# LEATT CORPORATION

# CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

## MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Leatt Corporation (the "Company") was incorporated in the State of Nevada on March 11, 2005, under the name Treadzone, Inc. On June 17, 2005, the Company changed its name to Leatt Corporation in connection with the Company's acquisition of rights to use the Leatt Neck Brace patents and trademarks. The Company designs, distributes and markets personal protective equipment for all forms of motor sports, based on the Leatt-Brace ® system, a patented neck protection system for all helmeted sports. The Company's products are manufactured in China and sold to customers worldwide through a global network of distributors and retailers. The Company's revenues are generated solely from the sale of Leatt-Brace ® and other Leatt protective products.

The Company conducts business in South Africa as a foreign registered branch, and in the United States through the Company's wholly-owned subsidiary, Two Eleven Distribution, LLC ("Two Eleven") a California limited liability company. Two Eleven acts as a distributor of the Leatt-Brace ® and other Leatt protective products in the United States. Research and development efforts, global sales and marketing are managed out of the Company's foreign registered branch located in Cape Town, South Africa. United States sales are managed by Two Eleven located in Santa Clarita, California. The Company also has a wholly-owned subsidiary, Three Eleven Distribution ("Three Eleven") which was an inactive South African incorporated company until December 2008, when it acquired South African registered patents relating to products unrelated to the Leatt-Brace ® from Xceed Holdings CC ("Holdings"), a South African incorporated company controlled by the Company's founder. The Company established a new wholly-owned subsidiary, Leatt New Zealand Limited during the first quarter of 2009. This Company acts as the distributor of the Leatt-Brace ® in New Zealand.

The Company has the exclusive global manufacturing and distribution rights to the Leatt-Brace ® which is an injection molded neck protection system designed to help prevent potentially devastating motor sport injuries to the neck. The patents and all rights for the Leatt-Brace ® are held by Holdings except for those patents recently acquired by Three Eleven. There is a license agreement between Holdings and the Company which gives the Company the exclusive worldwide right and license to manufacture, sell and use apparatus embodying, employing and containing the Leatt-Brace ® technology.

### Basis of presentation

The accompanying financial statements as of December 31, 2010 and 2009 were audited and include the accounts of Leatt Corporation and its wholly-owned subsidiaries: Two Eleven Distribution, LLC, Three Eleven Distribution and Leatt New Zealand Limited. All significant intercompany transactions have been eliminated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Results of Operations**

For the years ended December 31, 2010 and 2009.

**Revenues –** Revenues for the year ended December 31, 2010 were $14,330,072 an increase of 4% compared to revenues of $13,743,107 for the year ended December 31, 2009. This increase is primarily the effect of a change in the Company's sales mix of products as well as the Company's focus on building a team of international sales professionals in Europe and the USA to expand distribution geographically as well as offering revised terms to distributors which was in response to the world wide economic recession. The Company continues to develop new products to reach wider markets.

For the years ended December 31, 2010 and 2009, international sales approximated 59% and 54% respectively of total sales.

**Costs of revenues and gross profit** – Cost of revenues and gross profit for the year ended December 31, 2010 were $5,606,502 and $8,723,570 or 61% respectively. For the same period in 2009, cost of revenues and gross profit were $4,622,532 and $9,120,575 or 66% respectively. This marginal decrease in gross profit percentage is due to changes in the Company's product sales mix as well as additional logistics costs incurred in order to manage the Company's wider product range. The company is continuously evaluating and optimising its logistics and supply chain functions in order to create greater efficiencies in this area.

**Salaries and wages** – Salaries and wages for the years ended December 31, 2010 and 2009 were $2,710,054 and $2,896,930 respectively. This decrease in salaries and wages is the result of a restructuring that occurred during the 2010 fiscal year in order to streamline worldwide operations. Salaries and wages for the years ended December 31, 2010 and 2009 also includes $50,000 relating to the Company's stock-based compensation plan.

**Commission and consulting expense** – Commission and consulting expense for the years ended December 31, 2010 and 2009 were $519,851 and $543,218 respectively. This decrease in commission and consulting expenses is a result of decreased selling incentives paid on sales that attract commission.

**Professional fees** – Professional fees for the years ended December 31, 2010 and 2009 were $1,140,562 and $1,389,224 respectively. These are costs incurred for audit, tax and quarterly reporting requirements, patent protection and litigation expense, regulatory filings and other costs incurred as the Company continues to expand. This decrease in professional fees is primarily the effect of a continued decreased level of spending on patent litigation for the year ended December 31, 2010.

**Advertising and marketing** – Advertising and marketing expenses for the years ended December 31, 2010 and 2009 were $1,265,655 and $1,557,603 respectively. The Company continues to place paid advertising in various motorsport magazines, online media and to sponsor a number of events, teams and individuals to increase exposure. Analysis of the results of these advertising campaigns has enabled the Company to strategically refine these campaigns in order to invest in those areas that yield the most benefit.

**Office rent and expenses** – Office rent and expenses for the years ended December 31, 2010 and 2009 were $211,713 and $224,832 respectively. The decrease in office rent and expenses is primarily the result of the relocation of Two Eleven to more appropriate and cost effective premises.

**Research and development costs** – Research and development costs for the years ended December 31, 2010 and 2009 were $1,083,635 and $863,737 respectively. These costs include the salaries of staff members that are directly involved in the research and development of innovative products as well as the direct costs associated with developing these products. The increase in research and development costs is due to the Company's continued efforts to widen its product range and remain the industry technological leader.

**General and administrative expenses** – General and administrative expenses for the years ended December 31, 2010 and 2009 were $1,616,811 and $1,304,949 respectively. These costs consist of insurance, travel, merchant fees, telephone, office and computer supplies and other sundry expenses with insurance and travel comprising the bulk of these expenses. The increase in general and administrative expenses is primarily the result of increased Product Liability insurance premiums. Insurance needs continue to be reviewed and revised as appropriate and the Company continues to review and scrutinize all discretionary spending.

**Net Income -** The net loss for the year ended December 31, 2010 was $208,562 increased from a net loss of $129,569 during the year ended December 31, 2009.

Net income was impacted primarily by the decreased gross profit margin revenue discussed above as a result of increased logistics costs as well as the increase in general and administrative expenses as a result of the increased product liability insurance discussed above. The net loss was also impacted in 2010 by a deferred income tax provision of $78,000 relating to the use of accelerated depreciation for income tax purposes. Management is confident that continued sales growth of a wider product range combined with intensified logistics streamlining will have a positive effect on net income going forward.

**Liquidity and Capital Resources**

At December 31, 2010, the Company had cash, cash equivalents and short-term investment of $1,544,342.

Cash decreased by $785,994 for the year ended December 31, 2010. The primary sources of cash were income tax refunds received of $337,143, increased accounts payable of $720,684 and the reduction of inventories by $255,765. The primary uses of cash were a net loss of $208,562, increased accounts receivable of $1,763,914, an increase in prepaid expenses and other current assets of $598,998 and purchases of property and equipment totalling $459,904. The accounts receivable increase is a result of increased terms granted to customers internationally in order to remain competitive. The increase in accounts payable is a result of renegotiated terms with suppliers in order to accommodate our customers' requirements for additional payment terms.

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.

*NOTICE: Investors should read the entire financial report with footnotes and current risk factor section – all as posted on our website at http://www.leatt-corp.com. The above summary should not be relied upon in making any investment decisions and it is qualified in its entirety by reference to the complete financial report and footnotes for the fiscal year ended December 31, 2010, on said website. Nothing contained herein constitutes investment advice with respect to any securities.*

*FORWARD LOOKING STATEMENTS: This management discussion and analysis may contain forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, as amended. Such statements include words like "expect," "should," "anticipate," "may," "hope," "seek," "project," and variants thereof. These statements involve risks and uncertainties, and actual results may differ significantly from those indicated by any forward looking statement. Risks and uncertainties include without limitation the effect of competitive and economic factors, and the company's reaction to those factors, on consumer and business buying decisions with respect to the Company's products; the ability of the Company to deliver to the marketplace and stimulate customer demand for products, and technological innovations on a timely basis; the effect that product introductions and transitions, changes in product pricing or mix, and/or increases in component costs could have on the Company's gross margin; the inventory risk associated with the Company's need from time to time to order or commit to order product components in advance of customer orders; the continued availability on acceptable terms, or at all, of certain components and services essential to the Company's business currently obtained by the Company from sole or limited sources; the effect that the Company's dependency on manufacturing and logistics services provided by third parties may have on the quality, quantity or cost of products manufactured; the potential impact of a finding that the Company has infringed on the intellectual property rights of others; product quality control issues; the absence of a strong e-commerce website for products; the continued service and availability of key executives and employees; unfavourable results of legal proceedings, especially personal injury or product liability lawsuits or intellectual property rights lawsuits; and the Company's dependency on the performance of distributors and other resellers of the Company's products. The fact that the Company may commence new marketing or sales campaigns or launch new product lines does not necessarily result in improved financial results. More information on potential factors that could affect the Company's financial results is included from time to time in the Company's public disclosures at http://www.leatt-corp.com. The Company's common stock quotes on the OTC Markets Group and said stock is a "penny stock" under SEC rules. We are not an SEC reporting company. As such, any investment in the common stock is highly risky. The Company assumes no obligation to update any forward-looking statements or information, which speak as of their respective dates. URL's referenced herein are not incorporated herein or made a part of this summary.*