

Leatt Corp
Form 10-Q
November 13, 2018

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, 2018**

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

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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 6, 2018 is as follows:

<u>Class of Securities</u>	<u>Shares Outstanding</u>
<u>Common Stock, \$0.001 par value</u>	<u>5,366,382</u>

LEATT CORPORATION

*Quarterly Report on Form 10-Q
Three Months and Nine Months Ended September 30, 2018*

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PART I
FINANCIAL INFORMATION

LEATT CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
	Unaudited	Audited
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,682,397	\$ 1,518,157
Short-term investments	58,230	58,221
Accounts receivable	4,141,612	2,420,656
Inventory	6,680,081	5,034,310
Payments in advance	483,532	565,124
Income tax refunds receivable	-	130,171
Prepaid expenses and other current assets	750,245	847,442
Total current assets	13,796,097	10,574,081
Property and equipment, net	2,117,447	2,113,855
Other Assets		
Deposits	25,274	26,081
Intangible assets	66,882	76,364
Total other assets	92,156	102,445
Total Assets	\$ 16,005,700	\$ 12,790,381
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 6,605,610	\$ 4,433,665
Income taxes payable	271,484	-
Short term loan, net of finance charges	64,308	518,130
Total current liabilities	6,941,402	4,951,795
Deferred tax liabilities, net	38,100	38,100
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, \$.001 par value, 1,120,000 shares authorized, 120,000 shares issued and outstanding	3,000	3,000
Common stock, \$.001 par value, 28,000,000 shares authorized, 5,366,382 shares issued and outstanding	130,053	130,053
Additional paid - in capital	7,837,699	7,687,367
Accumulated other comprehensive loss	(607,614)	(485,286)
Retained earnings	1,663,060	465,352
Total stockholders' equity	9,026,198	7,800,486

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Total Liabilities and Stockholders' Equity	\$	16,005,700	\$	12,790,381
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LEATT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended September 30		Nine Months Ended September 30	
	2018 Unaudited	2017 Unaudited	2018 Unaudited	2017 Unaudited
Revenues	\$ 8,579,507	\$ 5,455,088	\$ 18,877,912	\$ 14,783,154
Cost of Revenues	4,574,205	2,914,008	9,760,962	7,566,816
Gross Profit	4,005,302	2,541,080	9,116,950	7,216,338
Product Royalty Income	8,094	39,396	28,205	90,313
Operating Expenses				
Salaries and wages	588,242	562,803	1,983,557	1,877,560
Commissions and consulting expenses	124,501	109,217	383,415	388,538
Professional fees	163,687	88,901	461,145	519,673
Advertising and marketing	534,817	449,176	1,497,429	1,258,511
Office rent and expenses	69,400	68,423	211,159	201,101
Research and development costs	357,177	321,443	1,059,369	966,841
Bad debt expense	635	7,956	21,107	8,606
General and administrative expenses	521,052	419,052	1,410,768	1,254,542
Depreciation	174,490	131,374	502,265	322,829
Total operating expenses	2,534,001	2,158,345	7,530,214	6,798,201
Income from Operations	1,479,395	422,131	1,614,941	508,450
Other Expenses				
Interest and other expenses, net	(2,393)	(95)	(8,320)	(5,650)
Total other expenses	(2,393)	(95)	(8,320)	(5,650)
Income Before Income Taxes	1,477,002	422,036	1,606,621	502,800
Income Taxes	370,658	128,747	408,913	158,614
Net Income Available to Common Shareholders	\$ 1,106,344	\$ 293,289	\$ 1,197,708	\$ 344,186
Net Income per Common Share				
Basic	\$ 0.21	\$ 0.05	\$ 0.22	\$ 0.06
Diluted	\$ 0.20	\$ 0.05	\$ 0.22	\$ 0.06
Weighted Average Number of Common Shares Outstanding				
Basic	5,366,382	5,366,382	5,366,382	5,364,718

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Diluted	5,504,664	5,547,683	5,504,664	5,546,019
Comprehensive Income				
Net Income	\$ 1,106,344	\$ 293,289	\$ 1,197,708	\$ 344,186
Other comprehensive income, net of \$0 and \$0 deferred income taxes in 2018 and 2017				
Foreign currency translation	(6,018)	(49,044)	(122,328)	7,344
Total Comprehensive Income	\$ 1,100,326	\$ 244,245	\$ 1,075,380	\$ 351,530

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LEATT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

	Preferred Stock A		Common Stock		Additional	Accumulated	Retained	Total
	Shares	Amount	Shares	Amount	Paid - In Capital	Other Comprehensive (Loss)	Earnings	
Balance, January 1, 2018	120,000	\$ 3,000	5,366,382	\$ 130,053	\$ 7,687,367	\$ (485,286)	465,352	\$ 7,800,486
Compensation cost recognized in connection with stock options	-	-	-	-	150,332	-	-	150,332
Net income	-	-	-	-	-	-	1,197,708	1,197,708
Foreign currency translation adjustment	-	-	-	-	-	(122,328)	-	(122,328)
Balance, September 30, 2018	120,000	\$ 3,000	5,366,382	\$ 130,053	\$ 7,837,699	\$ (607,614)	1,663,060	\$ 9,026,198

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Net income	\$ 1,197,708	\$ 344,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	502,265	322,829
Stock-based compensation	150,332	177,113
Bad debts	10,921	5,737
Inventory reserve	92,898	116,769
(Gain) on sale of property and equipment	(1,260)	(3,061)
(Increase) decrease in:		
Accounts receivable	(1,731,877)	(741,392)
Inventory	(1,738,669)	(1,773,336)
Payments in advance	81,592	154,317
Prepaid expenses and other current assets	97,197	516,895
Income tax refunds receivable	130,171	(76,163)
Deposits	807	(280)
Decrease in:		
Accounts payable and accrued expenses	2,171,945	2,584,830
Income taxes payable	271,484	140,980
Net cash provided by operating activities	1,235,514	1,769,424
Cash flows from investing activities		
Capital expenditures	(575,909)	(1,158,507)
Proceeds from sale of property and equipment	1,308	3,125
Increase in short-term investment, net	(9)	(17)
Net cash used in investing activities	(574,610)	(1,155,399)
Cash flows from financing activities		
Repayments of short-term loan, net	(453,822)	(483,773)
Net cash used in financing activities	(453,822)	(483,773)
Effect of exchange rates on cash and cash equivalents	(42,842)	1,617
Net increase in cash and cash equivalents	164,240	131,869
Cash and cash equivalents - beginning of period	1,518,157	1,103,003
Cash and cash equivalents - end of period	\$ 1,682,397	\$ 1,234,872
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 12,321	\$ 10,597
Cash paid for income taxes	\$ 7,121	\$ 87,207
Other non-cash investing and financing activities		
Common stock issued for services	\$ 150,332	\$ 177,113

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Basis of presentation

The consolidated balance sheet as of December 31, 2017 was audited and appears in the Form 10-K filed by the Company with the Securities and Exchange Commission on March 19, 2018. The consolidated balance sheet as of September 30, 2018 and the consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2018 and 2017, changes in stockholders' equity for the nine months ended September 30, 2018, cash flows for the nine months ended September 30, 2018 and 2017, 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, 2018 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, 2017 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 as of the nine months ended September 30, 2018 and December 31, 2017 was \$150,706 and \$57,808 respectively.

Note 3 - Intangible Assets

The Company's intangible assets consist of acquired patents with an indefinite useful life and are thus not amortized. Intangible assets are carried at cost less impairment. Amortization expense for the nine months ended September 30, 2018 and 2017 was zero. There was no impairment of intangible assets at September 30, 2018 or December 31, 2017.

Note 4 - Short-term Loan

The Company carries product liability insurance policies with a U.S. and South African-based insurance carrier. The Company finances payment of both of its product liability insurance premiums over the period of coverage which is generally twelve months. The U.S. short-term loan is payable in monthly instalments of \$55,071 over eleven months including interest at 4.150% and the South African short-term loan is payable in monthly instalments of \$1,679 over a ten-month period at a flat interest rate of 4.00%. The Company repaid the U.S. short-term loan in full on September 6, 2018.

The Company carries various short-term insurance policies in the U.S. The Company finances payment of its short-term insurance premiums over the period of coverage, which is generally twelve months. The short-term loan is payable in eleven payments of \$9,181 at 4.990% annual interest rate.

Note 5 - Revenue and Cost Recognition

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method, and due to the immaterial difference, there was no adjustment to the opening balance of retained earnings at January 1, 2018.

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Based upon the Company's review, and the interpretive guidance that has been issued and examined, the adoption of this standard has not had a material impact on our consolidated financial statements. In particular, the Company has performed a detailed review of its revenue arrangements, which includes product sales and royalty payments in compliance with FASB ASC topic 606. The Company has and will continue to review its performance obligations in terms of material customer contractual arrangements in order to verify that revenue is recognized when performance obligations are satisfied on a periodic basis.

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

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

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

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

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

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

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

	Nine months ended September 30,			
	2018	% of Revenues	2017	% of Revenues
Consumer and athlete direct revenues	\$ 808,335	4%	\$ 696,860	5%
Dealer direct revenues	6,307,993	34%	5,110,383	34%

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International distributor				
revenues	11,761,584	62%	8,975,911	61%
	\$ 18,877,912	100%	\$ 14,783,154	100%
		8		

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, 2018 and December 31, 2017 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 \$95,904 at September 30, 2018 and \$84,983 at December 31, 2017.

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, 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future period related to remaining performance obligations is not material. As of September 30, 2018, contract liabilities, if any, were not material.

Note 6 - 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, 2018, the Company has no unrecognized tax benefits.

Note 7 - 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, 2018, the Company had 636,000 potential common shares, consisting of 120,000 preferred shares, options to purchase 193,000 shares, outstanding that were dilutive, and options to purchase 323,000 shares that were anti-dilutive and therefore, not included in diluted net income per share.

Note 8 Common Stock

Stock-based compensation expense related to vested stock options during the nine months ended September 30, 2018 was \$150,332. As of September 30, 2018, there was \$166,400 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a 3 year vesting period.

Note 9 Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. The updated guidance, and subsequent clarifications, collectively referred to as ASC 606, require an entity to recognize revenue when it transfers control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard, utilizing the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings. Accordingly, comparative prior period information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company expects the timing of revenue recognition for its significant revenue streams to remain substantially unchanged, with no material effect on net sales. The adoption of this ASU did not have a material impact on its financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the change in terms or conditions. If an award is not probable of vesting at the time a change is made, the new guidance clarifies that no new measurement date will be required if there is no change to the fair value, vesting conditions, and classification. This ASU will be applied prospectively and is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

In January 2017, the FASB issued ASU 2017-01, Clarifying the Definition of a Business, which further clarifies the definition of a business in an effort to assist entities in evaluating whether a set of transferred assets constitutes a business. Under this new guidance, if substantially all of the fair value of gross assets acquired is concentrated in a single asset or similar asset group, the set of transferred assets would not meet the definition of a business and no further evaluation is necessary. If this threshold is not met, the entity would then evaluate whether the set of transferred assets and activities meets the requirement that a business include, at a minimum, an input and a process that together have the ability to create an output. This guidance is effective for annual and quarterly periods beginning after December 15, 2017, with early adoption permitted. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows ("ASU 2016-15"). ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for the Company in the first quarter of 2018, with early adoption permitted, and is to be applied using a retrospective approach. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). The ASU clarifies the accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The ASU is effective for the Company in the first quarter of 2018, with early adoption permitted, and is to be applied using a modified retrospective approach. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force). The ASU requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are to be included with cash and cash equivalents when reconciling the beginning of period and end of period amounts shown on the statement of cash flows. The ASU is effective for the Company for annual reporting periods beginning after December 15, 2017 and is required to be adopted using a retrospective approach, if applicable, with early adoption permitted. The Company adopted the new standard on January 1, 2018. The adoption of this ASU did not have a material impact on its financial statements.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize on the balance sheet assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new ASU will require both types of leases to be recognized on the balance sheet. The ASU will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. This ASU can be applied at the beginning of the earliest period presented using the modified retrospective approach, which includes certain practical expedients that an entity may elect to apply, including an election to use certain transition relief.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which make improvements to Accounting Standards Codification (ASC) 842 and allow entities to not restate comparative periods in transition to ASC 842 and instead report the comparative periods under ASC 840. The Company plans to adopt this standard using the modified retrospective approach in the first quarter of fiscal 2019, coinciding with the standard's effective date. While the Company is still evaluating this ASU and related updates, the Company has determined that the primary impact will be to recognize on the balance sheet material right-of-use assets and material lease obligations for all leases with lease terms greater than 12 months.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation*, which aligns the measurement and classification guidance for share-based payments to non-employees with the guidance for share-based payments to employees. Under the new guidance, the measurement period for equity-classified non-employee awards will be fixed at the grant date. This update is effective for annual periods beginning after December 15, 2018, and interim periods within those periods and early adoption is permitted. The Company is evaluating the new standard to determine the impact of adoption on the Company's consolidated financial statements.

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

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill. Rather, the goodwill impairment is calculated by comparing the fair value of a reporting unit to its carrying value, and an impairment loss is recognized for the amount by which the carrying amount exceeds the fair value, limited to the total goodwill allocated to the reporting unit. All reporting units apply the same impairment test under the new standard. The Company is required to adopt this ASU for its annual and any interim

goodwill impairment tests in fiscal years beginning after December 15, 2019 on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect this new guidance will have a material impact on the consolidated financial statements.

Note 10 - 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 11 Subsequent Events

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

The Company entered into a Premium Finance Agreement with AFCO Acceptance Corporation AFCO dated October 10, 2018, to finance its U.S. short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$667,704 in eleven payments of \$62,225, at an annual interest rate of 4.990% commencing on November 1, 2018 and ending on September 1, 2019. Any late payment during the term of the agreement will be assessed 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. You should 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 quarterly report. You should read this quarterly report and the documents that we reference and filed as exhibits to the quarterly 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 quarterly 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 = ZAR14.1066 for its September 30, 2018 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. Certain products, such as the Moto GPX was tested by BMW Motorrad (Germany) and reviewed by KTM (Austria).

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

Leatt earns revenues through the sale of its products through approximately 100 distributors worldwide, who in turn sell its products to retailers. Leatt distributors are required to follow certain standard business terms and guidelines for the sale and distribution of Leatt products. Two Eleven and Leatt SA directly distribute Leatt products to retailers in the United States and South Africa, respectively.

Principal Factors Affecting Our Financial Performance

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

Global Economic Fragility The ongoing turmoil in the global economy, especially in the U.S., Asia and Europe, may have an impact on our business and our financial condition, and we may face challenges if economic conditions do not improve. These economic conditions impact levels of consumer spending, which have deteriorated and may remain depressed for the foreseeable future. If demand for our products

fluctuates as a result of these economic conditions or otherwise, our revenue and gross margin could be harmed.

Fuel Prices Significant fluctuations in fuel prices could have both a positive and negative effect on our business and operations. A significant portion of our revenue is derived from international sales and significant fluctuations in world fuel prices could significantly increase the price of shipping or transporting our products which we may not be able to pass on to our customers. On the other hand, fluctuations in fuel prices lead to higher commuter costs which may encourage the increased use of motorcycles and bicycles as alternative modes of transportation and lead to an increase in the market for our protection products.

Product Liability Litigation We face an inherent business risk of exposure to product liability claims arising from the claimed failure of our products to help prevent the types of personal injury or death against which they are designed to help protect. Therefore, we have acquired very costly product liability insurance worldwide. We have not experienced any material uninsured losses due to product liability claims, but it is possible that we could experience material losses in the future. After a two-week trial in the United States District Court for the Northern District of Ohio (Eastern) ending on April 17, 2014, a federal jury returned a defense verdict for the Company in the first Leatt- Brace® product liability lawsuit to be tried in the United States. The plaintiffs in that case had alleged that defective product design and failure to warn had caused a motocross rider to suffer multiple mid-thoracic spine fractures, causing immediate and permanent paraplegia, when he crashed at a relatively low speed on February 13, 2011. When the accident occurred, he was wearing a helmet and other safety gear from several different companies, including the Company's acclaimed Leatt-Brace®. The Company produced evidence at trial showing that his thoracic paraplegia was an unavoidable consequence of his fall, not the result of wearing a Leatt- Brace®, and that the neck brace likely saved his life (or saved him from quadriplegia) by preventing cervical spine injury. The Company had maintained from the onset that this and a small handful of other lawsuits are without merit and that it would vigorously defend itself in each case. In this case, the plaintiffs subsequently appealed the court's decision and the parties reached an amicable settlement. Although we carry product liability insurance, a successful claim brought against us could significantly harm our business and financial condition and have an adverse impact on our ability to renew our product liability insurance or secure new coverage.

Protection of Intellectual Property We believe that the continued success of our business is dependent on our intellectual property portfolio consisting of globally registered trademarks, design patents and utility patents related to the Leatt-Brace®. We believe that a loss of these rights would harm or cause a material disruption to our business and, our corporate strategy is to aggressively take legal action against any violators of our intellectual property rights, regardless of where they may be. From time to time, we have had to enforce our intellectual property rights through litigation and we may be required to do so in the future. Such litigation may result in substantial costs and could divert resources and management attention from the operations of our business.

Fluctuations in Foreign Currencies We are exposed to foreign exchange risk as our revenues and consolidated results of operations may be affected by fluctuations in foreign currency as we translate these currencies into U.S. dollars when we consolidate our financial results. While our reporting currency is the U.S. Dollar, a portion of our consolidated revenues are denominated in South African Rand, or ZAR, certain of our assets are denominated in ZAR, and our research and marketing operations in South Africa utilize South African labor sources. A decrease in the value of the U.S. dollar in relation to the ZAR could increase our cost of doing business in South Africa. If the ZAR depreciates against the U.S. Dollar, the value of our ZAR revenues, earnings and assets as expressed in our U.S. Dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk. Furthermore, since 66% of our sales is derived outside the U.S., where the U.S. dollar is not the primary currency, significant fluctuations in exchange rates such as the strengthening of the dollar versus our customers' local currency can adversely affect our ability to remain competitive in those areas.

Results of Operations

The following summary of our results of operations should be read in conjunction with our financial statements and the notes thereto for the three- and nine-month periods ended September 30, 2018 and 2017 included herein.

Three Months Ended September 30, 2018 compared to the Three Months Ended September 30, 2017

The following table summarizes the results of our operations during the three-month periods ended September 30, 2018 and 2017 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)
	2018	2017		
REVENUES	\$ 8,579,507	\$ 5,455,088	\$ 3,124,419	57%
COST OF REVENUES	4,574,205	2,914,008	\$ 1,660,197	57%
GROSS PROFIT	4,005,302	2,541,080	\$ 1,464,222	58%
PRODUCT ROYALTY INCOME	8,094	39,396	\$ (31,302)	-79%
OPERATING EXPENSES				
Salaries and Wages	588,242	562,803	\$ 25,439	5%
Commissions and Consulting	124,501	109,217	\$ 15,284	14%
Professional Fees	163,687	88,901	\$ 74,786	84%
Advertising and Marketing	534,817	449,176	\$ 85,641	19%
Office Rent and Expenses	69,400	68,423	\$ 977	1%
Research and Development Costs	357,177	321,443	\$ 35,734	11%
Bad Debt Expense	635	7,956	\$ (7,321)	-92%
General and Administrative	521,052	419,052	\$ 102,000	24%
Depreciation	174,490	131,374	\$ 43,116	33%
Total Operating Expenses	2,534,001	2,158,345	\$ 375,656	17%
INCOME FROM OPERATIONS	1,479,395	422,131	\$ 1,057,264	250%
Other Expenses	(2,393)	(95)	\$ (2,298)	2419%
INCOME BEFORE INCOME TAXES	1,477,002	422,036	\$ 1,054,966	250%
Income Taxes	370,658	128,747	\$ 241,911	188%
NET INCOME	\$ 1,106,344	\$ 293,289	\$ 813,055	277%

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, 2018 were \$8.58 million, a 57% increase, compared to revenues of \$5.46 million for the quarter ended September 30, 2017. Revenues associated with international customers were \$6.43 million and \$3.87 million, or 75% and 71% of revenues, respectively, for the three months ended September 30, 2018 and 2017. This increase in worldwide revenues during the 2018 period is primarily attributable to a \$0.67 million increase in neck brace sales, a \$0.16 million increase in helmet sales, a \$1.73 million increase in body armor sales and a \$0.57 million increase in sales of other products, parts and accessories during the period.

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The following table sets forth our revenues by product line for the three months ended September 30, 2018 and 2017:

	Three months ended September, 2018			
	2018	% of Revenues	2017	% of Revenues
Neck braces	\$ 1,756,867	21%	\$ 1,091,601	20%
Body armor	4,410,653	51%	2,680,405	49%
Helmets	811,151	9%	648,313	12%
Other Products, Parts and Accessories	1,600,836	19%	1,034,769	19%
	\$ 8,579,507	100%	\$ 5,455,088	100%

Sales of our flagship neck brace accounted for \$1.76 million and \$1.09 million, or 21% and 20% of our revenues for the quarters ended September 30, 2018 and 2017, respectively. The 61% increase in neck brace revenues is primarily attributable to an 83% increase in the volume of neck braces sold to our customers worldwide during the 2018 period.

Our body armor products are comprised of chest protectors, full upper body protectors, upper body protection vests, back protectors, knee braces and knee and elbow guards. Body armor sales accounted for \$4.41 million and \$2.68 million, or 51% and 49% of our revenues for the quarters ended September 30, 2018 and 2017, respectively. The 65% increase in body armor revenues was primarily the result of an increase in sales of the Company's knee brace and hard-shell upper body protector product lines due to continued demand both in the United States and abroad.

Our helmets accounted for \$0.81 million or 9% of our revenues for the three months ended September 30, 2018 as compared to \$0.65 million or 12% of our revenues for the same 2017 period. The 25% increase in helmet sales is primarily the result of an increase in the sale of the Company's award winning GPX 4.5 helmet for motorcycle during the 2018 period.

Our other products, parts and accessories are comprised of aftermarket support items required primarily to replace worn or damaged parts through our global distribution network, as well as clothing, outerwear and accessories that include hats, jerseys, pants, shorts, jackets, bags, hydration kits and cooling garments. Other products, parts and accessories sales accounted for \$1.60 million and \$1.03 million, or 19% and 19% of our revenues for the quarters ended September 30, 2018 and 2017, respectively. The 55% increase in revenues from the sale of other products, parts and accessories is primarily due to increased sales volume of our GPX and DBX apparel lines designed for off-road motorcycle and bicycle use respectively.

Cost of Revenues and Gross Profit Cost of revenues for the quarters ended September 30, 2018 and 2017 were \$4.57 million and \$2.91 million, respectively. Gross Profit for the quarters ended September 30, 2018 and 2017 were \$4.01 million and \$2.54 million, respectively, or 47% and 47% of revenues, respectively. Our neck brace products continue to generate a higher gross profit margin than our other product categories. Neck brace revenues accounted for 21% and 20% of our revenues for the quarters ended September 30, 2018 and 2017 respectively. However, revenues associated with international customers were 75% and 71% of our revenues for the three months ended September 30, 2018 and 2017, respectively, with revenue associated with international customers continuing to generate a lower gross profit margin than dealer direct sales in the United States.

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, 2018 and 2017 were \$8,094 and \$39,396, respectively. The 79% decrease in product royalty income is due to a decrease in the sale of licensed products by licensees in the 2018 period.

Salaries and Wages Salaries and wages for the quarters ended September 30, 2018 and 2017 were \$588,242 and \$562,803, respectively. This 5% increase in salaries and wages during the 2018 period was primarily due to the employment of additional marketing personnel in Europe and at the Company's headquarters in Cape Town, South

Africa.

Commissions and Consulting Expense During the quarters ended September 30, 2018 and 2017, commissions and consulting expenses were \$124,501 and \$109,217, respectively. This 14% increase in commissions and consulting expenses is primarily due to an increase in sales commissions paid to the Company's US sales representatives in line with increased sales 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 quarters ended September 30, 2018 and 2017 were \$163,687 and \$88,901, respectively. This 84% increase in professional fees is primarily due to increased spending on patent maintenance costs as the Company continues to expand its intellectual property rights.

Advertising and Marketing The Company places paid advertising in various motorsport magazines and online media, and sponsors a number of events, teams and individuals to increase product and brand visibility. Advertising and marketing expenses for the quarters ended September 30, 2018 and 2017 were \$534,817 and \$449,176, respectively. The 19% increase in advertising and marketing expenditures during the 2018 period is primarily due to optimized timing of the Company's distributor marketing program designed to promote the Company's growing product range, consumer brand and target market reach during the 2018 period.

Office Rent and Expenses Office rent and expenses for the quarters ended September 30, 2018 and 2017 were \$69,400 and \$68,423, respectively. This 1% increase in office rent and expenses during the 2018 period is in line with lease escalation clauses for the Company's worldwide facilities.

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, 2018 and 2017, increased to \$357,177, from \$321,443, during the same 2017 quarter. The 11% increase in research and development costs is primarily due to development costs incurred as the Company continues to expand its product offering in multiple global markets.

Bad Debt Expense Bad Debt Expense for the quarters ended September 30, 2018 and 2017 were \$635 and \$7,956, respectively. This decrease in Bad Debt Expense is the result of the write off of higher value unrecoverable debts owing to the Company during the 2017 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, 2018 and 2017 were \$521,052 and \$419,052, respectively. The 24% increase in general and administrative expenses is primarily due to an increase in product liability insurance premiums in line with increased revenues in the United States.

Depreciation Expense Depreciation Expense for the quarters ended September 30, 2018 and 2017 were \$174,490 and \$131,374, respectively. This 33% 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 \$375,656, to \$2.53 million in the three months ended September 30, 2018, or 17%, compared to \$2.16 million in the 2017 period. This increase is primarily due to increased advertising and marketing, general and administrative and professional fee costs discussed above.

Net Income Net income after income taxes for the quarter ended September 30, 2018 was \$1.11 million, as compared to a net income of \$293,289 for the quarter ended September 30, 2017. This increase in net income is primarily due to the increase in revenues discussed above.

Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

The following table summarizes the results of our operations during the nine-month periods ended September 30, 2018 and 2017 and provides information regarding the dollar and percentage increase or (decrease) in such periods:

Item	Nine Months Ended September 30,		\$ Increase	Percentage
	2018	2017	(Decrease)	Increase
				(Decrease)
REVENUES	\$ 18,877,912	\$ 14,783,154	\$ 4,094,758	28%
COST OF REVENUES	9,760,962	7,566,816	\$ 2,194,146	29%
GROSS PROFIT	9,116,950	7,216,338	\$ 1,900,612	26%
PRODUCT ROYALTY INCOME	28,205	90,313	\$ (62,108)	-69%
OPERATING EXPENSES				
Salaries and Wages	1,983,557	1,877,560	\$ 105,997	6%
Commissions and Consulting	383,415	388,538	\$ (5,123)	-1%
Professional Fees	461,145	519,673	\$ (58,528)	-11%
Advertising and Marketing	1,497,429	1,258,511	\$ 238,918	19%
Office Rent and Expenses	211,159	201,101	\$ 10,058	5%
Research and Development Costs	1,059,369	966,841	\$ 92,528	10%
Bad Debt Expense	21,107	8,606	\$ 12,501	145%
General and Administrative	1,410,768	1,254,542	\$ 156,226	12%
Depreciation	502,265	322,829	\$ 179,436	56%
Total Operating Expenses	7,530,214	6,798,201	\$ 732,013	11%
INCOME FROM OPERATIONS	1,614,941	508,450	\$ 1,106,491	218%
Other Expenses	(8,320)	(5,650)	\$ (2,670)	-47%
INCOME BEFORE INCOME TAXES	1,606,621	502,800	\$ 1,103,821	220%
Income Taxes	408,913	158,614	\$ 250,299	158%
NET INCOME	\$ 1,197,708	\$ 344,186	\$ 853,522	248%

Revenues Revenues of the nine-month period ended September 30, 2018 were \$18.88 million, a 28% increase, compared to revenues of \$14.78 million for the period ended September 30, 2017. Revenues associated with international customers were \$12.42 million and \$9.48 million, or 66% and 64% of revenues, respectively, for the nine months ended September 30, 2018 and 2017. The increase in worldwide revenues is attributable to a \$0.48 million increase in neck brace sales, a \$1.68 million increase in body armor sales, a \$1.06 million increase in helmet sales and a \$0.88 million increase in other products, parts and accessory sales.

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The following table sets forth our revenues by product line for the nine months ended September 30, 2018 and 2017:

	Nine months ended September 30,			
	2018	% of Revenues	2017	% of Revenues
Neck braces	\$ 4,677,982	25%	\$ 4,197,565	28%
Body armor	8,965,611	47%	7,287,339	49%
Helmets	2,596,591	14%	1,540,803	11%
Other Products, Parts and Accessories	2,637,728	14%	1,757,447	12%
	\$ 18,877,912	100%	\$ 14,783,154	100%

Sales of our flagship neck brace accounted for \$4.68 and \$4.20 million, or 25% and 28% of our revenues for the nine-month periods ended September 30, 2018 and 2017, respectively. The 11% increase in neck brace revenues is primarily attributable to a 27% increase in the volume of neck braces sold to our customers worldwide.

Body armor sales accounted for \$8.97 and \$7.29 million, or 47% and 49% of our revenues for the nine-month period ended September 30, 2018 and 2017, respectively. The 23% increase in body armor revenues was primarily the result of an increase in sales of the Company's knee brace and upper body protector product lines due to continued worldwide demand for these product categories.

Our helmets accounted for \$2.60 million, or 14% of our revenues for the nine months ended September 30, 2018, as compared to \$1.54 million, or 11% of our revenues for the nine months ended September 30, 2017. The 69% increase in helmet revenues is primarily due to initial shipments of our highly anticipated GPX 4.5 helmet for motorcycle use and the DBX 2.0 helmet for bicycle use.

Our other products, parts and accessories are comprised of aftermarket support items required primarily to replace worn or damaged parts through our global distribution network, as well as clothing, outerwear and accessories that include hats, jerseys, pants, shorts, jackets, bags, hydration kits and cooling garments. Other products, parts and accessories sales accounted for \$2.64 million and \$1.76 million, or 14% and 12% of our revenues for the nine months ended September 30, 2018 and 2017, respectively. The 50% increase in revenues from the sale of other products, parts and accessories is primarily due to increased sales volume of our GPX and DBX apparel ranges designed for off-road motorcycle and bicycle use, respectively.

Cost of Revenues and Gross Profit Cost of revenues for the nine-month periods ended September 30, 2018 and 2017 were \$9.76 million and \$7.57 million, respectively. Gross Profit for the nine-month periods ended September 30, 2018 and 2017 were \$9.12 and \$7.22 million, respectively, or 48% and 49% of revenues respectively. Our neck brace products continue to generate a higher gross margin than our other product categories. Neck brace revenues accounted for 25% and 28% of our revenues for the nine months ended September 30, 2018 and 2017, respectively. Additionally, revenues associated with international customers were 66% and 64% of our revenues for the nine months ended September 30, 2018 and 2017, respectively. Revenue associated with international customers continue to generate a lower gross margin than dealer direct sales in the United States.

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, 2018 and 2017 were \$28,205 and \$90,313, respectively. The 69% decrease in product royalty income is due to a decrease in the sale of licensed products by licensees in the 2018 period.

Salaries and Wages Salaries and wages for the nine-month period ended September 30, 2018 and 2017 were \$1,983,557 and \$1,877,560, respectively. This 6% increase in salaries and wages during the 2018 period was primarily due to the employment of additional sales and marketing personnel in the United States and Europe during the nine-month period ended September 30, 2018.

Commissions and Consulting Expense During the nine-month periods ended September 30, 2018 and 2017, commissions and consulting expenses were \$383,415 and \$388,538, respectively. This 1% decrease in commission and consulting expenditure is primarily the result of the restructuring of the Company's US sales representative structure as the Company continues to employ professional sales personnel in the United States on a permanent basis.

Professional Fees Professional fees consist of costs incurred for audit, tax and regulatory filings, as well as patent protection and product liability litigation expenses incurred as the Company continues to expand. Professional fees for the nine-month periods ended September 30, 2018 and 2017 were \$461,145 and \$519,673, respectively. This 11% decrease in professional fees is primarily due to decreased spending on product liability litigation during the 2018 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, 2018 and 2017 were \$1,497,429 and \$1,258,511, respectively. The 19% increase in advertising and marketing expenditures during the 2018 period is primarily due to the production and implementation of global sales events, marketing campaigns and product launches designed to promote the Company's growing product range, consumer brand and target market reach.

Office Rent and Expenses Office rent and expenses for the nine-month periods ended September 30, 2018 and 2017 were \$211,159 and \$201,101, respectively. The 5% increase in office rent and expenses during the 2018 period is in line with lease escalation clauses for the Company's worldwide facilities.

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, 2018 increased to \$1,059,369 from \$966,841, during the same 2017 period. The 10% increase in research and development costs is primarily due to development costs incurred as the Company continues to widen its range of products for multiple markets.

Bad Debt Expense Bad Debt Expense for the nine-month periods ended September 30, 2018 and 2017 were \$21,107 and \$8,606, respectively. This increase in Bad Debt Expense is primarily the result of the recovery of bad debts during the 2017 period that were previously considered unrecoverable.

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, 2018 and 2017 were \$1,410,768 and \$1,254,542, respectively. The 12% increase in general and administrative expenses is primarily as a result of increased product liability premiums in line with increased revenues in the United States as well as increased travel expenditures incurred globally on dealer visits and sales conferences.

Depreciation Expense Depreciation Expense for the nine-month periods ended September 30, 2018 and 2017 were \$502,265 and \$322,829, respectively. This 56% 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 \$732,013, to \$7,530,214 million in the nine months ended September 30, 2018, or 11%, compared to \$6.80 million in the 2017 period. This increase is primarily due to increased advertising and marketing, general and administrative and depreciation costs that were partially offset by decreased professional fees discussed above.

Net income Net income after income taxes for the nine-month period ended September 30, 2018 was \$1,197,708 as opposed to a net income after income taxes of \$344,186 for the nine-month period ended September 30, 2017. This increase in net income is primarily due to the increased revenues discussed above.

Liquidity and Capital Resources

At September 30, 2018, we had cash and cash equivalents of \$1.68 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,	
	2018	2017
Net cash provided by operating activities	\$ 1,235,514	\$ 1,769,424
Net cash used in investing activities	\$ (574,610)	\$ (1,155,399)
Net cash used in financing activities	\$ (453,822)	\$ (483,773)
Effect of exchange rate changes on cash and cash equivalents	\$ (42,842)	\$ 1,617
Net increase in cash and cash equivalents	\$ 164,240	\$ 131,869
Cash and cash equivalents at the beginning of period	\$ 1,518,157	\$ 1,103,003
Cash and cash equivalents at the end of period	\$ 1,682,397	\$ 1,234,872

Cash increased by \$164,240, or 11%, for the nine months ended September 30, 2018. The primary sources of cash for the nine months ended September 30, 2018 were a net income of \$1.20 million and increased accounts payable and accrued expenses of \$2.17 million. The primary uses of cash for the nine months ended September 30, 2018 were increased inventory of \$1.74 million, increased accounts receivables of \$1.73 million, capital expenditures of \$575,909 and the repayment of a short-term loan amount of \$453,822. As of September 30, 2018, we did not have any credit facilities or significant amounts owed to third party lenders.

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

Obligations under Material Contracts

Pursuant to our Licensing Agreement with Xceed Holdings, a company owned and controlled by Dr. Christopher Leatt, our founder, chairman and head of research and development, we pay Xceed Holdings 4% of all neck brace sales revenue billed and received by the Company on a quarterly basis based on sales of the previous quarter. In addition, pursuant to a separate license agreement between the Company and Mr. J. P. De Villiers, our former director, the Company is obligated to pay a royalty fee of 1% of all our billed and received neck brace sales revenue, in quarterly installments, based on sales of the previous quarter, to a trust that is beneficially owned and controlled by Mr. De Villiers. During the nine-month periods ended September 30, 2018 and 2017, the Company paid an aggregate of \$14,174 and \$9,338 in licensing fees to Mr. De Villiers.

On July 8, 2015, the Company entered into a consulting agreement with Innovate Services Limited, or Innovate, a Seychelles limited company in which, Dr. Leatt is an indirect beneficiary. Pursuant to the terms of the Consulting Agreement, as amended, Innovate has agreed to serve as the Company's exclusive research, development and marketing consultant, in exchange for a monthly fee of \$38,062; provided that Dr. Leatt personally performs the services to be performed by Innovate under the Agreement, pursuant to a separate employment agreement between Innovate and Dr. Leatt. The parties further agreed that all intellectual property generated in connection with the services provided under the Consulting Agreement will be the sole property of the Company. The Consulting Agreement was effective as of May 15, 2015 and will continue unless terminated by either party in accordance with its terms. Either party has the right to terminate the Consulting Agreement upon 6 months' prior written notice, except that the Consulting Agreement may be terminated immediately without notice if the services to be performed under the Consulting Agreement cease to be performed by Dr. Leatt, or for any other material breach of the Agreement. The parties have agreed to settle any dispute under the Consulting Agreement through arbitration in accordance with the

Commercial Arbitration Rules of the American Arbitration Association (AAA), and that the resulting arbitration award will be final and binding on both parties and will not be subject to any appeal. The foregoing description is qualified in its entirety by reference to the Consulting Agreement filed as Exhibit 10.14 to the Company's report on Form 10-K for the year ended December 31, 2017.

On October 16, 2017, the Company entered into a new Premium Finance Agreement with AFCO to finance its U.S. short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$593,400 in eleven payments of \$55,071, at an annual interest rate of 4.150%, commencing on November 1, 2017 and ending on September 1, 2018. 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 6, 2018.

Pursuant to a Premium Finance Agreement, dated May 30, 2018, between the Company and AFCO, the Company is obligated to pay AFCO an aggregate sum of \$107,700 in eleven payments of \$9,181 at a 4.990% annual interest rate, commencing on June 1, 2018 and ending on April 1, 2019. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of September 30, 2018, the Company had not defaulted on its payment obligations under this agreement.

The Company entered into a new Premium Finance Agreement with AFCO Acceptance Corporation AFCO dated October 10, 2018, to finance its U.S. short-term insurance over the period of coverage. The Company is obligated to pay AFCO an aggregate sum of \$667,704 in eleven payments of \$62,225, at an annual interest rate of 4.990% commencing on November 1, 2018 and ending on September 1, 2019. Any late payment during the term of the agreement will be assessed 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.

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 - On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method, and due to the immaterial difference, there was no adjustment to the opening balance of retained earnings at January 1, 2018. Based upon the Company's review, and the interpretive guidance that has been issued and examined, the adoption of this standard has not had a material impact on our consolidated financial statements. In particular, the Company has performed a detailed review of its revenue arrangements, which includes product sales and royalty payments in compliance with FASB ASC topic 606. The Company has and will continue to review its performance obligations in terms of material customer contractual arrangements in order to verify that revenue is recognized when performance obligations are satisfied on a periodic basis.

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

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

accordance with the related licensing arrangements.

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

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

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

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

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

	Nine months ended September 30,			
	2018	% of Revenues	2017	% of Revenues
Consumer and athlete direct revenues	\$ 808,335	4%	\$ 696,860	5%
Dealer direct revenues	6,307,993	34%	5,110,383	34%
International distributor revenues	11,761,584	62%	8,975,911	61%
	\$ 18,877,912	100%	\$ 14,783,154	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, 2018 and December 31, 2017 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 for doubtful accounts was \$95,904 at September 30, 2018, and \$84,983 at December 31, 2017.

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.

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

Inventory Valuation Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Inventory consists primarily of finished goods. Shipping and handling costs are included in the cost of inventory. In assessing the inventory value, we make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, we utilize historical experience as well as current market information. The reserve for obsolescence as of September 30, 2018 and December 31, 2017 was \$150,706 and \$57,808, respectively.

Impairment of Long-Lived Assets Our long-lived assets include property and equipment. We evaluate our long-lived assets for recoverability whenever events or changes in circumstances indicate that an asset may be impaired. In evaluating an asset for recoverability, we estimate the future cash flow expected to result from the use of the asset and eventual disposition. If the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. We have determined there was no impairment charge during the nine-month periods ended September 30, 2018 and 2017.

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 9, **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 of 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, 2018, 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, 2018, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

On August 7, 2017, a lawsuit was filed against the Company and one other defendant on behalf of a motorcycle rider in the Southern District Court of Iowa for strict liability, breach of warranty, negligence, gross negligence and consumer fraud. On May 3, 2018 the Federal Court dismissed the Plaintiff's entire complaint against Leatt Corporation and the other defendant in this matter. On October 4, 2018, the Plaintiff filed an appeal against the dismissal of the complaints against both parties.

On April 3, 2018, a wrongful death lawsuit was filed against the Company and three other defendants in Superior Court of California, County of Imperial. The claims being asserted against the defendants is strict liability, negligence, failure to warn, and breach of implied and express warranties. The litigation is in discovery stage and no hearing date has yet been set. The Company believes that the lawsuit is without merit and intends to vigorously defend itself.

ITEM 1A. RISK FACTORS.

There are no material changes from the risk factors previously disclosed in Item 1A Risk Factors of our annual report on Form 10-K for the period ended December 31, 2017.

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:

Exhibit No.	Description
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<u>31.1</u>	<u>Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
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<u>31.2</u>	<u>Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
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<u>32.1</u>	<u>Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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<u>32.2</u>	<u>Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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101*	Interactive data files pursuant to Rule 405 of Regulation S-T
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* Filed with this Form 10-Q for Leatt Corporation. Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

Date: November 13, 2018

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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