bad debt expense	21,660
General and administrative expenses	1,390,810
Depreciation	426,563
Total operating expenses	8,975,516
Income from Operations	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	53,427
Total other income (expense)	(211,312)
Income Before Income Taxes	2,808,822
Income Taxes	781,919
Net Income	2,026,903
Foreign Currency Remeasurement	(59,417)
Net Income Available to Common Shareholders	$ 1,967,486
Net Income per Common Share	
Basic	$ 0.02
Diluted	$ 0.02
Weighted Average Number of Common Shares Outstanding	
Basic	115,839,002
Diluted	115,893,547
Comprehensive Income	
Net income	$ 1,967,486
Other comprehensive income, net of $53,624 deferred income taxes	
Foreign currency translation	(104,094)
Reclassification adjustment for foreign currency remeasurement	38,570
Total comprehensive income	$ 1,901,962

LEATT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008

	Preferred Stock A		Common Stock		Additional	Accumulated Other Comprensive	(Accumulated	
	Shares	Amount	Shares	Amount	Paid - In Capital	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

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

LEATT CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008

Cash flows from operating activities	
Net income	$ 1,967,486
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	426,563
Deferred income taxes	(14,601)
Stock-based compensation	17,776
Allowance for doubtful accounts	(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	663,491
Inventory	(1,286,199)
Payments in advance	1,054,608
Prepaid expenses and other current assets	(119,232)
Income tax refunds receivable	(964,206)
Deposits	(4,633)
Increase (decrease) in:	
Accounts payable and accrued expenses	(1,744,424)
Income taxes payable	(1,815,745)
Customer deposits	(65,079)
Net cash used in operating activities	(1,594,398)
Cash flows from investing activities	
Capital expenditures	(716,044)
Acquisition of patents	(99,682)
Payments from related party, net	52,168
Redemption of short-term investments, net	2,720,308
Net cash provided by investing activities	1,956,750
Cash flows from financing activities	
Advances from short-term loan, net	140,920
Net cash provided by financing activities	140,920
Effect of exchange rates on cash and cash equivalents	(124,939)
Net increase in cash and cash equivalents	378,333
Cash and cash equivalents - beginning of year	1,681,038
Cash and cash equivalents - end of year	$ 2,059,371
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 1,377
Cash paid for income taxes	$ 4,652,000
Other noncash investing and financing activities	
Warrants issued for services	$ 17,776
Issuance of preferred and common shares in satisfaction of obligation	$ 6,261,246

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 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 ® 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 Capetown, 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 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 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 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.

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 and Three Eleven Distribution. 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 year ended December 31, 2008.

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 year ended December 31, 2008 was $-0-. There was no impairment of intangible assets at December 31, 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.

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 weighted average rate of exchange during 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.

Net realized gains and losses on foreign currency transactions was a foreign currency remeasurement loss of $59,417 for the year ended December 31, 2008. Net unrealized gains and losses on foreign currency transactions was a $104,094 loss for the year ended December 31, 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 year ended December 31, 2008, the Company had 3,000,000 dilutive potential common shares outstanding.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 loss at December 31, 2008 represents cumulative translation adjustments related to the Company's foreign registered branch office. 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. At December 31, 2008, the Company's uninsured bank balances totaled $1,281,602. 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 year ended December 31, 2008, the Company's US revenue was concentrated in three customers that accounted for approximately 34% of annual US revenue. For the year ended December 31, 2008, the Company's international revenue was concentrated in four customers that accounted for approximately 65% of annual international revenue. At December 31, 2008, two of the Company's customers represented 67% of the Company's accounts receivable. The Company generates revenue both in the United States and internationally. For the year ended December 31, 2008 annual revenues associated with international customers was approximately $8,800,817 (47%).

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"), which is intended to improve financial reporting regarding derivative instruments and hedging activities by requiring enhanced disclosures to provide transparency to these activities and their effects on an entity's financial position, financial performance and cash flows. The provisions of SFAS 161 are effective for the Company's fiscal year beginning January 1, 2009. The Company is currently evaluating the impact this new standard will have on its consolidated statements but does not expect that the adoption of SFAS 161 will have a material impact on its consolidated financial statements.

In April 2008, the (FASB) issued FASB Staff Position ("FSP") SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets." FSP FAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP SFAS No. 142-3 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the impact, if any of the adoption of FSP SFAS No. 142-3 on our financial statements.

In May 2008, The FASB Issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. Prior to the issuance of SFAS 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Management currently believes that the adoption of this statement will not have a material impact on the Company's financial statements.

In December, 2008, the FASB issued FASB Staff Positions ("FSP") FIN 46(R)-8, *Interests in Variable Interest Entities and FSP FAS 140-4, Disclosures about Transfers of Financial Assets*, which will increase disclosure requirements for public reporting companies for reporting periods that end after December 15, 2008. This FSP amends SFAS 140, *Disclosures about Transfers of Financial Assets*, to require public entities to provide additional disclosures about transfers of financial assets and variable interests in qualifying special-purpose entities. It also amends FIN 46(R) to require public enterprises to provide additional disclosures about their involvement with variable interest entities. The Company adopted the requirements of FSP FAS 140-4 and FSP FIN 46(R) beginning January 1, 2008. The adoption of FSP FAS 140-4 and FSP FIN 46(R) did not have a material impact on the Company's consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (continued) - Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

NOTE 3 - INVENTORY

Inventory consists primarily of finished goods. All products are manufactured by third parties in China and shipped to either a warehouse in California, the corporate offices in South Africa or to distributors throughout South America, Africa, Europe, Asia and Australia. There was no reserve for obsolescence on the inventory for the year ended December 31, 2008.

NOTE 4 - PROPERTY AND EQUIPMENT

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

Land	$ 512,446
Moulds and tools	684,982
Computer equipment and software	294,973
Office and other equipment	32,950
Vehicles	45,382
Leasehold improvements	24,934
	1,595,667
Less accumulated depreciation	(716,981)
Property and equipment, net	$ 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.

As of December 31, 2008 customer deposits of $226,894 are recorded in current liabilities and payments in advance of $206,475 are recorded in current assets on the consolidated balance sheet.

NOTE 6 - STOCKHOLDERS' EQUITY

As of December 31, 2008, there were 700,000,000 shares authorized, and 131,589,002 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.

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.

NOTE 7 - INCOME TAXES

The Company's Income tax expense (benefit) for the year ended December 31, 2008 consists of the following components:

Current		
Federal	$	795,720
State		800
		796,520
Deferred		
Federal		(20,748)
Foreign		6,147
		(14,601)
Income tax expense (benefit)	$	781,919

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

Federal tax statutory rate	34.00%
Effect of prior year overprovision	-8.00%
Timing and permanent differences	1.20%
Effect of fair value adjustment	9.00%
Utilization of foreign exchange loss	-7.70%
	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, 2008 consist of the following:

Deferred tax assets:		
Accounts receivable	$	88
Depreciation		23,051
Net operating loss carryforwards - state		69,720
Less valuation allowance		(69,720)
Deferred tax assets, net	$	23,139
Deferred tax liabilities:		
Accrued expenses		15,988
Deferred tax liabilities	$	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, 2008, the Company has approximately $800,000 of net operating loss carryforwards to offset certain future state taxable income, expiring in 2015.

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, 2008, the tax years that remain subject to examination are 2005 to 2008 for federal and 2007 to 2008 for state.

The Company has reviewed its tax positions in accordance with FIN 48 and determined that no exposures exist that require an adjustment as of December 31, 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, 2008, the Company had $48,066 due from Holdings, a company that is controlled by the Chief Executive Officer of the Company, 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 $925,551 for the year ended December 31, 2008. The term of the royalty agreement is for the life of the intellectual property.

During the year ended December 31, 2008, Holdings was also reimbursed $932,936 by the Company for compensation payments paid to South African employees on behalf of the Company.

The Company also had $39,567 due from the United States sales manager as of December 31, 2008 for overpaid commissions. The amount due bears interest at 3.18%, is collateralized by the Company's common stock and is expected to be repaid in 2009. Interest income of $1,313 was included in the amount due as of December 31, 2008.

The payroll service provider that the Company utilizes for its South African employees is partially owned and controlled by an officer of the Company. The Company paid the payroll service provider $24,155 for the year ended December 31, 2008.

The Company purchases its computer equipment through a company that is owned by the head of its information technology department. The Company purchased $43,078 from the aforementioned related party during the year ended December 31, 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.

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 $10,400 for the entire length of the lease.

In addition, the Company's South African branch leases space in South Africa. The first lease requires monthly base rent of $2,808 through April 30, 2009. The second lease commenced on December 15, 2008 and continues through December 15, 2011. The lease agreement calls for an initial monthly rent of $4,633 with an annual escalation percentage of 10%.

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, 2008 are as follows:

2009	$ 154,597
2010	85,907
2011	67,273
	$ 307,777

Rent expense for the year ended December 31, 2008 was $168,607.

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.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

Litigation/Potential Litigation (continued)

On September 28, 2008, the Company was named as one of twelve defendants in a State of California court lawsuit. 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. The case is in the process of discovery.

On December 5, 2008, the South African court granted the Company's motion for a restraining order against the two former employees, which order temporarily restrains the former employees from commercial exploitation of the related product and disclosure of the related proprietary information. The Company alleges that the two former employees are seeking to sell a neck brace based on confidential information and trade secrets through a California company and in violation of the Company's proprietary rights. A second interim application is being brought against their present business partner and three others in Arbitration.

In connection with the same complaint, the Company and Xceed Holdings (Pty) Ltd. have a pending action instituted in the High Court of South Africa against the two former employees and their present business partner to make the restraining order permanent. The maximum liability that the Company could incur would be if the Company was unsuccessful in the action, as well as all the preceding preliminary motions, in which case the Company would have to pay the legal costs of the defendants, which is not expected to exceed $200,000.

The Company also asserted claims in the State of California against Alpinestars USA Inc. and Alpinestars, S.p.A. (collectively "Alpinestars") for alleged patent infringement and for trade dress infringement and unfair competition under federal and state law. Alpinestars counterclaimed for a declaratory judgment of non-infringement and invalidity as to the patent. The litigation was voluntarily dismissed by stipulation of the parties.

The Company then asserted claims in the State of New York against Alpinestars for alleged infringement of the same patent. This litigation was dismissed by the Company without prejudice prior to Alpinestars answering the complaint with neither side taking anything.

Instances of patent infringement for Xceed Holdings (Pty) Ltd. and the Company are in very early stages, in the United States, Italy and Brazil**.** There is no liability accrued for potential losses, because the Company's management and counsel should and will benefit from any pending litigation against these companies.

NOTE 10 – SUBSEQUENT EVENT

Effective March 1, 2009, the Company entered into an executive services agreement (the "Agreement") with the Managing Director of the Company providing for annual compensation of $252,000, plus a cash discretionary bonus based on personal performance, fulfillment of agreed upon goals and achievement of projected targets. The employment is fixed for a period of three years subject to the terms of the Agreement. In addition, the Managing Director is entitled to receive an aggregate of one million (1,000,000) shares of the Company's common stock over the term of the Agreement, and pursuant to the vesting schedule providing for three equal annual tranches over the three year period. The first tranche will be transferred in April 2009 and then in January of every consecutive year until the commitment has been fulfilled.