

Leatt Corp  
Form 10-K  
March 27, 2019

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended: **December 31, 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; Zip Code)*

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

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

Securities registered pursuant to Section 12(b) of the Exchange Act: **None**

Securities registered pursuant to Section 12(g) of the Exchange Act: **Common Stock**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act.

Yes [ ] No [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 [X] No [ ]

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large Accelerated Filer  Non-Accelerated Filer  Accelerated Filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Act).  
Yes  No [X]

As of June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of the registrant's common stock held by non-affiliates was approximately \$5,457,797. Shares of the registrant's common stock held by each executive officer and director and by each person who owns 10% or more of the outstanding common stock have been excluded from the calculation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Common Stock, \$0.001 par value per share: 5,386,723 outstanding as of March 14, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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*Annual Report on Form 10-K  
For the Year Ended December 31, 2018*

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

## Use of Certain Defined Terms

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

- Leatt, we, us, our, the Registrant or the Company are to the combined business of Leatt Corporation, 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 = ZAR14.4117 for its December 31, 2018 balance

sheet.

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## PART I

### ITEM 1. BUSINESS

#### Business Overview

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 expanding range of body protection and helmet products which it markets under the Leatt Protection Range brand. In 2015 the Company initially launched the first products in its new helmet range and continues to establish its offerings within this product range. The Company believes that the new helmet range redefines head and brain protection with its groundbreaking 360-degree Turbine technology for concussion and brain rotation safety. These helmets offer superior head and brain protection in a shell that is smaller, very lightweight and super ventilated, even at low speeds.

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

Our products are manufactured in China under outsource manufacturing arrangements with third-party manufacturers located there. The Company utilizes outside consultants and its own employees to ensure the quality of its products through regular on-site product inspections. Products purchased through international sales are usually shipped directly from our 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 retailers in the United States and South Africa, respectively.

#### Our Corporate History and Structure

We were incorporated in the State of Nevada on March 11, 2005 under the name Treadzone, Inc. Until March 2006, we were a shell company with little or no operations. Effective as of March 1, 2006, 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 South Africa***

The Company conducts business in South Africa as a foreign registered branch known as Leatt Corporation (Incorporated in the State of Nevada) registered under the laws of South Africa with registration number: 2007/032780/10. Based in Cape Town, South Africa, Leatt SA was formed on November 14, 2007, for conducting the Company's business and operations in South Africa. Our corporate headquarters and our research and development efforts are based at Leatt SA.

### ***Establishment of Two Eleven, Three Eleven and Leatt USA***

On August 17, 2007, the Company established Two Eleven Distribution, a California limited liability company, as its wholly-owned subsidiary. Located in Santa Clarita, California, Two Eleven was formed to serve as the Company's executive offices in the United States, as well as the exclusive distributor of Leatt® products in the United States.

Southern Palace Investments 409 (Proprietary) Limited, a South African company, was established on October 12, 2007, by the Company, to engage in the manufacturing and distribution of sporting goods and protective gear. The company was inactive until March 2009, when it acquired all intellectual property rights related to an invention entitled the Helmet® from Xceed Holdings, for an aggregate purchase price of ZAR 943,480 (approximately, \$90,000) pursuant to a patent assignment agreement, effective as of January 1, 2009, between Xceed Holdings and Southern Palace, doing business as Three Eleven Distribution. On February 10, 2010, Southern Palace formally changed its name to Three Eleven Distribution to reflect its business purpose.

On June 26, 2010, the Company established Leatt USA, LLC, a Nevada Limited Liability Company, as our wholly-owned subsidiary and for the purpose of holding our California subsidiary, Two Eleven Distribution. However, as of the date of this annual report the Company had not moved forward with its original plan and Leatt USA remains dormant.

### ***Settlement Agreement***

As consideration for their founding of the Company's operations in South Africa, we agreed to issue 20,000,000 shares of our common stock, and 19,200,000 shares of our preferred stock to Dr. Leatt, 5,000,000 shares of our common stock and 4,800,000 shares of our preferred stock to Jean-Pierre De Villiers, and 50,000 shares of our common stock to Ervian Jarrett. We issued the common stock to Dr. Leatt, Mr. De Villiers and Ms. Jarrett in accordance with the agreement, but we did not issue any preferred shares to Dr. Leatt or Mr. De Villiers. On September 25, 2008, in settlement of our obligation to issue Dr. Leatt and Mr. De Villiers shares of preferred stock, we entered into a Settlement Agreement with them, pursuant to which they agreed to release us from any and all liability arising out of or related to our failure to satisfy our prior obligation to them, and we issued 16,800,000 shares of our common stock and 2,400,000 shares of our Series A Preferred Stock to Dr. Leatt, and 4,200,000 shares of our common stock and 600,000 shares of our Series A Preferred Stock to Mr. De Villiers. The Series A Preferred Stock entitles Dr. Leatt and Mr. De Villiers to one hundred votes for each share of Series A Preferred Stock held (voting with the common stock as a single class). The Series A Preferred Stock converts into common stock, on a one-for-one basis, has a liquidation preference equal to \$0.001 par value per share and is redeemable by us at \$0.001 par value per share upon the occurrence of specified events, but it is subject to transfer limitations and it does not entitle Dr. Leatt and Mr. De Villiers to dividends. On September 20, 2012, we effected a 1-for-25 reverse stock split which reduces the foregoing issuances on a 1:25 ratio.

### **Our Corporate Structure**

The following chart reflects our organizational structure as of the date of this annual report.

Our corporate headquarters are located at 12 Kiepersol Drive, Atlas Gardens, Contermanskloof Road, Durbanville, Western Cape, South Africa, 7441. Our telephone number is +(27) 21-557-7257. We maintain a website at [www.leatt.com](http://www.leatt.com) that contains information about our Company, but that information is not incorporated into, or otherwise considered a part of, this annual report.

## **Our Industry and Market Trends**

### ***Off-Road Motorcycle Market***

Our products have their roots in the off-road motorcycle market. Our revolutionary neck brace was invented by Dr. Leatt to protect from catastrophic neck injuries after he witnessed the death of a fellow off-road motorcycle rider the weekend after his son's riding debut. As a result, our original products target participants in off-road cycling activities such as BMX racing and downhill racing.

We believe that we have gained our market share largely due to the innovation and quality of our products, the growth of the market, our increased marketing efforts, and our steps to secure our international patents and protect our patents from infringement.

### ***Downhill and Cycling Market***

We design and sell neck braces, helmets and protective gear for the downhill and cycling market. We entered this market focusing on downhill cycling, which requires a full-face helmet. We have since expanded our protective gear range to address the needs of mountain biking and BMX riders. The downhill and cycling market is now our second largest market.

### ***Other Recreational Markets***

We also design and sell neck braces for use by participants in other recreational sports such as ATV, go-kart, snowmobile users and participants in other sports where a full-face helmet should be worn. As a result, our overall performance in the market is also affected by the performance of these industries, especially in jurisdictions where the

use of helmets is compulsory.

### **Our Products**

The Company designs, develops, distributes and markets protective gear, parts and accessories. The Company currently markets its products under the two main categories addressing the two main markets, namely bicycle and powersports.

#### *Neck braces*

The Leatt-Brace® is a prophylactic neck bracing system composed of various combinations of carbon fiber, glass fiber, polycarbonate or Glass Filled Nylon, which was designed to help prevent potentially devastating sports injuries to the cervical spine (neck). The first Leatt Brace® was designed for motorcycle, high speed motor vehicle and ATV use, where there is little means of protecting the neck in the event of an accident, but the Leatt-Brace® has been designed in such a way as to offer neck protection to all who utilize a crash helmet as a form of protection, including soldiers, law enforcement officers and other professionals whose activities could result in cervical spine injury.

The GPX models, designed for the powersports market, includes the GPX 5.5, which is fully adjustable, the GPX 5.5 Junior, which is fully adjustable and designed for junior riders, the GPX 4.5, which is less adjustable, the GPX 6.5, which is a full carbon brace, the award-winning GPX 3.5 neck brace, which is competitively priced, and the GPX 3.5 Junior neck brace, designed for junior athletes at a very competitive price. The range of STX neck braces are designed for street commuters and includes the STX RR and STX Road neck braces.

Furthermore, there is a range of SNX models under the powersports category. These neck braces are designed for snow mobile riders, which includes the SNX 5.5 and SNX Trophy. These neck braces feature the AFC Arctic Fusion Compound -designed for extreme temperatures.

The Fusion is a unique invention that combines neck, chest, back, flank and shoulder protection in one piece of body armor for powersports enthusiasts. This product combines LEATT neck brace technology together with CE certified back, shoulder and chest impact protection. The Fusion models include the Fusion 3.0, which incorporates hard shell and 3DF AirFit ventilated soft impact foam to protect riders, the Fusion 3.0 SNX, which is designed specifically for snowmobile riders and is made from a special blend referred to as Arctic Fusion Compound (AFC ), this material is designed to withstand extremely cold conditions, and the Fusion 2.0 Junior which is designed for junior athletes.

Our DBX models, designed for the bicycle market, includes the DBX 5.5, which is fully adjustable, the DBX 5.5 Junior, which is fully adjustable and designed for junior riders, the DBX 6.5 which is a full carbon brace, the award-winning GPX 3.5 neck brace, which is competitively priced, and the GPX 3.5 Junior neck brace designed for junior athletes at a very competitive price.

Another product found under the neck brace category is the Neck Brace Kart, specifically designed for go-kart riders. This neck brace features a special Kart angle for improved function and fit. It features bio foam lycra padding and also has fully adjustable front and rear tables.

The Company offers various versions, sizes and colors of these products to appeal to different clients and to address different price points. All these neck braces are CE certified as Personal Protective Equipment 89/686/EEC. To view a detailed listing of these products please see our website; [www.leatt.com](http://www.leatt.com) .

### ***Helmets***

In 2015 the Company launched its helmet range and commenced shipment with a limited helmet range. The Company expanded its off-road helmet range in 2016 to include two junior helmets and its award winning DBX range for downhill and BMX bicycle use. The Company currently sells various models of helmet products which the Company believes redefines head and brain protection with its groundbreaking 360-degree Turbine technology for concussion and brain rotation safety. These helmets offer superior head and brain protection in a shell that is smaller, very lightweight, and super ventilated, even at low speeds.

The GPX helmet range, designed for off-road motorcycle riders, consists of the GPX 6.5 Carbon Helmet, which is the premium helmet in the range, the GPX 5.5 Composite Helmet, which is a race-ready, composite, off-road, light weight and super ventilated helmet, the GPX 5.5 Composite Junior Helmet, a composite helmet that boasts the same technology that makes the adult helmets so effective and is specifically designed to protect younger riders, the GPX 4.5 Helmet, which is a lightweight injected polymer compound helmet, the GPX 4.5 Junior Helmet, which is a lightweight injected polymer compound helmet designed for younger riders, the new GPX 3.5 Helmet, which is a polymer helmet with 360-degree turbine technology at a competitive price point, and the GPX 3.5 Junior Helmet, which is a polymer helmet designed for young riders at a competitive price point.

The DBX helmet range consists of the premium DBX 6.0 Carbon Helmet, which is the lightest helmet design in the range, the DBX 5.0 Composite Helmet, which is a composite helmet made specifically to suit downhill and BMX riders requirements, the award-winning DBX 4.0 Helmet, which is a super-ventilated full-face helmet, the DBX 3.0

DH Helmet, which is a light-weight helmet that is ASTM certified, the DBX 3.0 Enduro Helmet, which is a convertible helmet with removable chin bar, the DBX 3.0 All-Mountain Helmet, which is a half shell polymer compound helmet for cyclists, and the award-winning DBX 2.0 Helmet, which is a compound helmet designed for cyclists at a competitive price point.

The Company offers various versions, sizes and colors of these products to appeal to different clients in different disciplines and to address different price points. All our helmets have achieved CE certification when necessary. 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 to AS/NZS 2063. For the UK market our motorcycle helmets comply with ACU Gold. To view a detailed listing of these products please see our website: [www.leatt.com](http://www.leatt.com).

### ***Body Armor***

In 2010, we launched the Leatt body armor range with our introduction of the Leatt Adventure Chest Protector, a hard-shell chest protector. The following year we introduced junior protectors, body vests and full body protectors. Since then we have further extended our range to include more body protectors and vests, back protectors, elbow guards, knee guards, impact shorts and cooling vests. These products come in a variety of soft- and hard-shell options for both adult and junior riders. Our expanded body armor product range has also gained us entry into new markets.

In 2014, we have expanded into shoulder and knee-brace markets with the addition of our new shoulder brace and C-Frame knee brace to our range of body protection products. In the 2015 first quarter our Knee Brace was accepted for registration by both the United States Food and Drug Administration (FDA) and the UK's Medicine and Healthcare Regulatory Products Agency (MHRA), and our Shoulder Brace was accepted by the FDA, as Class 1 Medical Devices. FDA and MHRA registration will allow us to take these products directly to market as medical devices for patients (not just athletes) recuperating from injuries, surgery, muscle tears or strains, dislocations, breaks or fractures. The Company has expanded its knee brace range to include the Knee Brace C-Frame Pro Carbon, which is the premium knee protection in the range, the Knee Brace X-Frame, which is injected carbon cage-type knee protection, the Knee Brace Z-Frame, which is glass-filled nylon knee protection product at a competitive price point, and the Knee Brace Carbon Junior, which is premium knee protection designed for younger athletes.

Our team is committed to consistently updating and refining these products based on consumer feedback and demand on an annual basis. The Company offers various versions, sizes and colors of these products to appeal to different clients in different disciplines and to address different price points. All our products have achieved CE certification when necessary. To view a detailed listing of these products please see our website: [www.leatt.com](http://www.leatt.com).

### ***Other Products, Parts and Accessories***

#### ***Leatt Apparel Range***

The Leatt Apparel Range is the fastest growing product category in the Leatt range of products. In 2015, we introduced a new product category of gloves to our apparel products and expanded our offering of cooling apparel products. We have since added a variety of apparel products for off-road motorcycle riders and bicycle riders, including jackets, jerseys, pants, shorts, socks and gloves. All products in this range come in a variety of trendy colors and are designed in line with the latest international fashion trends.

#### ***Casual Clothing and Accessories***

We also sell a variety of casual clothing and caps which we have expanded to include sunglasses this year. We sell accessories that complement our expanding range of products including toolbelt bags, duffel bags, gear bags, helmet bags, hats and hydration kits. The products are designed in line with the latest international fashion trends.

#### ***Spare Parts***

We also provide aftermarket support to users of our protective products primarily for the replacement of worn or damaged parts through our global distribution network. The nature of many of our products is such that certain components collapse and fail in a controlled mode to help prevent further bodily injury. As such, specific parts of a product or the entire product may need to be replaced after a significant impact.

Our team is committed to consistently updating and refining these products based on consumer feedback and demand on an annual basis. To view a detailed listing of these products please see our website: [www.leatt.com](http://www.leatt.com).

### ***Accolades***

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The Leatt products have won a series of awards and accolades since 2007, including the following:

- *Motocross Action*: Leatt-Brace GPX awarded 5/5 Star Product Rating (2007) and Decade's Most Significant Product (awarded by an industry magazine based on comfort, fit and safety)

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- *Transworld MX: Editors' Choice* Leatt Brace Adventure awarded Best New Product of Year (2009) (selected by editors of an industry magazine with no published criteria)
- *ISPO Brandnew Awards*: Leatt-Brace DBX awarded Best Protection at Bike Expo (2010) (Bike Expo is an annual gathering of industry participants)
- *Transworld MX*: Leatt GPX Pro Best Product of the Year (2011) (selected by editors of an industry magazine, based on comfort and safety)
- *Motocrossgear.com*: Perfect Score to New 2012 Leatt-Brace Chest Protector Adventure Pro (selected by an industry website, based on looks, comfort and safety)
- *Transworld Motorcross Magazine*: Chest Protector Leatt Pro Lite was awarded Product of the Year for 2012 (selected by editors of industry magazine based on testing and looks)
- *PPS Moto*: This Motocross Product review website awarded the Company the 2014 PPS Moto Protective Gear Company of the Year Award.
- *Mountainbike Magazine*: The Leatt F4 Hydration System won the Design and Innovation Award for 2015. The product was chosen from over 100 brands and vetted by an international jury featuring top athletes, including Enduro World Series Winner, Nico Lau.
- *2015 Vital MX Audience Survey*: The Leatt Neck Brace was voted the number one Neck Brace to buy in the Vital MX Audience Survey.
- *Design & Innovation 2016 Awards*: The Leatt DBX 5.0 Composite Helmet won a Design and Innovation Award for 2016. The Design & Innovation jury of bicycle industry experts seeks to recognize bicycles and bicycle products.
- *Design & Innovation 2016 Awards*: The Leatt DBX Enduro Lite WP 2.0 won a Design and Innovation Award for 2016. The Design & Innovation jury of bicycle industry experts seeks to recognize bicycles and bicycle products.
- *Decline Magazine*: awarded Leatt Knee Guards a five-star rating based on the products' fit, impact testing, breathability and overall appeal (July 2016).
- *Eurobike Award 2017*: In 2017, the Leatt DBX 3.5 neck brace won a Eurobike Award. Eurobike is the world's leading trade fair where international bike industry exhibitors present their products and services. The prestigious Eurobike Award honors innovative products and is a highlight of the annual exposition.
- *Interbike Innovation 2017 Award Winner*: The Leatt DBX 3.5 neck brace was named an Interbike Innovation Award winner in 2017. The Interbike International Bicycle Exposition is the largest bicycle industry trade event in North America and their awards are aimed at recognizing excellence and innovation in product, retail and advocacy.
- *Mountain Bike Magazine 2017 Editor's Choice Innovations Category Winner*: In 2017, the Leatt DBX 3.0 helmet was one of ten winners in the Editor's Choice Innovations category reserved for innovations that the Editors believe most shaped the mountain bike world during the prior year.
- *The MTB Lab Best of 2017 Award*: In 2017, The MTB Lab, an online publication on mountain bikes and outdoor gear, named the Leatt DBX 3.0 All-Mountain Helmet one of the best products for 2017.
- *2017 Crankjoy Gear of the Year*: The Leatt DBX 3.0 helmet was listed by the Editors of Crankjoy, an online publication on mountain bike lifestyle and gear, as among its favorite riding gears for 2017.
- *Design & Innovation 2018 Awards*: In 2018, the Leatt DBX 2.0 Helmet and the Leatt DBX 3.5 Neck Brace won a Design and Innovation Award. The Design & Innovation award is granted by a jury of bicycle industry experts in recognition of the best bicycles and bicycle products.
- *2018 Powersports Business Nifty 50 Award*: In 2018, the Leatt GPX 4.5 Helmet and the Leatt GPX 3.5 Neck Brace was awarded the Nifty 50 Award by the editors of Powersports Business, an industry publication that selects aftermarket products and services that they believe will help boost dealer profitability. To be eligible for the 2018 award, products had to be new or substantially improved from previous years and be ready for delivery in calendar year 2018.



*Interbike Innovation 2018 Award Winner:* Leatt DBX 4.0 Helmet was named an Interbike Innovation Award winner in 2018. The Interbike International Bicycle Exposition is the largest bicycle industry trade event in North America and their awards are aimed at recognizing excellence and innovation in product, retail and advocacy.

*Design & Innovation 2019 Awards:* In 2019, the Leatt DBX 4.0 Helmet won a 2019 Design & Innovation Award. The Design & Innovation award is granted by a jury of bicycle industry experts in recognition of the best bicycles and bicycle products.

We believe that the premium quality of Leatt-Brace® products has resulted in increased sales since inception. We have sold in excess of 750,000 units of Leatt-Brace® products worldwide primarily to the off-road motorcycle and bicycle markets to date. Approximately 9% of our 2010-unit sales were from our DBX bicycle neck brace. This has increased consistently over time with sales of our DBX bicycle neck brace accounting for 17% of unit sales in 2018. We continue to develop neck brace products for markets outside of our core markets.

## **Manufacturing**

Our products are manufactured in China in accordance with our manufacturing specifications, pursuant to outsourced manufacturing arrangements with third-party manufacturers located there. Our third-party manufacturers usually have the capacity to produce more than 120,000 neck braces per year and have the space to expand such capacity as required. We do not currently have written agreements with our neck brace third-party manufacturers but will include any such future written agreement with our periodic filings. We have a manufacturing agreement with our Helmet manufacturer and will file agreements as they become material. We generally offer a 2-year warranty on our products in accordance with EU regulations. Products purchased through international sales are usually shipped directly from our consolidation warehouse or manufacturers' warehouses to customers or their import agents.

Upon our determination of order quantities, we issue periodic purchase orders for products to our third-party manufacturers at negotiated prices. A security deposit of between 10 - 30% of the total purchase order value is made with such manufacturers upon receipt of a manufacturer's invoice reflecting quantities ordered and the negotiated price for the products. The standard lead time from purchase order date to ship-ready date is 70-90 days, and our standard supplier shipping terms are FOB (Port).

During production, we measure the manufacturer's quality and on-time performance to determine whether to continue our relationship. We utilize outside consultants and our own employees to ensure the quality of our products through regular on-site product inspections. Such quality inspections are conducted in conformance with ISO/IEC 17025 specifications at the manufacturer's premises and penalties are levied against a manufacturer if any delay in shipment to customers or customer rejection or non-acceptance is caused by quality issues. The balance of open invoices is paid to the manufacturer four to six weeks after successful inspection.

## **Raw Materials and Suppliers**

Our products are manufactured from generally available engineering materials, such as thermoset carbon fiber, glass fiber reinforced nylon and high impact polycarbonate resin. The cost of materials used in our products varies depending on the target market for, and the price of, our products. The prices of these raw materials are determined based upon prevailing market conditions, supply and demand, and global conditions may impact the supply of these raw materials and adversely affect the supply of our products. We have not experienced any interruptions to our production due to shortage of our raw materials.

Our third-party manufacturers arrange for the purchase of most of the raw materials that are used to manufacture our products and they pay for the cost of such materials. We may occasionally directly source and pay for highly specialized protection materials, for use in the production of our products. These protection materials are generally available. We also occasionally acquire raw materials on behalf of a third-party manufacturer in order to secure and

maintain a specified production capacity. The expenses incurred for such materials for the years ended December 31, 2018 and 2017, were not material and we do not foresee these amounts being material in the near future.

We have implemented certain protocols to check the quality of raw materials used in the production process. Our third-party manufacturers are required to perform prescribed strength testing on critical parts of certain products. In addition, certain materials are tested by our research and development staff at Leatt SA and by independent material laboratories for compliance to manufacturing and material specification.

## **Our Customers**

Leatt earns revenues through the sale of 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 certain international brands. Leatt sells its products directly to distributors in South Africa (through Leatt SA), in the USA (through Two Eleven), and through a network of approximately 60 third-party distributors worldwide. Our distributors are required to follow certain standard business terms and guidelines for the sale and distribution of our products. Two Eleven also sells our products directly to consumers through our online store available at [www.leatt.com](http://www.leatt.com).

Products purchased through international sales are usually shipped directly from our consolidation warehouse or manufacturers' warehouses to customers or their import agents. Revenue and related cost of revenue is recognized at the time of shipment from the manufacturer's port when shipping terms are Free on Board (FOB) shipping point, 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 customer.

We generate revenue both in the United States and internationally. For the years ended December 31, 2018 and 2017, annual revenues associated with international customers were \$16,090,800 and \$12,827,572, or 66% and 64% of total revenue, respectively.

We have derived a significant portion of our revenue from a limited number of customers, however none of our customers account for more than 10% of our consolidated revenues for the year ended December 31, 2018. For the years ended December 31, 2018 and 2017, our largest customer accounted for approximately 12% and 10% of our annual U.S. revenue, respectively. As of December 31, 2018, and 2017, \$55,306 or 3% and \$147,711 or 6% of our accounts receivable was due from this customer.

For both years ended December 31, 2018 and 2017, our international revenue derived outside of the U.S. was earned from one customer that accounted for approximately 8% of our annual international revenue. As of both December 31, 2018, and 2017, \$0, or 0% of our accounts receivable, respectively, was due from this international customer.

## **Advertising and Marketing**

We first gained market recognition through customer word-of-mouth and later through third-party articles and reviews of the Leatt-Brace® in motorcycle and racing magazines, and unsolicited and unpaid endorsements from current and former celebrity motocross (and other) riders, but we now advertise our products in various motorsport industry magazines, social media and in related online media. We also enhance our image through the sponsorship of sporting events, teams and individuals.

We believe that, as a result of our marketing efforts, and based on our internal marketing estimates, we have approximately 797 active distributors and dealers who stock Leatt products in the U. S. and approximately 186 active distributors and dealers in South Africa. We expect that the number of our distributors and dealers will also grow as the market segments that we sell to and our product offering grows but we cannot guarantee that this will be the case.

Our advertising and marketing expenses for the years ended December 31, 2018 and 2017 were \$1,881,368 and \$1,690,408, respectively, representing approximately 8% of our revenues for both periods.

## **Our Growth Strategy**

We are committed to growing our business in the coming years. The key elements of our growth strategy are summarized below:

- *Regional Distribution.* Our product range has attracted the interest of global retailers and distributors of protective gear for motor and extreme sports, as well as automotive and motorcycle manufacturers and racing teams like the KTM teams. The resultant interest and the expected demand for our products have prompted us to change our production and distribution strategy in order to cater to this demand. In November 2007, we established Two Eleven, our wholly owned California subsidiary, to manage and control the distribution of our products, particularly in the United States. We distribute products to international consumers through a network of international distributors who are selected by our management team based on their financial status and creditworthiness, their location in major geographic locations, their marketing and media presence, their portfolio of leading motorcycle brands and accessories, and their reputation among industry players. We are working on developing our bicycle distribution network throughout the world by appointing new distributors and dealers with a specific focus on the bicycle market. We believe that regional distributors will better promote our products in the designated regions and expand our global customer base. In the U.S we are expanding and upgrading our dealer network and sales management team.
- *Strategic Alliances.* We are actively researching and evaluating strategic alliances that will enable the Company to grow into markets outside of its core markets in an efficient manner. We are also working with our OEM partners to develop more mutually beneficial, sustainable, long-term relationships in line with the Company's goals.

- *Industry Accreditation and Endorsements.* We are pursuing accreditation and endorsements of our products from global motor sports governing and homologation bodies as well as industry organizations. We believe that these accreditations and endorsements will increase sales of our products and solidify our position as a leader in safety products. SFI testing is compulsory for neck protection used in automotive racing in the United States, therefore should neck protection in two wheeled sports become compulsory we believe that such accreditations and endorsements will additionally increase our sales.
- *Developing Brand Awareness and Brand Loyalty.* We are continuing with our efforts to develop brand loyalty by refining our marketing strategy and by engaging in more targeted communication with current and potential consumers of our products. We are working to build loyalty among more consumers in our core bicycle and moto markets by introducing more price points for our products and addressing more consumer needs in more segments, while remaining true to our mission pioneering functional safety gear.
- *Expanding our Portfolio of Products.* We are always looking for opportunities to introduce new products to reach a wider audience and penetrate new markets. This will include extending our product range to include both innovative protection products as well as peripheral or accessory products such as clothing. In the 2015 first quarter our Knee Brace was accepted for registration by both the United States *Food and Drug Administration* (FDA) and the UK's *Medicine and Healthcare Regulatory Products Agency* (MHRA), and our Shoulder Brace was accepted by the FDA, as Class 1 Medical Devices. FDA and MHRA registration will allow us to take these products directly to market as medical devices for patients (not just athletes) recuperating from injuries, surgery, muscle tears or strains, dislocations, breaks or fractures. In 2016, we launched two additions to our body armor product range, namely helmets and gloves. We also added two full apparel lines to our product range one line designed for the off-road motorcycle market and the other designed for the bicycling market. We expect that our sales of peripheral products and accessories will increase in line with increased brand awareness.

## **Our Research and Development Efforts**

Our Chairman and Founder, Dr. Christopher Leatt, is our primary research and development consultant and heads the research and development efforts conducted at our research facility, or Leatt Lab, located at our executive headquarters in Cape Town, South Africa. The facility houses a team of biomedical engineers and designers who ensure products are scientifically and mechanically sound. This facility features state of the art testing and prototyping equipment and sophisticated simulation models. Leatt also utilizes other consultants, academic institutions and engineering companies from time to time to assist us with our research and development efforts.

We believe that the development of new products and new technology is critical to our success. We are continuously working to improve the quality, efficiency and cost-effectiveness of our existing products. All our products have achieved CE certification when necessary. 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 to JIS T 8133 for the Japanese Market. We are working to develop technology to expand our range of products with further innovation, comfort, ergonomics and market appeal. We believe that our scientific and medical approach to product development gives our products a competitive edge.

Our research and development expenses for the fiscal years ended December 31, 2018 and 2017 amounted to \$1,412,866 and \$1,358,512, respectively. These expenses included salaries for research and development staff as well as other direct product development and research costs.

## **Competition**

We compete with a small number of dominant competitors in the neck brace and body protection market, some of whom have substantially greater financial and other resources than we currently have. According to the RacerX survey discussed elsewhere herein and available at <http://mediakit.filterpubs.com/survey>, our major competitors in the neck brace market is Atlas Brace USA, LLC, Alpinestars S.p.A and EVS Sports; our major competitor in the knee brace market is EVS Sports; and our major competitor in the body protection, apparel and helmet market is Fox Racing.

Competition is based on quality, price, reputation, industry endorsements and certifications, as well as, on product design, brand names, marketing support and distribution strategies. We believe that our products can be distinguished from the products offered by our competitors due to the fact that our products are innovative, safety tested, versatile, aesthetically appealing, priced competitively and comfortable without compromising quality and performance.

## ***Our Competitive Strengths***

We believe that our competitive strengths include the following:

- *Intellectual Property.* Licensed patented technology allows us to provide a product that cannot easily be duplicated by our competitors. We have invested extensive resources to patent our products worldwide and have taken legal action to protect our intellectual property rights from infringement.
- *Diverse Multi-Cultural Skilled Management Team.* Our management team is knowledgeable and experienced in the personal protective equipment industry, sports medicine and business development. Our executive corporate management team consists of Mr. Sean Macdonald, Dr. Christopher Leatt, Mr. Erik Olsson and Mr. Todd Repsher. Mr. Macdonald is our Chief Executive Officer, Chief Financial Officer, President and Director, and is a Chartered Accountant with 15 years' experience in the financial and operational aspects of running sports orientated growth companies. Dr. Leatt is our Founder, Chairman and Research and Development consultant, who developed the Leatt- Brace® from his study of the benefits and viability of a neck protection system for helmet clad sport and recreational users. Mr. Olsson is our General Manager and Head of International Distribution and has served for over 20 years as a Sales and Product Manager for various companies in the power sports industry. Mr. Repsher is our US General Manager, who is an award-winning sales executive with over 15 years' experience in the marketing and sales of sports orientated companies in North America.
- *Outsourced Manufacturing.* We outsource our manufacturing to third-party manufacturers in order to produce large volumes of our products. The manufacturing process remains subject to our strict quality control guidelines safeguarded by our employees and the third-party inspectors who we hire as consultants to ensure that these guidelines are being implemented at the production point. While such manufacturing arrangements pose a risk to our ability to safeguard our property technologies and may lead to increased costs, as discussed under the Risk Factors heading in this report, we expect that the increase in expected sales volumes will contribute to a lower production cost per unit and that this will translate to better margins for our distributors and retailers.
- *Research, Development, Certification and Marketing Capabilities.* We have in-house know how in the areas of product development, testing and accreditation, particularly in the field of personal protective equipment. With the experience and capabilities developed and established in taking our product to market, we believe that we are well positioned to develop, manufacture and market additional products. With our medical and mechanical expertise, demonstrated research and development capabilities, established outsource manufacturing capacity, established brand and our dedicated, loyal and enthusiastic distribution network, we believe that we have the components necessary to bring new successful products to market.
- *Industry Accreditation, Testing Standards and Regulations.* We are pursuing accreditation and endorsements of our products from global motor sports governing and homologation bodies as well as industry organizations. We have obtained homologations of our products from various global racing authorities where objective standards have been set and we are in discussions with governing racing bodies, such as the CIK, to have the Leatt-Brace® accredited. Should industry accreditation become compulsory, we would be ahead of our competitors in the market place.
- *Brand Recognition.* We believe that public recognition of the Leatt® brand drives the sales of our products, regardless of the action of competitors and competitive products. We expect that the reputation of our brand in the market place, particularly our product testing and applicable CE certification, will continue to ensure market acceptance and facilitate market penetration of our new products. In order to bolster and grow the Leatt® brand, stringent quality control and assurance are our highest priority and our ongoing marketing, advertising and public relations efforts continue to stress the quality, safety and innovation of our products.

## **Our 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®. Most of these initial

intellectual property rights are held by Xceed Holdings, a corporation controlled by our Chairman, Dr. Christopher Leatt and the rest of these rights are held by the Company and Three Eleven Distribution, our South African subsidiary. We license most of our intellectual property from Xceed Holdings, pursuant to a patent and royalty license agreement, or Licensing Agreement, dated March 1, 2006, between the Company and Xceed Holdings. Under the terms of the Licensing Agreement, we are obligated to pay Xceed Holdings 4% of all our revenues billed and recieved from the Leatt-Brace®. In addition, pursuant to a separate license agreement between us and Mr. De Villiers, we are obligated to pay a royalty fee of 1% of all our billed and received 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. We also rely on nondisclosure agreements and other methods to protect our intellectual property rights. However, the steps we have taken may be inadequate to prevent the misappropriation of our technology.

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The following table lists the patents and designs licensed from Xceed Holdings:

| Country               | Application No       | Patent No        | Filing Date | Invention Title | Status  | Renewal Date |
|-----------------------|----------------------|------------------|-------------|-----------------|---------|--------------|
| South Africa          | 2006/05044           | 2006/05044       | 06/20/2006  | Neck Brace      | Granted | 11/26/2019   |
| Brazil                | PI0416971-9          |                  | 05/26/2006  | Neck Brace      | Granted | 11/26/2019   |
| Canada                | 2,547,855            | 2,547,855        | 05/26/2006  | Neck Brace      | Granted | 11/26/2019   |
| China                 | 20048003507<br>2.4   | ZL200480035072.4 | 05/26/2006  | Neck Brace      | Granted | 11/26/2019   |
| Indonesia             | W002006014<br>67     | IDP0030269       | 06/19/2006  | Neck Brace      | Granted | 02/11/2019   |
| Israel                | 175931               | 175931           | 06/19/2006  | Neck Brace      | Granted | 11/25/2019   |
| Japan                 | 2006541524           | 4553903          | 05/26/2006  | Neck Brace      | Granted | 07/22/2019   |
| South Korea           | 10-2006-<br>7012173  | 10-0904041       | 06/19/2006  | Neck Brace      | Granted | 06/15/2019   |
| Morocco               | PV29105              | 28229            | 06/15/2006  | Neck Brace      | Granted | 11/26/2019   |
| Mexico                | JL/a/2006/000<br>026 | 301465           | 05/26/2006  | Neck Brace      | Granted | 11/26/2022   |
| Malaysia              | PI 20062407          | MY-145683-A      | 05/25/2006  | Neck Brace      | Granted | 03/15/2019   |
| Singapore             | 200808773-6          | 148205           | 05/26/2006  | Neck Brace      | Granted | 11/26/2019   |
| USA                   | 11/440,576           | 7,993,293        | 05/25/2006  | Neck Brace      | Granted | 02/09/2023   |
| USA (Broad)           | 11/690,412           | 8,002,723        | 03/23/2007  | Neck Brace      | Granted | 02/23/2019   |
| USA<br>(Continuation) | 13/206,312           | 8,562,551        | 08/9/2011   | Neck Brace      | Granted | 04/22/2021   |
| Eurasia               | 200601049            | 10815            | 06/26/2006  | Neck Brace      | Granted | 11/26/2019   |
| Australia             | 2004293118           | 2004293118       | 06/23/2003  | Neck Brace      | Granted | 11/26/2019   |
| India                 | 2315/CHENP/<br>2006  |                  | 06/26/2006  | Neck Brace      | Granted | 11/26/2019   |
| Norway                | 20062971             | 327461           | 06/26/2006  | Neck Brace      | Granted | 11/30/2019   |
| New Zealand           | 548068               | 548068           | 06/22/2006  | Neck Brace      | Granted | 11/26/2019   |
| Vietnam               | 1-2006-01015         | 13771            | 06/26/2006  | Neck Brace      | Granted | 02/09/2020   |
| Germany               | 04816084.0           | 6020040259 75,6  | 06/22/2006  | Neck Brace      | Granted | 11/30/2019   |
| France                | 04816084.0           | 1696842          | 06/22/2006  | Neck Brace      | Granted | 11/30/2019   |
| UK                    | 04816084.0           | 1696842          | 06/22/2006  | Neck Brace      | Granted | 11/30/2019   |
| Switzerland           | 04816084.0           | 1696842          | 06/22/2006  | Neck Brace      | Granted | 11/30/2019   |
| Spain                 | 04816084.0           | 2342402          | 06/22/2006  | Neck Brace      | Granted | 11/30/2019   |
| Italy                 | 04816084.0           | 1696842          | 06/22/2006  | Neck Brace      | Granted | 11/30/2019   |

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|             |            |                |            |            |         |            |
|-------------|------------|----------------|------------|------------|---------|------------|
| Netherlands | 04816084.0 | 1696842        | 06/22/2006 | Neck Brace | Granted | 11/30/2019 |
| Switzerland | 09165346.9 | 2113231        | 07/13/2009 | Neck Brace | Granted | 11/30/2019 |
| Germany     | 09165346.9 | 602004035367.1 | 07/13/2009 | Neck Brace | Granted | 11/30/2019 |
| Spain       | 09165346.9 | 2377592        | 07/13/2009 | Neck Brace | Granted | 11/30/2019 |
| France      | 09165346.9 | 2113231        | 07/13/2009 | Neck Brace | Granted | 11/30/2019 |
| UK          | 09165346.9 | 2113231        | 07/13/2009 | Neck Brace | Granted | 11/30/2019 |

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|             |                      |                      |            |                   |            |            |
|-------------|----------------------|----------------------|------------|-------------------|------------|------------|
| Italy       | 09165346.9           | 2113231              | 07/13/2009 | Neck Brace        | Granted    | 11/30/2019 |
| Netherlands | 09165346.9           | 2113231              | 07/13/2009 | Neck Brace        | Granted    | 11/30/2019 |
| USA         | 12/812,596           | 8,439,042            | 07/12/2009 | MRX Brace         | Granted    | 11/30/2019 |
| USA         | 29/224,261           | D552,742             | 02/28/2005 | Moto-R Brace      | Registered | 03/17/2020 |
| USA         | 29/225,477           | D542,919             | 03/17/2005 | Moto-GPX<br>Brace | Registered |            |
| Europe      | 000 312 061-<br>0001 | 000 312 061-<br>0001 | 03/17/2005 | Moto-GPX<br>Brace | Registered | 03/17/2020 |
| New Zealand | 405978               | 405978               | 03/16/2005 | Moto-GPX<br>Brace | Registered |            |

|        |                      |                      |            |                        |            |            |
|--------|----------------------|----------------------|------------|------------------------|------------|------------|
| USA    | 29/279,249           | D631,167             | 04/24/2007 | SSS Brace              | Registered |            |
| Europe | 000 711 130-<br>0001 | 000 711 130-<br>0001 | 04/20/2007 | SSS Brace              | Registered | 04/20/2022 |
| USA    | 29/284,258           | D592,310             | 09/04/2007 | Moto-GPX<br>Brace 2006 | Registered |            |
| Europe | 000 785 373-<br>0001 | 000 785 373-<br>0001 | 09/06/2007 | Moto-GPX<br>Brace 2006 | Registered | 09/30/2022 |
| USA    | 29/325,870           | D633,623             | 10/07/2008 | Damper Brace           | Registered |            |

The following table lists our own patents and designs:

| Country                          | Application No | Patent No       | Filing date | Invention Title | Status  | Renewal Date |
|----------------------------------|----------------|-----------------|-------------|-----------------|---------|--------------|
| <b>Held by Leatt Corporation</b> |                |                 |             |                 |         |              |
| South Africa                     | 2013/01921     | 2013/01921      | 10/01/2010  | Chest Protector | Granted | 10/01/2019   |
| South Africa                     | 2015/00206     | 2015/00206      | 01/13/2015  | Shoulder Brace  | Granted | 06/26/2019   |
| USA                              | 14/894,237     |                 | 11/25/2015  | Knee Brace      | Pending | After Grant  |
| France                           | 14737320.3     | EP 3003233      | 12/3/2015   | Knee Brace      | Granted | 05/31/2019   |
| Italy                            | 14737320.3     | 502017000064518 | 12/3/2015   | Knee Brace      | Granted | 05/31/2019   |
| Spain                            | 14737320.3     | EP 3003233      | 12/3/2015   | Knee Brace      | Granted | 05/31/2019   |
| United Kingdom                   | 14737320.3     | EP 3003233      | 12/3/2015   | Knee Brace      | Granted | 05/31/2019   |
| Austria                          | 14737320.3     | AT-E 874809     | 12/03/2015  | Knee Brace      | Granted | 05/31/2018   |
| Germany                          | 14737320.3     | DE 2014007672.6 | 12/03/2015  | Knee Brace      | Granted | 05/31/2018   |
| Sweden                           | 14737320.3     | EP 3003233      | 12/03/2015  | Knee Brace      | Granted | 05/31/2019   |
| Netherlands                      | 14737320.3     | EP 3003233      | 12/03/2015  | Knee Brace      | Granted | 05/31/2019   |

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|                |                 |            |            |                   |                                 |             |
|----------------|-----------------|------------|------------|-------------------|---------------------------------|-------------|
| Europe         | 15730280.3      | EP 3145354 | 5/21/2015  | Turbine<br>Helmet | Granted-<br>Under<br>Opposition |             |
| USA            | 15/312,271      |            | 12/21/2016 | Turbine<br>Helmet | Pending                         | After Grant |
| China          | 201580025924.X  |            | 11/18/2016 | Turbine<br>Helmet | Pending                         | After Grant |
| Australia      | 2015262893      |            | 11/21/2016 | Turbine<br>Helmet | Pending                         | 05/21/2019  |
| Brazil         | BR1120160269829 |            | 11/17/2016 | Turbine<br>Helmet | Pending                         | 05/21/2019  |
| Canada         | 2,949,756       |            | 11/21/2016 | Turbine<br>Helmet | Pending                         | 05/21/2019  |
| New<br>Zealand | 727758          |            | 12/20/2016 | Turbine<br>Helmet | Pending                         | 05/21/2019  |
| Hong Kong      | 17107095.0      |            | 07/14/2017 | Turbine<br>Helmet | Pending                         | After Grant |
| Germany        | 15730280.3      | EP 3145354 | 12/21/2016 | Turbine<br>Helmet | Granted                         | 05/31/2019  |
| Spain          | 15730280.3      | EP 3145354 | 12/21/2016 | Turbine<br>Helmet | Granted                         | 05/31/2019  |

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|   |                    |                    |            |                                |            |             |
|---|--------------------|--------------------|------------|--------------------------------|------------|-------------|
| France  | 15730280.3         | EP 3145354         | 12/21/2016 | Turbine Helmet                 | Granted    | 05/31/2019  |
| United Kingdom                                      | 15730280.3         | EP 3145354         | 12/21/2016 | Turbine Helmet                 | Granted    | 05/31/2019  |
| Italy   | 15730280.3         | EP 3145354         | 12/21/2016 | Turbine Helmet                 | Granted    | 05/31/2019  |
| Portugal  | 15730280.3         | EP 3145354         | 12/21/2016 | Turbine Helmet                 | Granted    | 05/31/2019  |
| China   | 201680075356.9     |                    | 06/21/2018 | Boot                           | Pending    | After Grant |
| USA   | 16/064,914         |                    | 06/26/2018 | Boot                           | Pending    | After Grant |
| Europe  | 16828780.3         |                    | 06/21/2018 | Boot                           | Pending    | 12/02/2019  |
| Thailand  | 1801003720         |                    | 06/21/2018 | Boot                           | Pending    | After Grant |
| Europe  | 17712829.5         |                    | 07/23/2018 | Jacket                         | Pending    | 02/28/2020  |
| China   | 201780012514.0     |                    | 08/21/2018 | Jacket                         | Pending    | After Grant |
| USA   | 16/078,379         |                    | 08/21/2018 | Jacket                         | Pending    | After Grant |
| PCT   | PCT/IB2018/058197  |                    | 10/22/2018 | Magnetic Hood                  | Pending    | None        |
| UK  | 1820871.0          |                    | 12/20/2018 | Goggle                         | Pending    |             |
| UK  | 1900499.3          |                    | 01/14/2019 | Velcro Boot                    | Pending    |             |
| USA   | 29/381,768         | D649,649           | 12/22/2010 | STX Brace                      | Registered |             |
| Europe  | 001 251 508- 0001  | 001 251 508-0001   | 12/23/2010 | STX Brace                      | Registered | 12/23/2020  |
| Australia   | 15733/2010         | 334789             | 12/23/2010 | STX Brace                      | Registered | 12/23/2020  |
| Japan   | 2010-031383        | 1422456            | 12/28/2010 | STX Brace                      | Registered | 08/04/2019  |
| USA   | 29/297,349         | D609,815           | 11/08/2007 | Leatt Sock Kit                 | Registered |             |
| USA   | 29/510,597         | D784,123           | 12/01/2014 | Visor Screw                    | Registered |             |
| USA   | 29,509,338         | D768,940           | 11/17/2014 | Hydration System               | Registered |             |
| Europe  | 02588970-0001-0003 | 02588970-0001-0003 | 12/02/2014 | Visor Screw & Hydration System | Registered | 2/12/2019   |
| <b>Held by Three Eleven Distribution (Pty) Ltd.</b> |                    |                    |            |                                |            |             |
| UK  | 06809017.4         | 1933656            | 3/31/2008  | Helmet                         | Granted    | 10/31/2019  |

\* The Patent Cooperation Treaty, or PCT, is an international agreement for filing patent applications having effect in up to 117 countries. Under the PCT, an inventor can file a single international patent application in one language with one patent office in order to simultaneously seek protection for an invention in up to 117 countries throughout the world.

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Patents applicable to specific products extend for varying periods according to the date of patent application filing or patent grant and the legal term of patents in the various countries where patent protection is obtained. The actual protection afforded by a patent, which can vary from country to country, depends upon the type of patent, the scope of its coverage and the availability of legal remedies in the country. Issued patents or patents based on pending patent applications or any future patent applications may not exclude competitors or may not provide a competitive advantage to us. In addition, patents issued or licensed to us may not be held valid if subsequently challenged and others may claim rights in or ownership of such patents. In addition, the validity and breadth of claims in protective gear technology patents involve complex legal and factual questions and, therefore, the extent of their enforceability and protection is highly uncertain.

The following table lists our licensed and/or registered and pending trademarks:

| Country | Trademark   | TM Class | Application No | Registration No | Filing Date | Renewal Date | Status     |
|---------|-------------|----------|----------------|-----------------|-------------|--------------|------------|
| China   | Leatt-Brace | 10       | 6287826        | 6287826         | 21/09/2007  | 02/20/2020   | Registered |
| China   | Leatt       | 10       | 6287824        | 6287824         | 21/09/2007  | 02/20/2020   | Registered |

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|           |                                   |           |             |             |            |            |            |
|-----------|-----------------------------------|-----------|-------------|-------------|------------|------------|------------|
| China     | The Helmet for your Neck Device   | 10        | 6287823     | 6287823     | 21/09/2007 | 02/20/2020 | Registered |
| CTM       | Leatt-Brace                       | 9         | 6313993     | 6313993     | 19/09/2007 | 09/19/2027 | Registered |
| CTM       | Leatt                             | 9         | 6314017     | 6314017     | 19/09/2007 | 09/19/2027 | Registered |
| CTM       | Device (The Helmet for your neck) | 9         | 6314132     | 6314132     | 19/09/2007 | 09/19/2027 | Registered |
| USA       | ALPT                              | 9         | 77/742,823  | 3,926,378   | 22/05/2009 | 03/01/2021 | Registered |
| USA       | Alternative Load Path Technology  | 9         | 77/742,826  | 3868833     | 22/05/2009 | 10/26/2020 | Registered |
| CTM       | Alternative Load Path Technology  | 9         | 8358046     | 8358046     | 11/06/2009 | 06/11/2019 | Registered |
| CTM       | Alternative Load Path             | 9         | 8358061     | 8358061     | 11/06/2009 | 06/11/2019 | Registered |
| CTM       | ALPT                              | 9         | 8358079     | 8358079     | 11/06/2009 | 06/11/2019 | Registered |
| USA       | Leatt Device                      | 9         | 77/765,739  | 3,861,760   | 23/06/2009 | 10/12/2020 | Registered |
| CTM       | Leatt Device                      | 9         | 8444168     |             | 23/07/2009 | 07/23/2019 | Registered |
| Australia | Leatt                             | 9,10, 28  | 1372902     | 1372902     | 16/07/2010 | 07/16/2020 | Registered |
| Japan     | Leatt                             | 9, 10, 28 | 2010-056635 | 5432253     | 16/07/2010 | 08/12/2021 | Registered |
| Japan     | Leatt                             | 25        | 2010-74427  | 5403909     | 22/09/2010 | 04/01/2021 | Registered |
| CTM       | Leatt                             | 25        | 9395997     | 9395997     | 23/09/2010 | 09/23/2020 | Registered |
| Brazil    | Leatt Brace                       | 10        | 829468323   | 829468323   | 03/11/2010 | 11/03/2020 | Registered |
| Brazil    | Leatt Brace (Special Script)      | 9         | 829994920   | 829994920   | 24/11/2008 | 02/08/2021 | Registered |
| Brazil    | Leatt Brace (Special Script)      | 25        | 829994939   | 829994939   | 24/11/2008 | 02/08/2021 | Registered |
| Brazil    | Leatt (Special Script)            | 9         | 830409432   | 830.409.432 | 05/11/2009 | 10/09/2022 | Registered |
| Brazil    | Leatt and Device                  | 9         | 830409440   | 830.409.440 | 05/11/2009 | 10/09/2022 | Registered |
| Brazil    | Leatt (Special Script)            | 10        | 902094165   | 902.094.165 | 05/11/2009 | 10/09/2022 | Registered |

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|           |                        |               |             |             |            |            |            |
|-----------|------------------------|---------------|-------------|-------------|------------|------------|------------|
| Brazil    | Leatt and Device       | 10            | 902094149   | 902094149   | 05/11/2009 | 01/14/2024 | Published  |
| Brazil    | Leatt (Special Script) | 25            | 902094238   | 902.094.238 | 05/11/2009 | 10/09/2022 | Registered |
| Brazil    | Leatt and Device       | 25            | 902094190   | 902.094.190 | 05/11/2009 | 10/09/2022 | Registered |
| Canada    | LEATT                  | 25            | 1535498     | 841,643     | 13/07/2011 | 01/29/2028 | Registered |
| USA       | BraceOn                | 9             | 85/429,145  | 4,276,706   | 22/09/2011 | 01/15/2023 | Registered |
| Australia | BraceOn                | 28            | 1450772     | 1450772     | 23/09/2011 | 09/23/2021 | Registered |
| CTM       | BraceOn                | 9, 28         | 10288405    | 10288405    | 23/09/2011 | 09/23/2021 | Registered |
| NZ        | Leatt                  | 9             | 829603      | 829603      | 30/08/2010 | 08/30/2020 | Registered |
| NZ        | Leatt                  | 25            | 831034      | 831034      | 27/09/2010 | 09/27/2020 | Registered |
| NZ        | Leatt                  | 28            | 831035      | 831035      | 27/09/2010 | 09/27/2020 | Registered |
| NZ        | Leatt                  | 10            | 831036      | 831036      | 27/09/2010 | 09/27/2020 | Registered |
| Brazil    | Device                 | 10            | 902.094.084 | 902.094.084 | 05/11/2009 | 10/09/2022 | Registered |
| Brazil    | Device                 | 25            | 902.094.157 | 902.094.157 | 05/11/2009 | 10/09/2022 | Registered |
| Brazil    | Device                 | 9             | 830.409.416 | 830.409.416 | 05/11/2009 | 10/09/2022 | Registered |
| CTM       | Device                 | 9, 25, 28     | 13289822    | 13289822    | 23/09/2014 | 09/23/2024 | Registered |
| USA       | THREE L DEVICE         | 9, 25, 28     | 86445638    | 5,124,832   | 5/11/2014  | 01/17/2027 | Registered |
| USA       | LEATT                  | 9, 18, 25, 28 | 86846033    | 5,182,646   | 11/12/2015 | 04/11/2027 | Registered |
| USA       | Leatt                  | 25            | 85135308    | 4,202,879   | 22/09/2010 | 09/04/2021 | Registered |

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|             |  |           |             |            |            |            |            |
|-------------|--|-----------|-------------|------------|------------|------------|------------|
| SA          | DEVICE<br>(NEW<br>LOGO)                  | 9         | 2009/11856  | 2009/11856 | 26/06/2009 | 06/26/2019 | Registered |
| SA          | DEVICE<br>(NEW<br>LOGO)                  | 10        | 2009/11857  | 2009/11857 | 26/06/2009 | 06/26/2019 | Registered |
| SA          | DEVICE<br>(NEW<br>LOGO)                  | 28        | 2009/11858  | 2009/11858 | 26/06/2009 | 06/26/2019 | Registered |
| SA          | Leatt-Brace<br>(Special<br>Script)       | 10        | 2004/08584  | 2004/08584 | 28/05/2004 | 05/28/2024 | Registered |
| SA          | Leatt                                    | 10        | 2006/22761  | 2006/22761 | 26/09/2006 | 09/26/2026 | Registered |
| USA         | Leatt-Brace                              | 9         | 77227507    | 3483439    | 11/07/2007 | 08/12/2018 | Registered |
| USA         | LEATT                                    | 9         | 77264178    | 3483646    | 24/08/2007 | 08/12/2018 | Registered |
| CTM         | Adventure<br>Brace                       | 9, 10, 28 | 8224479     | 8224479    | 26/03/2009 | 03/26/2019 | Registered |
| China       | Leatt-Brace                              | 9         | 7668832     | 7668832    | 09/03/2009 | 03/06/2021 | Registered |
| China       | LEATT                                    | 9         | 7668830     | 7668830    | 03/09/2009 | 03/06/2021 | Registered |
| China       | LEATT                                    | 25        | Pending     |            | 31/08/2016 |            | Published  |
| China       | LEATT                                    | 28        | Pending     |            | 31/08/2016 |            | Published  |
| China       | The Helmet<br>For Your<br>Neck<br>Device | 9         | 7668857     | 7668857    | 03/09/2009 | 03/06/2021 | Registered |
| China       | Leatt                                    | 25        | 8706821     | 870682     | 28/09/2010 | 09/28/2021 | Registered |
| Mexico      | Leatt                                    | 9         | 1938215     |            | 08/25/2017 |            | Pending    |
| Mexico      | Leatt                                    | 18        | 1938218     |            | 08/25/2017 |            | Pending    |
| Mexico      | Leatt                                    | 25        | 1938216     |            | 08/25/2017 |            | Pending    |
| Mexico      | Leatt                                    | 28        | 1938213     |            | 08/25/2017 |            | Pending    |
| EU          | LEATT                                    | 9         | 17952736    |            | 09/11/2018 | 09/11/2028 | Registered |
| Australia   | LEATT                                    | 9, 25     | 1954696     |            | 09/12/2018 |            | Pending    |
| Canada      | LEATT                                    |           | 1925610     |            |            |            | Pending    |
| Japan       | LEATT                                    | 9         | 2018-115304 |            | 09/13/2018 |            | Pending    |
| New Zealand | LEATT                                    | 9, 25     | 1102269     |            | 09/12/2018 |            | Published  |
| Mexico      | LEATT                                    | 9         | 2114511     |            | 10/11/2018 |            | Pending    |
| SA          | LEATT                                    | 9         | 2018/26274  |            | 09/11/2018 |            | Pending    |
| SA          | LEATT                                    | 25        | 2018/26274  |            | 09/11/2018 |            | Pending    |

\* A Community Trade Mark or CTM, is any trademark which is pending registration or has been registered in the European Union as a whole (rather than on a national level within the EU). The CTM system creates a unified trademark registration system in Europe, whereby one registration provides protection by being enforceable in all member states of the EU.

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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. Reverse engineering, unauthorized copying or other misappropriation of our technologies could enable third parties to benefit from our technologies without paying us. We cannot assure you that our competitors have not developed or will not develop similar products, will not duplicate our products, or will not design around any patents issued to or licensed by us. 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.

### **Our Employees**

As of December 31, 2018, we employed 49 full-time employees, 13 independent contractors and no part-time employees. The following table sets forth the number of our full-time employees by function as of December 31, 2018.

| <b>Employee Function</b>                     | <b>Number</b> |
|--|---------------|
| Executive                                    | 3             |
| Internet Technology                          | 2             |
| Product                                      | 4             |
| Marketing                                    | 6             |
| Finance                                      | 4             |
| Operations and Distributions/Logistics       | 8             |
| Research and Development / Leatt Lab         | 4             |
| Legal and Compliance                         | 2             |
| Sales/Customer Services                      | 14            |
| Support Staff (Receptionist/Cleaners/Driver) | 2             |
| Independent Contractors                      | 13            |
| <b>Total</b>                                 | <b>62</b>     |

We are required to pay UIF, or unemployment insurance, for each of our South African employees. We are also required to withhold income taxes for our South African and U.S. based employees. We generally provide health care benefits and other standard benefits to our employees. During 2018, we did not have any pension or retirement plans for any of our employees. Effective January 1, 2019, we implemented a 401k plan for the benefit of all our U.S. based employees.

We believe that we maintain a satisfactory working relationship with our employees, and we have not experienced any significant labor disputes or any difficulty in recruiting staff for our operations.

## **Regulations**

### ***The 2012 JOBS Act***

We qualify as an emerging growth company, as defined in Title I of the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company is defined as an issuer, including a foreign private issuer, with less than \$1 billion of total annual gross revenues during the most recently completed fiscal year. The SEC has interpreted total annual gross revenues to mean total revenues as presented on the income statement presentation under U.S. GAAP, which for the Company was \$24.4 million for the fiscal year ended December 31, 2018. We will retain our status as an emerging growth company until the earlier of: (1) the fifth anniversary of the date we first sell securities pursuant to an IPO registration statement; (2) the last day of the fiscal year in which we first exceed \$1 billion in annual gross revenues; (3) the time we become a large accelerated filer (an SEC registered company with a public float of at least \$700 million); or (4) the date on which we have issued, within the previous three years, \$1 billion of nonconvertible debt, whether issued in a registered or unregistered offering and whether or not it is still outstanding at the determination date.

The JOBS Act provides scaled disclosure provisions for us, including, among other things: (a) permitting us to include only two years of audited financial statements in a registration statement filed under the Securities Act of 1933 for an IPO of common equity securities; (b) allowing us to comply with the smaller reporting company version of Item 402 of Regulation S-K (Executive Compensation); and (c) removing the requirement that our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting in accordance with Section 404(b) of the Sarbanes-Oxley Act of 2002. The JOBS Act also exempts us from the following additional

compensation-related disclosure provisions that were imposed on U.S. public companies pursuant to the Dodd-Frank Act: the advisory say-on-pay vote on executive compensation required under Section 14A(a) of the Exchange Act; the Section 14A(b) requirements relating to shareholder advisory votes on golden parachute compensation; the Section 14(i) requirements for disclosure relating to the relationship between executive compensation and financial performance of the issuer; and the requirement of Dodd-Frank Act Section 953(b)(1), which will require disclosure as to the relationship between CEO and median employee pay.

Under Section 102(b)(1) of the JOBS Act, "emerging growth companies" can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. However, we have irrevocably elected not to avail ourselves of this extended transition period for compliance with new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not "emerging growth companies."

### ***European Union Directives***

All our products are compliant with applicable European Union directives, or CE certified, where appropriate. All Leatt Personal Protective Equipment (PPE) products are CE Certified showing compliance with European Economic Community (EEC) directive 89/686/EEC that imposes mandatory accreditation of all Personal Protective Equipment products offered for sale in the EEC. This includes the Company's Leatt-Brace® and body protection products.

This means that as a minimum these products must comply with: the basic Health and Safety requirements of the directive; certain chemical innocuousness tests prescribed in EN 340:2003 - Protective clothing - General Requirements; and the requirements relating to usage, care, cleaning, sizing and other information to be supplied with the product. Accordingly, all Leatt-Braces®, chest protectors and body protection products are CE certified. Only our peripheral products such as jackets, clothing, and caps are not covered.

In addition to the minimum requirements the Company complies with the European Standards, or EN (European Norm), specific to certain categories of PPE. An EN is a standard that has been adopted by one of the three recognized European Standardization Organizations (ESOs): CEN, CENELEC or ETSI. It is produced by all interested parties (including manufacturers, users, consumers and regulators of a particular material, product, process or service) through a transparent, open and consensus-based process. In the Company's case these are the applicable EN standards: EN 14021 Stone Shields; EN 1621-1 Limb Protectors; EN 1621-2 Back Protectors; and CE EN1621-3 level 2 impact front Chest Protectors. These standards are more performance related and, among other things, measure the performance of PPE at various intensity levels and under different environmental conditions. They also prescribe product labeling, tests for user comfort and ease of use. Where no specific standards exist in the EU, such as with the neck brace, the Notifying Body will be responsible for CE evaluation and certification.

### ***FDA and MHRA Registration***

In the 2015 first quarter our Knee Brace was accepted for registration by both the FDA and the MHRA, and our Shoulder Brace was accepted by the FDA, as Class 1 Medical Devices. FDA and MHRA registration will allow us to take these products directly to market as medical devices for patients (not just athletes) recuperating from injuries, surgery, muscle tears or strains, dislocations, breaks or fractures. The Company's FDA registration included the contract manufacturer of the braces, a Good Manufacturing Practices (GMP) vendor. For the registration period, which currently expires in December 31, 2019, we will be required to maintain logs of complaints or problems, and to provide appropriate labeling for medical uses. We have renewed our registration until December 31, 2019. The MHRA registration of the knee brace is open-ended, subject to the Company's continued monitoring of product performance in the market place and delivery of prompt responses to the MHRA as necessary.

### ***Other Accreditation***

We have also obtained certifications for our helmets depending on the market, for the US market our motorcycle helmets comply with the DOT (FMVSS 218) helmet safety standard and our bicycle helmets comply 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.

We have also obtained certification for certain of our products, such as the MRX head and neck restraint system, by the SFI Foundation (USA), or the SFI. To attain SFI certification, a safety device must, every five years, pass a series of impact sled tests with an instrumented crash test dummy at a SFI accredited test lab, as well as flammability tests on various parts of the safety device. These tests are done according to the SFI38.1 specification that can be found at <http://www.sfi foundation.com>. SFI 38.1 accreditation is mandatory for any safety device that is used by participants in SFI sanctioned events worldwide.

We also voluntarily submitted our Moto GPX neck brace to be tested by the in-house engineers of BMW Motorrad (Germany) and to be reviewed by KTM (Austria). We believe that such testing, while not mandatory, provides validation for our product's performance.

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

*An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this report, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should read the section entitled "Special Note Regarding Forward-Looking Statements" above for a discussion of what types of statements are forward-looking statements, as well as the significance of such statements in the context of this report.*

## RISKS RELATED TO OUR BUSINESS

***Our business and financial performance may be adversely affected if our information technology systems fail to perform adequately or if they are the subject of a security breach or cyberattack.***

We are a multinational company and rely on a variety of information technology systems in the ordinary course of business to manage business data, communications, supply chain, order entry and fulfilment, customer support, billing and payments. Our system and processes are potentially vulnerable to cybersecurity incidents, such as terrorist or hacker attacks, the introduction of malicious computer viruses, ransomware, falsification of banking and other information, insider risk, or other security breaches, including individual or advanced persistent cyber-attacks on our information technology infrastructure and attempts by others to gain access to our proprietary or sensitive information regarding our employees, suppliers and customers.

If there is a cybersecurity incident, we may suffer interruptions to our business and service, loss of assets or data, or reduced functionality, which could materially adversely affect our financial condition, business and results of operations. Many of our systems are not redundant, and our disaster recovery planning is not sufficient for every eventuality a cybersecurity incident could cause. Security breaches of our systems which allow inappropriate access to or inadvertent transfer of information and misappropriation or unauthorized disclosure of confidential information belonging to us or to our employees, customers, or suppliers could have an adverse impact on our results of operation. If a customer, supplier or employee alleges that a cyberattack caused or contributed to a loss or compromise of critical information, we could face significant harm to our reputation and financial condition. Any remedial costs or other liabilities related to information security system failures and cybersecurity incidents may not be fully insured or indemnified by other means.

While we attempt to mitigate cybersecurity risks by employing a number of proactive measures, including, technical security controls, enhanced data protection, advanced intrusion detection, targeted threat protection and maintenance of backup and protective systems, our systems remain potentially vulnerable to cybersecurity threats, any of which could have a material adverse effect on our business. We believe our mitigation measures reduce, but cannot eliminate, the risk of a cybersecurity incident. Despite any precautions we may take, a cybersecurity incident could harm our reputation and financial condition and cause us to incur legal liability and increased costs to respond to such events. Our cyber liability insurance may not be sufficient to compensate us for losses that may result from interruptions in our services or asset or data loss as a result of cybersecurity incidents.

***The ongoing global economic turmoil could negatively affect our international sales, results of operations, and financial condition.***

For the years ended December 31, 2018 and 2017, annual revenues from sales to international customers were \$16,090,800 and \$12,827,572, or 66% or 64% of our total revenue, respectively. The ongoing turmoil in the global economy, especially in the U.S., South America and Europe, may have an impact on our business and our financial condition, and we may face challenges if economic conditions do not improve. Economic uncertainty in many parts of the world, including international trade disputes involving the European Union, China and the United States, are situations that we are monitoring closely. Our exposure to such risks may further increase if our international sales grow as we anticipate and any of these economic conditions impact levels of consumer spending. If demand for our products fluctuates as a result of these economic conditions or otherwise, our revenue and gross margin could be harmed.

Our international business is especially sensitive to economic uncertainty that may affect our ability to conduct business outside of the U.S. We continue to evaluate the potential effect of the United Kingdom's (UK) planned departure from the European Union (EU) (commonly referred to as Brexit) on our business operations and financial results, including the impacts if the UK fails to reach an agreement with the EU on Brexit by the March 29, 2019 deadline, which has been extended to April 12, 2019. We anticipate that Brexit may have adverse tax effects on

movement of products or sustainment activities between the UK and EU. Additionally, Brexit may impact the value of the pound sterling. If the pound sterling were to depress significantly against the U.S. dollar, this could negatively impact the ability of our UK customers to afford our products. Currently, we do not anticipate that Brexit will have a material impact on our operations or our financial results.

If our international customers were to experience slow growth or recession, we could see a drop-in demand for our products, difficulty in obtaining materials and supplies, difficulty in collecting accounts receivables, an increase in accounts receivable write-offs, and greater foreign exchange rate volatility affecting our profitability and cash flow. Customers may also purchase lower-cost products made by competitors and not resume purchasing our products even after economic conditions improve. While we employ comprehensive controls regarding global cash management to guard against cash or investment loss and to ensure our ability to fund our operations and commitments, a material disruption to the counterparties with whom we transact business could expose us to financial loss.

***Our international operations expose us to foreign exchange risk and currency fluctuations affect our operating profits.***

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. Operating outside of the United States further exposes us to foreign exchange risk, which we monitor. We are most sensitive to changes in the exchange rates of the South African rand, the renminbi, the euro and the U.S. dollar. We have more ZAR expenses than we do sales in South Africa. Furthermore, 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. Alternatively, 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. In China we have more renminbi expenses than we do sales, because we manufacture our products in China that we sell globally. A decrease in the value of the U.S. dollar in relation to the renminbi could increase our cost of purchasing products in China. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

In Europe we have significantly more sales than we do expenses. 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.

***We engage in international manufacturing and sales which exposes us to trade restrictions and disruptions that could harm our business and competitive position.***

We derive 66% of our revenues from international sales and we develop and primarily manufacture our products outside of the US. As a result, we are subject to risks associated with shipping products across borders, including shipping delays, customs duties, export quotas and other trade restrictions that could have a significant impact on our revenue and profitability. Most of our products are manufactured in China, and the US administration has announced tariffs on certain products 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 to date, we cannot predict the impact of future tariffs on our products or the value and category of products that would be affected. If we cannot deliver our products on a competitive and timely basis, our relationships with international customers will be damaged and our financial condition could also be harmed. The future imposition of, or significant increases in, the level of tariffs, custom duties, export quotas and other barriers and restrictions by the US 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.

***In order to grow at the pace expected by management, we may require additional capital to support our long-term growth strategies. If we are unable to obtain additional capital in future years, we may be unable to proceed with our plans and we may be forced to curtail our operations.***

We currently meet our working capital requirements with cash flow provided by our operating activities and we expect to continue doing so for the foreseeable future. However, in the future we may require additional working capital to support our long-term growth strategies, including identifying suitable targets for horizontal or vertical mergers or acquisitions so as to enhance the overall productivity and benefit from economies of scale. If the uncertainty arising out of domestic and global economic conditions and the ongoing tightening of domestic credit markets persist, we may not be able to generate adequate cash flows or obtain adequate levels of additional financing, whether through equity financing, debt financing or other sources. Even if we are able to get additional financing, it

might not be on terms that are favorable to the Company. Furthermore, additional financings could result in significant dilution to our earnings per share or the issuance of securities with rights superior to our current outstanding securities, including registration rights. If we are unable to raise additional financing, we may be unable to implement our long-term growth strategies, develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures on a timely basis, if at all. In addition, a lack of additional financing could force us to substantially curtail operations.

***A substantial amount of our sales revenue is derived from sales to a limited number of customers, and our business will suffer if sales to these customers decline.***

We have derived a significant portion of our revenue from a limited number of customers, however none of our customers account for more than 10% of our consolidated revenues. For the year ended December 31, 2018, our U.S. revenue was concentrated in one customer that accounted for approximately 12% of annual U.S. revenue. As of December 31, 2018, and 2017, \$55,306 or 3% and \$147,711, or 6% of our accounts receivable, was due from this customer.

For both the years ended December 31, 2018 and 2017, our international revenue derived outside of the U.S. was earned from one customer that accounted for approximately 8% of our annual international revenue. As of both December 31, 2018, and 2017, \$0, or 0% of our accounts receivable, respectively, was due from this international customer.

We do not have long term contractual arrangements with most of these wholesale customers. The loss of one or more of these customers could damage our business, financial condition and results of operations.

***Significant fluctuations in fuel prices could have an adverse impact on our business and operations.***

A significant portion of our revenue is derived from international sales and so significant fluctuations in fuel prices could adversely affect our business and operations. While fluctuations in fuel prices could 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, 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.

***Expansion of our business may put added pressure on our management, financial resources and operational infrastructure impeding our ability to meet any increased demand for our products and possibly hurting our operating results.***

Our business plan is to significantly grow our operations to meet anticipated growth in demand for existing products, and by the introduction of new product offerings. Our planned growth includes the construction of several new production lines to be put into operation over the next five years. Growth in our business may place a significant strain on our personnel, management, financial systems and other resources. We may be unable to successfully and rapidly expand sales to potential customers in response to potentially increasing demand or control costs associated with our growth.

To accommodate any such growth and compete effectively, we may need to obtain additional funding to improve information systems, procedures and controls and expand, train, motivate and manage our employees, and such funding may not be available in sufficient quantities, if at all. If we are not able to manage these activities and implement these strategies successfully to expand to meet any increased demand, our operating results could suffer.

***We rely on patent and trade secret laws that are complex and difficult to enforce and we may not be able to prevent others from unauthorized use of our intellectual property. If we are not able to adequately secure and protect our patent, trademark and other proprietary rights our business may be materially affected.***

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 also rely on nondisclosure agreements and other methods to protect our intellectual property rights. However, the steps we have taken may be inadequate to prevent the misappropriation of our technology. In addition, the validity and breadth of claims in protective gear technology patents involve complex legal and factual questions and, therefore, the extent of their enforceability and protection is highly uncertain. Issued patents or patents based on pending patent applications or any future patent applications may not exclude competitors or may not provide a competitive advantage to us. In addition, patents issued or licensed to us may not be held valid if subsequently challenged and others may claim rights in or ownership of such patents. Reverse engineering, unauthorized copying or other misappropriation of our technologies could enable third parties to benefit from our technologies without paying us. We cannot assure you that our competitors have not developed or will not develop similar products, will not duplicate our products, or will not design around any patents issued to or licensed by us.

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.

*We depend on key personnel, and turnover of key employees and senior management could harm our business.*

Our future business and results of operations depend in significant part upon the continued contributions of our key technical and senior management personnel, including specifically, Dr. Christopher Leatt, our Chairman and Research and Development Consultant and the licensor of some of our intellectual property, Sean Macdonald, our Chief Executive Officer and President, Erik Olsson, our International General Manager and Todd Repsher, our U.S. General Manager. They also depend in significant part upon our ability to attract and retain additional qualified management, technical, marketing and sales and support personnel for our operations. To address this risk, we have taken out key man insurance on key personnel such as Dr. Leatt. However, if we lose key personnel or if any such personnel fails to perform in his or her current position, or if we are unable to attract and retain skilled personnel as needed, our business could suffer. Significant turnover in our senior management could significantly deplete our institutional knowledge held by our existing senior management team. We depend on the skills and abilities of these key personnel in managing the development, manufacturing, technical, marketing and sales aspects of our business, any part of which could be harmed by further turnover.

***We face an inherent business risk of exposure to product liability claims that could have a material adverse effect on our operating results.***

Because of the nature of our products, we face an inherent business risk of exposure to product liability claims arising from the claimed failure of our products to prevent the types of personal injury or death against which they are designed to protect. Plaintiffs may also advance other legal theories supporting claims that our products or actions resulted in harm to them. We maintain product liability insurance policies with a self-insured retention to attempt to manage this risk worldwide. We are currently defending against 2 such claims which we have a fair expectation will be resolved in our favor. But although we maintain product liability insurance coverage, there can be no absolute assurance that our coverage limits will be sufficient to cover any successful product liability claims made against us now or in the future. Furthermore, our insurance coverage does not include damages which may be assessed against us for willful and/or intentional injury, or for exemplary or punitive damages. Any claim or aggregation of claims substantially in excess of our insurance coverage, or any substantial claim not covered by insurance, could have a material adverse effect on our financial condition and results of operations. These claims also have a negative impact on the renewal our product liability insurance policy and the premiums.

***We may not be able to adequately finance the significant costs associated with the development of new protective equipment products.***

The products in the protective equipment market can change dramatically with new technological advancements. We are currently conducting research and development on new products, which requires a substantial outlay of capital. To remain competitive, we must continue to incur significant costs in product development, equipment, facilities and invest in research and development of new products. These costs may increase, resulting in greater fixed costs and operating expenses.

In addition to research and development costs, we could be required to expend substantial funds for and commit significant resources to the following:

- additional engineering and other technical personnel;
- advanced design, production and test equipment;
- manufacturing services that meet changing customer needs;
- technological changes in manufacturing processes;
- working capital and;
- manufacturing capacity

Our future operating results will depend to a significant extent on our ability to continue to provide new and competitive products that compare favorably on the basis of cost and performance with the design and manufacturing capabilities of competitive third-party technologies. We will need to sufficiently increase our net sales to offset these increased costs, the failure of which would negatively affect our operating results.

***We may be exposed to potential risks relating to our internal controls over financial reporting and our ability to have those controls attested to by our independent auditors.***

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, or SOX 404, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports, including Form 10-K. Under current law, we became subject to the requirements of SOX 404 beginning with our annual report for the fiscal year ended December 31, 2012 and since becoming a U.S. public company, we have evaluated our internal control systems in order to allow our management to meet these requirements, including for this annual report for the fiscal year ended December 31, 2018. We can provide no assurance that we will comply with all of the requirements imposed thereby in the coming years. In the event that we ever identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a

timely manner, investors and others may lose confidence in the reliability of our financial statements.

*We are an "emerging growth company," and have availed ourselves of scaled public company reporting requirements and requirements for stockholder approval and advice applicable to emerging growth companies, which could make our common stock less attractive to investors.*

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We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. For as long as we remain an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including not being required to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We intend to take advantage of these reporting exemptions and requirements of stockholder advisory votes and approvals until we are no longer an emerging growth company.

We could be an "emerging growth company" for up to five years after the first sale of our common equity securities pursuant to an effective registration statement under the Securities Act, which we expect will be pursuant to a Registration Statement on Form S-8 or on Form S-1. However, if certain events occur prior to the end of such five-year period, including if we become a "large accelerated filer," our annual gross revenues exceed \$1 billion or we issue more than \$1 billion of non-convertible debt in any three-year period, we would cease to be an "emerging growth company" prior to the end of such five-year period. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choice we make to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

***Unseasonable weather may disrupt our operations and may reduce consumer demand for our products.***

Our products are primarily designed for outdoor use and unseasonable weather could lead to increased expenses and a reduction in our sales revenue. Unseasonable weather and prolonged, extreme temperatures, such as hurricanes, winter storms, earthquakes, floods, heat waves, and other natural disasters may affect consumer participation in outdoor sporting activities and adversely impact their demand for our products. In addition, severe weather could disrupt operation of our facilities and cause service outages, production delays and property damage that require us to incur additional expenses. Such weather conditions may also affect our ability to deliver our products to our customers or may require them to close certain stores temporarily, thereby reducing sales. As a result, unseasonable weather in any of our markets could negatively impact our net revenues.

**RISKS RELATED TO OUR INDUSTRY**

***We may not be able to maintain or improve our competitive position because of strong competition in the personal protective equipment industry, and we expect this competition to continue to intensify.***

We face competition from other global manufacturers and distributors who provide personal protective equipment to users of motorcycles, ATVs, snowmobiles, motor racing cars and other helmeted sports. Some of our international competitors are larger than we and possess greater name recognition, assets, personnel, sales and financial resources. These entities may be able to respond more quickly to changing market conditions by developing new products and services that meet customer requirements or are otherwise superior to our products and services and may be able to more effectively market their products than we can because they have significantly greater financial, technical and marketing resources than we do. They may also be able to devote greater resources than we can to the development, promotion and sale of their products. Increased competition could require us to reduce our prices, result in our receiving fewer customer orders, and result in our loss of market share. We cannot assure you that we will be able to distinguish ourselves in a competitive market. To the extent that we are unable to successfully compete against existing and future competitors, our business, operating results and financial condition would be materially adversely affected.

***If we are unable to develop competitive new products our future results of operations could be adversely affected.***

Our future revenue stream depends to a large degree on our ability to utilize our technology in a way that will allow us to offer new types of safety products to a broader client base. We will be required to make investments in research and development in order to continue to develop new products, enhance our products and achieve market acceptance. We may incur problems in the future in innovating and introducing new and innovative products or, if developed, such products may not achieve significant customer acceptance. If we are unable to successfully define, develop and introduce competitive new products or improve on existing ones, our future results of operations would be adversely affected.

***The value of our brand and sales of our products could be diminished if we, the individuals who use our products or the sport and activity categories in which our products are used, are associated with negative publicity.***

Our success depends on the value of our brand. Our brand could be adversely affected if our public image or reputation were to be tarnished by negative publicity. Many athletes and other public individuals use our products and actions taken by such persons that harm the reputations of activities they participate in could also harm our brand image and result in a material decrease in our revenues and net income, which could have a negative effect on our financial condition and liquidity. In addition, negative publicity resulting from severe injuries or death occurring in the sports or activities in which our products are used and negatively impacts the popularity of such sport or activity, could have a subsequent negative effect on our net sales of products used in that sport or activity.

***We may not be able to receive certain industry certifications and accreditation for our products.***

We have obtained certification and approvals for certain of our products, including certification of our MRX head and neck restraint system by the SFI, and approval of our new knee brace as a Class 1 medical device by both the U.S. FDA and the UK's Medicine and Healthcare Regulatory Products Agency (MHRA), and approval of our shoulder brace as a Class 1 medical device by the U.S. FDA. All our products are compliant with applicable European Union directives, or CE certified, where appropriate. All Leatt Personal Protective Equipment (PPE) products are CE Certified showing compliance with European Economic Community (EEC) directive 89/686/EEC that imposes mandatory accreditation of all Personal Protective Equipment products offered for sale in the EEC. This includes the Company's Leatt-Brace® and body protection products. We have also obtained certifications for our helmets depending on the market, for the US market our motorcycle helmets comply with the DOT (FMVSS 218) helmet safety standard and our bicycle helmets comply 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 also voluntarily submitted our Moto GPX neck brace to be tested by the in-house engineers of BMW Motorrad (Germany) and to be reviewed by KTM (Austria). We believe that such testing, while not mandatory, will provide validation for our product's performance.

There is no guarantee that our products will receive SFI certification, DOT, EN1078, CPSC 1203, ASTM F1952, AS/NZS 2063, ACU Gold, CE Certification or meet BMW testing standards.

**RISKS RELATED TO DOING BUSINESS IN NON-US JURISDICTIONS**

***We face risks associated with doing business in non-US jurisdictions.***

We have affiliates, and our products are manufactured in and distributed from facilities, located in foreign countries, including countries in Asia and South Africa. International operations are subject to certain risks inherent in doing business abroad, including:

- Exposure to political, social and economic instability;
- Expropriation and nationalization;
- Withholding and other taxes on remittances and other payments by subsidiaries;
- Difficulties in enforcement of contract and intellectual property rights;
- Exposure to foreign current exchange rates, interests rates and inflation;
- Investment restrictions or requirements; and Export and import restrictions.

We are highly dependent on our foreign affiliates for their production capabilities and increasing our foreign operations and business relationships are important elements of our strategy. As a result, our exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential impact on us varies from country to country and are unpredictable.

***Our operations and assets in China are subject to significant political and economic uncertainties.***

Our products are manufactured and shipped from production facilities in China. If our manufacturing in China is disrupted, our overall capacity could be significantly reduced, and sales or profitability could be negatively impacted. Furthermore, changes in PRC laws and regulations, or their interpretation, or the imposition of confiscatory taxation, restrictions on currency conversion, imports and sources of supply, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on our business, results of operations and financial condition. Under its current leadership, the Chinese government has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the Chinese government will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

***We may have limited legal recourse under PRC law if disputes arise under our outsourcing manufacturing arrangements with third parties.***

The Chinese government has enacted some laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If our outsourcing manufacturing arrangements are unsuccessful or other adverse circumstances arise from these arrangements, we face the risk that our third-party manufacturers may dishonor our purchase orders or unwritten arrangements. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC law, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations.

***Our potential inability to adequately protect our intellectual property during the outsource manufacturing of our products in China could negatively impact our performance.***

Our products are manufactured primarily in China through third-party outsource manufacturing arrangements. We rely on our third-party manufacturers to implement customary manufacturer safeguards onsite, such as the use of confidentiality agreements with employees, to protect our proprietary information and technologies during the manufacturing process, however, these safeguards may not effectively prevent unauthorized use of such information and technical knowhow or prevent such manufacturers from retaining them. The legal regime governing intellectual property rights in China is relatively weak and it is often difficult to create and enforce intellectual property rights or protect trade secrets there. We face risks that our proprietary information may not be afforded the same protection in China as it is in countries with well-developed intellectual property laws, and local laws may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights in China, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

***We may be exposed to liabilities under the Foreign Corrupt Practices Act and Chinese anti-corruption laws, and any determination that we violated these laws could have a material adverse effect on our business.***

We are subject to the Foreign Corrupt Practice Act, or FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. persons and issuers as defined by the statute, for the purpose of obtaining or retaining business. We have operations and agreements with third parties worldwide and such activities create the risk of unauthorized payments or offers of payments by the employees, consultants, sales agents or distributors of our Company, even though they may not always be subject to our control. It is our policy to implement safeguards to discourage these practices by our employees. However, our existing safeguards and any future improvements may prove to be less than effective, and the employees, consultants, sales agents or distributors of our Company may engage in conduct for which we might be held responsible. Violations of the FCPA or Chinese anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition. In addition, the U.S. government may seek to hold our Company liable for successor liability in connection with FCPA violations committed by companies in which we invest or that we acquire.

***Your ability to bring an action against us, and those of our officers and directors who are based in South Africa, or to enforce a judgment against us or recover assets in our possession may be difficult since any such action or recovery of assets would be an international matter, involving South African laws and geographic and temporal disparities.***

We conduct substantial operations in South Africa through our foreign registered branch and a substantial portion of our assets are located outside of the United States. In addition, all but two of our management personnel reside in South Africa. As a result, it may be difficult or impossible for you to bring an action against us or these individuals in the United States in the event that you believe that your rights have been violated under applicable law or otherwise. Even if an action of this type is successfully brought, the laws of the United States and of South Africa may render a judgment unenforceable.

## **RISKS RELATING TO OUR COMMON STOCK**

***There is not now, and there may not ever be, an active market for our common stock and we cannot assure you that the common stock will become liquid or that it will be listed on a securities exchange.***

There currently is no active market for our common stock. We plan to list our common stock as soon as practicable. However, we cannot assure you that we will be able to meet the initial listing standards of any stock exchange, or that we will be able to maintain any such listing. Until our common stock is listed on an exchange, we expect that it would

be eligible to continue being quoted in the over-the-counter market maintained by the OTC Markets Group Inc. In this venue, however, an investor may find it difficult to obtain accurate quotations as to the market value of the common stock and trading of our common stock may be extremely sporadic. For example, several days may pass before any shares may be traded. A more active market for the common stock may never develop. In addition, if we failed to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling the common stock, which may further affect its liquidity. This would also make it more difficult for us to raise additional capital.

***We are subject to penny stock regulations and restrictions that may affect our ability to sell our securities on the secondary market.***

The SEC has adopted regulations that generally define penny stock to be an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. The market price of our common stock is less than \$5.00 per share and therefore is a penny stock. Brokers or dealers effecting transactions in penny stock must disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities. These rules may restrict the ability of brokers or dealers to sell our common stock and may affect your ability to sell shares.

***Our holding company structure may limit the payment of dividends.***

We have no direct business operations, other than our ownership of our subsidiaries. While we have no immediate intention of paying dividends, should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries and other holdings and investments. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including as a result of restrictive covenants in loan agreements, restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions as discussed below. If we determine that we will pay dividends to the holders of our common stock, we cannot assure that such dividends will be paid on a timely basis. As a result, you will not receive any return on your investment prior to selling your shares in our company and, for the other reasons discussed in this Risk Factors section, you may not receive any return on your investment even when you sell your shares in our company and your shares may become worthless. If future dividends are paid in ZAR, fluctuations in the exchange rate for the conversion of ZAR into U.S. dollars may reduce the amount received by U.S. stockholders upon conversion of the dividend payment into U.S. dollars.

***The management team collectively has the power to make all major decisions regarding the company without the need to get consent from any stockholder or other person. This discretion could lead to decisions that are not necessarily in the best interests of minority shareholders.***

Our management team collectively owns 40.22% of our common stock (including our preferred stock which converts on a one-for-one basis to common stock). Management, therefore, has the power to make all major decisions regarding our affairs, including decisions regarding whether or not to issue stock and for what consideration, whether or not to sell all or substantially all of our assets and for what consideration and whether or not to authorize more stock for issuance or otherwise amend our charter or bylaws. The management team is in a position to elect all of our directors and to dictate all of our policies.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

#### **ITEM 2. PROPERTIES.**

Our corporate headquarters are located in a 948 square meter space located at 12 Kiepersol Drive, Atlas Gardens, Contermanskloof Road, Durbanville, Western Cape, South Africa, 7441. Approximately 15% of the space is used by our finance, legal and operations teams, 50% is used for warehousing and South African distribution, 10% is used by marketing and the remaining 25% is used by Leatt Lab and our research and development team. We occupy these premises pursuant to a lease agreement, dated November 13, 2018, between Leatt SA and AJ Brutus Investments CC, which expires on December 15, 2020. The lease agreement requires us to pay a monthly rent of ZAR 66,079 (or \$4,585) until December 15, 2019, after which the base rent will escalate to ZAR 68,061 (or \$4,723).

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Two Eleven, our California subsidiary, leases a 14,101 square foot space in Santa Clarita, California, pursuant to a lease agreement between Two Eleven and Harold & Bonnie Pease Trust, dated March 10, 2017, that expires on April 30, 2022. Two Eleven uses approximately 9% of the office space for executive offices and the remaining 91% of the space for warehousing. The lease agreement calls for a monthly base rent in the amount of \$10,216, from May 1, 2017 through April 30, 2018, thereafter the amount of \$10,522, from May 1, 2018 through April 30, 2019, after which time the base rent will escalate annually in line with the Consumer Price Index (CPI) up to a maximum of 3% per annum.

We also lease extra warehouse space from time to time to store inventory. These agreements are on a month-to-month basis and vary during the course of the year.

We believe that all space is in good condition and that the property is adequately insured by the Company.

### ITEM 3. 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 the discovery stage and no hearing date has yet been set. The Company believes that the lawsuit is without merit and intends to vigorously defend itself.

### ITEM 4. MINING SAFETY DISCLOSURES.

Not Applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

#### Market Information

Our common stock is quoted on the *QB* tier of the over-the-counter electronic bulletin board maintained by the OTC Markets Group Inc. under the symbol LEAT. The CUSIP number for our common stock is 522132 10 9.

The following table sets forth, for the periods indicated, the high and low closing prices of our common stock as reported by Yahoo Finance at <https://finance.yahoo.com> for the periods indicated. These prices reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

|  | Closing Prices <sup>(1)</sup> |         |
|--|-------------------------------|---------|
|  | High                          | Low     |
| <b>Year Ended December 31, 2019</b>                        |                               |         |
| 1 <sup>st</sup> Quarter (January 1, 2019 to March 1, 2019) | \$ 2.60                       | \$ 2.20 |
| <b>Year Ended December 31, 2018</b>                        |                               |         |
| 1 <sup>st</sup> Quarter                                    | \$ 2.50                       | \$ 2.00 |
| 2 <sup>nd</sup> Quarter                                    | \$ 2.20                       | \$ 1.51 |
| 3 <sup>rd</sup> Quarter                                    | \$ 1.96                       | \$ 1.57 |
| 4 <sup>th</sup> Quarter                                    | \$ 2.76                       | \$ 1.45 |
| <b>Year Ended December 31, 2017</b>                        |                               |         |
| 1 <sup>st</sup> Quarter                                    | \$ 2.46                       | \$ 2.02 |
| 2 <sup>nd</sup> Quarter                                    | \$ 2.50                       | \$ 2.25 |
| 3 <sup>rd</sup> Quarter                                    | \$ 2.35                       | \$ 1.60 |

|                         |    |      |    |      |
|-------------------------|----|------|----|------|
| 4 <sup>th</sup> Quarter | \$ | 2.55 | \$ | 1.75 |
|-------------------------|----|------|----|------|

**Holders**

As of March 14, 2019, there were approximately 204 stockholders of record of our common stock. The number of record holders does not include persons who held our common stock in nominee or street name accounts through brokers.

**Dividend Policy**

We have never declared dividends or paid cash dividends. Our board of directors will make any future decisions regarding dividends. We currently intend to retain and use future earnings for the development and expansion of our business and do not anticipate paying cash dividends in the immediate future.

Our board of directors has complete discretion on whether to pay dividends, subject to the approval of our shareholders. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

### Securities Authorized for Issuance under Equity Compensation Plans

Our officers and directors are eligible for equity awards in the form of stock options and restricted stock under the Leatt Corporation Amended and Restated 2011 Equity Incentive Plan (the 2011 Plan), pursuant to which the Company is authorized to issue and sell up to 1,120,000 shares of common stock of the Company, par value \$0.001 per share. Equity awards under the 2011 Plan are granted at the discretion of the Board. The size of an award to any individual, including named executive officers, depends in part on individual performance, including the components of our key performance appraisal index described above and any other indicators of the impact that such employee's productivity may have on stockholder value over time. Other factors include salary level and competitive data. In addition, in determining the awards granted to each named executive officer, the Board considers the future benefits potentially available to the named executive officers from existing awards. We have no program, plan or practice of granting equity awards that coincide with the release by the Company of material non-public information.

The following table includes the information as of December 31, 2018 for each category of our equity compensation plan:)

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|--|--|
| Equity compensation plans approved by security holders     | 18,000   | \$1.00   | 337,800  |
|  | 323,000  | \$2.60   |  |
|  | 169,000  | \$1.60   |  |
| Equity compensation plans not approved by security holders | 0  | --   | 0  |
| <b>Total</b>   | <b>510,000</b>   | <b>--</b>  |  |

### Recent Sales of Unregistered Securities

We have not sold any equity securities during 2018 that were not previously disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K that was filed during the period.

### Purchases of Equity Securities

No repurchases of our common stock were made during the fourth quarter of 2018.

**ITEM 6. SELECTED FINANCIAL DATA.**

Not Applicable.

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## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*The following management's discussion and analysis should be read in conjunction with our financial statements and the notes thereto and the other financial information appearing elsewhere in this report. In addition to historical information, the following discussion contains certain forward-looking information. See Special Note Regarding Forward Looking Statements above Part I, for certain information concerning those forward-looking statements. Our financial statements are prepared in U.S. dollars and in accordance with U.S. GAAP.*

### **Overview of our Business**

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

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

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

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

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

**Principal Factors Affecting Our Financial Performance**

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

- ***Global Economic Fragility*** The ongoing turmoil in the global economy, especially in the U.S., Asia and Europe, may have an impact on our business and our financial condition, and we may face challenges if economic conditions do not improve. These economic conditions impact levels of consumer spending, which have deteriorated and may remain depressed for the foreseeable future. If demand for our products fluctuates as a result of these economic conditions or otherwise, our revenue and gross margin could be harmed.

- **Fuel Prices** Significant fluctuations in fuel prices could have both a positive and negative effect on our business and operations. A significant portion of our revenue is derived from international sales and significant fluctuations in world fuel prices could significantly increase the price of shipping or transporting our products which we may not be able to pass on to our customers. On the other hand, fluctuations in fuel prices lead to higher commuter costs which may encourage the increased use of motorcycles and bicycles as alternative modes of transportation and lead to an increase in the market for our protection products.
- **Product Liability Litigation** We face an inherent business risk of exposure to product liability claims arising from the claimed failure of our products to help prevent the types of personal injury or death against which they are designed to help protect. Therefore, we have acquired very costly product liability insurance worldwide. We have not experienced any material uninsured losses due to product liability claims, but it is possible that we could experience material losses in the future. After a two-week trial in the United States District Court for the Northern District of Ohio (Eastern) ending on April 17, 2014, a federal jury returned a defense verdict for the Company in the first Leatt- Brace® product liability lawsuit to be tried in the United States. The plaintiffs in that case had alleged that defective product design and failure to warn had caused a motocross rider to suffer multiple mid-thoracic spine fractures, causing immediate and permanent paraplegia, when he crashed at a relatively low speed on February 13, 2011. When the accident occurred, he was wearing a helmet and other safety gear from several different companies, including the Company's acclaimed Leatt-Brace®. The Company produced evidence at trial showing that his thoracic paraplegia was an unavoidable consequence of his fall, not the result of wearing a Leatt- Brace®, and that the neck brace likely saved his life (or saved him from quadriplegia) by preventing cervical spine injury. The Company had maintained from the onset that this and a small handful of other lawsuits are without merit and that it would vigorously defend itself in each case. In this case, the plaintiffs subsequently appealed the court's decision and the parties reached an amicable settlement. Although we carry product liability insurance, a successful claim brought against us could significantly harm our business and financial condition and have an adverse impact on our ability to renew our product liability insurance or secure new coverage.
- **Protection of Intellectual Property** We believe that the continued success of our business is dependent on our intellectual property portfolio consisting of globally registered trademarks, design patents and utility patents related to the Leatt-Brace®. We believe that a loss of these rights would harm or cause a material disruption to our business and, our corporate strategy is to aggressively take legal action against any violators of our intellectual property rights, regardless of where they may be. From time to time, we have had to enforce our intellectual property rights through litigation and we may be required to do so in the future. Such litigation may result in substantial costs and could divert resources and management attention from the operations of our business.
- **Fluctuations in Foreign Currencies** We are exposed to foreign exchange risk as our revenues and consolidated results of operations may be affected by fluctuations in foreign currency as we translate these currencies into U.S. dollars when we consolidate our financial results. While our reporting currency is the U.S. Dollar, a portion of our consolidated revenues are denominated in South African Rand, or ZAR, certain of our assets are denominated in ZAR, and our research and marketing operations in South Africa utilize South African labor sources. A decrease in the value of the U.S. dollar in relation to the ZAR could increase our cost of doing business in South Africa. If the ZAR depreciates against the U.S. Dollar, the value of our ZAR revenues, earnings and assets as expressed in our U.S. Dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk. Furthermore, since 66% of our sales is derived outside the U.S., where the U.S. dollar is not the primary currency, significant fluctuations in exchange rates such as the strengthening of the dollar versus our customers' local currency can adversely affect our ability to remain competitive in those areas.

**Results of Operations*****Year ended December 31, 2018 compared to the year ended December 31, 2017***

The following table summarizes the results of our operations during the years ended December 31, 2018 and 2017 and provides information regarding the dollar and percentage of year-over-year increase or (decrease).

| Item                           | Fiscal Year Ended |               | Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--------------------------------|-------------------|---------------|------------------------|--------------------------------------|
|                                | 2018              | 2017          |                        |                                      |
| REVENUES                       | \$ 24,392,312     | \$ 20,139,785 | \$ 4,252,527           | 21%                                  |
| COST OF REVENUES               | 12,820,453        | 10,674,447    | \$ 2,146,006           | 20%                                  |
| GROSS PROFIT                   | 11,571,859        | 9,465,338     | \$ 2,106,521           | 22%                                  |
| PRODUCT ROYALTY INCOME         | 43,686            | 98,038        | \$ (54,352)            | -55%                                 |
| <b>OPERATING EXPENSES</b>      |                   |               |                        |                                      |
| Salaries and Wages             | 2,808,090         | 2,603,707     | \$ 204,383             | 8%                                   |
| Commissions and Consulting     | 445,534           | 523,629       | \$ (78,095)            | -15%                                 |
| Professional Fees              | 611,269           | 694,345       | \$ (83,076)            | -12%                                 |
| Advertising and Marketing      | 1,881,368         | 1,690,408     | \$ 190,960             | 11%                                  |
| Office Rent and Expenses       | 278,592           | 266,933       | \$ 11,659              | 4%                                   |
| Research and Development Costs | 1,412,866         | 1,358,512     | \$ 54,354              | 4%                                   |
| Bad Debt Expense               | 96,755            | 64,213        | \$ 32,542              | 51%                                  |
| General and Administrative     | 1,873,502         | 1,659,565     | \$ 213,937             | 13%                                  |
| Impairment Loss                | 25,000            | -             | \$ 25,000              | 100%                                 |
| Depreciation                   | 695,605           | 476,552       | \$ 219,053             | 46%                                  |
| Total Operating Expenses       | 10,128,581        | 9,337,864     | \$ 790,717             | 8%                                   |
| INCOME FROM OPERATIONS         | 1,486,964         | 225,512       | \$ 1,261,452           | 559%                                 |
| Other Income (Expenses)        | 39,120            | (9,457)       | \$ 48,577              | 514%                                 |
| INCOME BEFORE INCOME TAXES     | 1,526,084         | 216,055       | \$ 1,310,029           | 606%                                 |
| Income Taxes                   | 329,240           | (21,237)      | \$ 350,477             | 1650%                                |
| NET INCOME                     | \$ 1,196,844      | \$ 237,292    | \$ 959,552             | 404%                                 |

**Revenues** We earn revenues from the sale of our Protective gear comprising of Neck braces, Body armor, Helmets and Other Products, Parts and Accessories. Revenues for the year ended December 31, 2018 were \$24.40 million, a 21% increase, compared to revenues of \$20.14 million for the year ended December 31, 2017. This increase in revenues is attributable to a \$1.75 million increase in Body armor sales, a \$1.38 million increase in Helmet sales, a \$0.63 million increase in Neck brace sales and a \$0.51 million increase in other Products, Parts and Accessories sales, during the year ended December 31, 2018. Annual revenues associated with international customers for the years ended December 31, 2018 and 2017, were \$16,090,800 and \$12,827,572, or 66% and 64% of total revenue, respectively. Management continues to actively assess all measures that may reduce the cost of the Company's revenues. Price fluctuations did not impact revenues as our selling prices have not fluctuated by any significant level.

The following table sets forth our revenues by product line for the years ended December 31, 2018 and 2017:

|                                       | Year Ended December 31, |                  |               |                  |
|---------------------------------------|-------------------------|------------------|---------------|------------------|
|                                       | 2018                    | % of<br>Revenues | 2017          | % of<br>Revenues |
| Neck braces                           | \$ 5,825,483            | 24%              | \$ 5,198,849  | 26%              |
| Body armor                            | 11,533,555              | 47%              | 9,788,505     | 48%              |
| Helmets                               | 3,758,612               | 16%              | 2,382,910     | 12%              |
| Other Products, Parts and Accessories | 3,274,662               | 13%              | 2,769,521     | 14%              |
|                                       | \$ 24,392,312           | 100%             | \$ 20,139,785 | 100%             |

Sales of our flagship Neck brace accounted for \$5.83 million and \$5.20 million, or 24% and 26% of our revenues for the years ended December 31, 2018 and 2017, respectively. The 12% increase in Neck brace revenues was primarily due to a 12% increase in the volume of Neck braces sold in the United States and abroad. Sales of the highly anticipated and award winning 3.5 Neck brace that commenced during the first quarter of 2018 contributed to the increase in volume.

Our Body armor products are comprised of chest protectors, full upper body protectors, upper body protection vests, back protectors, knee braces, gloves and knee and elbow guards. Body armor sales accounted for \$11.53 million and \$9.79 million, or 47% and 48% of our revenues for the years ended December 31, 2018 and 2017, respectively. The 18% increase in Body armor revenues was primarily due to an increase in the sales volume of the Company's hard-shell upper body protector and knee brace product lines due to continued demand in the United States and abroad.

Our Helmets accounted for \$3.76 million and \$2.38 million, or 16% and 12% of our revenues for the years ended December 31, 2018 and 2017, respectively. The 58% increase in Helmet revenues is primarily due to shipments of our GPX 3.5 and GPX 4.5 helmets for off-road motorcycle use and continued shipments of the highly anticipated DBX 2.0 and DBX 3.0 Enduro helmets for bicycle use.

Our Other Products, Parts and Accessories are comprised of apparel, aftermarket support items required primarily to replace worn or damaged parts through our global distribution network as well as clothing, outerwear and accessories that include hats, jackets, bags, hydration kits and cooling garments. Other Products, Parts and Accessories sales accounted for \$3.27 million and \$2.77 million, or 13% and 14% of our revenues for the years ended December 31, 2018 and 2017, respectively. The 18% increase in our Other Products, Parts and Accessories is primarily due to the continued market acceptance of our GPX and DBX apparel and hydration lines designed for off-road motorcycle and bicycle use respectively.

*Costs of Revenues and Gross Profit* Cost of revenues for the years ended December 31, 2018 and 2017 were \$12.82 million and \$10.67 million, respectively. Gross Profit for the years ended December 31, 2018 and 2017 were \$11.57 million or 47% of revenues and \$9.47 million, or 47% of revenues, respectively. Our Neck brace products continue to generate a higher gross margin than our other product categories. Although Neck brace revenues accounted for 24% and 26% of our revenues for the years ended December 31, 2018 and 2017, respectively sales of the award winning 3.5 Neck brace that makes use of efficient manufacturing techniques to decrease the cost of revenues, contributed to increased total gross margins. Management continues to actively assess all measures that may reduce the cost of the Company's revenues.

*Product Royalty Income* Product royalty income is earned on sales to distributors that have royalty agreements in place as well as sales of licensed products by third parties that have licensing agreements in place. Product royalty income for the years ended December 31, 2018 and 2017 were \$43,686 and \$98,038, respectively. The 55% decrease in product royalty income is primarily due to a decrease in the sale of licensed products by licensees during the 2018 period.

*Salaries and Wages* Salaries and wages for the years ended December 31, 2018 and 2017 were \$2,808,090 and \$2,603,707, respectively. This 8% increase in salaries and wages during the 2018 period was primarily due to the employment of additional sales personnel that are based in the United States and marketing staff that are based in Europe and at the Company's headquarters in Cape Town, South Africa.

*Commissions and Consulting Expense* Commissions and consulting expense for the years ended December 31, 2018 and 2017 were \$445,534 and \$523,629, respectively. This 15% decrease in commissions and consulting expenses is primarily the result of a decrease in marketing consulting expenses incurred in Europe as the Company continues to build its internal marketing team.

*Professional Fees* Professional fees consist of costs incurred for audit, tax, regulatory filings and quarterly reporting requirements, as well as patent maintenance, protection and litigation expenses incurred as the Company continues to expand. Professional fees for the years ended December 31, 2018 and 2017 were \$611,269 and \$694,345, respectively. The 12% 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 and bicycle magazines and online media, and sponsors a number of events, teams and individuals to increase brand and product visibility globally. Advertising and marketing expenses for the years ended December 31, 2018 and 2017 were \$1,881,368 and \$1,690,408, respectively. This \$190,960, or 11%, increase in advertising and marketing expenditure is primarily due to increased spending on sales and marketing campaigns that include sales conferences and incentives designed to support the Company's expanding product range, brand awareness and new market penetration strategies.

*Office Rent and Expenses* Office rent and expenses for the years ended December 31, 2018 and 2017 were \$278,592 and \$266,933, respectively. The 4% increase in office rent and expenses is in line with escalation in the rental of warehouse space occupied by Two Eleven, our U.S. subsidiary, and at our headquarters in Cape Town, South Africa.

*Research and Development Costs* These costs include the salaries of staff members that are directly involved in the research and development of protective gear, as well as the direct costs associated with developing these products. Research and development costs for the years ended December 31, 2018 and 2017 were \$1,412,866 and \$1,358,512, respectively. This 4% increase in research and development costs is primarily as a result of increased development costs incurred in the development of the Company's expanding product range and pipeline of innovative protective gear.

*Bad Debt Expense* Bad debt expense for the years ended December 31, 2018 and 2017 were \$96,755 and \$64,213, respectively. This 51% increase is primarily as a result of writing off a higher value of unrecoverable debts owing to the Company during the 2018 period.

*General and Administrative Expenses* General and administrative costs consist of insurance, travel, merchant fees, communication costs, office and computer equipment with insurance and travel comprising a substantial part of these expenses. General and administrative expenses for the years ended December 31, 2018 and 2017 were \$1,873,502 and \$1,659,565, respectively. The 13% increase in general and administrative expenses is primarily the result of an increase in travel costs incurred on sales and marketing activities aimed at generating revenue for the Company globally.

*Impairment loss* Impairment loss for the years ended December 31, 2018 and 2017 was \$25,000 and \$0, respectively. The 100% increase in impairment loss is primarily as a result of the impairment of a patent that the Company purchased. The Company continues to review valuation and implementation of patented technologies on an on-going basis.

*Depreciation Expense* Depreciation expense for the years ended December 31, 2018 and 2017 was \$695,605 and \$476,552, respectively. The 46% increase in depreciation expense is primarily as a result of additional moulds and tooling commissioned in order to continue expanding the Company's product range.

*Total Operating Expenses* Total operating expenses increased by \$790,717 to \$10,128,581 for the year ended December 31, 2018, or 8%, compared to \$9,337,864 in the 2017 period. This increase is primarily due to increases in salaries, general and administrative, depreciation and advertising and marketing costs that were partially offset by decreases in commissions, consulting and professional fees expenditures discussed above.

*Net Income* The net income after income taxes for the year ended December 31, 2018 was \$1,196,844, as compared to a net income after income taxes of \$237,292 for the 2017 period. This 404% increase in net income is primarily due to the 21% increase in revenues discussed above.

## **Liquidity and Capital Resources**

At December 31, 2018, we had cash and cash equivalents of \$1.71 million and short-term investments of \$0.06 million, as compared to cash and cash equivalents of \$1.52 million and short-term investments of \$0.06 million at

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December 31, 2017. The following table sets forth a summary of our cash flows for the periods indicated:

|  | <b>December 31</b> |                 |
|--|--------------------|-----------------|
|  | <b>2018</b>        | <b>2017</b>     |
| Net cash provided by operating activities                    | \$ 1,138,855       | \$ 1,718,609    |
| Net cash used in investing activities                        | \$ (976,870 )      | \$ (1,358,353 ) |
| Net cash provided by (used) in financing activities          | \$ 63,998          | \$ (24,402 )    |
| Effect of exchange rate changes on cash and cash equivalents | \$ (34,240 )       | \$ 79,300       |
| Net increase in cash and cash equivalents                    | \$ 191,743         | \$ 415,154      |
| Cash and cash equivalents at the beginning of period         | \$ 1,518,157       | \$ 1,103,003    |
| Cash and cash equivalents at the end of period               | \$ 1,709,900       | \$ 1,518,157    |

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Cash increased by \$191,743 or 13%, for the year ended December 31, 2018. The primary sources of cash during fiscal year 2018 were a net income of \$1,196,844 and a decrease in accounts receivable of \$372,909. The primary uses of cash during calendar year 2018 were a decrease in accounts payable of \$1,654,483 and increased capital expenditures of \$978,167 relating primarily to the commissioning of moulds that will be used in the production of the Company's increasing product range.

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 domestically as well as internationally.

### **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 years ended December 31, 2018 and 2017, the Company paid an aggregate of \$60,915 and \$51,548 in licensing fees to Mr. De Villiers.

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

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 December 31, 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 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 December 31, 2018, the Company had not defaulted on its payment obligations under this agreement.

On November 19, 2018, the Company entered into a \$1,000,000 revolving line of credit agreement with a national bank. Payments for the advances under the line bear interest at the LIBOR Daily Floating Rate plus 2.5 percentage points, commencing January 1, 2019. The line of credit matures November 19, 2019, at which time the unpaid principal, interest, or other charges outstanding under the agreement are due and payable. Obligations under the line of credit are secured by the Company's equipment and fixtures in the U.S., accounts receivable and inventory of the Company and its U.S. subsidiary, Two-Eleven. As of December 31, 2018, the line of credit was unused and the entire \$1,000,000 was available.

## Critical Accounting Policies

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

**Revenue and Cost Recognition** 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 did not have 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:

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|                                      | 2018          | Year Ended December 31,<br>% of<br>Revenues | 2017          | % of<br>Revenues |
|--------------------------------------|---------------|---|---------------|------------------|
| Consumer and athlete direct revenues | \$ 1,093,154  | 4%  | \$ 936,514    | 5%               |
| Dealer direct revenues               | 8,062,028     | 34%   | 7,102,415     | 35%              |
| International distributor revenues   | 15,237,130    | 62%   | 12,100,856    | 60%              |
|                                      | \$ 24,392,312 | 100%  | \$ 20,139,785 | 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 December 31, 2018 and December 31, 2017 was \$-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.

For the year ended December 31, 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 December 31, 2018, contract liabilities, if any, were not material.

**Allowance for Doubtful Accounts Receivable** - Accounts receivable consist of amounts due to the Company from normal business activities. Credit is granted to substantially all distributors on an unsecured basis. We continuously monitor collections and payments from customers and maintain an allowance for doubtful accounts receivable based upon historical experience and any specific customer collection issues that have been identified. In determining the amount of the allowance, we are required to make certain estimates and assumptions. Accounts receivable balances that are still outstanding after we have used reasonable collection efforts are written off as uncollectible. While such credit losses have historically been minimal, within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of any of our significant customers could have a material adverse effect on the collectability of our accounts receivable and our future operating results. The allowance for doubtful accounts for the years ended December 31, 2018 and 2017 was \$83,399 and \$84,983, respectively.

**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 as of the years ended December 31, 2018 and 2017 was \$83,004 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 years ended December 31, 2018 and 2017.

***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. We recognized an impairment loss for the years ended December 31, 2018 and 2017 was \$25,000 and \$0, respectively.

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

### **Recent Accounting Pronouncements**

See Note 2, **Summary of Significant Accounting Policies** 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Some of our operations are carried out in the Republic of South Africa, or RSA, and we are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. Accordingly, our business, financial condition and results of operations may be influenced by the political, economic and legal environments in the RSA, and by the general state of the RSA economy. Our results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

### **Foreign Exchange Risk**

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. Operating outside of the United States further exposes us to foreign exchange risk, which we monitor. We are most sensitive to changes in the exchange rates of the South African rand, the renminbi, the euro and the U.S. dollar. We have more ZAR expenses than we do sales in South Africa. Furthermore, 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. Alternatively, 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. In China we have more renminbi expenses than we do sales, because we manufacture our products in China that we sell globally. A decrease in the value of the U.S. dollar in relation to the renminbi could increase our cost of purchasing products in China. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk. In Europe we have significantly more sales than we do expenses. 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.

### **Inflation**

Inflationary factors such as increases in the cost of our sales and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net sales if the selling prices of our products do not increase with these increased costs.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The full text of our audited consolidated financial statements as of December 31, 2018 and 2017 begins on page F-1 of this report.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

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

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, Mr. Sean Macdonald, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer determined that, as of December 31, 2018, and as of the date that the evaluation was completed, our disclosure controls and procedures were effective.

#### **Internal Controls over Financial Reporting**

##### ***Management's Annual Report on Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, management used the framework set forth in the report entitled Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting, as of December 31, 2018 was effective.

Because the Company is a smaller reporting company, this annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm.

*Changes in Internal Controls over Financial Reporting*

There were no changes in its internal controls over financial reporting in 2018 that would materially affect, or are reasonably likely to materially affect our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

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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.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

##### Directors, Executive Officers, Promoters and Control Persons

The following sets forth the name and position of each of our current executive officers, directors and significant employees and their ages and titles as of March 14, 2019.

| Name                        | Age | Title   |
|-----------------------------|-----|---|
| Dr. Christopher James Leatt | 50  | Founder, Chairman and Research & Development Consultant |
| Sean Macdonald              | 41  | CEO, CFO, President and Director                        |
| Jeffrey Joseph Guzy         | 67  | Director  |

**DR. CHRIS LEATT:** Dr. Leatt, aged 50, has served as the Company's Chairman since 2005 and as the Company's Research and Development consultant since July 2015. He studied medicine at the University of Cape Town and interned in the United Kingdom. He worked briefly as a General Practitioner and in General Surgery and Orthopaedics before taking up a Registrar's position in Neurosurgery at the Tygerberg Academic Hospital. He resigned from his post in Neurosurgery in order to develop and study the benefits and viability of a neck protection system (the Leatt-Brace®) for helmet clad sport and recreational users in an attempt to reduce devastating neck injuries. Dr. Leatt is a fixed wing PPL pilot, Commercial helicopter pilot and Grade II instructor. He has been an active participant in competitive cross-country motorcycle endurance races, as well as Super Sport and Battle of the Twins (BOTTs) track racing events. He won the Western Province BOTTs championship in 2011.

**SEAN MACDONALD:** Mr. Macdonald, CA (SA), aged 41, has served as the Company's Chief Executive Officer and President since November 2010, as its Chief Financial Officer since August 2009, and as a Director since May 2010. Prior to joining the Company, Mr. Macdonald served from August 2004 to December 2009, as the Chief Financial Officer of Cyclelab, the largest bicycle retailer in South Africa, where he was responsible for operational, financial and strategic leadership of the business including the implementation of a franchise model in order to grow the business. Mr. Macdonald holds a Bachelor of Commerce Degree in Finance and Information Systems from the University of Cape Town, as well as a Post-Graduate Diploma in Accounting, which included 3 years of articles at KPMG Cape Town. Mr. Macdonald is also a South Africa registered Chartered Accountant.

**JEFFREY GUZY:** Mr. Guzy, aged 67, has served as a director since April 2007 and serves as a business development consultant and entrepreneur in Arlington, Virginia. Mr. Guzy is currently working with CoJax Oil and Gas Corporation and PrecyseTech. Prior to that, Mr. Guzy served, from October 2007 to August 2010 as our President. Mr. Guzy has a MBA in Strategic Planning and Management from The Wharton School of the University of Pennsylvania; a M.S. in Systems Engineering from the University of Pennsylvania; a B.S. in Electrical Engineering from Penn State University; and a Certificate in Theology from Georgetown University. Mr. Guzy has served as an executive manager or consultant for business development, sales, customer service and management in the telecommunications industry, specifically, with IBM Corp., Sprint International, Bell Atlantic Video Services, Loral CyberStar and FaciliCom International. Mr. Guzy has also started his own telecommunications company providing Internet services in Western Africa. He serves as an independent director and chairman of the audit committee of Capstone Industries (OTC.CAPC) a public corporation. He serves as an independent director and chairman of the audit committee of YayYo, Inc; a corporation that has recently filed for listing on NASDAQ.

There are no agreements or understandings for any of our executive officers, directors or significant employees to resign at the request of another person and no officer or director is acting on behalf of nor will any of them act at the direction of any other person.

**Qualifications, Attributes, Skills and Experience Represented on the Board**

The Board has identified particular qualifications, attributes, skills and experience that are important to be represented on the board as a whole, in light of our current needs and business priorities. The Board believes that each director is a recognized person of high integrity with a proven record of success in his or her field. Each director demonstrates innovative thinking, familiarity with and respect for corporate governance requirements and practices, an appreciation of multiple cultures and a commitment to the business and operations of the Company. In addition to the foregoing qualifications, the Board has assessed the intangible qualities including the director's ability to ask difficult questions and, simultaneously, to work collegially. The Board also considers diversity of age, cultural background and professional experiences in evaluating candidates for Board membership. Diversity is important because a variety of points of view contribute to a more effective decision-making process.

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Set forth below is a tabular disclosure summarizing some of the specific qualifications, attributes, skills and experiences of our directors.

| <b>Name</b>                 | <b>Title</b>   | <b>Qualifications</b>   |
|-----------------------------|--|---|
| Dr. Christopher James Leatt | Founder, Chairman and Head of Research & Development | <p>Dr. Leatt holds a Bachelor of Medicine and Bachelor of Surgery Degree and is the inventor of the Leatt Brace® and the Founder of the Company.</p> <p>He supports the Company's research and development department and has an intimate knowledge of the Company's innovative products.</p> <p>He contributes invaluable long-term knowledge of the Company's business and operations and extensive experience in the industry.</p> |
| Sean Macdonald              | CEO, CFO, President and Director                     | <p>Mr. Macdonald is a registered Chartered Accountant and holds a Bachelor of Commerce Degree in Finance and Information Systems and a Post-Graduate Diploma in Accounting.</p> <p>His invaluable experience in finance and accounting provides insight for the implementation of effective operational, financial and strategic leadership of the Company.</p>   |
| Jeffrey Joseph Guzy         | Director   | <p>Through his MBA in Strategic Planning &amp; Management and his knowledge of U.S. capital markets, Mr. Guzy provides invaluable guidance and perspective to the Board.</p> <p>He has also served as the Company's President and has invaluable long-term knowledge of the Company's business and operations.</p>  |

### **Family Relationships**

There are no family relationships among our directors or officers.

### **Involvement in Certain Legal Proceedings**

To the best of our knowledge, none of our directors or executive officers has, during the past ten years:

- been convicted in a criminal proceeding or been subject to a pending criminal proceeding (excluding traffic violations and other minor offences);
- had any bankruptcy petition filed by or against the business or property of the person, or of any partnership, corporation or business association of which he was a general partner or executive officer, either at the time of the bankruptcy filing or within two years prior to that time;
- been subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction or federal or state authority, permanently or temporarily enjoining, barring, suspending or otherwise limiting, his involvement in any type of business, securities, futures, commodities, investment, banking, savings and loan, or insurance activities, or to be associated with persons engaged in any such activity;

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- been found by a court of competent jurisdiction in a civil action or by the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated;

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- been the subject of, or a party to, any federal or state judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated (not including any settlement of a civil proceeding among private litigants), relating to an alleged violation of any federal or state securities or commodities law or regulation, any law or regulation respecting financial institutions or insurance companies including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- been the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act (15 U.S.C. 78c(a)(26))), any registered entity (as defined in Section 1(a)(29) of the Commodity Exchange Act (7 U.S.C. 1(a)(29))), or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Except as set forth in our discussion below in Certain Relationships and Related Transactions, and Director Independence Transactions with Related Persons, none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

### Significant Employees

| Name         | Age | Position   |
|--------------|-----|--|
| Erik Olsson  | 51  | International General Manager and Head of International Distribution |
| Todd Repsher | 48  | U.S. General Manager   |

**ERIK OLSSON:** Mr. Olsson, aged 51, has served as our International General Manager and Head of International Distribution since January 2012. Prior to that, Mr. Olsson served from January 2010 to December 2011, as European General Manager and later as General Manager of Asia, Europe, the Middle-East and the Central Pacific (Oceania). Mr. Olsson has over 15 years experience as a sales and product manager for various companies in the power sports industry. Prior to joining us he served from January 2003 to December 2009 as Area Manager for Jofrab Ab, a Swedish distributor of motorcycles and recreational vehicles.

**TODD REPSHER:** Mr. Repsher, aged 48, has served as our U.S. General Manager since 2016 and served as our US National Sales Manager since March 2014. Mr. Repsher is an award-winning sales executive with over fifteen years experience in the marketing and sales of sports orientated companies in North America. Prior to joining us he was the National Sales Manager for Switzerland-based Scott Sports, Inc. from 2011 to 2013, where he managed the sale and distribution of all North American motorsports (off-road, on-road, snowmobile) apparel and accessories for Scott Sports. Prior to that, Mr. Repsher served, from 2002 to 2011, as the Outside Sales Territory Manager for California-based Fox Racing, Inc.

### Stockholder Communication with the Board of Directors

Stockholders may communicate with the Board by sending a letter to our Board of Directors, c/o Corporate Secretary, 12 Kiepersol Drive, Atlas Gardens, Contermanskloof Road, Durbanville, Western Cape, South Africa, 7441, for submission to the board or committee or to any specific director to whom the correspondence is directed. Stockholders communicating through this means should include with the correspondence evidence, such as documentation from a brokerage firm, that the sender is a current record or beneficial stockholder of the Company. All communications received as set forth above will be opened by the Corporate Secretary or his designee for the sole purpose of determining whether the contents contain a message to one or more of our directors.

Any contents that are not advertising materials, promotions of a product or service, patently offensive materials or matters deemed, using reasonable judgment, inappropriate for the Board will be forwarded promptly to the chairman of the Board, the appropriate committee or the specific director, as applicable.

**Code of Ethics**

We have adopted a written code of ethics that applies to all of our officers, directors and employees, including our principal executive officer and principal financial officer, or persons performing similar functions, a copy of which is attached as an exhibit to this report.

**ITEM 11. EXECUTIVE COMPENSATION****Summary Compensation Table Update**

The following table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to the following persons for services rendered in all capacities during the indicated periods. No other executive officers received total annual salary and bonus compensation in excess of \$100,000.

| Name and Principal Position   | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) <sup>(1)</sup> | Non-Equity Incentive Plan Compensation Earnings (\$) | Non-qualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|---|------|-------------|------------|-------------------|-----------------------------------|--|---|-----------------------------|------------|
| Dr. Christopher James Leatt, Chairman and Head of Research and Development <sup>(2)</sup> | 2016 | 60,000      | --         | --                | 28,392                            | --   | --  | 435,530                     | 523,922    |
|   | 2017 | 60,000      | 8,000      | --                | 40,872                            | --   | --  | 437,312                     | 546,184    |
|   | 2018 | 63,000      | --         | --                | 28,288                            | --   | --  | 469,385                     | 560,673    |
| Sean Macdonald, President, CEO, CFO and Director  | 2016 | 195,000     | 6,000      | --                | 42,588                            | --   | --  | --                          | 243,588    |
|   | 2017 | 253,080     | 40,935     | --                | 61,308                            | --   | --  | --                          | 355,323    |
|   | 2018 | 254,262     | 50,000     | --                | 42,432                            | --   | --  | --                          | 346,694    |
| Todd Repsher<br>U.S. National sales manager   | 2016 | 163,363     | 5,000      | --                | 42,588                            | --   | --  | --                          | 210,951    |
|   | 2017 | 183,600     | --         | --                | 14,196                            | --   | --  | --                          | 197,796    |
|   | 2018 | 183,600     | 17,500     | --                | 14,196                            | --   | --  | --                          | 215,296    |

(1) The option awards reflect a 1-for-25 reverse split effected by the Company on September 20, 2012.

(2) Also reflects compensation to Dr. Leatt in his capacity as our Research and Development consultant as discussed under the *Summary of Employment Agreements* heading below. Compensation received by Dr. Leatt in his role as Chairman of the Company's board of directors is separately reflected under the Compensation heading below.

**Summary of Employment Agreements**

We have entered into an employment agreement, effective as of January 1, 2014, with Sean Macdonald our President, CEO and CFO, pursuant to which, as amended, we were obligated to pay him a base salary of R2,136,240 (approximately, \$172,903) and \$51,600 per annum and R210,132 (approximately, \$17,008) per year in travel allowance, medical and life insurance benefits, and participation in the Company's Senior Executive Wellness Program. Effective January 1, 2019, the Company and Mr. Macdonald agreed to amend the employment agreement to increase his base salary to R2,468,639 (approximately \$171,294) and \$59,629 per annum. Mr. Macdonald further will receive a travel allowance of R103,680 (approximately, \$7,194), medical and life insurance benefits, participation in any company potential provident or pension fund, the right to participate in the Company's executive wellness program and he is entitled to an annual performance-based bonus at the sole discretion of the Company's Board of Directors. Mr. Macdonald is also subject to the customary confidentiality covenants and South African Labor Laws which entitle Mr. Macdonald to one week's severance pay for each year of service to the Company. The agreement may be

terminated by either party with six months' written notice; provided that Mr. Macdonald will be obligated to assist in the appointment and orientation of his successor during such six-month period. Mr. Macdonald may also be terminated by the Company with no notice for gross misconduct, incapacity or for breach of the employment agreement.

We have entered into an employment agreement, effective as of March 3, 2014, with Todd Repsher, our U.S. General Manager, pursuant to which, as amended, we are obligated to pay him an annual base salary of \$16,000 per month. Mr. Repsher also receives coverage under the Company's employment benefit plans and is subject to customary confidentiality and indemnification requirements. The agreement may be terminated at any time by the Company and upon three months' written notice by Mr. Repsher, however, in advance of any termination based on neglect of duty or breach of the employment agreement, the Company may, in its sole discretion, give Mr. Repsher 15 days' advance notice with an opportunity to cure the deficiency. The agreement is subject to California law and disputes under the agreement are subject to resolution by arbitration.

We had also entered into an employment agreement, effective as of November 9, 2010, with Dr. Christopher Leatt, in his capacity as our Chairman and Head of Research and Development, pursuant to which, we were obligated to pay him an annual base salary of \$487,668. Dr. Leatt also received coverage under the Company's employment benefit plans as well as the mandatory one week's severance pay for each year of service to the Company. He was also subject to the customary confidentiality covenants. However, on July 8, 2015, the Company terminated this employment agreement and entered into a consulting agreement or Consulting Agreement, with Innovate Services Limited or Innovate, a Seychelles limited company in which, Dr. Leatt is an indirect beneficiary. Pursuant to the terms of the Consulting Agreement, as amended, Innovate has agreed to serve as the Company's exclusive research, development and marketing consultant, in exchange for a monthly fee of \$38,062; provided that Dr. Leatt personally performs the services to be performed by Innovate under the Agreement, pursuant to a separate employment agreement between Innovate and Dr. Leatt. The parties further agreed that all intellectual property generated in connection with the services provided under the Consulting Agreement will be the sole property of the Company. The Consulting Agreement was effective as of May 15, 2015 and will continue unless terminated by either party in accordance with its terms. Either party has the right to terminate the Consulting Agreement upon 6 months' prior written notice, except that the Consulting Agreement may be terminated immediately without notice if the services to be performed under the Consulting Agreement cease to be performed by Dr. Leatt, or for any other material breach of the Agreement. The parties have agreed to settle any dispute under the Consulting Agreement through arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (AAA), and that the resulting arbitration award will be final and binding on both parties and will not be subject to any appeal. Effective January 1, 2019, the Company and Innovate amended the Consulting Agreement to increase Innovate's consulting duties and to increase the monthly fee payable under the agreement to \$40,435. In addition, the parties agreed that Innovate may increase its monthly fees under the Consulting Agreement provided that the fee is no greater than the lesser of: (a) two and one-half percent (2.5%) of the prior year's annualized fee; or (b) a percentage equal to then-applicable annual percentage increase in the Consumer Price Index published by the United States Department of Labor's bureau of labor statistics, plus one-half percent (0.5%) .

### Grants of Plan-Based Awards

The following table sets forth information regarding equity grants to named executive officers during the fiscal year ended December 31, 2018, including prior year grants that vested during the period.

| Name                  | Grant Date | All other stock awards:<br>Number of shares of stock or units | All other option awards:<br>Number of securities underlying options | Exercise or base price of option awards (\$/Share) | Grant date fair value of stock and option awards (\$) |
|-----------------------|------------|---|---|--|---|
| Dr. Christopher Leatt | 3/29/2016  | --  | 52,000  | \$2.60   | \$135,200   |
| Sean Macdonald        | 3/29/2016  | --  | 78,000  | \$2.60   | \$202,800   |
| Dr. Christopher Leatt | 8/24/2017  | --  | 52,000  | \$1.60   | \$83,200  |
| Sean Macdonald        | 8/24/2017  | --  | 78,000  | \$1.60   | \$124,800   |

### Outstanding Equity Awards at Fiscal Year End

The following table sets forth the equity awards outstanding at December 31, 2018 for each of our named executive officers.

|  | OPTION AWARDS |
|--|---------------|
|  |               |

| <b>Name</b>           | <b>Number of securities underlying unexercised options exercisable</b> | <b>Number of securities underlying unexercised options unexercisable</b> | <b>Equity incentive plan awards; number of securities underlying unexercised unearned options</b> | <b>Option exercise price (\$)</b> | <b>Option expiration date</b> |
|-----------------------|--|--|---|-----------------------------------|-------------------------------|
| Dr. Christopher Leatt | 52,000   | --   | --  | \$2.60                            | March 28, 2026                |
| Sean Macdonald        | 78,000   | --   | --  | \$2.60                            | March 28, 2026                |
| Dr. Christopher Leatt | 52,000   | --   | --  | \$1.60                            | August 23, 2027               |
| Sean Macdonald        | 78,000   | --   | --  | \$1.60                            | August 23, 2027               |

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On February 1, 2012, the Board of Directors of the Company approved the grant to Dr. Christopher Leatt, the Company's Chairman, of a 5-year option to purchase 1,300,000 shares of the Company's common stock at \$0.04 per share under the Company's 2011 Plan. After giving effect to the reverse split effected on September 20, 2012, Dr. Leatt had vested options to purchase 52,000 shares of the Company's common stock at \$1.00 per share. On July 26, 2016, Dr. Leatt exercised these options and received 31,200 shares in a cashless transaction. On March 29, 2016, the Board approved the grant to Dr. Leatt of a 10-year option under the Company's 2011 Plan, to purchase another 52,000 shares of the Company's common stock at an exercise price of \$2.60 a share, 15,600 of which immediately vested. The initial option grant to Dr. Leatt had vesting scheduled for the remaining underlying shares on December 31, 2017 (30%), March 29, 2017 (20%) and March 29, 2018 (20%), however on November 22, 2016, the Company's board of directors modified the option award to push out the vesting period in line with the Company's expected 2016 fourth quarter performance. As a result of the modification, the option will now expire on March 28, 2026, the December 31, 2017 vesting date was eliminated and the option to purchase 15,600 shares vested on March 29, 2017, and the remaining options to purchase 10,400 shares and 10,400 shares will vest on 2018 and 2019, respectively. The foregoing modification did not affect the exercise price as the fair market value of the underlying shares on the initial grant date was the same as the fair market value on the modification date. On August 24, 2017, the Board approved a grant to Dr. Leatt of another 10-year option to purchase 52,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan, 20,800 of which vested on December 31, 2017 and 15,600 of which vested on December 31, 2018. The remaining options to purchase 15,600 shares will vest on December 31, 2019.

On February 1, 2012, the Board of Directors of the Company approved the grant to Sean Macdonald, the Company's Chief Executive Officer and Chief Financial Officer, of a 5-year option to purchase 1,950,000 shares of the Company's common stock at \$0.04 per share under the Company's 2011 Plan. After giving effect to the reverse split effected on September 20, 2012, Mr. Macdonald had vested options to purchase 78,000 shares of the Company's common stock at \$1.00 per share. On July 28, 2016, Mr. Macdonald exercised these options and received 46,800 shares in a cashless transaction. On March 29, 2016, the Board approved the grant to Mr. Macdonald of a 10-year option under the Company's 2011 Plan, to purchase another 78,000 shares of the Company's common stock at an exercise price of \$2.60 a share, 23,400 of which immediately vested. The initial option grant to Mr. Macdonald had vesting scheduled for the remaining underlying shares on December 31, 2017 (30%), March 29, 2017 (20%) and March 29, 2018 (20%), however on November 22, 2016, the Company's board of directors modified the option award to push out the vesting period in line with the Company's expected 2016 fourth quarter performance. As a result of the modification, the option will now expire on March 28, 2026, the December 31, 2017 vesting date was eliminated and options to purchase 23,400 shares vested on March 29, 2017, and the remaining options to purchase 15,600 shares and 15,600 shares will vest on 2018 and 2019, respectively. The foregoing modification did not affect the exercise price as the fair market value of the underlying shares on the initial grant date was the same as the fair market value on the modification date. On August 24, 2017, the Board approved a grant to Mr. Macdonald of another 10-year option to purchase 78,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan, options to purchase 31,200 shares vested on December 31, 2017 and options to purchase another 23,400 vested on December 31, 2018. The remaining options to purchase 23,400 shares will vest on December 31, 2019.

### **Option Exercises and Stock Vested**

Except as set forth below, no named executive officers exercised stock options, stock appreciation rights or similar instruments or had vesting stock during the fiscal year ended December 31, 2018.

On March 29, 2016, the Board approved a grant to Dr. Leatt, a 10-year option under the Company's 2011 Plan, to purchase 52,000 shares of the Company's common stock at an exercise price of \$2.60 a share, 60% or 31,200 of which were already vested as at December 31, 2017. Options to purchase another 20%, or 10,400 shares, vested as at December 31, 2018, and options to purchase the remaining 20%, or 10,400 shares, will vest on December 31, 2019. On August 24, 2017, the Board approved a grant to Dr. Leatt of another 10-year option to purchase 52,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan, 40% or 36,400 of which were already vested as at December 31, 2017. Options to purchase another 30%, or 15,600 shares, vested as at December 31, 2018, and

options to purchase the remaining 30%, or 15,600 shares, will vest on December 31, 2019.

On March 29, 2016, the Board approved a grant to Mr. Macdonald, a 10-year option under the Company's 2011 Plan, to purchase 78,000 shares of the Company's common stock at an exercise price of \$2.60 a share, 60% or 46,800 of which were already vested as at December 31, 2017. Options to purchase another 20%, or 15,200 shares, vested as at December 31, 2018 and the remaining 20%, or 15,200 shares, will vest on December 31, 2019. On August 24, 2017, the Board approved a grant to Mr. Macdonald of another 10-year option to purchase 78,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan, 40% or 31,200 of which were vested as at December 31, 2017. Options to purchase another 30%, or 23,400 shares, vested on December 31, 2018 and the remaining options to purchase 30%, or 23,400 shares, will vest on December 31, 2019.

### **Pension Benefits**

No named executive officers received or held pension benefits and the Company does not maintain a pension benefit plan during the fiscal year ended December 31, 2018.

### **Nonqualified Deferred Compensation**

No nonqualified deferred compensation was offered or issued to any named executive officer during the fiscal year ended December 31, 2018.

**Potential Payments upon Termination or Change in Control**

Our named executive officers are not entitled to severance payments or other benefit upon the termination of their employment agreements or following a change in control.

**Compensation of Directors**

The following table sets forth the total director compensation earned by our directors during our fiscal year ended December 31, 2018:

| Name                        | Fees earned or paid in cash (\$) | Stock awards (\$) | Option awards (\$) | All other compensation (\$) | Total (\$) |
|-----------------------------|----------------------------------|-------------------|--------------------|-----------------------------|------------|
| Dr. Christopher James Leatt | 63,000                           | -                 | 28,288             | 12,641                      | 103,929    |
| Jeffrey J. Guzy             | 8,190                            | -                 | 3,640              | -                           | 11,830     |
| Sean Macdonald              | 8,190                            | -                 | 42,432             | -                           | 50,622     |

***Narrative to Director Compensation Table***

During the 2018 fiscal year, we paid our directors, other than Dr. Leatt, \$683 per month compensation for their services as our directors. On January 1, 2019 we amended our agreements with these directors to increase their compensation to \$935 per month. In the future, we may adopt a policy of paying independent directors a fee for their attendance at board and committee meetings. We also reimburse our directors for reasonable travel expenses related to their duties as our directors.

On February 14, 2014, the Board of Directors of the Company approved the grant to Jeff Guzy, one of the Company's Directors, of a 5-year option to purchase an aggregate of 15,000 shares of the Company's common stock at \$1.00 per share under the Company's 2011 Plan. The option to purchase an aggregate of 6,000 of the shares vested on February 14, 2014, the grant date and the option to purchase the remaining 9,000 shares vested in equal portions on February 14, 2015, 2016 and 2017, respectively. The option will expire on February 14, 2019. On November 22, 2016, the Board granted Mr. Guzy a 10-year option under the Company's 2011 Plan, to purchase an additional 10,000 shares of the Company's common stock, at an exercise price of \$2.60 per share. The option to purchase 60% or 6,000 of the shares vested on March 29, 2017, options to purchase another 20% or 2,000 of the shares vested on March 29, 2018, and the option to purchase the remaining 20% or 2,000 shares will vest on March 29, 2019. The option will expire on November 21, 2026.

On March 29, 2016, the Board approved the grant to Dr. Leatt of a 10-year option under the Company's 2011 Plan, to purchase another 52,000 shares of the Company's common stock at an exercise price of \$2.60 a share, 15,600 of which immediately vested. The initial option grant to Dr. Leatt had vesting scheduled for the remaining underlying shares on December 31, 2017 (30%), March 29, 2017 (20%) and March 29, 2018 (20%), however on November 22, 2016, the Company's board of directors modified the option award to push out the vesting period in line with the Company's expected 2016 fourth quarter performance. As a result of the modification, the option will now expire on March 28, 2026, the December 31, 2017 vesting date was eliminated and the option to purchase 15,600 shares vested on March 29, 2017, options to purchase another 10,400 shares vested on March 29, 2018, and the options to purchase the remaining 10,400 shares will vest on March 29, 2019. The foregoing modification did not affect the exercise price as the fair market value of the underlying shares on the initial grant date was the same as the fair market value on the modification date. On August 24, 2017, the Board approved a grant to Dr. Leatt of another 10-year option to purchase 52,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan, 20,800 of which vested on December 31, 2017 and another 15,600 of which vested on December 31, 2018. The remaining options to purchase

15,600 shares will vest on December 31, 2019.

On March 29, 2016, the Board approved the grant to Mr. Macdonald of a 10-year option under the Company's 2011 Plan, to purchase another 78,000 shares of the Company's common stock at an exercise price of \$2.60 a share, 30% or 23,400 of which immediately vested. The initial option grant to Mr. Macdonald had vesting scheduled for the remaining underlying shares on December 31, 2017 (30%), March 29, 2017 (20%) and March 29, 2018 (20%), however on November 22, 2016, the Company's board of directors modified the option award to push out the vesting period in line with the Company's expected 2016 fourth quarter performance. As a result of the modification, the option will now expire on March 28, 2026 and the December 31, 2017 vesting date was eliminated. Options to purchase 23,400 shares vested on March 29, 2017 and options to purchase another 15,600 shares vested on March 29, 2018. The remaining options to purchase 15,600 shares will vest on March 29, 2019. The foregoing modification did not affect the exercise price as the fair market value of the underlying shares on the initial grant date was the same as the fair market value on the modification date. On August 24, 2017, the Board approved a grant to Mr. Macdonald of another 10-year option to purchase 78,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan. Options to purchase 31,200 of the shares vested on December 31, 2017, options to purchase another 23,400 of the shares vested on December 31, 2018 and options to purchase the remaining 23,400 shares vested on December 31, 2019.

On July 8, 2015, the Company entered into a Director Agreement with Board Chairman, Dr. Christopher Leatt, pursuant to which, as amended, in addition to his duties with the Company's Research and Development department, Dr. Leatt agreed to devote as much time as is necessary to perform the duties of a director of the Company, including duties as a member of any committees that he may be appointed to by the Board of Directors, including but not limited to assisting the Company with the development of business and new business strategies relating to the objectives of the Company, participation in the Company's investor relations activities, including road shows and shareholder communication activities, and participation in corporate strategy decisions of the Company. As compensation for his services Dr. Leatt will receive a base fee of \$5,250 per month, approved expenses for travel, medical and life insurance benefits and participation in the Company's Senior Executive Wellness Program, and the Company has agreed to indemnify him to the full extent allowed by law except where such indemnification is prohibited due to intentional misconduct, fraud or knowing violation of law. Either party may terminate the Director Agreement at any time upon six months' written notice unless he resigns from his position or is removed by shareholders of the Company prior to such termination.

### **Limitation of Liability and Indemnification**

Section 78.138 of the NRS provides that a director or officer will not be individually liable unless it is proven that (i) the director's or officer's acts or omissions constituted a breach of his or her fiduciary duties, and (ii) such breach involved intentional misconduct, fraud or a knowing violation of the law.

Section 78.7502 of NRS permits a company to indemnify its directors and officers against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with a threatened, pending or completed action, suit or proceeding if the officer or director (i) is not liable pursuant to NRS 78.138 or (ii) acted in good faith and in a manner the officer or director reasonably believed to be in or not opposed to the best interests of the corporation and, if a criminal action or proceeding, had no reasonable cause to believe the conduct of the officer or director was unlawful.

Section 78.751 of NRS permits a Nevada company to indemnify its officers and directors against expenses incurred by them in defending a civil or criminal action, suit or proceeding as they are incurred and in advance of final disposition thereof, upon receipt of an undertaking by or on behalf of the officer or director to repay the amount if it is ultimately determined by a court of competent jurisdiction that such officer or director is not entitled to be indemnified by the company. Section 78.751 of NRS further permits the company to grant its directors and officers additional rights of indemnification under its articles of incorporation or bylaws or otherwise.

Section 78.752 of NRS provides that a Nevada company may purchase and maintain insurance or make other financial arrangements on behalf of any person who is or was a director, officer, employee or agent of the company, or is or was serving at the request of the company as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise, for any liability asserted against him and liability and expenses incurred by him in his capacity as a director, officer, employee or agent, or arising out of his status as such, whether or not the company has the authority to indemnify him against such liability and expenses.

Our Articles of Incorporation provide that no director or officer of the Company will be personally liable to the Company or any of its stockholders for damages for breach of fiduciary duty as a director or officer; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director or officer (i) for acts or omissions which involve intentional misconduct, fraud or knowing violation of law, or (ii) the payment of dividends in violation of Section 78.300 of NRS. In addition, our Bylaws implement the indemnification and insurance provisions permitted by Chapter 78 of the NRS by providing that:

- The Company shall indemnify its directors to the fullest extent permitted by the NRS and may, if and to the extent authorized by the board of directors, so indemnify its officers and any other person whom it has the power to indemnify against liability, reasonable expense or other matter whatsoever.

- The Company may at the discretion of the board of directors purchase and maintain insurance on behalf of any person who holds or who has held any position identified in the paragraph above against any and all liability incurred by such person in any such position or arising out of his status as such.

Insofar as indemnification by us for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling the company pursuant to provisions of our articles of incorporation and bylaws, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification by such director, officer or controlling person of us in the successful defense of any action, suit or proceeding is asserted by such director, officer or controlling person in connection with the securities being offered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

Other than as disclosed herein, there is no pending litigation or proceeding involving any of our directors or executive officers to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of March 14, 2019, the stock ownership of (i) each of our executive officers and directors, (ii) of all our executive officers and directors as a group, and (iii) of each person known by us to be a beneficial owner of 5% or more of our common stock. Except as otherwise noted, each person listed below is the sole beneficial owner of the shares and has sole investment and voting power of such shares. No person listed below has any option, warrant or other right to acquire additional securities of the Company, except as may be otherwise noted. Unless otherwise specified, the address of each of the persons set forth below is in care of Leatt Corporation, 12 Kiepersol Drive, Atlas Gardens, Contermanskloof Road, Durbanville, Western Cape, South Africa, 7441.

| Title of Class                  |  | Name & Address of Beneficial Owner                                 | Office, If Any                                  | Amount and Nature of Beneficial Ownership <sup>(2)</sup> | Percent of Class <sup>(3)</sup> |
|---------------------------------|--|--|---|--|---------------------------------|
| Common Stock, \$0.001 par value | Class A Voting Convertible Preferred Stock, \$0.001 par value <sup>(1)</sup> |  |   |  |                                 |
| <b>Officers and Directors</b>   |  |  |   |  |                                 |
| X                               | -  | Dr. Christopher J. Leatt <sup>(4)</sup>                            | Founder, Innovation Officer and                 | 2,123,714  | 37.70%                          |
| -                               | X  |  | Chairman  | 96,000   | 80.00%                          |
| X                               | -  | Jeffrey J. Guzy <sup>(5)</sup>                                     | Director  | 54,167   | 0.96%                           |
| -                               | -  | Sean Macdonald <sup>(6)</sup>                                      | Chief Executive Officer, President and Director | 187,200  | 3.32%                           |
| X                               | -  | <b>All officers and directors as a group (persons named above)</b> |   | <b>2,365,081</b>   | <b>41.98%</b>                   |
| -                               | X  |  |   | <b>96,000</b>  | <b>80.00%</b>                   |
| <b>5% Shareholders</b>          |  |  |   |  |                                 |
| X                               | -  | Jean-Pierre De Villiers  | Advisor   | 369,200  | 6.55%                           |
| -                               | X  |  |   | 24,000   | 20.00%                          |
| X                               |  | Christian Matthias Weise   |   | 398,096  | 7.07%                           |
| X                               |  | Jason Hirschman  |   | 352,655  | 6.26%                           |

(1)

The Preferred Stock votes with the Common Stock at a vote of 100-for-one, subject to adjustments resulting from any future stock splits. The Preferred Stock has priority over the Common Stock in any liquidation preferences but no dividend rights (except as may be declared by the Board). The Common Stock has dividend rights in respect of any dividend distributions when and if declared and paid by the Company. The Common Stock has a claim to any liquidation distribution, subject to the priority claim of the Preferred Stock. No dividends have been paid to date on any securities. There are no other classes of equity securities authorized and issued.

- (2) Beneficial Ownership is determined in accordance with the rules of the U.S. Securities and Exchange Commission or SEC and generally includes voting or investment power with respect to securities. Each of the beneficial owners listed above has direct ownership of and sole voting power and investment power with respect to the shares of our common stock.

- (3) As of the date of this report and after giving effect to the Company's 1-for-25 reverse stock split effected on September 20, 2012 (the Reverse Split), the Company has 28,000,000 shares of common stock authorized with 5,386,723 shares issued and outstanding, and 1,120,000 shares of Preferred Stock authorized with 120,000 shares issued and outstanding. For each Beneficial Owner above, any options exercisable within 60 days have been included in the denominator.
- (4) Represents (a) 2,025,107 shares of common stock directly held by Dr. Leatt and 5,007 shares of common stock held by members of his immediate family, (b) a vested option to purchase 41,600 shares of common stock at \$2.60 per share which expires on March 28, 2026, (c) a vested option to purchase 36,400 shares of common stock at \$1.60 per share which will expire on August 23, 2027 and (d) a vested option to purchase 15,600 shares of common stock at \$2.30 per share which will expire on February 24, 2029. On March 29, 2016, Dr. Leatt was granted options to purchase 52,000 shares of the Company's common stock at \$2.60 per share under the Company's 2011 Plan, 15,600 shares of which immediately vested, 15,600 shares of which vested on March 29, 2017, and another 10,400 of which vested on March 29, 2018. The remaining options to purchase 10,400 shares will vest on March 29, 2019. On August 24, 2017, the Company's Board of Directors approved a grant to Dr. Leatt of another 10-year option to purchase 52,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan. Options to purchase 20,800 shares vested on December 31, 2017, options to purchase another 15,600 shares vested on December 31, 2018 and options to purchase the remaining 15,600 shares will vest on December 31, 2019. On February 25, 2019, Dr. Leatt was granted options to purchase another 52,000 shares of the Company's common stock at \$2.30 per share under the Company's 2011 Plan which will expire on February 24, 2029. Options to purchase 30% or 15,600 shares immediately vested, options to purchase another 40% or 20,800 shares will vest in two equal portions of 10,400 shares each on February 25, 2020 and 2021, respectively, and the remaining 30% or 15,600 shares will vest on February 25, 2022.
- (5) Represents (a) 41,667 shares of common stock directly held by Mr. Guzy, (b) a vested option to purchase 8,000 shares of common stock at \$2.60 per share which expires on November 21, 2026 and (c) a vested option to purchase 4,500 shares of common stock at \$2.30 per share which expires on February 24, 2029. On November 22, 2016, Mr. Guzy received a 10-year option to purchase 10,000 shares of the Company's common stock at \$2.60 per share under the Company's 2011 Plan. Options to purchase 6,000 shares vested on March 29, 2017, options to purchase another 2,000 shares vested on March 29, 2018, and options to purchase the remaining 2,000 shares will vest on March 29, 2019. On February 25, 2019, Mr. Guzy was granted options to purchase another 15,000 shares of the Company's common stock at \$2.30 per share under the Company's 2011 Plan which will expire on February 24, 2029. Options to purchase 30% or 4,500 shares immediately vested, options to purchase another 40% or 6,000 shares will vest in two equal portions of 3,000 each on February 25, 2020 and 2021, respectively, and the remaining 30% or 4,500 will vest on February 25, 2022.
- (6) Represents (a) 46,800 shares of common stock directly held by Mr. Macdonald, (b) a vested option to purchase 62,400 shares of common stock at \$2.60 per share which expires on March 29, 2026, (c) a vested option to purchase 54,600 shares of common stock at \$1.60 per share which will expire on August 23, 2027 and (d) a vested option to purchase 23,400 shares of common stock at \$2.30 per share which will expire on February 24, 2029. On March 29, 2016, the Company's Board of Directors approved a grant to Mr. Macdonald of a 10-year option to purchase 78,000 shares of the Company's common stock at an exercise price of \$2.60 a share under the 2011 Plan, 23,400 of which immediately vested. Options to purchase 23,400 vested on March 29, 2017, options to purchase another 15,600 vested on March 29, 2018, and options to purchase the remaining 15,600 will vest on March 29, 2019. On August 24, 2017, the Board approved a grant to Mr. Macdonald of another 10-year option to purchase 78,000 shares of common stock at an exercise price of \$1.60 a share under the 2011 Plan. Options to purchase 31,200 shares vested on December 31, 2017, options to purchase another 23,400 shares vested on December 31, 2018, and options to purchase the remaining 23,400 will vest on December 31, 2019. On February 25, 2019, Mr. Macdonald was granted options to purchase another 78,000 shares of the Company's common stock at \$2.30 per share under the Company's 2011 Plan which will expire on February 24, 2029.

Options to purchase 30% or 23,400 shares immediately vested, options to purchase another 40% or 31,200 shares will vest in two equal portions of 15,600 each on February 25, 2020 and 2021, respectively, and the remaining 30% or 23,400 shares will vest on February 25, 2022.

**Changes in Control**

We do not currently have any arrangements which if consummated may result in a change of control of our Company.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

**Transactions with Related Persons**

The following includes a summary of transactions since the beginning of the last fiscal year, or any currently proposed transaction, in which we were or are to be a participant and the amount involved exceeded or exceeds \$120,000, and in which any related person had or will have a direct or indirect material interest (other than compensation described under Executive Compensation ). We believe the terms obtained or consideration that we paid or received, as applicable, in connection with the transactions described below were comparable to terms available or the amounts that would be paid or received, as applicable, in arm s-length transactions.

On March 1, 2006, we entered into a Licensing Agreement with Xceed Holdings (formerly, Leatt Brace Holdings), a South African company that is controlled by Dr. Leatt, the Company's Chairman, and by Mr. De Villiers until his resignation on August 29, 2006. Under the terms of the Licensing Agreement, we are obligated to pay Xceed Holdings 4% of all sales revenue billed and received by us, on a quarterly basis based on sales of the previous quarter. In addition, pursuant to a separate license agreement between us and Mr. De Villiers, we are obligated to pay a royalty fee of 1% of all our billed and received 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. Royalties paid to Mr. De Villiers totaled \$60,915 and \$51,548 for the years ended December 31, 2018 and 2017, respectively.

In July 2015, the Company entered into a consulting agreement with Innovate Services Limited, a Seychelles limited company in which, Dr. Christopher Leatt, the Company's founder and chairman, is an indirect beneficiary. Pursuant to the terms of the Consulting Agreement, as amended, Innovate has agreed to serve as the Company's exclusive research, development and marketing consultant, in exchange for a monthly fee of \$38,062; provided that Dr. Leatt personally performs the services to be performed by Innovate under the Agreement, pursuant to a separate employment agreement between Innovate and Dr. Leatt. The parties further agreed that all intellectual property generated in connection with the services provided under the Consulting Agreement will be the sole property of the Company. The Consulting Agreement was effective as of May 15, 2015 and will continue unless terminated by either party in accordance with its terms. Either party has the right to terminate the Consulting Agreement upon 6 months' prior written notice, except that the Consulting Agreement may be terminated immediately without notice if the services to be performed under the Consulting Agreement cease to be performed by Dr. Leatt, or for any other material breach of the Agreement. The parties have agreed to settle any dispute under the Consulting Agreement through arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (AAA), and that the resulting arbitration award will be final and binding on both parties and will not be subject to any appeal. Effective January 1, 2019, the Company and Innovate amended the Consulting Agreement to increase Innovate's consulting duties and to increase the monthly fee payable under the agreement to \$40,435. In addition, the parties agreed that Innovate may increase its monthly fees under the Consulting Agreement provided that the fee is no greater than the lesser of: (a) two and one-half percent (2.5%) of the prior year's annualized fee; or (b) a percentage equal to then-applicable annual percentage increase in the Consumer Price Index published by the United States Department of Labor's bureau of labor statistics, plus one-half percent (0.5%). Fees paid to Innovate totaled \$456,744 and \$427,668 for the years ended December 31, 2018 and 2017, respectively.

Simultaneously with the closing of the Consulting Agreement, the Company also entered into a Side Letter Agreement, dated July 8, 2015, with Dr. Leatt, pursuant to which the parties agreed to terminate Dr. Leatt's existing employment agreement, dated as of May 15, 2015, with the Company in its entirety, in lieu of Dr. Leatt undertaking to perform the services under the Consulting Agreement. Under the terms of the Side Letter, Dr. Leatt also agreed, among other things: (1) not to perform services similar to the services provided under the Consulting Agreement for any current or future, direct or indirect competitor of the Company or any similar company; (2) not to solicit any current or future employees of the Company for employment with Innovate or any other entity with which he may become affiliated, or to contact or solicit any current or future stockholder or investor of the Company in connection with any matter that is not directly related to the ongoing or future business operations of the Company; and (3) that he will apprise the Company of any business opportunity that he becomes aware of that could benefit the Company so that the Company, can in its sole discretion, make a determination regarding whether to pursue such opportunity in the best interest of the Company and its stockholders. Dr. Leatt further agreed to continue dedicating a majority of his time on matters related to performance of his duties as a director of the Company and to the fulfillment of his obligations to the Company's research and development efforts under the Consulting Agreement, and the Company will have the right to adjust the amount of the fees payable under the Consulting Agreement to the extent of any substantial diminution in his fulfillment of such duties and obligations.

Except as set forth in our discussion above, none of our directors, director nominees or executive officers has been involved in any transactions with us or any of our directors, executive officers, affiliates or associates which are required to be disclosed pursuant to the rules and regulations of the SEC.

**Policies and Procedures for Review, Approval or Ratification of Transactions with Related Persons**

As we increase the size of our board of directors to include additional independent directors, we expect to prepare and adopt a written related-person transactions policy that sets forth our policies and procedures regarding the identification, review, consideration and approval or ratification of related-persons transactions. For purposes of our policy only, a related-person transaction will be a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we and any related person are participants involving an amount that exceeds \$120,000. Transactions involving compensation for services provided to us as an employee, director, consultant or similar capacity by a related person will not be covered by this policy. A related person will be any executive officer, director or a holder of more than five percent of our common stock, including any of their immediate family members and any entity owned or controlled by such persons.

We anticipate that, where a transaction has been identified as a related-person transaction, the policy will require management to present information regarding the proposed related-person transaction to our audit committee (or, where approval by our audit committee would be inappropriate, to another independent body of our board of directors) for consideration and approval or ratification. Management's presentation will be expected to include a description of, among other things, the material facts, the direct and indirect interests of the related persons, the benefits of the transaction to us and whether any alternative transactions are available.

To identify related-person transactions in advance, we are expected to rely on information supplied by our executive officers, directors and certain significant stockholders. In considering related-person transactions, our board of directors will take into account the relevant available facts and circumstances including, but not limited to:

- the risks, costs and benefits to us;
- the impact on a director's independence in the event the related person is a director, immediate family member of a director or an entity with which a director is affiliated;
- the terms of the transaction;
- the availability of other sources for comparable services or products; and
- the terms available to or from, as the case may be, unrelated third parties or to or from our employees generally.

We also expect that the policy will require any interested director to excuse himself from deliberations and approval of the transaction in which the interested director is involved.

#### Promoters and Certain Control Persons

We did not have any promoters at any time during the past five fiscal years.

#### Director Independence

Our Board of Directors has determined that our director, Mr. Jeffery Guzy, is an independent director, as the term independent is defined by the rules of the Nasdaq Stock Market.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

#### Independent Auditors Fees

The following is a summary of the fees billed to the Company for professional services rendered for the fiscal years ended December 31, 2018 and 2017:

|                    | <b>Year Ended December 31,</b> |                   |
|--------------------|--------------------------------|-------------------|
|                    | <b>2018</b>                    | <b>2017</b>       |
| Audit Fees         | \$ 119,200                     | \$ 112,350        |
| Audit-Related Fees | 11,767                         | 13,574            |
| Tax Fees           | 9,097                          | 8,582             |
| Other fees         | 1,000                          | -                 |
| <b>TOTAL</b>       | <b>\$ 141,064</b>              | <b>\$ 134,506</b> |

Audit Fees consisted of fees billed for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our Form 10-K and 10-Qs or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

Audit-Related Fees consisted of fees billed for assurance and related services by the principal accountant that were reasonably related to the performance of the audit or review of our financial statements and are not reported under the

paragraph captioned "Audit Fees" above.

"Tax Fees" consisted of fees billed for professional services rendered by the principal accountant for tax returns preparation.

"All Other Fees" consisted of fees billed for products and services provided by the principal accountant, other than the services reported above under other captions of this Item 14.

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**Pre-Approval Policies and Procedures**

Under the Sarbanes-Oxley Act of 2002, all audit and non-audit services performed by our auditors must be approved in advance by our board of directors to assure that such services do not impair the auditors' independence from us. In accordance with its policies and procedures, our board of directors pre-approved the audit and non-audit services performed by Fitzgerald & Co, CPAs, P.C. for our financial statements as of and for the year ended December 31, 2018.

**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES. Financial Statements and Schedules**

The financial statements are set forth under Item 8 of this annual report on Form 10-K. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

| <b>Exhibit Number</b> | <b>Exhibit Title</b> |
|-----------------------|----------------------|
|-----------------------|----------------------|

|              |  |
|--------------|--|
| <u>2.1</u>   | <u>Settlement Agreement, dated as of September 25, 2008, between Leatt Corp., Christopher J. Leatt and J. P. De Villiers</u>   |
| <u>2.2</u>   | <u>Amendment No. 1 to Settlement Agreement, dated February 4, 2010, between Leatt Corp., Christopher J. Leatt and Jean- Pierre De Villiers</u>   |
| <u>3.1</u>   | <u>Amended and Restated Articles of Incorporation, as filed with the Secretary of State of Nevada on October 28, 2008</u>  |
| <u>3.2</u>   | <u>Amended and Restated Bylaws, adopted on October 28, 2008</u>  |
| <u>4.1</u>   | <u>Certificate of Designation of Series A Voting Convertible Preferred Stock, as filed with the Secretary of State of Nevada on October 29, 2008</u>                                     |
| <u>4.2*</u>  | <u>Leatt Corp. Amended and Restated 2011 Equity Incentive Plan as amended</u>  |
| <u>4.3</u>   | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Dr. Christopher Leatt</u>   |
| <u>4.4</u>   | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Sean Macdonald</u>  |
| <u>4.5</u>   | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Todd Repsher</u>  |
| <u>4.6</u>   | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Erik Olsson</u>   |
| <u>4.7*</u>  | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Jeffrey Guzy</u>   |
| <u>4.8</u>   | <u>Stock Option Agreement, dated November 22, 2016, between Leatt Corp. and Jeffrey Guzy</u>   |
| <u>4.9</u>   | <u>Stock Option Agreement, dated August 24, 2017, between Leatt Corp. and Dr. Christopher Leatt</u>  |
| <u>4.10</u>  | <u>Stock Option Agreement, dated August 24, 2017, between Leatt Corp. and Sean Macdonald</u>   |
| <u>4.11</u>  | <u>Stock Option Agreement, dated August 24, 2017, between Leatt Corp. and Erik Olsson</u>  |
| <u>4.12*</u> | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Dr. Christopher Leatt</u>  |
| <u>4.13*</u> | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Sean Macdonald</u>   |
| <u>4.14*</u> | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Todd Repsher</u>   |
| <u>4.15*</u> | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Erik Olsson</u>  |
| <u>10.1</u>  | <u>Patent and Royalty License Agreement, dated March 1, 2006, between Leatt Corp., Xceed Holdings (Pty) Ltd. (formerly, Leatt Brace Holdings (Pty) Ltd.) and J. P. De Villiers Trust</u> |
| <u>10.2</u>  | <u>Amendment to Patent and Royalty License Agreement, dated as of March 1, 2006, between Leatt Corp. and Xceed Holdings (Pty) Ltd. (formerly, Leatt Brace Holdings (Pty) Ltd.)</u>       |
| <u>10.3</u>  | <u>Patent Assignment Agreement, dated January 1, 2009, between Xceed Holdings (Pty) Ltd. and Three Eleven Distribution (Pty) Ltd.</u>  |
| <u>10.4</u>  | <u>Software License Agreement, dated July 2, 2010, between Leatt Corp., Esteq Design (Pty) Ltd. and Siemens Industry Software Ltd.</u>   |
| <u>10.5</u>  | <u>Copyright Licensing Agreement, dated January 31, 2013, between Silva Mattos &amp; CIA, LTDA and Leatt Corp.</u>   |
| <u>10.6</u>  |  |

|               |  |
|---------------|--|
|               | <u>End User Licensing Agreement, dated June 30, 2011, between Bluekey Software Solutions and Leatt Corp.</u>                           |
| <u>10.7</u>   | <u>Lease Agreement, dated March 7, 2017, between Two Eleven Distribution LLC and Harold &amp; Bonnie Pease Trust</u>                   |
| <u>10.8*</u>  | <u>Lease Agreement, dated December 15, 2018, between Leatt Corp. and AJ Brutus Investments cc.</u>                                     |
| <u>10.9*</u>  | <u>Leatt Distributor General Business Terms and Conditions, Effective February 1, 2019</u>   |
| <u>10.10*</u> | <u>Premium Finance Agreement, dated October 10, 2018, between AFCO Acceptance Corp. and Leatt Corp.</u>                                |
| <u>10.11*</u> | <u>Premium Finance Agreement, dated May 30, 2018, between AFCO Acceptance Corp. and Leatt Corp.</u>                                    |
| <u>10.12*</u> | <u>Amended and Restated Employment Agreement, effective as of January 1, 2009, between Leatt Corp. and Sean Macdonald (as amended)</u> |
| <u>10.13</u>  | <u>Service Level Agreement, dated April 24, 2013, between MikroTik SA and Leatt Corp.</u>  |
| <u>10.14*</u> | <u>Consulting Agreement, dated July 8, 2015, between Innovate Services Limited and Leatt Corporation (as amended)</u>                  |
| <u>10.15</u>  | <u>Employment Agreement, dated July 8, 2015, between Innovate Services Limited and Dr. Christopher Leatt</u>                           |
| <u>10.16</u>  | <u>Side Letter Agreement, dated July 8, 2015, between Leatt Corporation and Dr. Christopher Leatt</u>                                  |
| <u>10.17*</u> | <u>Director Agreement, dated July 8, 2015, between Leatt Corporation and Dr. Christopher Leatt (as amended)</u>                        |
| <u>10.18*</u> | <u>Director Agreement, dated June 29, 2017, between Leatt Corporation and Sean Macdonald (as amended)</u>                              |
| <u>10.19*</u> | <u>Director Agreement, dated January 1, 2017, between Leatt Corporation and Jeffrey Guzy (as amended)</u>                              |
| <u>14.1</u>   | <u>Code of Ethics</u>  |
| <u>21</u>     | <u>List of Subsidiaries</u>  |
| <u>31.1*</u>  | <u>Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                             |
| <u>31.2*</u>  | <u>Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                             |
| <u>32.1*</u>  | <u>Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                             |
| <u>32.2*</u>  | <u>Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                             |
| <u>101**</u>  | <u>Interactive data files pursuant to Rule 405 of Regulation S-T</u>   |

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\* Filed herewith

\*\* Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2018, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheets at December 31, 2018 and 2017; (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2018 and 2017; (iii) Consolidated Statements of Changes in Shareholders' Equity as of and for the years ended December 31, 2018 and 2017; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: March 27, 2019

**LEATT CORPORATION**

By: /s/ Sean Macdonald  
Sean Macdonald, Chief Executive  
Officer and Chief Financial Officer  
*(Principal Executive Officer and  
Principal Financial and Accounting Officer)*

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b><u>Signature</u></b>                                  | <b><u>Title</u></b>   | <b><u>Date</u></b> |
|--|---|--------------------|
| /s/ Sean Macdonald<br>Sean Macdonald                     | Chief Executive Officer, Chief<br>Financial Officer and Director<br>(Principal Executive Officer) | March 27, 2019     |
| /s/ Dr. Christopher J. Leatt<br>Dr. Christopher J. Leatt | Chairman  | March 27, 2019     |
| /s/ Jeffrey J. Guzy<br>Jeffrey J. Guzy                   | Director  | March 27, 2019     |

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**LEATT CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017**

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**LEATT CORPORATION  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of Leatt Corporation

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of **LEATT CORPORATION** (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2008.

Vienna, Virginia  
March 27, 2019

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**LEATT CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2018 AND 2017**

**ASSETS**

|   | 2018          | 2017          |
|---|---------------|---------------|
| <b>Current Assets</b>                     |               |               |
| Cash and cash equivalents                 | \$ 1,709,900  | \$ 1,518,157  |
| Short-term investments                    | 58,232        | 58,221        |
| Accounts receivable                       | 2,049,331     | 2,420,656     |
| Inventory                                 | 4,815,215     | 5,034,310     |
| Payments in advance                       | 473,286       | 565,124       |
| Income tax refunds receivable             | -             | 130,171       |
| Prepaid expenses and other current assets | 1,247,233     | 847,442       |
| Total current assets                      | 10,353,197    | 10,574,081    |
| Property and equipment, net               | 2,317,490     | 2,113,855     |
| <b>Other Assets</b>                       |               |               |
| Deposits                                  | 25,380        | 26,081        |
| Intangible assets                         | 40,466        | 76,364        |
| Total other assets                        | 65,846        | 102,445       |
| Total Assets                              | \$ 12,736,533 | \$ 12,790,381 |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|   |              |              |
|---|--------------|--------------|
| <b>Current Liabilities</b>  |              |              |
| Accounts payable and accrued expenses   | \$ 2,779,182 | \$ 4,433,665 |
| Income tax payable  | 70,258       | -            |
| Short term loan, net of finance charges   | 582,128      | 518,130      |
| Total current liabilities   | 3,431,568    | 4,951,795    |
| Deferred tax liabilities, net   | 170,900      | 38,100       |
| Deferred Compensation   | 80,000       | -            |
| <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, 5,370,028 and 5,366,382 shares issued and outstanding | 130,053      | 130,053      |
| Additional paid - in capital  | 7,868,119    | 7,687,367    |
| Accumulated other comprehensive loss  | (609,303)    | (485,286)    |
| Retained earnings   | 1,662,196    | 465,352      |
| Total stockholders' equity  | 9,054,065    | 7,800,486    |

|  |               |               |
|--|---------------|---------------|
| Total Liabilities and Stockholders' Equity | \$ 12,736,533 | \$ 12,790,381 |
|--|---------------|---------------|

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

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**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|  | <b>2018</b>   |
|--|---------------|
| Revenues   | \$ 24,392,312 |
| Cost of Revenues   | 12,820,453    |
| Gross Profit   | 11,571,859    |
| Product Royalty Income   | 43,686        |
| Operating Expenses   |               |
| Salaries and wages   | 2,808,090     |
| Commissions and consulting expenses  | 445,534       |
| Professional fees  | 611,269       |
| Advertising and marketing  | 1,881,368     |
| Office rent and expenses   | 278,592       |
| Research and development costs   | 1,412,866     |
| Bad debt expense   | 96,755        |
| General and administrative expenses  | 1,873,502     |
| Impairment loss  | 25,000        |
| Depreciation   | 695,605       |
| Total operating expenses   | 10,128,581    |
| Income from Operations   | 1,486,964     |
| Other Income (Expenses)  |               |
| Interest and other income (expenses), net  | 39,120        |
| Total other income (expenses)  | 39,120        |
| Income Before Income Taxes   | 1,526,084     |
| Income Taxes   | 329,240       |
| Net Income Available to Common Shareholders  | \$ 1,196,844  |
| Net Income per Common Share  |               |
| Basic  | \$ 0.22       |
| Diluted  | \$ 0.22       |
| Weighted Average Number of Common Shares Outstanding   |               |
| Basic  | 5,366,712     |
| Diluted  | 5,532,339     |
| Comprehensive Income   |               |
| Net Income   | \$ 1,196,844  |
| Other comprehensive income (loss), net of \$25,200 and \$10,300 deferred income taxes in 2018 and 2017 |               |
| Foreign currency translation   | (124,017)     |

Total Comprehensive Income

\$ 1,072,827 \$

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

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**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|  | Preferred Stock A<br>Shares | Stock A<br>Amount | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid - In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Total        |
|--|-----------------------------|-------------------|------------------------|------------------------|------------------------------------|--|----------------------|--------------|
| Balance,<br>January 1,<br>2017   | 120,000                     | \$ 3,000          | 5,362,992              | \$ 130,053             | \$ 7,469,694                       | \$ (610,083)   | 228,060              | \$ 7,220,724 |
| Compensation<br>cost<br>recognized in<br>connection<br>with stock<br>options | -                           | -                 | -                      | -                      | 217,673                            | -  | -                    | 217,673      |
| Options<br>exercised on a<br>cashless basis                                  | -                           | -                 | 3,390                  | -                      | -                                  | -  | -                    | -            |
| Net income   | -                           | -                 | -                      | -                      | -                                  | -  | 237,292              | 237,292      |
| Foreign<br>currency<br>translation<br>adjustment                             | -                           | -                 | -                      | -                      | -                                  | 124,797  | -                    | 124,797      |
| Balance,<br>December 31,<br>2017   | 120,000                     | \$ 3,000          | 5,366,382              | \$ 130,053             | \$ 7,687,367                       | \$ (485,286)   | 465,352              | \$ 7,800,486 |
| Compensation<br>cost<br>recognized in<br>connection<br>with stock<br>options | -                           | -                 | -                      | -                      | 180,752                            | -  | -                    | 180,752      |
| Options<br>exercised on a<br>cashless basis                                  | -                           | -                 | 3,646                  | -                      | -                                  | -  | -                    | -            |
| Net income   | -                           | -                 | -                      | -                      | -                                  | -  | 1,196,844            | 1,196,844    |
| Foreign<br>currency<br>translation   | -                           | -                 | -                      | -                      | -                                  | (124,017)  | -                    | (124,017)    |

adjustment

Balance,  
December 31,

|      |         |    |       |           |    |         |    |           |    |           |    |           |    |           |
|------|---------|----|-------|-----------|----|---------|----|-----------|----|-----------|----|-----------|----|-----------|
| 2018 | 120,000 | \$ | 3,000 | 5,370,028 | \$ | 130,053 | \$ | 7,868,119 | \$ | (609,303) | \$ | 1,662,196 | \$ | 9,054,065 |
|------|---------|----|-------|-----------|----|---------|----|-----------|----|-----------|----|-----------|----|-----------|

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

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**LEATT CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|   | 2018         | 2017         |
|---|--------------|--------------|
| <b>Cash flows from operating activities</b>                                       |              |              |
| Net income  | \$ 1,196,844 | \$ 237,292   |
| Adjustments to reconcile net income to net cash provided by operating activities: |              |              |
| Depreciation  | 695,605      | 476,552      |
| Deferred income taxes   | 132,800      | 81,000       |
| Stock-based compensation  | 180,752      | 217,673      |
| Bad debts   | (1,584)      | (15,895)     |
| Inventory reserve   | 25,196       | (108,299)    |
| Gain on sale of property and equipment  | (1,260)      | (3,125)      |
| Impairment loss   | 25,000       | -            |
| (Increase) decrease in:   |              |              |
| Accounts receivable   | 372,909      | (186,921)    |
| Inventory   | 193,899      | (347,886)    |
| Payments in advance   | 91,838       | 4,374        |
| Prepaid expenses and other current assets   | (399,791)    | (410)        |
| Income tax refunds receivable   | 130,171      | (46,604)     |
| Deposits  | 701          | (1,189)      |
| Increase (decrease) in:   |              |              |
| Accounts payable and accrued expenses   | (1,654,483)  | 1,412,047    |
| Income taxes payable  | 70,258       | -            |
| Deferred compensation   | 80,000       | -            |
| Net cash provided by operating activities   | 1,138,855    | 1,718,609    |
| <b>Cash flows from investing activities</b>                                       |              |              |
| Capital expenditures  | (978,167)    | (1,361,453)  |
| Proceeds from sale of property and equipment                                      | 1,308        | 3,125        |
| Increase in short-term investments, net   | (11)         | (25)         |
| Net cash used in investing activities   | (976,870)    | (1,358,353)  |
| <b>Cash flows from financing activities</b>                                       |              |              |
| Proceeds from (repayments of ) short-term loan, net                               | 63,998       | (24,402)     |
| Net cash provided by (used in) financing activities                               | 63,998       | (24,402)     |
| Effect of exchange rates on cash and cash equivalents                             | (34,240)     | 79,300       |
| Net increase in cash and cash equivalents   | 191,743      | 415,154      |
| Cash and cash equivalents - beginning of year                                     | 1,518,157    | 1,103,003    |
| Cash and cash equivalents - end of year   | \$ 1,709,900 | \$ 1,518,157 |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                          |              |              |
| Cash paid for interest  | \$ 16,110    | \$ 13,397    |
| Cash paid for income taxes  | \$ 100,892   | \$ 87,207    |

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Other noncash investing and financing activities

|                                  |    |         |    |         |
|----------------------------------|----|---------|----|---------|
| Common stock issued for services | \$ | 180,752 | \$ | 217,673 |
|----------------------------------|----|---------|----|---------|

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

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**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 1 - DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS**

Leatt Corporation (the Company) 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's flagship products are based on the Leatt-Brace® system, a patented injection molded neck protection system owned by Xceed Holdings CC (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 Holdings, a South African incorporated 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.

The Company's products are manufactured in China and sold to customers worldwide through a global network of distributors and dealers. Leatt also acts as the original equipment manufacturer for neck braces and other personal protective equipment sold by other international brands.

The Company was incorporated in the State of Nevada on March 11, 2005, under the name Treadzone, Inc. On June 17, 2005, the Company changed its name to Leatt Corporation in connection with the Company's acquisition of rights to use the Leatt neck brace patents and trademarks. The Company conducts business in South Africa as a foreign registered branch, and in the United States through the Company's wholly-owned subsidiary, Two Eleven Distribution, LLC (Two Eleven) a California limited liability company. Research and development efforts, global sales and global operations are managed out of the Company's foreign registered branch located in Cape Town, South Africa. Two Eleven acts as a distributor of Leatt-Brace® products in the United States. United States sales and marketing are managed by Two Eleven located in Santa Clarita, California. The Company also has a wholly-owned subsidiary, Three Eleven Distribution (Pty) Ltd (Three Eleven) which was an inactive South African incorporated company until December 2008, when it acquired South African registered patents relating to products unrelated to the Leatt-Brace® from Holdings.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation** - The accompanying consolidated financial statements include the accounts of Leatt Corporation and its wholly-owned subsidiaries: Two Eleven Distribution, LLC and Three Eleven Distribution (Pty) Ltd. All significant intercompany transactions have been eliminated.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates (Continued)** - the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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 did not have 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 product 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.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue and Cost Recognition (continued)** 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:

|                                      | 2018          | Year Ended December 31,<br>% of<br>Revenues | 2017          | % of<br>Revenues |
|--------------------------------------|---------------|---|---------------|------------------|
| Consumer and athlete direct revenues | \$ 1,093,154  | 4%  | \$ 936,514    | 5%               |
| Dealer direct revenues               | 8,062,028     | 34%   | 7,102,415     | 35%              |
| International distributor revenues   | 15,237,130    | 62%   | 12,100,856    | 60%              |
|                                      | \$ 24,392,312 | 100%  | \$ 20,139,785 | 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 December 31, 2018 and December 31, 2017 was \$-0-, and \$-0-, respectively.

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.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue and Cost Recognition (continued)** - 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 year ended December 31, 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 December 31, 2018, contract liabilities, if any, were not material.

**Short-term investments** - The Company's short-term investments consist of a certificate of deposit with a maturity of greater than three months but less than twelve months.

**Accounts Receivable and Allowance for Doubtful Accounts** - 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. In determining the amount of the allowance, management is required to make certain estimates and assumptions.

Accounts receivable balances that are still outstanding after management has 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 for the years ended December 31, 2018 and 2017 was \$83,399 and \$84,983, respectively.

**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 for the years ended December 31, 2018 and 2017 was \$83,004 and \$57,808, respectively.

**Property and Equipment** - Property and equipment are recorded at cost. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the respective assets. The estimated useful lives of assets for financial reporting purposes are as follows: moulds and tools, 2 to 5 years; computer equipment and software, 2 to 5 years; office and other equipment, 3 to 6 years; vehicles, 3 to 5 years; leasehold improvements, 3 years. The cost of improvements that extend the lives of the assets are capitalized.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment (continued)** - Repairs and maintenance are expensed as incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

**Impairment of Long-Lived Assets** - The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows to be generated by the assets. Based on these reviews, no asset impairment charges were made to the carrying value of long-lived assets during the years ended December 31, 2018 and 2017.

**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. The Company recognized an impairment loss for the years ended December 31, 2018 and 2017 of \$25,000 and \$0, respectively.

**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 previous U.S. short-term loan was payable in monthly installments of \$55,071 over eleven months including interest at 4.150% and has been paid in full. The current short-term loan is payable in monthly installments of \$62,225 over eleven months including interest at 4.990%.

The previous South African short-term loan that was payable in monthly installments of \$1,918 over a ten-month period at a flat interest rate of 4.00% was repaid October 2018. The current short-term loan effective January 1, 2019 is payable in monthly installments of \$1,629 over a ten-month period at a flat interest rate of 4.10%.

The Company carries various short-term insurance policies in the U.S. The Company finances payment of its short-term insurance premiums over the period of coverage, which is generally twelve months. The previous U.S. short-term loan was payable in monthly installments of \$8,315 over eleven months including interest at 3.900% and has been paid in full. The current short-term loan is payable in monthly installments of \$9,181 over eleven months including interest at 4.990%.

**Preferred Stock** - The Company's preferred stock, when issued, is generally convertible to common stock at or above the then current market price of the Company's common stock and therefore, contains no beneficial conversion feature. The Preferred Stock is convertible on a 1:1 ratio to common stock. Each holder of the Preferred Stock is not entitled to receive dividends and is entitled to 100 votes for each one share of Preferred Stock.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Shipping and Handling Costs** - The Company includes shipping and handling fees billed to customers in revenues and shipping and handling costs incurred in cost of revenues.

**Advertising** - Costs of advertising and marketing are expensed as incurred.

**Patent-related Costs** - In connection with the Company's license agreement with Holdings, and its company owned patents, the Company incurs legal costs associated with approved patents and patent applications in various jurisdictions which are expensed as incurred and classified as professional fees in the consolidated statements of operations. Patent-related costs totaled \$148,308 and \$116,192, respectively for the years ended December 31, 2018 and 2017.

**Research and Development** - Research and development costs are expensed as incurred and include the salaries of those individuals directly involved in research and development activities.

**Foreign Currency Translation and Foreign Currency Transactions** - The U.S. dollar is the Company's reporting currency. Assets and liabilities of the Company's foreign operation, consisting of its South African Branch, denominated in the local currency, SA RAND, are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the rate of exchange at the date of the transaction in the applicable period. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in the foreign currency translation adjustment, a component of accumulated other comprehensive income in stockholders' equity. Gains and losses generated by transactions denominated in foreign currencies are recorded in the accompanying statement of operations in the period in which they occur. Net unrealized gains (losses) on foreign currency translation adjustments totaled (\$124,017) and \$124,797, respectively, during the years ended December 31, 2018 and 2017.

**Stock-Based Compensation** - The Company accounts for stock-based compensation in accordance with the fair-value-base method set forth in FASB ASC Topic 718-10, Stock-Based Compensation, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors, including employee stock options, based on the estimated fair values on the date of grant or the fair value of the services performed. The Company recognizes these compensation costs, net of an estimated forfeiture rate, on a pro rata basis over the requisite service period of each vesting tranche of each award. The Company considers voluntary termination behavior as well as trends of actual option forfeitures when estimating the forfeiture rate.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes** - The Company uses the asset and liability approach to account for income taxes. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the income tax basis of assets and liabilities. A valuation allowance is applied against any net deferred tax asset if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The provision for income taxes included taxes currently payable, if any, plus the net change during the year in deferred tax assets and liabilities recorded by the Company. The U.S. corporate income tax rate reduction effective with the Company's 2018 tax year resulted in a large tax benefit in calendar year 2017, as more fully described in Note 9.

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 December 31, 2018, and 2017, the Company has no unrecognized tax benefits.

**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 year ended December 31, 2018, the Company had 630,000 potential common shares, consisting of 120,000 preferred shares, options to purchase 187,000 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. For the year ended December 31, 2017, 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.

**Comprehensive Income** - Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. Accumulated comprehensive income at December 31, 2018 and 2017 represents cumulative translation adjustments related to the Company's foreign registered branch office and subsidiaries. The Company presents comprehensive income in the consolidated statements of operations and comprehensive income.

**Fair Value of Financial Instruments** - The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, short-term investments, accounts receivable, inventory, payments in advance, accounts payable and accrued expenses approximate fair value because of the immediate or short-term maturity of these financial instruments.



**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Concentration of Credit Risk** - The Company maintains cash and cash equivalent balances at several financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2018, and 2017, the Company's uninsured bank balances totaled \$1,477,240 and \$1,285,362, respectively. The Company has not experienced any significant losses on its cash and cash equivalents.

The Company's trade receivables are derived from sales to distributors and dealers. The Company has adopted credit policies and standards intended to accommodate industry growth and inherent risk. Management believes that credit risks are moderated by the diversity of the Company's end customers and geographic sales areas. The Company performs ongoing credit evaluations of its customers' financial condition and requires collateral as deemed necessary. The Company maintains allowances for potential credit losses as needed.

The Company has derived, and believes that it will continue to derive, a significant portion of its revenue from a limited number of customers. For the years ended December 31, 2018 and 2017, the Company's U.S. revenue was concentrated in one customer that accounted for approximately 12% and 10%, respectively, of annual U.S. revenue.

As of December 31, 2018, and 2017, \$55,306, or 3% and \$147,711, or 6% of the Company's accounts receivable, respectively, were due from this customer. For both the years ended December 31, 2018 and 2017, the Company's international revenue was concentrated in one customer that accounted for approximately 8% of annual international revenue. As of both December 31, 2018, and 2017, \$0, or 0%, of the Company's accounts receivable, respectively, were due from this international customer.

The Company generates revenue both in the United States and internationally. For the years ended December 31, 2018 and 2017, annual revenues associated with international customers were \$16,090,800 and \$12,827,572, or 66% and 64% of total revenue, respectively.

**Statement of Cash Flows** - The Company considers all highly liquid debt instruments and other short-term investments with an initial maturity of three months or less from the date of purchase to be cash equivalents.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.



**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recently Adopted Accounting Pronouncements (continued)** - 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 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of operations. The new standard is effective for fiscal years beginning after December 15, 2018 and will be adopted using a modified retrospective transition approach on January 1, 2019. The Company has reviewed the requirements of the new standard and expects that it will have a material impact on its consolidated balance sheets, but not on its consolidated statements of operations, as all long-term leases will be capitalized on the consolidated balance sheets. The Company has identified the population of leases and lease assets and will track all its lease agreements to assist in the reporting and disclosures required by the new standard. Adoption of this standard has resulted in a right-of-use asset and a related lease liability of approximately \$511,000 being established on the Company's consolidated balance sheets, with no material cumulative-effect adjustment to retained earnings. The Company has implemented processes and tools to assist in the ongoing lease data collection and analysis and has updated accounting policies and internal controls as a result of adopting this standard.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which make improvements to Accounting Standards Codification (ASC) 842 and allow entities to not restate comparative periods in transition to ASC 842 and instead report the comparative periods under ASC 840. The Company plans to adopt this standard using the

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Pronouncements Not Yet Adopted (continued)** - modified retrospective approach on January 1, 2019 as described above, coinciding with the standard's effective date.

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation*, which aligns the measurement and classification guidance for share-based payments to non-employees with the guidance for share-based payments to employees. Under the new guidance, the measurement period for equity-classified non-employee awards will be fixed at the grant date. This update is effective for annual periods beginning after December 15, 2018, and interim periods within those periods and early adoption is permitted. The Company 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 August 2018, the FASB issued ASU 2018-13, *Fair Value Measurements*, which eliminates, adds or modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year, with early adoption permitted to adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company does not expect this new guidance will have a material impact on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating the requirement to calculate the implied fair value of goodwill. Rather, the goodwill impairment is calculated by comparing the fair value of a reporting unit to its carrying value, and an impairment loss is recognized for the amount by which the carrying amount exceeds the fair value, limited to the total goodwill allocated to the reporting unit. All reporting units apply the same impairment test under the new standard. The Company is required to adopt this ASU for its annual and any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 on a prospective basis. 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.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 - INVENTORY**

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. Our products are manufactured by third parties in China and shipped to either a warehouse in California, the corporate offices in South Africa or to distributors throughout South America, Africa, Europe, Asia, Australia and New Zealand. The reserve for obsolescence for the years ended December 31, 2018 and 2017 was \$83,004 and \$57,808, respectively. During the years ended December 31, 2018 and 2017 the Company wrote off and destroyed \$146,073, and \$220,093, respectively, of product which was deemed to be obsolete.

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**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment as of December 31, 2018, and 2017 consisted of the following:

|                                 | <u>2018</u>  | <u>2017</u>  |
|---------------------------------|--------------|--------------|
| Land                            | \$ 336,550   | \$ 392,571   |
| Moulds and tools                | 4,751,026    | 3,893,849    |
| Computer equipment and software | 487,970      | 559,289      |
| Office and other equipment      | 449,156      | 402,170      |
| Vehicles                        | 203,907      | 209,950      |
| Leasehold improvements          | 125,217      | 140,454      |
|                                 | \$ 6,353,826 | \$ 5,598,283 |
| Accumulated depreciation        | (4,036,336)  | (3,484,428)  |
| Property and equipment, net     | \$ 2,317,490 | \$ 2,113,855 |

**NOTE 5 - PAYMENTS IN ADVANCE**

Payments in advance represent upfront payments made to contract manufacturers for the manufacturing of the Company's products. Payments in advance of \$473,286 and \$565,124 as of December 31, 2018 and 2017 are recorded in current assets on the consolidated balance sheets.

**NOTE 6 - REVOLVING LINE OF CREDIT FACILITY**

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 November 19, 2019, at which time the unpaid principal, interest, or other charges outstanding under the agreement are due and payable. Obligations under the line of credit are secured by equipment and fixtures in the United States of America, accounts receivable and inventory of Leatt Corporation and Two-Eleven Distribution, LLC. As of December 31, 2018, the line of credit was unused and the entire \$1,000,000 was available.

**NOTE 7 - DEFERRED COMPENSATION**

Effective January 1, 2018, the Company entered into a Long Service Bonus Agreement with a key employee. Should the employee remain employed pursuant to his performance requirements in his contract for five years, he shall be entitled to a one-time gross bonus payment. For the duration of this Agreement the Company shall make a provision of \$80,000 per year for the five years as deferred compensation expense. As of December 31, 2018, the Company has recorded \$80,000 as deferred compensation expense with respect to this Agreement.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 - STOCKHOLDERS EQUITY**

On December 6, 2011, the Board of Directors adopted, and the shareholders subsequently approved, the 2011 Equity Incentive Plan (the "Plan") which provides for, among other incentives, the granting to employees, directors and consultants incentive stock options, non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares as the Plan Administrator may determine. In June 2013, the shareholders approved an increase in the maximum shares from 260,000 to 460,000. In December 2015, the shareholders approved an increase in the maximum shares from 460,000 to 920,000. The maximum number of shares of common stock which may be issued under the Plan is 920,000. In December 2018, the shareholders approved an increase in the maximum shares from 920,000 to 1,120,000. The maximum number of shares of common stock which may be issued under the Plan is 1,120,000. The maximum number of shares of common stock that may be awarded to an individual participant under the Plan in any one Fiscal year is 78,000 shares. Options are generally exercisable at the fair market value or higher on the date of grant over a five-year or ten-year period. Shares are generally issued at the fair market value on the date of issuance.

In August 2017, options to a 169,000 of the Company's common stock were granted to key employees and director under the Plan at exercise price of \$1.60 per share, exercisable over 10-year period. On December 31, 2018, 30% of the shares underlying these options vested with a compensation expense of \$30,420. On the December 31, 2017, 40% of the shares underlying these options vested with a compensation expense of \$40,560 and the remaining 30% of the shares were unvested with unrecognized compensation value of \$30,420. The fair value of the stock options granted was estimated at the date of grant using Black Scholes option-pricing model. Based on the list of assumptions presented below, the fair value of the options granted during the year ended December 31, 2017, was \$0.60 per share.

In March 2016, options to purchase 323,000 of the Company's common stock were granted to key employees and to the outside director under the Plan at an exercise price of \$2.60 per share, exercisable over 5-year period. On the date of grant, 27% of the shares underlying these options immediately vested with a compensation expense of \$154,440 and the remaining 73% of the shares were unvested with unrecognized compensation values of \$426,960. The fair value of the stock options granted was estimated at the date of grant using the Black Scholes option-pricing model. Based on the list of assumptions presented below, the fair value of the options granted in March 2016 was \$1.80 per share. On March 29, 2017, 30% of the shares underlying these options vested with a compensation expense of \$173,880. On March 29, 2018, 26% of the shares underlying these options vested with a compensation expense of \$148,680. As of December 31, 2018, the remaining 18% of the shares were unvested with an unrecognized compensation value of \$104,400.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 8 - STOCKHOLDERS EQUITY (Continued)**

In November 2016, the options granted in March were amended to increase the exercise period to 10 years from the date of the modification. The fair value of the amended stock options was estimated at the date of the amendment using the Black Sholes option- pricing model. Based on the list of assumptions presented below, the fair value of the amended options was \$1.82, a \$0.02 increase from the original grant date value. Additional compensation expense for the 27% already vested shares of \$1,716 was recognized and included in share-based compensation during the year ended December 31, 2016, with the additional 73% unvested shares having an additional unrecognized compensation value of \$4,744. During the years ended December 31, 2018 and 2017, \$1,652 and \$1,932, respectively, was recognized and included in share-based compensation. As of December 31, 2018, additional unrecognized share-based compensation relating to the remaining 18% of the unvested shares was \$1,160.

During the year ended December 31, 2014, options to purchase 90,000 shares of the Company's common stock were granted under the Plan to key employees and to the outside director at the exercise price of \$1.00 per share, exercisable over a 5-year period. On the grant date 40% of the shares underlying these options immediately vested with a compensation expense of \$2,426 and the remaining 60% of the shares were unvested with unrecognized compensation values of \$3,640. During the year ended December 31, 2015 an additional 20% of the underlying shares vested with a compensation expense of \$1,478 and during the year ended December 31, 2016 an additional 20% of the underlying shares vested with a compensation expense of \$1,302. The balance of the compensation cost of \$1,302 was recognized in 2017.

The fair value of the stock options granted was estimated at the date of grant using the Black Sholes option-pricing model. The values of the options granted was calculated based on the list of assumptions presented below.

|                               | <b>2014 Options<br/>Granted</b> | <b>2016 Options<br/>Granted</b> | <b>Modification to<br/>2016 Options<br/>Granted</b> | <b>2017 Options<br/>Granted</b> |
|-------------------------------|---------------------------------|---------------------------------|---|---------------------------------|
| Expected terms in years       | 5                               | 5                               | 10  | 10                              |
| Years Risk-free interest rate | 3.38%                           | 2.20%                           | 2.69%   | 2.78%                           |
| Expected volatility           | 22.85%                          | 0.88%                           | 0.57%   | 21.73%                          |
| Expected dividend yield       | 0.00%                           | 0.00%                           | 0.00%   | 0.00%                           |

The expected volatility was determined with reference to the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time during which the options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate in effect at the time of grant.

**LEATT CORPORATION**  
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**NOTE 8 - STOCKHOLDERS EQUITY (Continued)**

Total stock-based compensation expense related to vested stock options recognized during the years ended December 31, 2018 and 2017 was \$180,752 and \$217,673. As of December 31, 2018, there was \$135,980 of unrecognized compensation costs related to unvested stock options, which is expected to be recognized over the next 2 years.

A summary of information related to stock option activity during the years ended December 31, 2018 and 2017 is as follows:

|   | Outstanding<br>Stock<br><u>Options</u> |    | Weighted -<br>Average<br>Exercise<br><u>Price</u> |    | Aggregate<br>Intrinsic<br><u>Value</u> |
|---|--|----|---|----|--|
| Options outstanding at January 1, 2017              | 353,000                                | \$ | 1.00 to \$2.60                                    | \$ | 45,000                                 |
| Stock options granted                               | 169,000                                | \$ | 1.60  |    |  |
| Stock options exercised                             | (6,000)                                | \$ | 1.00  |    |  |
| Options outstanding at December 31, 2017            | 516,000                                | \$ | 1.00 to \$2.60                                    | \$ | 168,800                                |
| Stock options exercised                             | (6,000)                                | \$ | 1.00  |    |  |
| Options outstanding at December 31, 2018            | 510,000                                | \$ | 1.00 to \$2.60                                    | \$ | 137,960                                |
| Options vested and exercisable at December 31, 2018 | 401,300                                | \$ | 1.00 to \$2.60                                    | \$ | 103,484                                |

The intrinsic value is the difference between the current fair value of the stock and the exercise price of the stock option. The weighted-average remaining contractual life of options outstanding, vested and exercisable as of December 31, 2018 is one to ten years.

In addition, on November 29, 2018, the Company issued 3,646 shares of common stock to employees who exercised stock options in a cashless exercise; on May 22, 2017, the Company issued 3,390 shares of common stock to employees who exercised employee stock options in a cashless exercise.

**NOTE 9 - INCOME TAXES**

On December 22, 2017 the Tax Cuts and Jobs Act of 2017 was signed into law. Effective for the tax years beginning after December 31, 2017, the U.S. federal corporate income tax rate has been lowered from 34% to 21%. This significant reduction in the corporate rate has a major impact on the amount of deferred tax assets and liabilities included in the balance sheet of the Company as of December 31, 2017. The impact of this change is included in the tax provision and reflected in the statutory rate reconciliation table below.

The Company's income tax expense (benefit) for the years ended December 31, 2018 and 2017 consists of the following components:

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 - INCOME TAXES (Continued)**

|                              | <u>2018</u> | <u>2017</u>  |
|------------------------------|-------------|--------------|
| Current                      |             |              |
| Federal                      | \$ 125,340  | \$ (114,137) |
| State                        | 45,900      | 1,600        |
|                              | 171,240     | (112,537)    |
| Deferred                     |             |              |
| Federal                      | 158,000     | 91,300       |
|                              | 158,000     | 91,300       |
| Income tax expense (benefit) | \$ 329,240  | \$ (21,237)  |

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

|   | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|
| Federal tax statutory rate                  | 21.00%      | 34.00%      |
| State tax statutory rate                    | 5.75%       | 0.00%       |
| Effect of prior year (over) under provision | -1.75%      | -3.00%      |
| Impact of reduced statutory rate effective  |             |             |
| 2018 on timing difference                   | 0.00%       | -42.00%     |
| Timing and permanent differences            | -3.40%      | 1.00%       |
|   | 21.60%      | -10.00%     |

Deferred income taxes (benefit) reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and the tax effects of net operating losses that are available to offset future taxable income.

Significant components of the Company's deferred tax assets (liabilities) at December 31, 2018 and 2017 consist of the following:

**LEATT CORPORATION**  
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**NOTE 9 - INCOME TAXES (Continued)**

|  | <u>2018</u>  | <u>2017</u> |
|--|--------------|-------------|
| Deferred tax assets:                   |              |             |
| Accounts receivable                    | \$ 20,800    | \$ 21,500   |
| Inventory                              | 20,800       | 14,500      |
| Payroll differences                    | 5,900        | 15,600      |
| Net operating loss carryforwards       | 1,101,200    | 1,301,700   |
| Less valuation allowance               | (1,101,200)  | (1,301,700) |
| Deferred tax assets, net               | \$ 47,500    | \$ 51,600   |
| Deferred tax liabilities:              |              |             |
| Depreciation                           | (218,400)    | (89,700)    |
| Deferred tax assets (liabilities), net | \$ (170,900) | \$ (38,100) |

In assessing the ultimate realization of deferred tax assets and liabilities, management considers whether it is more likely than not that some or all of them will not be realized. Based on the Company's anticipation of fluctuations in the Company's net earnings for state tax purposes, the Company has established a valuation allowance due to the uncertainty as to the realization of the net operating loss carryforwards. As of December 31, 2018, and 2017, the Company has approximately \$14,570,000 and \$14,785,300 of net operating loss carryforwards to offset certain future state taxable income, expiring in 2029.

The Company files a consolidated federal and separate company state income tax returns in the United States. As of December 31, 2018, the tax years that remain subject to examination are 2015 to 2018 for federal and 2015 to 2018 for state tax purposes.

The Company has reviewed its open tax positions and determined that no exposures exist that require an adjustment as of December 31, 2018 or 2017. While the Company believes that it has performed adequate procedures to identify all reasonably identifiable exposures, it is possible that exposures exist and that these exposures will need to be assessed and may potentially have a material impact on the Company's consolidated financial statements.

**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 10 - RELATED PARTY TRANSACTIONS**

Royalty fees associated with sales of Leatt-Brace® products are paid to Holdings, a company owned by a director, and a related individual who is a shareholder. Royalties are based on 5% of the cash received from net sales of the neck braces worldwide and totaled \$304,563 and \$257,754 for the years ended December 31, 2018 and 2017. The term of the royalty agreement is for the life of the intellectual property. As of December 31, 2018, and 2017, accrued royalties totaled \$19,284 and \$15,774.

Consulting fees in connection with product research, development and marketing are paid to Innovate, a company in which the Company's founder and chairman is an indirect beneficiary. Monthly consulting fees amounting to \$38,062 are payable in terms of the agreement effective, May 15, 2015 and totaled \$456,744 and \$427,668 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

**Office / Warehouse Lease**

The Company's California entity is leasing office and warehouse space in Santa Clarita, California. The lease was renewed on March 10, 2017 and continues through April 30, 2022. The lease agreement calls for monthly base rent in the amount of \$10,522.

In addition, the Company's South African branch leases space in South Africa. The lease was renewed on November 13, 2018 and continues through December 15, 2021. The lease agreement calls for an initial monthly rent of \$4,585.

Minimum lease payments under non-cancellable operating lease agreements in each of the years subsequent to December 31, 2018 are as follows:

|      |           |
|------|-----------|
| 2019 | \$183,878 |
| 2020 | \$186,967 |
| 2021 | \$136,633 |
| 2022 | \$45,991  |

Rent expense totaled \$224,782 and \$218,199, respectively, for the years ended December 31, 2018 and 2017.

**Litigation/Potential 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 a 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

the 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 flow of the Company.

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**LEATT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018 AND 2017**

**NOTE 12 SUBSEQUENT EVENTS**

The Company has evaluated all subsequent events through March 14, 2019, the date the financial statements were released.

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

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

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## EXHIBIT INDEX

| <b>Exhibit Number</b> | <b>Exhibit Title</b>   |
|-----------------------|--|
| <u>2.1</u>            | <u>Settlement Agreement, dated as of September 25, 2008, between Leatt Corp., Christopher J. Leatt and J. P. De Villiers</u>   |
| <u>2.2</u>            | <u>Amendment No. 1 to Settlement Agreement, dated February 4, 2010, between Leatt Corp., Christopher J. Leatt and Jean- Pierre De Villiers</u>   |
| <u>3.1</u>            | <u>Amended and Restated Articles of Incorporation, as filed with the Secretary of State of Nevada on October 28, 2008</u>  |
| <u>3.2</u>            | <u>Amended and Restated Bylaws, adopted on October 28, 2008</u>  |
| <u>4.1</u>            | <u>Certificate of Designation of Series A Voting Convertible Preferred Stock, as filed with the Secretary of State of Nevada on October 29, 2008</u>                                     |
| <u>4.2*</u>           | <u>Leatt Corp. Amended and Restated 2011 Equity Incentive Plan as amended</u>  |
| <u>4.3</u>            | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Dr. Christopher Leatt</u>   |
| <u>4.4</u>            | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Sean Macdonald</u>  |
| <u>4.5</u>            | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Todd Repsher</u>  |
| <u>4.6</u>            | <u>Stock Option Agreement, dated March 29, 2016, between Leatt Corp. and Erik Olsson</u>   |
| <u>4.7*</u>           | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Jeffrey Guzy</u>   |
| <u>4.8</u>            | <u>Stock Option Agreement, dated November 22, 2016, between Leatt Corp. and Jeffrey Guzy</u>   |
| <u>4.9</u>            | <u>Stock Option Agreement, dated August 24, 2017, between Leatt Corp. and Dr. Christopher Leatt</u>  |
| <u>4.10</u>           | <u>Stock Option Agreement, dated August 24, 2017, between Leatt Corp. and Sean Macdonald</u>   |
| <u>4.11</u>           | <u>Stock Option Agreement, dated August 24, 2017, between Leatt Corp. and Erik Olsson</u>  |
| <u>4.12*</u>          | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Dr. Christopher Leatt</u>  |
| <u>4.13*</u>          | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Sean Macdonald</u>   |
| <u>4.14*</u>          | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Todd Repsher</u>   |
| <u>4.15*</u>          | <u>Stock Option Agreement, dated February 25, 2019, between Leatt Corp. and Erik Olsson</u>  |
| <u>10.1</u>           | <u>Patent and Royalty License Agreement, dated March 1, 2006, between Leatt Corp., Xceed Holdings (Pty) Ltd. (formerly, Leatt Brace Holdings (Pty) Ltd.) and J. P. De Villiers Trust</u> |
| <u>10.2</u>           | <u>Amendment to Patent and Royalty License Agreement, dated as of March 1, 2006, between Leatt Corp. and Xceed Holdings (Pty) Ltd. (formerly, Leatt Brace Holdings (Pty) Ltd.)</u>       |
| <u>10.3</u>           | <u>Patent Assignment Agreement, dated January 1, 2009, between Xceed Holdings (Pty) Ltd. and Three Eleven Distribution (Pty) Ltd.</u>  |
| <u>10.4</u>           | <u>Software License Agreement, dated July 2, 2010, between Leatt Corp., Esteq Design (Pty) Ltd. and Siemens Industry Software Ltd.</u>   |
| <u>10.5</u>           | <u>Copyright Licensing Agreement, dated January 31, 2013, between Silva Mattos &amp; CIA, LTDA and Leatt Corp.</u>   |
| <u>10.6</u>           | <u>End User Licensing Agreement, dated June 30, 2011, between Bluekey Software Solutions and Leatt Corp.</u>   |
| <u>10.7</u>           | <u>Lease Agreement, dated March 7, 2017, between Two Eleven Distribution LLC and Harold &amp; Bonnie Pease Trust</u>   |
| <u>10.8*</u>          | <u>Lease Agreement, dated December 15, 2018, between Leatt Corp. and AJ Brutus Investments cc.</u>   |
| <u>10.9*</u>          | <u>Leatt Distributor General Business Terms and Conditions, Effective February 1, 2019</u>   |
| <u>10.10*</u>         | <u>Premium Finance Agreement, dated October 10, 2018, between AFCO Acceptance Corp. and Leatt Corp.</u>  |
| <u>10.11*</u>         | <u>Premium Finance Agreement, dated May 30, 2018, between AFCO Acceptance Corp. and Leatt Corp.</u>  |
| <u>10.12*</u>         | <u>Amended and Restated Employment Agreement, effective as of January 1, 2009, between Leatt Corp. and Sean Macdonald (as amended)</u>   |
| <u>10.13</u>          | <u>Service Level Agreement, dated April 24, 2013, between MikroTik SA and Leatt Corp.</u>  |
| <u>10.14*</u>         | <u>Consulting Agreement, dated July 8, 2015, between Innovate Services Limited and Leatt Corporation (as amended)</u>  |
| <u>10.15</u>          |  |

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Employment Agreement, dated July 8, 2015, between Innovate Services Limited and Dr. Christopher Leatt

10.16 Side Letter Agreement, dated July 8, 2015, between Leatt Corporation and Dr. Christopher Leatt

10.17\* Director Agreement, dated July 8, 2015, between Leatt Corporation and Dr. Christopher Leatt (as amended)

10.18\* Director Agreement, dated June 29, 2017, between Leatt Corporation and Sean Macdonald (as amended)

10.19\* Director Agreement, dated January 1, 2017, between Leatt Corporation and Jeffrey Guzy (as amended)

14.1 Code of Ethics

21 List of Subsidiaries

31.1\* Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2\* Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1\* Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2\* Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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\* Filed herewith

\*\* Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Annual Report on Form 10-K for the period ended December 31, 2018, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheets at December 31, 2018 and 2017; (ii) Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2018 and 2017; (iii) Consolidated Statements of Changes in Shareholders' Equity as of and for the years ended December 31, 2018 and 2017; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements. Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or for purposes of Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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