

**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: **September 30, 2020**

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.

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 November 2, 2020 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>

LEATT CORPORATION

*Quarterly Report on Form 10-Q*  
*Nine months ended September 30, 2020*

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**LEATT CORPORATION  
CONSOLIDATED BALANCE SHEETS**

**ASSETS**

	September 30, 2020 Unaudited	December 31, 2019 Audited
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,868,661	\$ 2,072,864
Short-term investments	58,255	58,239
Accounts receivable	5,620,541	2,956,012
Inventory	6,872,164	8,655,176
Payments in advance	904,573	447,476
Prepaid expenses and other current assets	1,848,486	1,129,067
Total current assets	<u>18,172,680</u>	<u>15,318,834</u>
Property and equipment, net	2,461,093	2,431,061
Operating lease right-of-use assets, net	254,066	411,956
<b>Other Assets</b>		
Deposits	32,591	26,642
Total other assets	<u>32,591</u>	<u>26,642</u>
<b>Total Assets</b>	<u>\$ 20,920,430</u>	<u>\$ 18,188,493</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 6,007,857	\$ 5,425,681
Note payable to bank	100,000	300,000
Operating lease liabilities, current	163,858	190,765
Income tax payable	859,609	592,661
Short term loan, net of finance charges	71,897	576,474
Total current liabilities	<u>7,203,221</u>	<u>7,085,581</u>
Paycheck Protection Program loan	210,732	-
Deferred Compensation	220,000	160,000
Operating lease liabilities, net of current portion	90,208	221,191
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity</b>		
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 shares issued and outstanding	130,068	130,068
Additional paid - in capital	8,145,716	8,079,774
Accumulated other comprehensive loss	(768,851)	(529,045)
Retained earnings	5,686,336	3,037,924
Total stockholders' equity	<u>13,196,269</u>	<u>10,721,721</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 20,920,430</u>	<u>\$ 18,188,493</u>

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

**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

	Three Months Ended September 30		Nine Months Ended September 30	
	2020 Unaudited	2019 Unaudited	2020 Unaudited	2019 Unaudited
Revenues	\$ 11,370,946	\$ 9,649,335	\$ 25,855,950	\$ 21,017,329
Cost of Revenues	<u>6,422,472</u>	<u>5,152,688</u>	<u>14,129,516</u>	<u>11,027,944</u>
Gross Profit	<u>4,948,474</u>	<u>4,496,647</u>	<u>11,726,434</u>	<u>9,989,385</u>
Product Royalty Income	36,016	17,360	40,675	33,056
Operating Expenses				
Salaries and wages	784,131	739,366	2,251,583	2,330,006
Commissions and consulting expenses	157,672	104,608	345,014	263,168
Professional fees	181,233	133,480	716,138	518,017
Advertising and marketing	543,020	520,633	1,524,251	1,556,515
Office lease and expenses	78,932	71,725	225,132	210,263
Research and development costs	404,723	357,258	1,129,535	1,063,573
Bad debt expense	32,172	148,685	59,092	158,184
General and administrative expenses	459,993	485,054	1,390,236	1,473,708
Depreciation	212,564	191,712	595,365	569,707
Total operating expenses	<u>2,854,440</u>	<u>2,752,521</u>	<u>8,236,346</u>	<u>8,143,141</u>
Income from Operations	<u>2,130,050</u>	<u>1,761,486</u>	<u>3,530,763</u>	<u>1,879,300</u>
Other Income (expenses)				
Interest and other expenses, net	19,727	(449)	1,621	(4,042)
Total other income (expenses)	<u>19,727</u>	<u>(449)</u>	<u>1,621</u>	<u>(4,042)</u>
Income Before Income Taxes	2,149,777	1,761,037	3,532,384	1,875,258
Income Taxes	<u>538,320</u>	<u>440,259</u>	<u>883,972</u>	<u>471,542</u>
Net Income Available to Common Shareholders	<u>\$ 1,611,457</u>	<u>\$ 1,320,778</u>	<u>\$ 2,648,412</u>	<u>\$ 1,403,716</u>
Net Income per Common Share				
Basic	<u>\$ 0.30</u>	<u>\$ 0.25</u>	<u>\$ 0.49</u>	<u>\$ 0.26</u>
Diluted	<u>\$ 0.27</u>	<u>\$ 0.24</u>	<u>\$ 0.45</u>	<u>\$ 0.25</u>
Weighted Average Number of Common Shares Outstanding				
Basic	<u>5,386,723</u>	<u>5,386,723</u>	<u>5,386,723</u>	<u>5,384,753</u>
Diluted	<u>5,860,428</u>	<u>5,532,275</u>	<u>5,860,428</u>	<u>5,530,304</u>
Comprehensive Income				
Net Income	\$ 1,611,457	\$ 1,320,778	\$ 2,648,412	\$ 1,403,716
Other comprehensive income, net of \$-0- and \$-0- deferred income taxes in 2020 and 2019				
Foreign currency translation	<u>17,584</u>	<u>(102,756)</u>	<u>(239,806)</u>	<u>(69,591)</u>
Total Comprehensive Income	<u>\$ 1,629,041</u>	<u>\$ 1,218,022</u>	<u>\$ 2,408,606</u>	<u>\$ 1,334,125</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 NINE MONTHS ENDED SEPTEMBER 30, 2020**

	Preferred Stock A		Common Stock		Additional Paid - In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance, January 1, 2020	120,000	\$ 3,000	5,386,723	\$ 130,068	\$ 8,079,774	\$ (529,045)	\$3,037,924	\$ 10,721,721
Compensation cost recognized in connection with stock options	-	-	-	-	65,942	-	-	65,942
Net income	-	-	-	-	-	-	2,648,412	2,648,412
Foreign currency translation adjustment	-	-	-	-	-	(239,806)	-	(239,806)
Balance, September 30, 2020	120,000	\$ 3,000	5,386,723	\$ 130,068	\$ 8,145,716	\$ (768,851)	\$5,686,336	\$ 13,196,269

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

**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019**

	2020	2019
<b>Cash flows from operating activities</b>		
Net income	\$ 2,648,412	\$ 1,403,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	595,365	569,707
Stock-based compensation	65,942	166,250
Bad debts reserve	47,639	137,787
Inventory reserve	(9,002)	35,248
Gain on sale of property and equipment	(25,046)	(1,500)
(Increase) decrease in:		
Accounts receivable	(2,712,168)	(3,916,510)
Inventory	1,792,014	(2,188,013)
Payments in advance	(457,097)	(94)
Prepaid expenses and other current assets	(719,419)	221,279
Deposits	(5,949)	(787)
Increase (decrease) in:		
Accounts payable and accrued expenses	582,176	4,151,748
Income taxes payable	266,948	358,814
Deferred compensation	60,000	60,000
Net cash provided by operating activities	<u>2,129,815</u>	<u>997,645</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(697,625)	(616,278)
Proceeds from sale of property and equipment	25,745	10,000
Increase in short-term investments, net	(16)	(4)
Net cash used in investing activities	<u>(671,896)</u>	<u>(606,282)</u>
<b>Cash flows from financing activities</b>		
Issuance of common stock	-	15,000
Proceeds (repayment) of note payable to bank, net	(200,000)	350,000
Proceeds from Paycheck Protection Program loan	210,732	-
Repayments of short-term loan, net	(504,577)	(509,019)
Net cash used in financing activities	<u>(493,845)</u>	<u>(144,019)</u>
Effect of exchange rates on cash and cash equivalents	<u>(168,277)</u>	<u>(50,632)</u>
Net increase in cash and cash equivalents	795,797	196,712
Cash and cash equivalents - beginning of period	<u>2,072,864</u>	<u>1,709,900</u>
Cash and cash equivalents - end of period	<u>\$ 2,868,661</u>	<u>\$ 1,906,612</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	<u>\$ 26,446</u>	<u>\$ 16,509</u>
Cash paid for income taxes	<u>\$ 616,148</u>	<u>\$ 111,600</u>
Other noncash investing and financing activities		
Common stock issued for services	<u>\$ 65,942</u>	<u>\$ 166,250</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, 2019 was audited and appears in the Form 10-K filed by the Company with the Securities and Exchange Commission on March 24, 2020. The consolidated balance sheet as of September 30, 2020 and the consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2020 and 2019, changes in stockholders' equity for the nine months ended September 30, 2020, cash flows for the nine months ended September 30, 2020 and 2019, 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 September 30, 2020 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, 2019 as filed with the Securities and Exchange Commission in the Company's Form 10-K.

**Note 2 - Inventory**

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, the Company utilizes historical experience as well as current market information. The reserve for obsolescence was \$100,125 at September 30, 2020 and \$109,127 at December 31, 2019.

**Note 3 - 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 September 30, 2020 and December 31, 2019:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
<i>Assets</i>		
Operating lease ROU assets	\$ 254,066	\$ 411,956
<i>Liabilities</i>		
Operating lease liabilities, current	\$ 163,858	\$ 190,765
Operating lease liabilities, net of current portion	90,208	221,191
Total operating lease liabilities	<u>\$ 254,066</u>	<u>\$ 411,956</u>

During the nine months ended September 30, 2020 and 2019 the Company recognized \$150,110 and \$128,713, respectively, in operating lease expenses, which are included in office lease and expenses in the Company's consolidated statements of operations and comprehensive income.

Generally, the Company's lease agreements do not specify an implicit rate. Therefore, the Company estimates the incremental borrowing rate, which is defined as the interest rate the Company 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 September 30, 2020, the following disclosures for remaining lease term and incremental borrowing rates were applicable:

## Supplemental disclosure

September 30,  
2020

Weighted average remaining lease term	2 years
Weighted average discount rate	5.02%

Maturities of lease liabilities as of September 30, 2020 were as follows:

Year ended December 31,	Amounts under Operating Leases	
Remaining 2020	\$	53,257
2021		175,659
2022		58,973
Total minimum lease payments		287,889
Less: amount representing interest		(33,823)
Total operating lease liabilities		254,066

Supplemental cash flow information for the nine months ended September 30, 2020 and 2019 are as follows:

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
Cash paid for amounts included in the measurement of lease liabilities	\$	165,228	\$	137,442
Right-of-use assets obtained in exchange for lease obligations	\$	-	\$	500,956

**Note 4 - Note Payable to Bank**

On November 19, 2018, the Company entered into a \$1,000,000 revolving line of credit agreement with a 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 on November 19, 2020, 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 equipment and fixtures in the United States of America, accounts receivable and inventory of Leatt Corporation and Two-Eleven Distribution, LLC. As of September 30, 2020, the line of credit in the amount of \$100,000 was used, interest of \$88 was accrued for the quarter and the balance of \$900,000 was available. The revolving line of credit was fully repaid on October 10, 2020 and the balance of \$1,000,000 is available. On November 5, 2020, we executed an amendment to the line of credit, awaiting countersignature by the bank, to extend the line of credit facility through November 19, 2021. When fully executed, the amendment will take retroactive effect on October 27, 2020, and will introduce an index floor so that payments for any future advances will bear interest at the greater of the LIBOR Daily Floating Rate or an Index Floor of 1.25 percentage points plus 2.5 percentage points.

**Note 5 - Paycheck Protection Program Loan**

On May 4, 2020, the Company applied for and received a \$210,732 loan under the Paycheck Protection Program ("PPP"), established under the CARES Act. The PPP loan has a maturity date of May 4, 2022, a stated interest rate of 1.0% per annum, and has payments of principal and interest that are due monthly after an initial six-month deferral period where interest accrues, but no payments are due. The Promissory Note provides for customary events of default, including, among others, those relating to failure to make payment when due and breaches of representations. The Company may prepay the principal of the Promissory Note at any time without incurring any prepayment charges.

In June 2020, the Payroll Protection Program Flexibility Act ("PPPFA") was signed into law adjusting certain key terms of loans issued under the PPP. In accordance with the PPPFA, the initial deferral period may be extended from six to up to ten months and the loan maturity may be extended from two to five years. The PPPFA also provided for certain other changes, including the extent to which the loan may be forgiven.



The loan's principal and accrued interest are forgivable to the extent that the proceeds are used for eligible purposes, subject to certain limitations, and that the Company maintains its payroll levels over an eight or twenty-four-week period following the loan date. The Company intends to use the proceeds for eligible purposes consistent with the provisions of the PPPFA. However, there can be no assurance that any portion of the loan will be forgiven and that the Company will not have to repay the loan in full.

#### **Note 6 - Short-term Loan**

The Company carries product liability insurance policies with a U.S. and South African-based insurance carrier. The Company finances payment of both of its product liability insurance premiums over the period of coverage which is generally twelve months. The U.S. short-term loan is payable in monthly installments of \$70,468 over eleven months including interest at 5.740% and the South African short-term loan is payable in monthly installments of \$3,738, over a ten-month period at a flat interest rate of 4.10%. The Company repaid the U.S. short-term loan in full on September 3, 2020.

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 ten payments of \$11,634 at 4.950% annual interest rate.

#### **Note 7 - 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.

Manufacturing of Leatt products is performed by third party subcontractors predominantly 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 standard 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, however, in limited instances qualified distributors and dealers may be granted extended payment terms during selected order periods. In performing such evaluations, we utilize historical experience, sales performance, and credit risk requirements. 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 material 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:

	<b>Nine months ended September 30,</b>			
	2020	% of Revenues	2019	% of Revenues
Consumer and athlete direct revenues	\$ 1,851,441	7%	\$ 980,552	5%
Dealer direct revenues	8,558,106	33%	6,913,057	33%
International distributor revenues	15,446,403	60%	13,123,720	62%
	\$ 25,855,950	100%	\$ 21,017,329	100%

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 September 30, 2020 and December 31, 2019 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 \$152,343 at September 30, 2020 and \$104,704 at December 31, 2019.

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.

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

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

For the nine months ended September 30, 2020, 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 September 30, 2020, contract liabilities, if any, were not material.

#### **Note 8 - 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 September 30, 2020, the Company has no unrecognized tax benefits.

#### **Note 9 - 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 nine months ended September 30, 2020, the Company had 847,000 potential common shares, consisting of 120,000 preferred shares, and options to purchase 727,000 shares, outstanding that were dilutive.

#### **Note 10 - Common Stock**

Stock-based compensation expense related to vested stock options during the nine months ended September 30, 2020 was \$65,942. As of September 30, 2020, there was \$137,550 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a 2-year vesting period.

#### **Note 11 - Recent Accounting Pronouncements**

##### **Recently Adopted Accounting Pronouncements**

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-13, "Fair Value Measurements", which eliminates, adds or modifies certain disclosure requirements for fair value measurements. The amendments of ASU No. 2018-13 are effective for companies for fiscal years beginning after December 15, 2019. The Company adopted the new standard effective January 1, 2020, and it did not have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 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 ASU including its amendments are effective for companies for fiscal years beginning after December 15, 2019 and modify existing guidance related to the measurement of credit losses on financial instruments, including trade and loan receivables. The new guidance requires credit losses to be measured based on expected losses over the life of the asset rather than incurred losses. The Company adopted the new standard effective January 1, 2020, using a modified retrospective approach, and it did not have a material impact on the consolidated financial statements.

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

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." ASU 2020-04 provides optional expedients and exceptions to account for contracts, hedging relationships and other transactions that reference LIBOR or another reference rate if certain criteria are met. The amendments of ASU No. 2020-04 are effective immediately, as of March 12, 2020, and may be applied prospectively to contract modifications made and hedging relationships entered into on or before December 31, 2022. The Company is evaluating the impact that the amendments of this standard would have on the Company's consolidated financial statements

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): "Simplifying the Accounting for Income Taxes", which is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance to improve consistent application. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. Certain amendments within this ASU are required to be applied on a retrospective basis, certain other amendments are required to be applied on a modified retrospective basis and all other amendments on a prospective basis. The Company is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

## **Note 12 - 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 13 - Risks and Uncertainties**

As the COVID-19 pandemic continues to evolve, the Company believes the extent of the impact to its operations will be primarily driven by the severity and duration of the COVID-19 pandemic, the pandemic's impact on the U.S. and global economies and the timing, scope and effectiveness of federal, state and local governmental responses to the pandemic. The Company experienced conservative international distributor ordering levels during the first quarter of 2020 as a result of the COVID-19 pandemic which resulted in a decrease in category revenues of our more established product categories and particularly our most established product category, neck braces during the third quarter of 2020. Due to strong consumer demand for outdoor product categories, we have however not seen any significant material impact of COVID-19 on our results of operations for the nine months ended September 30, 2020. We expect that the continued spread of the virus throughout Europe and the U.S., and the extended global quarantine that commenced at the tail of the first quarter, may result in a decrease in revenues for the next several quarters. We have reviewed all operating costs, adjusted our budgets, accordingly, streamlined staffing requirements in line with expected decreases in revenues, negotiated favorable working capital terms and obtained government assistance where applicable. The continued spread of the virus and its reemergence during the fourth quarter in areas that have previously eased quarantine requirements, or the occurrence of any other catastrophic events, could have a negative impact our sales revenue for the remainder of 2020 and beyond.

## **Note 14 - Subsequent Events**

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

The revolving line of credit with a bank was fully repaid on October 10, 2020 and the balance of \$1,000,000 is available. On November 5, 2020, we executed an amendment to the line of credit, awaiting countersignature by the bank, to extend the line of credit facility through November 19, 2021. When fully executed, the amendment will take retroactive effect on October 27, 2020, and will introduce an index floor so that payments for any future advances will bear interest at the greater of the LIBOR Daily Floating Rate or an Index Floor of 1.25 percentage points plus 2.5 percentage points.

The Company entered into a Premium Finance Agreement with AFCO Acceptance Corporation "AFCO" dated October 27, 2020, to finance its U.S short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$926,110 in eleven payments of \$84,192, at an annual interest rate of 4.950% commencing on November 1, 2020 and ending on September 1, 2021. Any late payment during the term of the agreement will be assessed by 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.

## 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 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 = ZAR16.994 for its September 30, 2020 balance sheet.

## Overview of our Business

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

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

The Company's research and development efforts are conducted at its research facilities, located at its executive headquarters in Cape Town, South Africa. The Company employs 4 full-time employees who are dedicated exclusively to research, development, and testing. The Company also utilizes consultants, academic institutions and engineering companies as independent contractors or consultants, from time to time, to assist it with its research and development efforts. Leatt products have been tested and reviewed internally and by external bodies. All Leatt products are compliant with applicable European Union directives, or CE certified, where appropriate. 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 predominately manufactured in China under outsource manufacturing arrangements with third-party manufacturers located there subject to agreed standard terms. The Company utilizes outside consultants and its own employees to ensure the quality of its products through regular on-site product inspections. Products sold to our international customers are usually shipped directly from our consolidation warehouse or manufacturers' warehouses 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 dealers 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.
- **Trade Restrictions** - We engage in international manufacturing and sales which exposes us to trade restrictions and disruptions that could harm our business and competitive position. Most of our products are manufactured in China, and the U.S. administration has announced tariffs on certain product imported into the United States with China as the country of origin. While these tariffs have not had a significant impact on the shipment of our products to international markets as at September 30, 2020, we believe that the future imposition of, or significant increases in, the level of tariffs, custom duties, export quotas and other barriers and restrictions by the U.S. on China or other countries could disrupt our supply chain, increase the cost of our raw materials and therefore our pricing, and impose the burdens of compliance with foreign trade laws, any of which could potentially affect our bottom line and sales. While we are in continuous discussions with our manufacturers to ensure there are contingencies in place, we cannot assure you that we will not be adversely affected by changes in the trade laws of foreign jurisdictions where we sell and seek to sell our products.

- **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 62% of our sales is derived outside the U.S., where the U.S. dollar is not the primary currency, significant fluctuations in exchange rates such as the strengthening of the dollar versus our customers' local currency can adversely affect our ability to remain competitive in those areas.
- **Natural or man-made catastrophic events** - We are exposed to natural or man-made catastrophic events that may disrupt our business and may reduce consumer demand for our products. A disruption or failure of our systems or operations in the event of a natural disaster, health pandemic, such as the outbreak and global spread of COVID-19 or the coronavirus, or a man-made catastrophic event could cause delays in completing sales, continuing production or performing other critical functions of our business, particularly if a catastrophic event occurred at our primary manufacturing locations or our distributor locations worldwide. Any of these events could severely affect our ability to conduct normal business operations and, as a result, our operating results could be adversely affected. There may also be secondary impacts that are unforeseeable, such as impacts on our consumers and on consumer purchasing behavior, which could cause delays in new orders, delays in completing sales or even order cancellations. The Company experienced conservative international distributor ordering levels during the first quarter of 2020 as a result of the COVID-19 pandemic which resulted in a decrease in category revenues of our more established product categories and particularly our most established product category, neck braces during the third quarter of 2020. Due to strong consumer demand for outdoor product categories, we have however not seen any significant material impact of COVID-19 on our results of operations for the nine months ended September 30, 2020. We expect that the continued spread of the virus throughout Europe and the U.S., and the extended global quarantine that commenced at the tail of the first quarter, may result in a decrease in revenues for the next several quarters. We have reviewed all operating costs, adjusted our budgets, accordingly, streamlined staffing requirements in line with expected decreases in revenues, negotiated favorable working capital terms and obtained government assistance where applicable. The continued spread of the virus and its reemergence during the fourth quarter in areas that have previously eased quarantine requirements, or the occurrence of any other catastrophic events, could have a negative impact our sales revenue for the remainder of 2020 and beyond.

## 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 nine-month periods ended September 30, 2020 and 2019 included herein.

### *Three Months Ended September 30, 2020 compared to the Three Months Ended September 30, 2019*

The following table summarizes the results of our operations during the three-month periods ended September 30, 2020 and 2019 and provides information regarding the dollar and percentage increase or (decrease) in such periods:

Item	Three Months Ended September 30		\$ Increase (Decrease)	Percentage Increase (Decrease)
	2020	2019		
REVENUES	\$ 11,370,946	\$ 9,649,335	\$ 1,721,611	18%
COST OF REVENUES	6,422,472	5,152,688	\$ 1,269,784	25%
GROSS PROFIT	4,948,474	4,496,647	\$ 451,827	10%
PRODUCT ROYALTY INCOME	36,016	17,360	\$ 18,656	107%
OPERATING EXPENSES				
Salaries and Wages	784,131	739,366	\$ 44,765	6%
Commissions and Consulting	157,672	104,608	\$ 53,064	51%
Professional Fees	181,233	133,480	\$ 47,753	36%
Advertising and Marketing	543,020	520,633	\$ 22,387	4%
Office Lease and Expenses	78,932	71,725	\$ 7,207	10%
Research and Development Costs	404,723	357,258	\$ 47,465	13%
Bad Debt Expense	32,172	148,685	\$ (116,513)	-78%
General and Administrative	459,993	485,054	\$ (25,061)	-5%
Depreciation	212,564	191,712	\$ 20,852	11%
Total Operating Expenses	2,854,440	2,752,521	\$ 101,919	4%
INCOME FROM OPERATIONS	2,130,050	1,761,486	\$ 368,564	21%
Other Income (expenses)	19,727	(449)	\$ 20,176	4494%
INCOME BEFORE INCOME TAXES	2,149,777	1,761,037	\$ 388,740	22%
Income Taxes	538,320	440,259	\$ 98,061	22%
NET INCOME	\$ 1,611,457	\$ 1,320,778	\$ 290,679	22%

*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 September 30, 2020 were \$11.37 million, an 18% increase, compared to revenues of \$9.65 million for the quarter ended September 30, 2019. Revenues associated with international customers were \$7.11 million and \$6.74 million, or 63% and 70% of revenues, respectively, for the three months ended September 30, 2020 and 2019. This increase in worldwide revenues is attributable to a \$1.16 million increase in body armor sales, and a \$1.38 million increase in sales of other products, parts and accessories, that were partially offset by a \$0.76 million decrease in neck brace sales, and a \$0.07 million decrease in helmet sales during the period.



The following table sets forth our revenues by product line for the three months ended September 30, 2020 and 2019:

	Three months ended September 30,			
	2020	% of Revenues	2019	% of Revenues
Neck braces	\$ 1,185,879	10%	\$ 1,943,871	20%
Body armor	5,788,786	51%	4,624,167	48%
Helmets	1,203,038	11%	1,268,452	13%
Other Products, Parts and Accessories	3,193,243	28%	1,812,845	19%
	\$ 11,370,946	100%	\$ 9,649,335	100%

Sales of our flagship neck brace, our most established premium product category, accounted for \$1.19 million and \$1.94 million, or 10% and 20% of our revenues for the quarters ended September 30, 2020 and 2019, respectively. The 39% decrease in neck brace revenues is primarily attributable to a 50% decrease in the volume of neck braces sold to our customers worldwide during the 2020 period. Orders that shipped to our international distributors during the quarter ended September 30, 2020 were placed in the initial phase of the COVID-19 pandemic and as such, were indicative of conservative distributor buying patterns at the time based on expected consumer buying patterns. Fortunately, consumer demand for our categories has been strong throughout the pandemic but we expect distributor purchasing and inventory levels to normalize over the next several quarters.

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, off-road motorcycle boots and mountain biking shoes. Body armor sales accounted for \$5.79 million and \$4.62 million, or 51% and 48% of our revenues for the quarters ended September 30, 2020 and 2019, respectively. The 25% increase in body armor revenues was primarily the result of strong global demand for the Company's revolutionary GPX 5.5 boots for motorcycle use.

Our helmets accounted for \$1.20 million or 11% of our revenues for the three months ended September 30, 2020, as compared to \$1.27 million or 13% of our revenues for the same 2019 period. The 5% decrease in helmet sales is primarily due to a decrease in the sales volume of the Company's GPX 4.5 plastic helmet for off-road motorcycle use which accounted for 39% of off-road motorcycle helmet sales volume during the 2019 period. The Company has discontinued this product and has a pipeline of products that will ship during the next several quarters that we believe will address this segment extremely well.

Our other products, parts and accessories are comprised of goggles, hydration bags and apparel items including jerseys, pants, shorts and jackets as well as aftermarket support items required primarily to replace worn or damaged parts through our global distribution network. Other products, parts and accessories sales accounted for \$3.19 million and \$1.81 million, or 28% and 19% of our revenues for the quarters ended September 30, 2020 and 2019, respectively. The 76% increase in revenues from the sale of other products, parts and accessories is primarily due to increased sales volume of the Company's innovative and military grade velocity line of goggles as demand continues to grow in the United States and abroad.

*Cost of Revenues and Gross Profit* - Cost of revenues for the quarters ended September 30, 2020 and 2019 were \$6.42 million and \$5.15 million, respectively. Gross Profit for the quarters ended September 30, 2020 and 2019 were \$4.95 million and \$4.50 million, respectively, or 44% and 47% of revenues, respectively. Although revenues associated with direct dealer sales in the United States continue to generate a higher gross profit margin than sales associated with our international customers and revenues in the United States were 37% and 30% of our revenues for the three months ended September 30, 2020 and 2019, respectively, our neck brace products continue to generate a higher gross profit margin than our other product categories. Neck brace revenues accounted for 10% and 20% of our revenues for the quarters ended September 30, 2020 and 2019 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 September 30, 2020 and 2019 were \$36,016 and \$17,360, respectively. The 107% increase in product royalty income is due to an increase in the sale of licensed products by licensees in the 2020 period.

*Salaries and Wages* - Salaries and wages for the quarters ended September 30, 2020 and 2019 were \$784,131 and \$739,366, respectively. This 6% increase in salaries and wages during the 2020 period was primarily due to the employment of additional in-house sales personnel in the United States.

*Commissions and Consulting Expense* - During the quarters ended September 30, 2020 and 2019, commissions and consulting expenses were \$157,672 and \$104,608, respectively. This 51% increase in commissions and consulting expenses is primarily due to increased sales commissions paid to both in-house and external sales representatives and management in the United States in line with the achievement of performance goals linked to the significant increase in dealer direct revenue in the region.

*Professional Fees* - Professional fees consist of costs incurred for audit, tax and regulatory filings, as well as patent maintenance, protection and product liability litigation expenses incurred as the Company continues to expand. Professional fees for the quarters ended September 30, 2020 and 2019 were \$181,233 and \$133,480, respectively. This 36% increase in professional fees is primarily due to an increase in patent and trademark maintenance costs as the Company continues to grow its portfolio of intellectual capital.

*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 September 30, 2020 and 2019 were \$543,020 and \$520,633, respectively. The 4% increase in advertising and marketing expenditures during the 2020 period is primarily due to an increase in advertising costs associated with the Company's international cooperative distributor marketing program aimed at partnering with distributors globally in order to jointly continue to grow Leatt as an international consumer brand.

*Office Lease and Expenses* - Office lease and expenses for the quarters ended September 30, 2020 and 2019 were \$78,932 and \$71,725, respectively. This 10% increase in office lease and expenses during the 2020 period, was primarily due to an increase in warehouse lease expenditure in the United States, in line with additional storage space required as the Company continues to expand its assortment of exceptional protective gear.

*Research and Development Costs* - These costs consist of the salaries of personnel who are directly involved in the research and development of innovative products, as well as the direct costs associated with developing these products. Research and development costs for the quarters ended September 30, 2020 and 2019, increased to \$404,723, from \$357,258, during the same 2019 quarter. The 13% increase in research and development costs during the 2020 period is due to increased development costs incurred as the Company continues to expand its product offering with exceptional protective gear across multiple product categories and continues to develop a pipeline of innovative products that appeal to a wider consumer audience.

*Bad Debt Expense* - Bad Debt Expense for the quarters ended September 30, 2020 and 2019 were \$32,172 and \$148,685 respectively. This 78% decrease in Bad Debt Expense is the result of a decrease in the provision for the write off of unrecoverable debts owing to the Company during the 2020 period.

*General and Administrative Expenses* - General and administrative expenses consist of insurance, travel, merchant fees, telephone, office and computer supplies. General and administrative expenses for the quarters ended September 30, 2020 and 2019 were \$459,993 and \$485,054, respectively. The 5% decrease in general and administrative expenses is primarily due to a decrease in travel expenditure incurred as a result of the global travel restrictions imposed in order to curtail the further spread of the COVID-19 pandemic.

*Depreciation Expense* - Depreciation Expense for the quarters ended September 30, 2020 and 2019 were \$212,564 and \$191,712, respectively. This 11% increase in depreciation is primarily due to the addition of molds and tooling utilized in the production of the Company's widening product range.

*Total Operating Expenses* - Total operating expenses increased by \$101,919, to \$2.85 million in the three months ended September 30, 2020, or 4%, compared to \$2.75 million in the 2019 period. This increase is primarily due to increased commission, consulting and professional fees discussed above.

*Net Income* - Net income after income taxes for the quarter ended September 30, 2020 was \$1.61 million, as compared to a net income of \$1.32 million for the quarter ended September 30, 2019. This increase in net income is primarily due to the increase in revenues discussed above.

#### ***Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019***

The following table summarizes the results of our operations during the nine-month periods ended September 30, 2020 and 2019 and provides information regarding the dollar and percentage increase or (decrease) in such periods:

Item	Nine Months Ended September 30,		\$ Increase (Decrease)	Percentage Increase (Decrease)
	2020	2019		
REVENUES	\$ 25,855,950	\$ 21,017,329	\$ 4,838,621	23%
COST OF REVENUES	14,129,516	11,027,944	\$ 3,101,572	28%
GROSS PROFIT	11,726,434	9,989,385	\$ 1,737,049	17%
PRODUCT ROYALTY INCOME	40,675	33,056	\$ 7,619	23%
OPERATING EXPENSES				
Salaries and Wages	2,251,583	2,330,006	\$ (78,423)	-3%
Commissions and Consulting	345,014	263,168	\$ 81,846	31%
Professional Fees	716,138	518,017	\$ 198,121	38%
Advertising and Marketing	1,524,251	1,556,515	\$ (32,264)	-2%
Office Lease and Expenses	225,132	210,263	\$ 14,869	7%
Research and Development Costs	1,129,535	1,063,573	\$ 65,962	6%
Bad Debt Expense	59,092	158,184	\$ (99,092)	-63%
General and Administrative	1,390,236	1,473,708	\$ (83,472)	-6%
Depreciation	595,365	569,707	\$ 25,658	5%
Total Operating Expenses	8,236,346	8,143,141	\$ 93,205	1%
INCOME FROM OPERATIONS	3,530,763	1,879,300	\$ 1,651,463	88%
Other Income (expenses)	1,621	(4,042)	\$ 5,663	140%
INCOME BEFORE INCOME TAXES	3,532,384	1,875,258	\$ 1,657,126	88%
Income Taxes	883,972	471,542	\$ 412,430	87%
NET INCOME	\$ 2,648,412	\$ 1,403,716	\$ 1,244,696	89%

*Revenues* - Revenues of the nine-month period ended September 30, 2020 were \$25.86 million, a 23% increase, compared to revenues of \$21.02 million for the period ended September 30, 2019. Revenues associated with international customers were \$16.13 million and \$13.71 million, or 62% and 65% of revenues, respectively, for the nine months ended September 30, 2020 and 2019. The increase in worldwide revenues is attributable to a \$4.18 million increase in body armor sales, and a \$1.92 million increase in other products, parts and accessory sales that were partially offset by a \$1.05 million decrease in neck brace sales and a \$0.23 million decrease in helmet sales.

The following table sets forth our revenues by product line for the nine months ended September 30, 2020 and 2019:

	Nine months ended September 30,			
	2020	% of Revenues	2019	% of Revenues
Neck braces	\$ 3,579,838	14%	\$ 4,624,952	22%
Body armor	14,040,660	54%	9,855,908	47%
Helmets	2,475,167	10%	2,700,791	13%
Other Products, Parts and Accessories	5,760,285	22%	3,835,678	18%
	\$ 25,855,950	100%	\$ 21,017,329	100%

Sales of our flagship neck brace, our most established premium product category, accounted for \$3.58 million and \$4.62 million, or 14% and 22% of our revenues for the nine-month periods ended September 30, 2020 and 2019, respectively. The 23% decrease in global neck brace revenues is primarily attributable to a 20% decrease in the volume of neck braces sold to our customers worldwide during the 2020 period. Orders that shipped to our international distributors during the quarter ended September 30, 2020 were placed in the initial phase of the COVID-19 pandemic and as such, were indicative of conservative distributor buying patterns at the time based on expected consumer buying patterns. Fortunately, consumer demand for our categories has been strong throughout the pandemic but we expect distributor purchasing and inventory levels to normalize over the next several quarters.

Body armor sales accounted for \$14.04 million and \$9.86 million, or 54% and 47% of our revenues for the nine-month period ended September 30, 2020 and 2019, respectively. The 42% increase in body armor revenues was primarily the result of a 27% increase in the volume of upper body protectors sold during the period due to continued strong consumer demand for our premium line of full upper body and chest protectors designed for both off-road motorcycle and mountain biking use in the United States and abroad.

Our helmets accounted for \$2.48 million, or 10% of our revenues for the nine months ended September 30, 2020, as compared to \$2.70 million, or 13% of our revenues for the nine months ended September 30, 2019. Although we continue to see encouraging demand for our MTB line of bicycle helmets with sales volume increasing by 6% when compared to the prior year nine month period and a pipeline of innovative products expected to ship over the next several quarters, the 8% decrease in helmet revenues is primarily due to a decrease in the sales volume of the Company's GPX 4.5 plastic helmet for off-road motorcycle use which accounted for 35% of off-road motorcycle helmet sales volume during the 2019 period. The Company has discontinued this product and has a pipeline of products that will ship during the next several quarters that we believe will address this segment extremely well.

Our other products, parts and accessories are comprised of goggles, hydration bags and apparel items including jerseys, pants, shorts and jackets as well as aftermarket support items required primarily to replace worn or damaged parts through our global distribution network. Other products, parts and accessories sales accounted for \$5.76 million and \$3.84 million, or 22% and 18% of our revenues for the nine months ended September 30, 2020 and 2019, respectively. The 50% increase in revenues from the sale of other products, parts and accessories is primarily due to a 136% increase in the volume of our bulletproof, military grade velocity line of goggles sold to our customers globally.

*Cost of Revenues and Gross Profit* - Cost of revenues for the nine-month periods ended September 30, 2020 and 2019 were \$14.13 million and \$11.03 million, respectively. Gross Profit for the nine-month periods ended September 30, 2020 and 2019 were \$11.73 million and \$9.99 million, respectively, or 45% and 48% of revenues respectively. Our neck brace products continue to generate a higher gross margin than our other product categories. Neck brace revenues accounted for 14% and 22% of our revenues for the nine-month period ended September 30, 2020 and 2019, 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 nine-month period ended September 30, 2020 and 2019 were \$40,675 and \$33,056, respectively. The 23% increase in product royalty income is due to an increase in the sale of licensed products by licensees during the 2020 period.

*Salaries and Wages* - Salaries and wages for the nine-month period ended September 30, 2020 and 2019 were \$2,251,583 and \$2,330,006, respectively. This 3% decrease in salaries and wages during the 2020 period was primarily due to temporary staff cost reduction measures implemented by the Company globally during the second quarter of 2020 in an effort to partially mitigate the effects of the COVID-19 pandemic that were partially offset by an increase in salaries associated with the employment of in-house sales personnel in the United States.

*Commissions and Consulting Expense* - During the nine-month periods ended September 30, 2020 and 2019, commissions and consulting expenses were \$345,014 and \$263,168, respectively. This 31% increase in commission and consulting expenditure is primarily the result of increased sales commissions paid to both in-house and external sales representatives and management in the United States in line with the increase in consumer demand and dealer selling activity that the Company has experienced in the United States in the period post lifting of the stay-in-place orders instituted in various states in the United States.

*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 nine-month periods ended September 30, 2020 and 2019 were \$716,138 and \$518,017, respectively. This 38% increase in professional fees is primarily due to increased spending on product liability litigation during the 2020 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 nine-month periods ended September 30, 2020 and 2019 were \$1,524,251 and \$1,556,515, respectively. The 2% decrease in advertising and marketing expenditure during the 2020 period is primarily due to a decrease in race support, trade show attendance and contingency sponsorship costs as a result of the cancellation of various race series and trade shows globally in an attempt to curb the spread of the COVID-19 pandemic.

*Office Lease and Expenses* - Office lease and expenses for the nine-month periods ended September 30, 2020 and 2019 were \$225,132 and \$210,263, respectively. Although utility expenses decreased at the Company's headquarters as a result of the COVID-19 pandemic, the 7% increase in office lease and expenses during the 2020 period was primarily due to an increase in warehouse lease expenditure in the United States in line with additional storage space required as the Company continues to expand its assortment of exceptional protective gear.

*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 nine-month period ended September 30, 2020 increased to \$1,129,535, from \$1,063,573, during the same 2019 period. The 6% increase in research and development costs is primarily due to development costs incurred as the Company continues to grow its range of exceptional products and build a pipeline of innovative gear for wider consumer groups.

*Bad Debt Expense* - Bad Debt Expense for the nine-month periods ended September 30, 2020 and 2019 were \$59,092 and \$158,184, respectively. This 63% decrease in Bad Debt Expense is the result of a decrease in the provision for the write-off of unrecoverable debts owing to the Company during the 2020 period.

*General and Administrative Expenses* - General and administrative expenses consist of insurance, travel, merchant fees, telephone, office and computer supplies. General and administrative expenses for the nine-month periods ended September 30, 2020 and 2019 were \$1,390,236 and \$1,473,708, respectively. The 6% decrease in general and administrative expenses is primarily due to a decrease in travel expenditure incurred as a result of the global travel restrictions imposed in order to curtail the further spread of the COVID-19 pandemic.

*Depreciation Expense* - Depreciation Expense for the nine-month periods ended September 30, 2020 and 2019 were \$595,365 and \$569,707, respectively. This 5% increase in depreciation is primarily due to the addition of molds and tooling utilized in the production of the Company's widening product range.

*Total Operating Expenses* - Total operating expenses increased by \$93,205, to \$8.24 million in the nine months ended September 30, 2020, or 1%, compared to \$8.14 million in the 2019 period. This increase is primarily due to increased commissions, consulting and professional fees that were partially offset by a decrease in bad debt expenses, salaries and wages.

*Net income* - Net income after income taxes for the nine-month period ended September 30, 2020 was \$2.65 million as opposed to a net income after income taxes of \$1.40 million for the nine-month period ended September 30, 2019. This increase in net income is primarily due to the increased revenues discussed above.

## Liquidity and Capital Resources

At September 30, 2020, we had cash and cash equivalents of \$2.87 million and \$0.58 million of short-term investments. The following table sets forth a summary of our cash flows for the periods indicated:

	September 30	
	2020	2019
Net cash provided by operating activities	\$ 2,129,815	\$ 997,645
Net cash used in investing activities	\$ (671,896)	\$ (606,282)
Net cash used in financing activities	\$ (493,845)	\$ (144,019)
Effect of exchange rate changes on cash and cash equivalents	\$ (168,277)	\$ (50,632)
Net increase in cash and cash equivalents	\$ 795,797	\$ 196,712
Cash and cash equivalents at the beginning of period	\$ 2,072,864	\$ 1,709,900
Cash and cash equivalents at the end of period	\$ 2,868,661	\$ 1,906,612

Cash increased by \$795,797, or 38%, for the nine months ended September 30, 2020, when compared to cash on hand at December 31, 2019. The primary sources of cash for the nine months ended September 30, 2020 were a net income of \$2,648,412, a decrease in inventory of \$1,792,014 and an increase in accounts payable and accrued expenses of \$582,176. The primary uses of cash for the nine months ended September 30, 2020 were an increase in accounts receivable of \$2,712,168 and an increase in prepaid expenses and other current assets of \$719,419.

The Company is currently meeting its working capital needs through cash on hand, revolving line of credit with a bank 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. During the quarters ended September 30, 2020 and 2019, the Company paid an aggregate of \$42,451 and \$48,634, in licensing fees to Xceed Holdings. 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 quarters ended September 30, 2020 and 2019, the Company paid an aggregate of \$10,613 and \$12,174, 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 six 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 the monthly fee payable to Innovate under the agreement to \$40,435, in accordance with the parties' prior agreement that Innovate may increase its monthly fees by 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%). Accordingly, effective January 1, 2020, the Company's monthly fee to Innovate, increased to \$41,446. During the quarters ended September 30, 2020 and 2019, the Company paid an aggregate of \$124,338 and \$121,305 in consulting fees to Innovate.

Pursuant to a Premium Finance Agreement, dated May 27, 2020, between the Company and AFCO, the Company is obligated to pay AFCO an aggregate sum of \$133,821 in ten payments of \$11,634, at a 4.950% annual interest rate, commencing on June 1, 2020 and ending on March 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 September 30, 2020, the Company had not defaulted on its payment obligations under this agreement.

The Company entered into a Premium Finance Agreement with AFCO Acceptance Corporation "AFCO" dated October 10, 2019, to finance its U.S. short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$753,360 in eleven payments of \$70,468, at an annual interest rate of 5.740% commencing on November 1, 2019 and ending on September 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. This agreement was paid in full on September 3, 2020.

The Company entered into a Premium Finance Agreement with AFCO Acceptance Corporation "AFCO" dated October 27, 2020, to finance its U.S short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$926,110 in eleven payments of \$84,192, at an annual interest rate of 4.950% commencing on November 1, 2020 and ending on September 1, 2021. Any late payment during the term of the agreement will be assessed by 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.

On November 19, 2018, the Company entered into a \$1,000,000 revolving line of credit agreement with a 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 on November 19, 2020, 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 equipment and fixtures in the United States of America, accounts receivable and inventory of Leatt Corporation and Two-Eleven Distribution, LLC. The revolving line of credit was fully repaid on October 10, 2020 and the balance of \$1,000,000 is available. On November 5, 2020, we executed an amendment to the line of credit, awaiting countersignature by the bank, to extend the line of credit facility through November 19, 2021. When fully executed, the amendment will take retroactive effect on October 27, 2020, and will introduce an index floor so that payments for any future advances will bear interest at the greater of the LIBOR Daily Floating Rate or an Index Floor of 1.25 percentage points plus 2.5 percentage points.

On May 4, 2020, the Company received proceeds of \$210,732, under the Paycheck Protection Program or PPP established under the CARES Act. The Company will be able to submit an application seeking forgiveness of up to 100% of the entire PPP loan balance at the end of the 24-week period from the Company's first receipt of PPP loan funds; so long as the Company uses the funds for specific expenses as outlined in the CARES Act incurred and paid within the 24-week period. The Company may use up to 40% of the loan for specific non-payroll related expenses. Any amount of the loan that is not forgiven is repayable at a 1% interest rate over a 2-year period following receipt of the loan.

### **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 "Revenues from Contracts with Customers". 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 products is performed by third party subcontractors that are predominately based 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 standard 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, however, in limited instances qualified distributors and dealers may be granted extended payment terms during selected order periods. In performing such evaluations, we utilize historical experience, sales performance, and credit risk requirements. 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 material 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. The provision for estimated returns at September 30, 2020 and 2019 were \$0 and \$0, respectively.

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

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

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

***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 September 30, 2020 was \$152,343 and at December 31, 2019 was \$104,704.

***Inventory Valuation*** - Inventory is stated at the lower of cost or market. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, we make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, we utilize historical experience as well as current market information. The reserve for obsolescence at September 30, 2020 was \$100,125 and at December 31, 2019 was \$109,127.

***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 were no impairment charges during the quarters ended September 30, 2020 and 2019.

***Operating Leases*** - The Company determines if an arrangement is a lease at contract inception. Operating leases are included in the right-of-use assets ("ROU"), and lease liability obligations are included in the Company's consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset of 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.



**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 11, "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 September 30, 2020, 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 September 30, 2020, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER 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 April 3, 2018, a wrongful death lawsuit was filed against the Company in Superior Court of California, County of Imperial. The claims being asserted against the defendant is strict liability, negligence, failure to warn, and breach of implied and express warranties. The hearing date has been set for March 9, 2021. 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, 2019.

## 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 No.</b>	<b>Description</b>
<a href="#">31.1</a>	<a href="#">Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">31.2</a>	<a href="#">Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">32.1</a>	<a href="#">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.</a>
<a href="#">32.2</a>	<a href="#">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.</a>
101*	Interactive data files pursuant to Rule 405 of Regulation S-T
<a href="#">101.INS</a>	<a href="#">XBRL Instance Document</a>
<a href="#">101.SCH</a>	<a href="#">XBRL Taxonomy Extension Schema Document</a>
<a href="#">101.CAL</a>	<a href="#">XBRL Taxonomy Extension Calculation Linkbase Document</a>
<a href="#">101.DEF</a>	<a href="#">XBRL Taxonomy Extension Definition Linkbase Document</a>
<a href="#">101.LAB</a>	<a href="#">XBRL Taxonomy Extension Label Linkbase Document</a>
<a href="#">101.PRE</a>	<a href="#">XBRL Taxonomy Extension Presentation Linkbase Document</a>

\* 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: November 12, 2020

**LEATT CORPORATION**

By: */s/ Sean Macdonald*

Sean Macdonald

Chief Executive Officer and Chief Financial Officer

*(Principal Executive, Financial and Accounting Officer)*

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## EXHIBIT INDEX

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<a href="#">101.INS</a>	<a href="#">XBRL Instance Document</a>
<a href="#">101.SCH</a>	<a href="#">XBRL Taxonomy Extension Schema Document</a>
<a href="#">101.CAL</a>	<a href="#">XBRL Taxonomy Extension Calculation Linkbase Document</a>
<a href="#">101.DEF</a>	<a href="#">XBRL Taxonomy Extension Definition Linkbase Document</a>
<a href="#">101.LAB</a>	<a href="#">XBRL Taxonomy Extension Label Linkbase Document</a>
<a href="#">101.PRE</a>	<a href="#">XBRL Taxonomy Extension Presentation Linkbase Document</a>

\* 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.