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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: **June 30, 2019**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-54693**

**LEATT CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Nevada**

*(State or other jurisdiction of incorporation or organization)*

**20-2819367**

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

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

*(Address of principal executive offices)*

**+(27) 21-557-7257**

*(Registrant's telephone number, including area code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

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

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of August 1, 2019 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
<b><u>Common Stock, \$0.001 par value</u></b>	<b><u>5,386,723</u></b>

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LEATT CORPORATION

*Quarterly Report on Form 10-Q*  
*Three Months and Six Months Ended June 30, 2019*

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PART I  
FINANCIAL INFORMATION

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

**ASSETS**

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	<b>Unaudited</b>	<b>Audited</b>
Current Assets		
Cash and cash equivalents	\$ 1,492,347	\$ 1,709,900
Short-term investments	58,235	58,232
Accounts receivable	1,796,953	2,049,331
Inventory	5,307,009	4,815,215
Payments in advance	658,175	473,286
Prepaid expenses and other current assets	<u>1,317,230</u>	<u>1,247,233</u>
Total current assets	10,629,949	10,353,197
Property and equipment, net	2,141,635	2,317,490
Operating lease right-of-use assets, net	417,370	-
Other Assets		
Deposits	25,645	25,380
Intangible assets	<u>41,524</u>	<u>40,466</u>
Total other assets	<u>67,169</u>	<u>65,846</u>
Total Assets	<u>\$ 13,256,123</u>	<u>\$ 12,736,533</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities		
Accounts payable and accrued expenses	\$ 2,831,790	\$ 2,779,182
Operating lease liability, current	173,176	-
Income tax payable	73,813	70,258
Short term loan, net of finance charges	<u>290,832</u>	<u>582,128</u>
Total current liabilities	3,369,611	3,431,568
Deferred tax liabilities, net	170,900	170,900
Deferred Compensation	120,000	80,000
Operating lease liability, net of current portion	244,194	-
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$.001 par value, 1,120,000 shares authorized, 120,000 shares issued and outstanding	3,000	3,000
Common stock, \$.001 par value, 28,000,000 shares authorized, 5,386,723 and 5,370,028 shares issued and outstanding	130,068	130,053
Additional paid - in capital	8,049,354	7,868,119
Accumulated other comprehensive loss	(576,138)	(609,303)
Retained earnings	<u>1,745,134</u>	<u>1,662,196</u>
Total stockholders' equity	<u>9,351,418</u>	<u>9,054,065</u>
Total Liabilities and Stockholders' Equity	<u>\$ 13,256,123</u>	<u>\$ 12,736,533</u>

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

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**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2019	2018	2019	2018
	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	\$ 5,277,066	\$ 4,795,863	\$ 11,367,994	\$ 10,298,405
Cost of Revenues	<u>2,646,430</u>	<u>2,440,660</u>	<u>5,875,256</u>	<u>5,186,757</u>
Gross Profit	<u>2,630,636</u>	<u>2,355,203</u>	<u>5,492,738</u>	<u>5,111,648</u>
Product Royalty Income	6,995	7,802	15,696	20,111
Operating Expenses				
Salaries and wages	713,736	617,552	1,590,640	1,395,315
Commissions and consulting expenses	80,499	133,575	158,560	258,914
Professional fees	131,569	128,987	384,537	297,458
Advertising and marketing	471,888	458,450	1,035,882	962,612
Office lease and expenses	68,546	71,321	138,538	141,759
Research and development costs	366,219	378,912	706,315	702,192
Bad debt expense (recovery)	(7,022)	10,705	9,499	20,472
General and administrative expenses	521,420	454,156	988,654	889,716
Depreciation	188,300	165,011	377,995	327,775
Total operating expenses	<u>2,535,155</u>	<u>2,418,669</u>	<u>5,390,620</u>	<u>4,996,213</u>
Income (Loss) from Operations	<u>102,476</u>	<u>(55,664)</u>	<u>117,814</u>	<u>135,546</u>
Other Expenses				
Interest and other expenses, net	<u>(572)</u>	<u>(2,475)</u>	<u>(3,593)</u>	<u>(5,927)</u>
Total other expenses	<u>(572)</u>	<u>(2,475)</u>	<u>(3,593)</u>	<u>(5,927)</u>
Income (Loss) Before Income Taxes	101,904	(58,139)	114,221	129,619
Income Taxes	<u>28,204</u>	<u>(8,684)</u>	<u>31,283</u>	<u>38,255</u>
Net Income (Loss) Available to Common Shareholders	<u>\$ 73,700</u>	<u>\$ (49,455)</u>	<u>\$ 82,938</u>	<u>\$ 91,364</u>
Net Income (Loss) per Common Share				
Basic	<u>\$ 0.01</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>
Weighted Average Number of Common Shares Outstanding				
Basic	<u>5,386,723</u>	<u>5,366,382</u>	<u>5,383,751</u>	<u>5,366,382</u>
Diluted	<u>5,548,176</u>	<u>5,514,452</u>	<u>5,545,204</u>	<u>5,514,452</u>
Comprehensive Income (Loss)				
Net Income (Loss)	\$ 73,700	\$ (49,455)	\$ 82,938	\$ 91,364
Other comprehensive income (loss), net of \$0 and \$0 deferred income taxes in 2019 and 2018				
Foreign currency translation	<u>34,858</u>	<u>(174,542)</u>	<u>33,165</u>	<u>(116,310)</u>
Total Comprehensive Income (Loss)	<u>\$ 108,558</u>	<u>\$ (223,997)</u>	<u>\$ 116,103</u>	<u>\$ (24,946)</u>

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 SIX MONTHS ENDED JUNE 30, 2019**

	Preferred Stock A		Common Stock		Additional	Accumulated	Retained	
	Shares	Amount	Shares	Amount	Paid - In	Other	Earnings	Total
					Capital	Comprehensive		
						Loss		
Balance, January 1, 2019	120,000	\$ 3,000	5,370,028	\$ 130,053	\$ 7,868,119	\$ (609,303)	\$ 1,662,196	\$ 9,054,065
Compensation cost recognized in connection with stock options	-	-	-	-	166,250	-	-	166,250
Exercise of stock options	-	-	15,000	15	14,985	-	-	15,000
Options exercised on a cashless basis	-	-	1,695	-	-	-	-	-
Net income	-	-	-	-	-	-	82,938	82,938
Foreign currency translation adjustment	-	-	-	-	-	33,165	-	33,165
Balance, June 30, 2019	<u>120,000</u>	<u>\$ 3,000</u>	<u>5,386,723</u>	<u>\$ 130,068</u>	<u>\$ 8,049,354</u>	<u>\$ (576,138)</u>	<u>\$ 1,745,134</u>	<u>\$ 9,351,418</u>

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



**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
Cash flows from operating activities		
Net income	\$ 82,938	\$ 91,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	377,995	327,775
Stock-based compensation	166,250	150,332
Bad debts	2,094	13,991
Inventory reserve	(6,098)	14,660
(Increase) decrease in:		
Accounts receivable	250,284	623,084
Inventory	(485,696)	1,746,736
Payments in advance	(184,889)	(136,599)
Prepaid expenses and other current assets	(69,997)	(127,896)
Income tax refunds receivable	-	32,405
Deposits	(265)	630
Increase (decrease) in:		
Accounts payable and accrued expenses	52,608	(2,222,106)
Income taxes payable	3,555	-
Deferred compensation	40,000	-
Net cash provided by operating activities	<u>228,779</u>	<u>514,376</u>
Cash flows from investing activities		
Capital expenditures	(191,888)	(210,680)
Increase in short-term investments, net	(3)	(7)
Net cash used in investing activities	<u>(191,891)</u>	<u>(210,687)</u>
Cash flows from financing activities		
Issuance of common stock	15,000	-
Repayments of short-term loan, net	(291,296)	(260,097)
Net cash used in financing activities	<u>(276,296)</u>	<u>(260,097)</u>
Effect of exchange rates on cash and cash equivalents	<u>21,855</u>	<u>(49,466)</u>
Net decrease in cash and cash equivalents	(217,553)	(5,874)
Cash and cash equivalents - beginning of period	<u>1,709,900</u>	<u>1,518,157</u>
Cash and cash equivalents - end of period	<u>\$ 1,492,347</u>	<u>\$ 1,512,283</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 10,815</u>	<u>\$ 8,070</u>
Cash paid for income taxes	<u>\$ 26,600</u>	<u>\$ 5,850</u>
Other non-cash investing and financing activities		
Common stock issued for services	<u>\$ 166,250</u>	<u>\$ 150,332</u>

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

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1 - Basis of presentation**

The consolidated balance sheet as of December 31, 2018 was audited and appears in the Form 10-K filed by the Company with the Securities and Exchange Commission on March 27, 2019. The consolidated balance sheet as of June 30, 2019 and the consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2019 and 2018, changes in stockholders' equity for the six months ended June 30, 2019, cash flows for the six months ended June 30, 2019 and 2018, and the related information contained in these notes have been prepared by management without audit. In the opinion of management, all adjustments (which include only normal recurring items) necessary to present fairly the financial position, results of operations and cash flows in conformity with generally accepted accounting principles as of June 30, 2019 and for all periods presented have been made. Interim operating results are not necessarily indicative of operating results for a full year.

Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. While management of the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2018 as filed with the Securities and Exchange Commission in the Company's Form 10-K.

Significant Accounting Policies

There have been no significant changes in the Company's accounting policies from those disclosed in its Annual Report on Form 10-K, except for the policies described below in relation to the adoption of Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), discussed in Note 10 "Recent Accounting Pronouncements"

The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use assets ("ROU"), and lease liability obligations are included in the Company's balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liability obligations represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's leases typically do not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. The ROU asset also includes any lease payments made and excludes lease incentives and lease direct costs. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. Please refer to Note 4 for additional information.

**Note 2 - Inventory**

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, the Company utilizes historical experience as well as current market information. The reserve for obsolescence was \$75,906 at June 30, 2019 and \$83,004 at December 31, 2018.

**Note 3 - Intangible Assets**

The Company's intangible assets consist of acquired patents with an indefinite useful life and are thus not amortized. Intangible assets are carried at cost less impairment. Amortization expense for the six months ended June 30, 2019 was zero. There was no impairment loss recognized for the six months ended June 30, 2019 and 2018, respectively.

**Note 4 – Operating Leases – Right-of-Use Assets and Lease Liability Obligations**

The Company has three non-cancelable operating leases, two for office space and one for office machinery, that expire in December 2020, March 2022 and April 2022. Rent expense for these operating leases is recognized over the term of the lease

on a straight-line basis. Below is a summary of the Company's Operating Right-of-Use Assets and Operating Lease liabilities as of June 30, 2019:

<i>Assets</i>	
Operating lease ROU assets	<u>\$ 417,370</u>
<i>Liabilities</i>	
Operating lease liability, current	173,176
Operating lease liability, net of current portion	<u>244,194</u>
Total operating lease liabilities	<u>\$ 417,370</u>

During the six months ended June 30, 2019, the Company recognized \$86,344 in operating lease expenses, which are included in office lease and expenses in the Company's consolidated statements of operations and comprehensive income (loss).

Supplemental cash flow information for the six months ended June 30, 2019 is as follows:

	<b>Six Months Ended June 30, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities	\$ 91,816
Right-of-use assets obtained in exchange for lease obligations	\$ 500,956

Generally, our lease agreements do not specify an implicit rate. Therefore, we estimate our incremental borrowing rate, which is defined as the interest rate we would pay to borrow on a collateralized basis, considering such factors as length of lease term and the risks of the economic environment in which the leased asset operates. As of June 30, 2019, the following disclosures for remaining lease term and incremental borrowing rates were applicable:

<u>Supplemental disclosure</u>	<u>June 30, 2019</u>
Weighted average remaining lease term	3 years
Weighted average discount rate	5.02%

Maturities of lease liabilities as of June 30, 2019 were as follows:

<u>Year ended December 31,</u>	<u>Amounts under Operating Leases</u>
Remaining 2019	\$ 93,483
2020	188,699
2021	136,949
2022	<u>46,070</u>
Total lease payments	465,201
Less: Imputed interest	<u>(47,831)</u>
Total	<u>\$ 417,370</u>

#### Note 5 - Short-term Loan

The Company carries product liability insurance policies with a U.S. and South African-based insurance carrier. The Company finances payment of both of its product liability insurance premiums over the period of coverage which is generally twelve months. The U.S. short-term loan is payable in monthly instalments of \$62,225 over eleven months including interest at 4.99% and the South African short-term loan is payable in monthly instalments of \$1,672 over a ten-month period at a flat interest rate of 4.10% .

The Company carries various short-term insurance policies in the U.S. The Company finances payment of its short-term insurance premiums over the period of coverage, which is generally twelve months. The short-term loan is payable in eleven payments of \$10,540 at 5.990% annual interest rate.

## Note 6 - Revenue and Cost Recognition

The Company recognizes revenue in accordance with ASC 606. As such, the Company has and will continue to review its performance obligations in terms of material customer contractual arrangements in order to verify that revenue is recognized when performance obligations are satisfied on a periodic basis.

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

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

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

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

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

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

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

	Six months ended June 30,			
	2019	% of Revenues	2018	% of Revenues
Consumer and athlete direct revenues	\$ 666,471	6%	\$ 579,202	6%
Dealer direct revenues	4,133,289	36%	4,207,110	41%
International distributor revenues	6,568,234	58%	5,512,093	53%
	<u>\$ 11,367,994</u>	<u>100%</u>	<u>\$ 10,298,405</u>	<u>100%</u>

The Company reviews the reserves for customer returns at each reporting period and adjusts them to reflect data available at that time. To estimate reserves for returns, the Company estimates the expected returns and claims based on historical rates as well as events and circumstances that indicate changes to historical rates of product returns and claims. Historically, returns due to product quality issues have not been material and there have been no distributor terminations that resulted in product

returns. The provision for estimated returns at June 30, 2019 and December 31, 2018 was \$0, and \$0, respectively.

Accounts receivable consist of amounts due to the Company from normal business activities. Credit is granted to substantially all distributors on an unsecured basis. The Company continuously monitors collections and payments from customers and maintains an allowance for doubtful accounts receivable based upon historical experience and any specific customer collection issues that have been identified. The allowance of doubtful accounts was \$85,493 at June 30, 2019 and \$83,399 at December 31, 2018.

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

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

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

For the six months ended June 30, 2019, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future period related to remaining performance obligations is not material. As of June 30, 2019, contract liabilities, if any, were not material.

#### **Note 7 - Income Taxes**

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

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

The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2019, the Company has no unrecognized tax benefits.

#### **Note 8 - Net Income Per Share of Common Stock**

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common stock shares and dilutive potential common shares outstanding during the period. For the six months ended June 30, 2019, the Company had 862,000 potential common shares, consisting of 120,000 preferred shares, options to purchase 169,000 shares, outstanding that were dilutive, and options to purchase 573,000 shares that were anti-dilutive and therefore, not included in diluted net income per share.

#### **Note 9 – Common Stock**

In February 2019, options to purchase 250,000 of the Company’s common stock were granted to key employees, consultants and directors under the Plan at an exercise price of \$2.30 per share, exercisable over a 10-year period. On February 25, 2019, 30% of the shares underlying these options vested with a compensation expense of \$82,530. The remaining 70% of the shares were unvested with unrecognized compensation value of \$192,570. The fair value of the stock options granted was estimated to be \$1.1004 at the date of the grant using the Black Scholes option-pricing model. The option value was calculated assuming a year’s risk-free interest rate of 2.84%, expected volatility of 32.35% and an expected dividend yield of 0.00% .

In addition, in February 2019, the Company issued 1,695 shares of common stock to an employee who exercised stock options in a cashless exercise and a Director exercised stock options for the issuance of 15,000 shares for \$15,000.

Stock-based compensation expense related to vested stock options during the six months ended June 30, 2019 was \$166,250. As of June 30, 2019, there was \$239,370 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a 3 year vesting period.





## **Note 10 – Recent Accounting Pronouncements**

### **Recently Adopted Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of operations. The new standard is effective for fiscal years beginning after December 15, 2018 and has been adopted using a modified retrospective transition approach effective January 1, 2019. The adoption of the new standard has had a material impact on the Company's consolidated balance sheets, but not on its consolidated statements of operations, as all long-term leases have been capitalized on the consolidated balance sheets. The Company has identified the population of leases and lease assets and is tracking all its lease agreements to assist in the reporting and disclosures required by the new standard. The Company has implemented processes and tools to assist in the ongoing lease data collection and analysis and has updated accounting policies and internal controls as a result of adopting this standard.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which make improvements to Accounting Standards Codification ("ASC") 842 and allow entities to not restate comparative periods in transition to ASC 842 and instead report the comparative periods under ASC 840. The Company adopted this standard using the modified retrospective approach on January 1, 2019 as described above, coinciding with the standard's effective date.

In June 2018, the FASB issued ASU 2018-07, "Compensation – Stock Compensation", which aligns the measurement and classification guidance for share-based payments to non-employees with the guidance for share-based payments to employees. Under the new guidance, the measurement period for equity-classified non-employee awards will be fixed at the grant date. This update is effective for annual periods beginning after December 15, 2018, and interim periods within those periods and early adoption is permitted. The Company adopted the new standard effective January 1, 2019 and it did not have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which provides for an election to reclassify stranded tax effects within accumulated other comprehensive income/(loss) to retained earnings due to the U.S. federal corporate income tax rate change in the Tax Cuts and Jobs Act of 2017. This standard is effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company adopted the new standard effective January 1, 2019 and it did not have a material impact on the consolidated financial statements.

### **Accounting Pronouncements Not Yet Adopted**

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurements", which eliminates, adds or modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year, with early adoption permitted to adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company does not expect this new guidance will have a material impact on the consolidated financial statements.

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and in November 2018 issued ASU 2018-19, which amended the standard. The standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new approach to estimating credit losses (referred

to as the current expected credit losses model) applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. This standard is effective for the Company on January 1, 2020. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently assessing the impact, but does not expect it will have a material impact on the consolidated financial statements.

**Note 11 - Litigation**

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

**Note 12 – Subsequent Events**

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

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

### Special Note Regarding Forward Looking Statements

This report contains forward-looking statements that are contained principally in the sections entitled "Our Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the factors described in the section captioned "Risk Factors" in our latest annual report on Form 10-K filed with the SEC. In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "would" and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements include, among other things, statements relating to:

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

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

### Use of Certain Defined Terms

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

- "Leatt," "we," "us," "our," the "Registrant" or the "Company" are to the combined business of Leatt Corporation, a Nevada corporation, its South African branch, Leatt SA, and its direct, wholly-owned subsidiaries, Two Eleven and Three Eleven;
- "Leatt SA" are to the Company's branch office known as 'Leatt Corporation (Incorporated in the State of Nevada)' incorporated under the laws of South Africa with registration number: 2007/032780/10;
- "Leatt USA" are to Leatt USA, LLC, a Nevada Limited Liability Company;
- "PRC", and "China" are to the People's Republic of China;
- "Two Eleven" refers to Two Eleven Distribution, LLC, a California limited liability company;
- "Three Eleven" are to Three Eleven Distribution (Pty) Limited, a South African Company;
- "Securities Act" are to the Securities Act of 1933, as amended, and to "Exchange Act" are to Securities Exchange Act of 1934, as amended;
- "South Africa" are to the Republic of South Africa;
- "U.S. dollar," "\$" and "US\$" are to the legal currency of the United States.
- "Xceed Holdings" refers to Xceed Holdings CC., a close corporation incorporated under the laws of South Africa, and wholly- owned by The Leatt Family Trust, of which Dr. Christopher J. Leatt, the Company's chairman, is a Trustee and Beneficiary; and
- "ZAR" refers to the South African Rand, the legal currency of South Africa. For all ZAR amounts reported, the dollar amount has been calculated on the basis that \$1 = ZAR 14.0446 for its June 30, 2019 balance sheet.

### Overview of our Business

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

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

The Company's research and development efforts are conducted at its research facilities, located at its executive headquarters in Cape Town, South Africa. The Company employs 3 full-time employees who are dedicated exclusively to research, development, and testing. The Company also utilizes consultants, academic institutions and engineering companies as independent contractors or consultants, from time to time, to assist it with its research and development efforts. Leatt products have been tested and reviewed internally and by external bodies. All Leatt products are compliant with applicable European Union directives, or CE certified, where appropriate. Depending on the market we have other certifications outside of CE. For the US market our motorcycle helmets comply with the DOT (FMVSS 218) helmet safety standard and our bicycle helmet complies with EN1078, as well as CPSC 1203. Our downhill specific bicycle helmets also comply with ASTM F1952. For our Australian Market our bicycle helmet complies with AS/NZS 2063. For the UK market our motorcycle helmets comply with ACU Gold. We are also in the process of certifying our GPX 3.5 helmet with JIS T 8133 for the Japanese Market.

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

Leatt earns revenues through the sale of its products through approximately 60 distributors worldwide, who in turn sell its products to retailers. Leatt distributors are required to follow certain standard business terms and guidelines for the sale and distribution of Leatt products. Two Eleven and Leatt SA directly distribute Leatt products to retailers in the United States and South Africa, respectively.

### **Principal Factors Affecting Our Financial Performance**

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

- **Global Economic Fragility** – The ongoing turmoil in the global economy, especially in the U.S., Asia and Europe, may have an impact on our business and our financial condition, and we may face challenges if economic conditions do not improve. These economic conditions impact levels of consumer spending, which have deteriorated and may remain depressed for the foreseeable future. If demand for our products fluctuates as a result of these economic conditions or otherwise, our revenue and gross margin could be harmed.
- **Fuel Prices** – Significant fluctuations in fuel prices could have both a positive and negative effect on our business and operations. A significant portion of our revenue is derived from international sales and significant fluctuations in world fuel prices could significantly increase the price of shipping or transporting our products which we may not be able to pass on to our customers. On the other hand, fluctuations in fuel prices lead to higher commuter costs which may encourage the increased use of motorcycles and bicycles as alternative modes of transportation and lead to an increase in the market for our protection products.
- **Product Liability Litigation** – We face an inherent business risk of exposure to product liability claims arising from the claimed failure of our products to help prevent the types of personal injury or death against which they are designed to help protect. Therefore, we have acquired very costly product liability insurance worldwide. We have not experienced any material uninsured losses due to product liability claims, but it is possible that we could experience material losses in the future. After a two-week trial in the United States District Court for the Northern District of Ohio (Eastern) ending on April 17, 2014, a federal jury returned a defense verdict for the Company in the first Leatt-Brace® product liability lawsuit to be tried in the United States. The plaintiffs in that case had alleged that defective product design and failure to warn had caused a motocross rider to suffer multiple mid-thoracic spine fractures, causing immediate and permanent paraplegia, when he crashed at a relatively low speed on February 13, 2011. When

the accident occurred, he was wearing a helmet and other safety gear from several different companies, including the Company's acclaimed Leatt- Brace®. The Company produced evidence at trial showing that his thoracic paraplegia was an unavoidable consequence of his fall, not the result of wearing a Leatt- Brace®, and that the neck brace likely saved his life (or saved him from quadriplegia) by preventing cervical spine injury. The Company had maintained from the onset that this and a small handful of other lawsuits are without merit and that it would vigorously defend itself in each case. In this case, the plaintiffs subsequently appealed the court's decision and the parties reached an amicable settlement. Although we carry product liability insurance, a successful claim brought against us could significantly harm our business and financial condition and have an adverse impact on our ability to renew our product liability insurance or secure new coverage.

- ***Protection of Intellectual Property*** – We believe that the continued success of our business is dependent on our intellectual property portfolio consisting of globally registered trademarks, design patents and utility patents related to the Leatt-Brace®. We believe that a loss of these rights would harm or cause a material disruption to our business and, our corporate strategy is to aggressively take legal action against any violators of our intellectual property rights, regardless of where they may be. From time to time, we have had to enforce our intellectual property rights through litigation and we may be required to do so in the future. Such litigation may result in substantial costs and could divert resources and management attention from the operations of our business.
- ***Fluctuations in Foreign Currencies*** – We are exposed to foreign exchange risk as our revenues and consolidated results of operations may be affected by fluctuations in foreign currency as we translate these currencies into U.S. dollars when we consolidate our financial results. While our reporting currency is the U.S. Dollar, a portion of our consolidated revenues are denominated in South African Rand, or ZAR, certain of our assets are denominated in ZAR, and our research and marketing operations in South Africa utilize South African labor sources. A decrease in the value of the U.S. dollar in relation to the ZAR could increase our cost of doing business in South Africa. If the ZAR depreciates against the U.S. Dollar, the value of our ZAR revenues, earnings and assets as expressed in our U.S. Dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk. Furthermore, since 66% of our sales is derived outside the U.S., where the U.S. dollar is not the primary currency, significant fluctuations in exchange rates such as the strengthening of the dollar versus our customers' local currency can adversely affect our ability to remain competitive in those areas.

## **Results of Operations**

The following summary of our results of operations should be read in conjunction with our financial statements and the notes thereto for the three- and six-month periods ended June 30, 2019 and 2018 included herein.

### ***Three Months Ended June 30, 2019 compared to the Three Months Ended June 30, 2018***

The following table summarizes the results of our operations during the three-month periods ended June 30, 2019 and 2018 and provides information regarding the dollar and percentage increase or (decrease) in such periods:



Item	Three Months Ended June 30,		\$ Increase (Decrease)	Percentage Increase (Decrease)
	2019	2018		
REVENUES	\$ 5,277,066	\$ 4,795,863	\$ 481,203	10%
COST OF REVENUES	2,646,430	2,440,660	\$ 205,770	8%
GROSS PROFIT	2,630,636	2,355,203	\$ 275,433	12%
PRODUCT ROYALTY INCOME	6,995	7,802	\$ (807)	-10%
OPERATING EXPENSES				
Salaries and Wages	713,736	617,552	\$ 96,184	16%
Commissions and Consulting	80,499	133,575	\$ (53,076)	-40%
Professional Fees	131,569	128,987	\$ 2,582	2%
Advertising and Marketing	471,888	458,450	\$ 13,438	3%
Office Lease and Expenses	68,546	71,321	\$ (2,775)	-4%
Research and Development Costs	366,219	378,912	\$ (12,693)	-3%
Bad Debt Expense (Recovery)	(7,022)	10,705	\$ (17,727)	-166%
General and Administrative	521,420	454,156	\$ 67,264	15%
Depreciation	188,300	165,011	\$ 23,289	14%
Total Operating Expenses	2,535,155	2,418,669	\$ 116,486	5%
INCOME (LOSS) FROM OPERATIONS	102,476	(55,664)	\$ 158,140	284%
Other Expenses	(572)	(2,475)	\$ 1,903	77%
INCOME (LOSS) BEFORE INCOME TAXES	101,904	(58,139)	\$ 160,043	275%
TAXES				
Income Taxes	28,204	(8,684)	\$ 36,888	425%
NET INCOME (LOSS)	\$ 73,700	\$ (49,455)	\$ 123,155	249%

*Revenues* – We earn revenues from the sale of our protective gear comprising of neck braces, body armor, helmets and other products, parts and accessories both in the United States and abroad. Revenues for the three months ended June 30, 2019 were \$5.28 million, a 10% increase, compared to revenues of \$4.80 million for the quarter ended June 30, 2018. Revenues associated with international customers were \$2.96 million and \$2.57 million, or 56% and 53% of revenues, respectively, for the three months ended June 30, 2019 and 2018. This increase in worldwide revenues is primarily attributable to a \$0.06 million increase in neck brace sales, a \$0.53 million increase in body armor sales and a \$0.33 million increase in sales of other products, parts and accessories that were partially offset by a \$0.43 million decrease in helmet sales.

The following table sets forth our revenues by product line for the three months ended June 30, 2019 and 2018:

	Three months ended June 30,			
	2019	% of Revenues	2018	% of Revenues
Neck braces	\$ 1,321,035	25%	\$ 1,263,402	26%
Body armor	2,805,170	53%	2,275,999	47%
Helmets	455,588	9%	886,703	19%
Other Products, Parts and Accessories	695,273	13%	369,759	8%
	\$ 5,277,066	100%	\$ 4,795,863	100%

Sales of our flagship neck brace accounted for \$1.32 million and \$1.26 million, or 25% and 26% of our revenues for the quarters ended June 30, 2019 and 2018, respectively. The 5% increase in neck brace revenues during the 2019 second quarter is primarily attributable to a 5% increase in the volume of neck braces sold to our customers worldwide during the period.

Our body armor products are comprised of chest protectors, full upper body protectors, upper body protection vests, back protectors, knee braces and knee and elbow guards. Body armor sales accounted for \$2.81 million and \$2.28 million, or 53% and 47% of our revenues for the quarters ended June 30, 2019 and 2018, respectively. The 23% increase in body armor revenues during the 2019 second quarter is primarily the result of a 69% increase in the volume of knee braces sold during the period due to increased worldwide demand for our line of medically certified, revolutionary knee braces.

Our helmets accounted for \$0.46 million and \$0.89 million or 9% and 19% of our revenues for the three months ended June 30, 2019 and 2018, respectively. The \$0.43 million decrease in helmet sales during the 2019 second quarter is primarily due to a 55% decrease in the volume of helmets sold during the 2019 period.

Our other products, parts and accessories are comprised of aftermarket support items required primarily to replace worn or damaged parts through our global distribution network, as well as clothing, outerwear and accessories that include hats, jackets, bags, hydration kits and cooling garments. Other products, parts and accessories sales accounted for \$0.70 million and \$0.37 million, or 13% and 8% of our revenues for the quarters ended June 30, 2019 and 2018, respectively. The 88% increase in revenues from the sale of other products, parts and accessories during the 2019 second quarter is primarily due to the continued global shipment of our innovative Velocity 6.5 line of goggles to our customers.

*Cost of Revenues and Gross Profit* – Cost of revenues for the quarters ended June 30, 2019 and 2018 were \$2.65 million and \$2.44 million, respectively. Gross Profit for the quarters ended June 30, 2019 and 2018 were \$2.63 million and \$2.36 million, respectively, or 50% and 49% of revenues respectively. Our neck brace products continue to generate a higher gross margin than our other product categories. Although our neck brace revenues accounted for 25% and 26% of our revenues for the quarters ended June 30, 2019 and 2018 respectively, gross margins on our body armor products and particularly our line of knee braces continued to improve. Body armor revenues accounted for 53% and 47% of our revenues for the quarters ended June 30, 2019 and 2018 respectively.

*Product Royalty Income* – Product royalty income is earned on sales to distributors that have royalty agreements in place, as well as on sales of licensed products by third parties that have licensing agreements in place. Product royalty income for the quarters ended June 30, 2019 and 2018 were \$6,995 and \$7,802, respectively. The 10% decrease in product royalty income is due to a decrease in the sale of licensed products by licensees in the 2019 period.

*Salaries and Wages* – Salaries and wages for the quarters ended June 30, 2019 and 2018 were \$713,736 and \$617,552, respectively. This 16% increase in salaries and wages during the 2019 period was primarily due to the employment of additional in-house sales personnel based in the United States and sales and marketing staff based in Europe.

*Commissions and Consulting Expense* – During the quarters ended June 30, 2019 and 2018, commissions and consulting expenses were \$80,499 and \$133,575, respectively. This 40% decrease in commissions and consulting expenses is primarily due to a decrease in commissions paid to the external sales personnel in the United States in line with the Company's employment of in-house sales personnel.

*Professional Fees* – Professional fees consist of costs incurred for audit, tax and regulatory filings, as well as patent protection and product liability litigation expenses incurred as the Company continues to expand. Professional fees for the quarters ended June 30, 2019 and 2018 were \$131,569 and \$128,987, respectively. This 2% increase in professional fees is primarily due to increased spending on patent litigation as the Company continues to protect its intellectual property rights.

*Advertising and Marketing* – The Company places paid advertising in various motorsport magazines and online media, and sponsors a number of events, teams and individuals to increase product and brand visibility. Advertising and marketing expenses for the quarters ended June 30, 2019 and 2018 were \$471,888 and \$458,450, respectively. The 3% increase in advertising and marketing expenditures during the 2019 period is primarily due to the production and implementation of global marketing campaigns incorporating web based advertising, social media outreach and athlete sponsorships in key market areas that are designed to promote the Company's expanding product range and global brand.

*Office Lease and Expenses* – Office lease and expenses for the quarters ended June 30, 2019 and 2018 were \$68,546 and \$71,321, respectively. This 4% decrease in office lease and expenses during the 2019 period was primarily due to a decrease in utility expenditure incurred in the United States during the 2019 period.



*Research and Development Costs* – These costs consist of the salaries of personnel who are directly involved in the research and development of innovative products, as well as the direct costs associated with developing these products. Research and development costs for the quarter ended June 30, 2019 decreased to \$366,219, from \$378,912 during the same 2018 quarter. The 3% decrease in research and development costs during the 2019 second quarter is as a result of significant CE certification and homologation costs incurred during the 2018 period.

*Bad Debt Expense (Recovery)* – Bad Debt Expense (Recovery) for the quarters ended June 30, 2019 and 2018 were (\$7,022) and \$10,705, respectively. This decrease in Bad Debt Expense (Recovery) is primarily the result of a decrease in the Provision for doubtful accounts in line with a decrease in Accounts receivable.

*General and Administrative Expenses* – General and administrative expenses consist of insurance, travel, merchant fees, telephone, office and computer supplies. General and administrative expenses for the quarters ended June 30, 2019 and 2018 were \$521,420 and \$454,156, respectively. The 15% increase in general and administrative expenses is primarily due to increased travel expenditure incurred on dealer sales visits in the United States and manufacturer visits globally as the Company continues to grow its product categories and line up.

*Depreciation Expense* – Depreciation Expense for the quarters ended June 30, 2019 and 2018 were \$188,300 and \$165,011, respectively. This 14% increase in depreciation during the 2019 second quarter is primarily due to the addition of molds and tooling utilized in the production of the Company’s widening product range.

*Total Operating Expenses* – Total operating expenses increased by \$116,486 to \$2.54 million in the three months ended June 30, 2019, or 5%, compared to \$2.42 million in the 2018 period. This increase is primarily due to increased general and administrative costs and salaries and wages that were partially offset by a decrease in commission and consulting costs.

*Net income (loss)* – The net income after income taxes for the quarter ended June 30, 2019 was \$73,700 as opposed to a net loss after income taxes of \$49,455 for the quarter ended June 30, 2018. This increase in net income is primarily due to the increase in revenues and gross profit discussed above.

***Six Months Ended June 30, 2019 Compared to the Six Months Ended June 30, 2018***

The following table summarizes the results of our operations during the six-month periods ended June 30, 2019 and 2018 and provides information regarding the dollar and percentage increase or (decrease) in such periods:

Item	Six Months Ended June 30,		\$ Increase (Decrease)	Percentage Increase (Decrease)
	2019	2018		
REVENUES	\$ 11,367,994	\$ 10,298,405	\$ 1,069,589	10%
COST OF REVENUES	5,875,256	5,186,757	\$ 688,499	13%
GROSS PROFIT	5,492,738	5,111,648	\$ 381,090	7%
PRODUCT ROYALTY INCOME	15,696	20,111	\$ (4,415)	-22%
OPERATING EXPENSES				
Salaries and Wages	1,590,640	1,395,315	\$ 195,325	14%
Commissions and Consulting	158,560	258,914	\$ (100,354)	-39%
Professional Fees	384,537	297,458	\$ 87,079	29%
Advertising and Marketing	1,035,882	962,612	\$ 73,270	8%
Office Lease and Expenses	138,538	141,759	\$ (3,221)	-2%
Research and Development Costs	706,315	702,192	\$ 4,123	1%
Bad Debt Expense	9,499	20,472	\$ (10,973)	-54%
General and Administrative	988,654	889,716	\$ 98,938	11%
Depreciation	377,995	327,775	\$ 50,220	15%
Total Operating Expenses	5,390,620	4,996,213	\$ 394,407	8%
INCOME FROM OPERATIONS	117,814	135,546	\$ (17,732)	-13%
Other Expenses	(3,593)	(5,927)	\$ 2,334	39%
INCOME BEFORE INCOME TAXES	114,221	129,619	\$ (15,398)	-12%
Income Taxes	31,283	38,255	\$ (6,972)	-18%
NET INCOME	\$ 82,938	\$ 91,364	\$ (8,426)	-9%

*Revenues* – We earn revenues from the sale of our protective gear comprising of neck braces, body armor, helmets and other products, parts and accessories both in the United States and internationally. Revenues for the six months ended June 30, 2019 were \$11.37 million, a 10% increase, compared to \$10.30 million for the six months ended June 30, 2018. Revenues generated from sales to our customers in the United States increased from \$4.32 million to \$4.40 million, for the six months ended June 30, 2019 and 2018, respectively. Revenues associated with international customers were \$6.97 million and \$5.98 million, or 61% and 58% of revenues, respectively, for the six months ended June 30, 2019 and 2018. This increase in global revenues during the 2018 period is attributable to a \$0.68 million increase in body armor sales and a \$0.99 million increase in sales of other products, parts and accessories that were partially offset by a \$0.24 million decrease in neck brace sales and a \$0.35 million decrease in helmet sales.

The following table sets forth our revenues by product line for the six months ended June 30, 2019 and 2018:

	Six months ended June 30,			
	2019	% of Revenues	2018	% of Revenues
Neck braces	\$ 2,681,080	24%	\$ 2,921,115	29%
Body armor	5,231,742	46%	4,554,958	44%
Helmets	1,432,339	12%	1,785,440	17%
Other Products, Parts and Accessories	2,022,833	18%	1,036,892	10%
	\$ 11,367,994	100%	\$ 10,298,405	100%

Sales of our flagship neck brace accounted for \$2.68 million and \$2.92 million, or 24% and 29% of our revenues for the six-month periods ended June 30, 2019 and 2018, respectively. The 8% decrease in neck brace revenues is primarily attributable to a decrease in the volume of neck braces sold to our customers globally. The Company shipped initial stocking shipments of our highly anticipated 3.5 neck brace for off-road motorcycle and bicycle use during the first quarter of 2018 which resulted in strong comparative neck brace sales.

Our body armor products are comprised of chest protectors, full upper body protectors, upper body protection vests, back protectors, knee braces and knee and elbow guards. Body armor sales accounted for \$5.23 million and \$4.55 million, or 46% and 44% of our revenues for the six-month period ended June 30, 2019 and 2018, respectively. The 15% increase in body armor revenues was primarily the result of a 58% increase in the volume of knee braces sold during the six months ended June 30, 2019 due to increased customer demand in the United States and abroad.

Our Helmets accounted for \$1.43 million and \$1.79 million, or 12% and 17% of our revenues for the six-month periods ended June 30, 2019 and 2018, respectively. The \$0.35 million decrease in helmet sales during the 2019 period is primarily due to a 26% decrease in the volume of helmets sold during the 2019 period. Although sales volumes of our Convertible DBX 3.0 Enduro and DBX 4.0 helmets for bicycle use, and our GPX 3.5 helmet for motorcycle use continued to grow, sales volumes of our GPX 5.5 helmet for off-road motorcycle use decreased for the period ended June 30, 2019 when compared to the prior period, particularly in the United States.

Our other products, parts and accessories are comprised of aftermarket support items required primarily to replace worn or damaged parts through our global distribution network, as well as clothing, outerwear and accessories that include hats, jackets, bags, hydration kits and cooling garments. Other products, parts and accessories sales accounted for \$2.02 million and \$1.04 million or 18% and 10% of our revenues for the six-month periods ended June 30, 2019 and 2018, respectively. The 95% increase in revenues from the sale of other products, parts and accessories is primarily due to initial shipments of our innovative Velocity 6.5 line of goggles to our customers in the United States and abroad.

*Cost of Revenues and Gross Profit* – Cost of revenues for the six-months ended June 30, 2019 and 2018 were \$5.88 million and \$5.19 million, respectively. Gross Profit for the six-month periods ended June 30, 2019 and 2018 were \$5.49 million and \$5.11 million, respectively, or 48% and 50% of revenues respectively. Our neck brace products continue to generate a higher gross profit margin than other product categories. Neck brace revenues accounted for 24% and 29% of our revenues for the six months ended June 30, 2019 and 2018, respectively.

*Product Royalty Income* – Product royalty income is earned on sales to distributors that have royalty agreements in place, as well as on sales of licensed products by third parties that have licensing agreements in place. Product royalty income for the six-month periods ended June 30, 2019 and 2018 were \$15,696 and \$20,111, respectively. The 22% decrease in product royalty income is due to a decrease in the sale of licensed products by licensees in the 2019 period.

*Salaries and Wages* – Salaries and wages for the six-month periods ended June 30, 2019 and 2018 were \$1,590,640 and \$1,395,315, respectively. This 14% increase in salaries and wages during the 2019 period was primarily due to the employment of additional in-house professional sales personnel in the United States and sales and marketing staff that are based in Europe during the six months ended June 30, 2019.

*Commissions and Consulting Expense* – During the six-month periods ended June 30, 2019 and 2018, commissions and consulting expenses were \$158,560 and \$258,914, respectively. This 39% decrease in commissions and consulting expenses during the 2019 period is primarily the result of decreased sales commissions paid to external sales representatives in the United States as the Company continues to employ professional sales personnel on a permanent basis.

*Professional Fees* – Professional fees consist of costs incurred for audit, tax and regulatory filings, as well as patent protection and product liability litigation expenses incurred as the Company continues to expand. Professional fees for the six-month periods ended June 30, 2019 and 2018 were \$384,537 and \$297,458, respectively. This 29% increase in professional fees is primarily due to increased spending on product liability litigation during the 2019 period.

*Advertising and Marketing* – The Company places paid advertising in various motorsport magazines and online media, and sponsors a number of events, teams and individuals to increase product and brand visibility. Advertising and marketing expenses for the six-months ended June 30, 2019 and 2018 were \$1,035,882 and \$962,612, respectively. The 8% increase in advertising and marketing expenditures during the 2019 period is primarily due to the production and implementation of marketing campaigns that incorporate strategic paid media placements and athlete sponsorships designed to globally support and promote the Company's widening product range, target market reach and increase consumer awareness of the Leatt brand.



*Office Lease and Expenses* – Office lease and expenses for the six-month periods ended June 30, 2019 and 2018 were \$138,538 and \$141,759, respectively. The 2% decrease in office lease and expenses during the 2019 period was primarily due to a decrease in utility expenditure incurred in the United States during the 2019 period.

*Research and Development Costs* – These costs consist of the salaries of personnel who are directly involved in the research and development of innovative products, as well as the direct costs associated with developing these products. Research and development costs for the six-month periods ended June 30, 2019 and 2018, increased to \$706,315, from \$702,192, during the same 2018 period. The 1% increase in research and development costs during the 2019 period is due to increased development costs as the Company continues to expand its product offering with exceptional protective gear and develop a pipeline of innovative products for wider consumer groups.

*Bad Debt Expense* – Bad Debt Expense for the six-month periods ended June 30, 2019 and 2018 were \$9,499 and \$20,472, respectively. This decrease in Bad Debt Expense during the 2019 period is primarily the result of a decrease in the Provision for doubtful accounts in line with a decrease in accounts receivable during the six-month period ended June 30, 2019 as compared to the six-month period ended June 30, 2018.

*General and Administrative Expenses* – General and administrative expenses consist of insurance, travel, merchant fees, telephone, office and computer supplies. General and administrative expenses for the six-month periods ended June 30, 2019 and 2018 were \$988,654 and \$889,716, respectively. The 11% increase in general and administrative expenses during the 2019 period is primarily as a result of an increase in product liability insurance premiums and increased expenditure on sales dealer visits in the United States.

*Depreciation Expense* – Depreciation Expense for the six-month periods ended June 30, 2019 and 2018 were \$377,995 and \$327,775, respectively. This 15% increase in depreciation during the 2019 period is primarily due to the addition of molds and tooling utilized in the production of the Company’s widening product range.

*Total Operating Expenses* – Total operating expenses increased by \$394,407, to \$5.39 million in the six-month periods ended June 30, 2019, or 8%, compared to \$5 million in the 2018 period. This increase in total operating expenses during the 2019 period is primarily due to increased salaries, wages and general and administrative costs that were partially offset by decreased commission and consulting costs discussed above.

*Net income* – Net income after income taxes for the six-month period ended June 30, 2019 was \$82,938 as opposed to a net income after income taxes of \$91,364 for the six-month period ended June 30, 2018. This marginal decrease in net income during the 2019 period is primarily due to the increase in total operating expenses that were partially offset by the increase in revenue and gross profit discussed above.

## Liquidity and Capital Resources

At June 30, 2019, we had cash and cash equivalents of \$1.49 million and \$0.06 million of short-term investments. The following table sets forth a summary of our cash flows for the periods indicated:

	June 30,	
	2019	2018
Net cash provided by operating activities	\$ 228,779	\$ 514,376
Net cash used in investing activities	\$ (191,891)	\$ (210,687)
Net cash used in financing activities	\$ (276,296)	\$ (260,097)
Effect of exchange rate changes on cash and cash equivalents	\$ 21,855	\$ (49,466)
Net decrease in cash and cash equivalents	\$ (217,553)	\$ (5,874)
Cash and cash equivalents at the beginning of period	\$ 1,709,900	\$ 1,518,157
Cash and cash equivalents at the end of period	\$ 1,492,347	\$ 1,512,283

Cash decreased by \$217,553, or 13%, for the six months ended June 30, 2019 when compared to cash on hand at December 31, 2018. The primary uses of cash for the six months ended June 30, 2019 were increased inventory of \$485,696, repayment of a short-term loan amounting to \$291,296 and capital expenditures of \$191,888. The primary sources of cash for the six months ended June 30, 2019 were decreased accounts receivable of \$250,284 and net income of \$82,938.





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

### **Obligations under Material Contracts**

Pursuant to our Licensing Agreement with Xceed Holdings, a company owned and controlled by Dr. Christopher Leatt, our founder, chairman and head of research and development, we pay Xceed Holdings 4% of all neck brace sales revenue billed and received by the Company on a quarterly basis based on sales of the previous quarter. In addition, pursuant to a separate license agreement between the Company and Mr. J. P. De Villiers, our former director, the Company is obligated to pay a royalty fee of 1% of all our billed and received neck brace sales revenue, in quarterly installments, based on sales of the previous quarter, to a trust that is beneficially owned and controlled by Mr. De Villiers. During the quarter ended June 30, 2019 and 2018, the Company paid an aggregate of \$16,397 and \$16,604 in licensing fees to Mr. De Villiers.

On July 8, 2015, the Company entered into a consulting agreement with Innovate Services Limited, or Innovate, a Seychelles limited company in which, Dr. Leatt is an indirect beneficiary. Pursuant to the terms of the Consulting Agreement, as amended, Innovate has agreed to serve as the Company's exclusive research, development and marketing consultant, in exchange for a monthly fee of \$38,062; provided that Dr. Leatt personally performs the services to be performed by Innovate under the Agreement, pursuant to a separate employment agreement between Innovate and Dr. Leatt. The parties further agreed that all intellectual property generated in connection with the services provided under the Consulting Agreement will be the sole property of the Company. The Consulting Agreement was effective as of May 15, 2015 and will continue unless terminated by either party in accordance with its terms. Either party has the right to terminate the Consulting Agreement upon 6 months' prior written notice, except that the Consulting Agreement may be terminated immediately without notice if the services to be performed under the Consulting Agreement cease to be performed by Dr. Leatt, or for any other material breach of the Agreement. The parties have agreed to settle any dispute under the Consulting Agreement through arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (AAA), and that the resulting arbitration award will be final and binding on both parties and will not be subject to any appeal. Effective January 1, 2019, the Company and Innovate amended the Consulting Agreement to increase Innovate's consulting duties and to increase the monthly fee payable under the agreement to \$40,435. In addition, the parties agreed that Innovate may increase its monthly fees under the Consulting Agreement provided that the fee is no greater than the lesser of: (a) two and one-half percent (2.5%) of the prior year's annualized fee; or (b) a percentage equal to then-applicable annual percentage increase in the Consumer Price Index published by the United States Department of Labor's bureau of labor statistics, plus one-half percent (0.5%). The foregoing description is qualified in its entirety by reference to the Consulting Agreement filed as Exhibit 10.14 to the Company's report on Form 10-K for the year ended December 31, 2018. During the quarter ended June 30, 2019 and 2018, the Company paid an aggregate of \$121,305 and \$114,186 in consulting fees to Innovate.

The Company entered into a new Premium Finance Agreement with AFCO Acceptance Corporation "AFCO" dated October 10, 2018, to finance its U.S. short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$667,704 in eleven payments of \$62,225, at an annual interest rate of 4.990% commencing on November 1, 2018 and ending on September 1, 2019. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of June 30, 2019, the Company had not defaulted on its payment obligations under this agreement.

Pursuant to a Premium Finance Agreement, dated May 29, 2019, between the Company and AFCO, the Company is obligated to pay AFCO an aggregate sum of \$112,538 in eleven payments of \$10,540 at a 5.990% annual interest rate, commencing on June 1, 2019 and ending on April 1, 2020. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of June 30, 2019, the Company had not defaulted on its payment obligations under this agreement.

On November 19, 2018, the Company entered into a \$1,000,000 revolving line of credit agreement with a national bank. Payments for the advances under the line bear interest at the LIBOR Daily Floating Rate plus 2.5 percentage points, commencing January 1, 2019. The line of credit matures November 19, 2019, at which time the unpaid principal, interest, or other charges outstanding under the agreement are due and payable. Obligations under the line of credit are secured by the Company's equipment and fixtures in the U.S., accounts receivable and inventory of the Company and its U.S. subsidiary, Two-Eleven. As of June 30, 2019, the line of credit was unused and the entire \$1,000,000 was available.



## Critical Accounting Policies

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

**Revenue and Cost Recognition** – The Company recognizes revenue in accordance with ASC 606. As such, the Company has and will continue to review its performance obligations in terms of material customer contractual arrangements in order to verify that revenue is recognized when performance obligations are satisfied on a periodic basis.

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

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

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

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

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

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

The Company reviews the reserves for customer returns at each reporting period and adjusts them to reflect data available at that time. To estimate reserves for returns, the Company estimates the expected returns and claims based on historical rates as well as events and circumstances that indicate changes to historical rates of product returns and claims. Historically, returns due to product quality issues have not been material and there have been no distributor terminations that resulted in product returns. No provision was made for estimated returns at June 30, 2019 and 2018, respectively.

Sales commissions are expensed when incurred, which is generally at the time of sale or cash received from customers, because the amortization period would have been one year or less. These costs are recorded in commissions and consulting

expenses within operating expense in the accompanying consolidated statements of operations and comprehensive income (loss).

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

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

For both the quarters ended June 30, 2019 and 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future period related to remaining performance obligations is not material. As of June 30, 2019, contract liabilities, if any, were not material.

***Allowance for Doubtful Accounts Receivable*** - Accounts receivable consist of amounts due to the Company from normal business activities. Credit is granted to substantially all distributors on an unsecured basis. We continuously monitor collections and payments from customers and maintain an allowance for doubtful accounts receivable based upon historical experience and any specific customer collection issues that have been identified. In determining the amount of the allowance, we are required to make certain estimates and assumptions. Accounts receivable balances that are still outstanding after we have used reasonable collection efforts are written off as uncollectible. While such credit losses have historically been minimal, within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of any of our significant customers could have a material adverse effect on the collectability of our accounts receivable and our future operating results. The allowance for doubtful accounts at June 30, 2019 was \$85,493, and \$83,399 at December 31, 2018.

***Inventory Valuation*** – Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, we make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, we utilize historical experience as well as current market information. The reserve for obsolescence at June 30, 2019 was \$75,906, and \$83,004 at December 31, 2018.

***Impairment of Long-Lived Assets*** – Our long-lived assets include property and equipment. We evaluate our long-lived assets for recoverability whenever events or changes in circumstances indicate that an asset may be impaired. In evaluating an asset for recoverability, we estimate the future cash flow expected to result from the use of the asset and eventual disposition. If the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. We have determined there was no impairment charge during the six months ended June 30, 2019 and 2018, respectively.

***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 both the six months ended June 30, 2019 and 2018 was zero. There was no impairment loss recognized for the six months ended June 30, 2019 and 2018, respectively.

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

## **Recent Accounting Pronouncements**

See Note 10, "Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements, including the respective dates of adoption, or expected adoption and effects on our consolidated financial position, results of operations and cash flows.

### **Off-Balance Sheet Arrangements**

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not Applicable.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### **Disclosure Controls and Procedures**

As of June 30, 2019, the Company's management, under the direction of its Chief Executive Officer and the Chief Financial Officer, Mr. Sean Macdonald, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer determined that the Company's disclosure controls and procedures were deemed to be effective.

#### **Changes in Internal Controls Over Financial Reporting**

There were no changes in our internal controls over financial reporting during the period ended June 30, 2019, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

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

- On August 7, 2017, a lawsuit was filed against the Company and one other defendant on behalf of a motorcycle rider in the Southern District Court of Iowa for strict liability, breach of warranty, negligence, gross negligence and consumer fraud. On May 3, 2018 the Federal Court dismissed the Plaintiff's entire complaint against Leatt Corporation and the other defendant in this matter. On October 4, 2018, the Plaintiff filed an appeal against the dismissal of the complaints against both parties, this appeal is still pending.
- On April 3, 2018, a wrongful death lawsuit was filed against the Company and three other defendants in Superior Court of California, County of Imperial. The claims being asserted against the defendants is strict liability, negligence, failure to warn, and breach of implied and express warranties. The litigation is in the discovery stage and no hearing date has yet been set. The Company believes that the lawsuit is without merit and intends to vigorously defend itself.

### **ITEM 1A. RISK FACTORS.**

There are no material changes from the risk factors previously disclosed in Item 1A "Risk Factors" of our annual report on Form 10-K for the period ended December 31, 2018.





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

None.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

## ITEM 4. MINE SAFETY DISCLOSURES.

None.

## ITEM 5. OTHER INFORMATION.

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

## ITEM 6. EXHIBITS.

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

<b>Exhibit</b>	<b>Description</b>
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**No.**

<a href="#"><u>31.1</u></a>	<a href="#"><u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
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<a href="#"><u>31.2</u></a>	<a href="#"><u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
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<a href="#"><u>32.1</u></a>	<a href="#"><u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
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<a href="#"><u>32.2</u></a>	<a href="#"><u>Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
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101*	Interactive data files pursuant to Rule 405 of Regulation S-T
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\* Filed with this Form 10-Q for Leatt Corporation. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

## SIGNATURES

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

Date: August 8, 2019

**LEATT CORPORATION**

By: /s/ Sean Macdonald

Sean Macdonald

Chief Executive Officer and Chief Financial Officer

*(Principal Executive, Financial and Accounting Officer)*

## EXHIBIT INDEX

### **ExhibitDescription No.**

- [31.1](#) [Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [31.2](#) [Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- [32.1](#) [Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- [32.2](#) [Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

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

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

I, Sean Macdonald, certify that:

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

Date: August 8, 2019

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



**CERTIFICATIONS**

I, Sean Macdonald, certify that:

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

Date: August 8, 2019

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



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

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

1. The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

IN WITNESS WHEREOF, each of the undersigned has executed this statement this 8th day of August, 2019.

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

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

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

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

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

1. The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

IN WITNESS WHEREOF, each of the undersigned has executed this statement this 8th day of August, 2019.

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

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

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

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