Leatt Corp
Form 10-Q
August 11, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10–Q

(Mark One)

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

For the quarterly period ended: **June 30, 2017**

[_] 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	**20-2819367**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

12 Kiepersol Drive, Atlas Gardens, Contermanskloof Road,
Durbanville, Western Cape, South Africa, 7441
(Address of principal executive offices)

+(27) 21-557-7257
(Registrant s telephone number, including area code)

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [_]

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

Large accelerated filer [_] Accelerated filer [_] Non-accelerated filer [_] Smaller reporting company [X]

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

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

The number of shares outstanding of each of the issuer s classes of common stock, as of August 7, 2017 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	**5,366,382**

LEATT CORPORATION

Quarterly Report on Form 10-Q
Three Months and Six Months Ended June 30, 2017

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ITEM 1. FINANCIAL STATEMENTS.

LEATT CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

LEATT CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30, 2017 Unaudited	December 31, 2016 Audited
Current Assets		
Cash and cash equivalents	$ 1,362,037	$ 1,103,003
Short-term investments	58,207	58,196
Accounts receivable	1,637,718	2,217,840
Inventory	3,220,009	4,578,125
Payments in advance	643,455	569,498
Income tax refunds receivable	78,907	83,567
Prepaid expenses and other current assets	1,019,665	847,032
Total current assets	8,019,998	9,457,261
Property and equipment, net	1,624,669	1,190,688
Deferred tax asset	170,300	108,300
Other Assets		
Deposits	25,448	24,892
Intangible assets	72,812	69,133
Total other assets	98,260	94,025
Total Assets	$ 9,913,227	$ 10,850,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,076,063	$ 3,021,618
Short term loan, net of finance charges	266,642	542,532
Total current liabilities	2,342,705	3,564,150
Deferred tax liabilities	65,400	65,400
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, $.001 par value, 1,120,000 shares authorized, 120,000 shares issued and outstanding	3,000	3,000
Common stock, $.001 par value, 28,000,000 shares authorized, 5,366,382 and 5,362,992 shares issued and outstanding	130,053	130,053
Additional paid - in capital	7,646,807	7,469,694
Accumulated other comprehensive loss	(553,695)	(610,083)
Retained earnings	278,957	228,060
Total stockholders' equity	7,505,122	7,220,724
Total Liabilities and Stockholders' Equity	$ 9,913,227	$ 10,850,274

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017 Unaudited	2016 Unaudited	2017 Unaudited	2016 Unaudited
Revenues	$ 3,510,297	3,693,915$	9,328,066$	$ 8,521,407
Cost of Revenues	1,745,138	1,710,012	4,652,808	4,023,669
Gross Profit	1,765,159	1,983,903	4,675,258	4,497,738
Product Royalty Income	39,961	39,649	50,917	53,531
Operating Expenses				
Salaries and wages	555,514	523,912	1,314,757	1,205,214
Commissions and consulting expenses	126,273	133,921	279,321	299,992
Professional fees	119,981	70,659	430,772	252,318
Advertising and marketing	407,781	352,801	809,335	714,394
Office rent and expenses	66,627	62,962	132,678	127,152
Research and development costs	322,155	338,244	645,398	681,059
Bad debt expense (recovery)	5,291	(25,384)	650	(22,557)
General and administrative expenses	434,077	514,852	835,490	961,798
Depreciation	102,490	106,481	191,455	210,998
Total operating expenses	2,140,189	2,078,448	4,639,856	4,430,368
Income (Loss) from Operations	(335,069)	(54,896)	86,319	120,901
Other Income (Expenses)				
Interest and other income (expenses), net	(2,567)	70,750	(5,555)	68,809
Total other income (expenses)	(2,567)	70,750	(5,555)	68,809
Income (Loss) Before Income Taxes	(337,636)	15,854	80,764	189,710
Income Taxes	(116,573)	27,310	29,867	88,186
Net Income (Loss) Available to Common Shareholders	$ (221,063)	$ (11,456)	$ 50,897	$ 101,524
Net Income (Loss) per Common Share				
Basic	$ (0.04)	$ -	$ 0.01	$ 0.02
Diluted	$ (0.04)	$ -	$ 0.01	$ 0.02

Weighted Average Number of Common Shares Outstanding								
Basic		5,364,743		5,270,592		5,363,872		5,251,932
Diluted		5,496,278		5,508,380		5,496,278		5,489,720
Comprehensive Income (Loss)								
Net Income (Loss)	$	(221,063)	$	(11,456)	$	50,897	$	101,524
Other comprehensive income (loss), net of $0 and $0 deferred income taxes in 2017 and 2016								
Foreign currency translation		3,667		8,870		56,388		31,919
Total Comprehensive Income (Loss)	$	(217,396)	$	(2,586)	$	107,285	$	133,443

See accompanying notes to consolidated financial statements

LEATT CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2017

	Preferred Stock A		Common Stock		Additional	Accumulated Other Comprensive	Retained	
	Shares	Amount	Shares	Amount	Paid - In Capital	Loss	Earnings	Total
Balance, January 1, 2017	120,000	$ 3,000	5,362,992	$ 130,053	$ 7,469,694	$ (610,083)	$ 228,060	$ 7,220,724
Compensation cost recognized in connection with stock options	-	-	-	-	177,113	-	-	177,113
Options exercised on a cashless basis	-	-	3,390	-	-	-	-	-
Net income	-	-	-	-	-	-	50,897	50,897
Foreign currency translation adjustment	-	-	-	-	-	56,388	-	56,388
Balance, June 30, 2017	120,000	$ 3,000	5,366,382	$ 130,053	$ 7,646,807	$ (553,695)	$ 278,957	$ 7,505,122

See accompanying notes to consolidated financial statements

LEATT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Net income	$ 50,897	$ 101,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	191,455	210,998
Deferred income taxes	(62,000)	-
Stock-based compensation	177,113	155,742
Other income	-	(73,533)
Bad debts	(2,024)	(22,557)
Inventory reserve	126,660	13,180
Loss on sale of property and equipment	49	-
(Increase) decrease in:		
Accounts receivable	582,146	846,161
Inventory	1,231,456	264,821
Payments in advance	(73,957)	(398,506)
Prepaid expenses and other current assets	(172,633)	363,114
Income tax refunds receivable	4,660	-
Other receivables	-	60,000
Deposits	(556)	(220)
Decrease in:		
Accounts payable and accrued expenses	(945,555)	(1,055,229)
Income taxes payable	-	(133,601)
Net cash provided by operating activities	1,107,711	331,894
Cash flows from investing activities		
Capital expenditures	(603,180)	(52,629)
Increase in short-term investments, net	(11)	(12)
Net cash used in investing activities	(603,191)	(52,641)
Cash flows from financing activities		
Proceeds from exercise of stock options	-	39,000
Repayments of short-term loan, net	(275,890)	(387,014)
Net cash used in financing activities	(275,890)	(348,014)
Effect of exchange rates on cash and cash equivalents	30,404	14,770
Net increase (decrease) in cash and cash equivalents	259,034	(53,991)
Cash and cash equivalents - beginning	1,103,003	1,054,750
Cash and cash equivalents - ending	$ 1,362,037	$ 1,000,759
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 6,898	$ 6,920
Cash paid for income taxes	$ 87,207	$ 221,787

Other noncash investing and financing activities				
Common stock issued for services	$	177,113	$	155,742
Cancellation of common shares as settlement of a legal matter	$	-	$	(73,533)

See accompanying notes to consolidated financial statements

LEATT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Basis of presentation

The consolidated balance sheet as of December 31, 2016 was audited and appears in the Form 10-K filed by the Company with the Securities and Exchange Commission on March 29, 2017. The consolidated balance sheet as of June 30, 2017 and the consolidated statements of operations and comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016, changes in stockholders equity for the six months ended June 30, 2017, cash flows for the six months ended June 30, 2017 and 2016, and the related information contained in these notes have been prepared by management without audit. In the opinion of management, all adjustments (which include only normal recurring items) necessary to present fairly the financial position, results of operations and cash flows in conformity with generally accepted accounting principles as of June 30, 2017 and for all periods presented have been made. Interim operating results are not necessarily indicative of operating results for a full year.

Certain information and note disclosures normally included in the Company s annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. While management of the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed consolidated financial statements be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2016 as filed with the Securities and Exchange Commission in the Company s Form 10-K.

Note 2 - Inventory

Inventory is stated at the lower of cost or 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, the Company must make estimates and judgments regarding reserves required for product obsolescence, aging of inventory and other issues potentially affecting the saleable condition of products. In performing such evaluations, the Company utilizes historical experience as well as current market information. The reserve for obsolescence as of the six months ended June 30, 2017 and 2016 was $292,767 and $173,695, respectively.

Note 3 - Intangible Assets

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

Note 4 - Short-term Loan

The Company carries two product liability insurance policies; one with a U.S. insurance carrier and a second with a South African insurance carrier. The Company finances payment of its short-term insurance premiums over the period of coverage, which is generally twelve months. The U.S. short-term loan is payable in monthly installments of $58,921 over an eleven-month period at an APR of 3.397% and the South African short-term loan is payable in monthly installments of $1,813 over a ten-month period at a flat interest rate of 4.10% ..

The Company also carries directors and officers liability insurance and several other insurance policies. The Company finances payment of its short-term insurance premiums over the period of coverage, which is generally twelve months. The short-term loan is payable in eleven payments of $8,315 at a 3.900% annual interest rate.

In addition, the Company carries Network Security/Privacy insurance. The Company finances payment of its short-term insurance premiums over the period of coverage over six months. The short-term loan is payable in five payments of $1,453 at a 3.397% annual interest rate.

Note 5 - Income Taxes

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

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

The Company s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of June 30, 2017, the Company has no unrecognized tax benefits.

Note 6 - Net Income Per Share of Common Stock

Basic net income per common share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common stock shares and dilutive potential common shares outstanding during the period. For the six months ended June 30, 2017, the Company had 467,000 potential common shares, consisting of 120,000 preferred shares and options to purchase 24,000 shares, outstanding that were dilutive, and options to purchase 323,000 shares that were anti-dilutive and therefore not included in diluted net income per share.

Note 7 Common Stock

Stock-based compensation expense related to vested stock options during the six months ended June 30, 2017 was $177,113. As of June 30, 2017, there was $255,893 of unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a 3 year vesting period.

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 8 Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which applies to inventory that is measured using first-in, first-out (FIFO) or average cost. This ASU simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost or net realizable value test. The ASU is effective for annual periods beginning after December 15, 2016. Early adoption is permitted. The Company adopted the new standard on January 1, 2017. The adoption of this ASU did not have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 amends the guidance on several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, accounting for forfeitures, and classification on the statement of cash flows. The ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted the new standard on January 1, 2017. The Company elected to apply the amendments related to the classification of excess tax benefits on the statement of cash flows on a prospective basis, and prior periods were not adjusted. The adoption of this ASU did not have a material impact on the consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

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 does not expect this standard to 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 expects to adopt the ASU beginning January 1, 2018.

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.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, (ASU 2014-09). ASU 2014-09, as amended, outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date". The amendments in this update defers the effective date of Update 2014-09 for all entities by one year. The ASU, as amended, is effective for the first interim period within an annual period beginning after December 15, 2017, and early adoption is not permitted. The new guidance allows for two methods of adoption: (a) full retrospective adoption, meaning that the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning that the cumulative effect of applying the new guidance is recognized as an adjustment to the opening retained earnings balance for the year of implementation. The Company plans to adopt the new revenue standard effective January 1, 2018, on a modified retrospective method with the cumulative effect of the change reflected in retained earnings as of January 1, 2018, and not restate prior periods. The Company continues to monitor FASB activity to assess certain interpretative issues and the associated implementation of the new standard. The Company is in the process of reviewing its revenue arrangements, which are expected to include product sales and royalty payments, and is not yet able to estimate the anticipated impact to the consolidated financial statements from the implementation of the new standard as the Company continues to interpret the principles of the new standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU is a comprehensive new lease standard that amends various aspects of existing accounting guidance for leases. The core principle of this ASU will require lessees to present the assets and liabilities that arise from leases on their balance sheets. The ASU is effective for public companies for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating the new standard to determine the impact on the Company s consolidated financial statements.

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

Note 9 - Litigation

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

Note 10 Subsequent Events

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

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

Special Note Regarding Forward Looking Statements

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

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

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

Use of Certain Defined Terms

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

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

ZAR refers to the South African Rand, the legal currency of South Africa. For all ZAR amounts reported, the dollar amount has been calculated on the basis that $1 = ZAR12.9577 for its June 30, 2017 balance sheet**.**

Overview of our Business

Leatt designs, develops, markets and distributes personal protective equipment for participants in all forms of motor sports and leisure activities, including riders of motorcycles, bicycles, snowmobiles and ATVs. The Company sells its products to customers worldwide through a global network of distributors and retailers. Leatt also acts as the original equipment manufacturer for neck braces sold by other international brands.

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

The Company s research and development efforts are conducted at its research facilities, located at its executive headquarters in Cape Town, South Africa. The Company employs 4 full-time employees who are dedicated exclusively to research, development, and testing. The Company also utilizes consultants, academic institutions and engineering companies as independent contractors or consultants, from time to time, to assist it with its research and development efforts. Leatt products have been tested and reviewed internally and by external bodies. All Leatt products are compliant with applicable European Union directives, or CE certified, where appropriate. Certain products, such as the Moto GPX was tested by BMW Motorrad (Germany) and reviewed by KTM (Austria).

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

Leatt earns revenues through the sale of its products through approximately 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. Additionally, Two Eleven sells products directly to customers via Leatt s online store.

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. 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 then fifteen year-old 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 will 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 59% of our sales is derived outside the U.S. where the U.S. dollar is not the primary currency, significant fluctuations in exchange rates such as the strengthening of the dollar versus our customers local currency can adversely affect our ability to remain competitive in those areas.

Results of Operations

The following summary of our results of operations should be read in conjunction with our financial statements and the notes thereto for the three- and six-month periods ended June 30, 2017 and 2016 included herein. The following tables set forth key components of our results of operations for the periods indicated, both in dollars and as a percentage of sales revenue and key components of our revenue for the periods indicated in dollars and percentages.

Three Months Ended June 30, 2017 compared to the Three Months Ended June 30, 2016

The following table summarizes the results of our operations during the three-month periods ended June 30, 2017 and 2016 and provides information regarding the dollar and percentage increase or (decrease) in such periods:

Item	Three Months Ended June 30, 2017	2016	$ Increase (Decrease)	Percentage Increase (Decrease)
REVENUES	$ 3,510,297	$ 3,693,915	$ (183,618)	-5%
COST OF REVENUES	1,745,138	1,710,012	$ 35,126	2%
GROSS PROFIT	1,765,159	1,983,903	$ (218,744)	-11%
PRODUCT ROYALTY INCOME	39,961	39,649	$ 312	1%
OPERATING EXPENSES				
Salaries and Wages	555,514	523,912	$ 31,602	6%
Commissions and Consulting	126,273	133,921	$ (7,648)	-6%
Professional Fees	119,981	70,659	$ 49,322	70%
Advertising and Marketing	407,781	352,801	$ 54,980	16%
Office Rent and Expenses	66,627	62,962	$ 3,665	6%
Research and Development Costs	322,155	338,244	$ (16,089)	-5%
Bad Debt Expense (Recovery)	5,291	(25,384)	$ 30,675	121%
General and Administrative	434,077	514,852	$ (80,775)	-16%
Depreciation	102,490	106,481	$ (3,991)	-4%
Total Operating Expenses	2,140,189	2,078,448	$ 61,741	3%
LOSS FROM OPERATIONS	(335,069)	(54,896)	$ (280,173)	510%
Other Income (Expenses)	(2,567)	70,750	$ (73,317)	-104%
INCOME (LOSS) BEFORE INCOME TAXES	(337,636)	15,854	$ (353,490)	-2230%
Income Taxes	(116,573)	27,310	$ (143,883)	-527%
NET LOSS	$ (221,063)	$ (11,456)	$ (209,607)	1830%

Revenues We earn revenues from the sale of our protective gear comprising of neck braces, body armor, helmets and other products, parts and accessories both in the United States and internationally. Revenues for the three months ended June 30, 2017 were $3.51 million, a 5% decrease, compared to revenues of $3.69 million for the quarter ended June 30, 2016. Revenues associated with international customers were $1.64 million and $1.83 million, or 47% and 50% of revenues, respectively, for the three months ended June 30, 2017 and 2016. This decrease in worldwide revenues is primarily attributable to a $0.20 million decrease in neck brace sales and a $0.09 million decrease in helmet sales that were partially offset by a $0.06 million increase in body armor sales and a $0.05 million increase in sales of other products, parts and accessories.

The following table sets forth our revenues by product line for the three months ended June 30, 2017 and 2016:

	Three months ended June 30 2017	% of Revenues	2016	% of Revenues
Neck braces	$ 1,095,390	31%	$ 1,300,052	35%
Body armor	1,853,412	53%	1,790,425	49%
Helmets	281,238	8%	374,659	10%
Other Products, Parts and Accessories	280,257	8%	228,779	6%
	$ 3,510,297	100%	$ 3,693,915	100%

Sales of our flagship neck brace accounted for $1.10 million and $1.30 million, or 31% and 35% of our revenues for the quarters ended June 30, 2017 and 2016, respectively. The 16% decrease in neck brace revenues is primarily attributable to a 17% decrease in the volume of neck braces sold to our customers worldwide.

Our body armor products are comprised of chest protectors, full upper body protectors, upper body protection vests, back protectors, knee braces and knee and elbow guards. Body armor sales accounted for $1.85 million and $1.79 million, or 53% and 49% of our revenues for the quarters ended June 30, 2017 and 2016, respectively. The 4% increase in body armor revenues was primarily the result of an increase in sales of the Company s C-Frame knee brace line due to continued demand for the C-Frame Pro knee brace both in the United States and abroad.

Our helmets accounted for $0.28 million and $0.37 million, or 8% and 10% of our revenues for the three months ended June 30, 2017 and 2016, respectively. Although revenues from the sale of our range of bicycle helmets increased by 110% during the second quarter of 2017, sales of our motorcycle range of helmets decreased by 53%. The decrease in helmet sales was due to the large volume of initial stocking shipments of our GPX 5.5 Composite and GPX 6.5 Carbon helmets for motorcycle use to our customers globally during the second quarter of 2016.

Our other products, parts and accessories are comprised of aftermarket support items required primarily to replace worn or damaged parts through our global distribution network, as well as clothing, outerwear and accessories that include hats, jackets, bags, hydration kits and cooling garments. Other products, parts and accessories sales accounted for $0.28 million and $0.23 million, or 8% and 6% of our revenues for the quarters ended June 30, 2017 and 2016, respectively. The 23% increase in revenues from the sale of other products, parts and accessories is primarily due to an increase in the sales volume of GPX and DBX apparel designed for off-road motorcycle and bicycle use respectively.

Cost of Revenues and Gross Profit Cost of revenues for the quarters ended June 30, 2017 and 2016 were $1.75 million and $1.71 million, respectively. Gross Profit for the quarters ended June 30, 2017 and 2016 were $1.77 million and $1.98 million, respectively, or 50% and 54% of revenues respectively. Our neck brace products continue to generate a higher gross margin than our other product categories. Neck brace revenues accounted for 31% and 35% of our revenues for the quarters ended June 30, 2017 and 2016 respectively.

Product Royalty Income Product royalty income is earned on sales to distributors that have royalty agreements in place, as well as on sales of licensed products by third parties that have licensing agreements in place. Product royalty income for the quarters ended June 30, 2017 and 2016 were $39,961 and $39,649, respectively. The 1% increase in product royalty income is due to a marginal increase in the sale of licensed products by licensees in the 2017 period.

Salaries and Wages Salaries and wages for the quarters ended June 30, 2017 and 2016 were $555,514 and $ 523,912, respectively. This 6% increase in salaries and wages during the 2017 period was primarily due to the employment of additional sales and marketing personnel based in Europe.

Commissions and Consulting Expense During the quarters ended June 30, 2017 and 2016, commissions and consulting expenses were $126,273 and $133,921, respectively. This 6% decrease in commissions and consulting expenses is primarily due to the restructuring of commissions paid to the Company s US external sales representatives.

Professional Fees Professional fees consist of costs incurred for audit, tax and regulatory filings, as well as patent protection and product liability litigation expenses incurred as the Company continues to expand. Professional fees for the quarters ended June 30, 2017 and 2016 were $119,981 and $70,659, respectively. This 70% increase in professional fees is primarily due to increased spending on product liability litigation during the 2017 period.

Advertising and Marketing The Company places paid advertising in various motorsport magazines and online media, and sponsors a number of events, teams and individuals to increase product and brand visibility. Advertising and marketing expenses for the quarters ended June 30, 2017 and 2016 were $407,781 and $352,801, respectively. The 16% increase in advertising and marketing expenditures during the 2017 period is primarily due to the production and implementation of global marketing campaigns designed to support and promote the Company s widening product range and target market reach.

Office Rent and Expenses Office rent and expenses for the quarters ended June 30, 2017 and 2016 were $66,627 and $62,962, respectively. This 6% increase in office rent and expenses during the 2017 period is in line with lease escalation clauses for the Company s worldwide facilities.

Research and Development Costs These costs consist of the salaries of personnel who are directly involved in the research and development of innovative products, as well as the direct costs associated with developing these products. Research and development costs for the quarters ended June 30, 2017 and 2016, decreased to $322,155, from $338,244, during the same 2016 quarter. The 5% decrease in research and development costs is primarily due to a restructuring of the salaries paid to personnel in the research and development department.

Bad Debt Expense (Recovery) Bad Debt Expense (Recovery) for the quarters ended June 30, 2017 and 2016 were $5,291 and ($25,384), respectively. This increase in Bad Debt Expense is primarily the result of the recovery of previously unrecoverable debts during the 2016 period.

General and Administrative Expenses General and administrative expenses consist of insurance, travel, merchant fees, telephone, office and computer supplies. General and administrative expenses for the quarters ended June 30, 2017 and 2016 were $434,077 and $514,852, respectively. The 16% decrease in general and administrative expenses is primarily due to a decrease in product liability insurance premiums.

Depreciation Expense Depreciation Expense for the quarters ended June 30, 2017 and 2016 were $102,490 and $106,481, respectively. This 4% decrease in depreciation is primarily due to certain assets being fully depreciated during the period as they had reached the end of their economic useful lives.

Total Operating Expenses Total operating expenses increased by $61,741, to $2.14 million in the three months ended June 30, 2017, or 3%, compared to $2.08 million in the 2016 period. This increase is primarily due to increased professional fees as well as advertising and marketing expenses that were partially offset by decreased general and administrative costs discussed above.

Net loss The net loss after income taxes for the quarter ended June 30, 2017 was $221,063 as opposed to a net loss after income taxes of $11,456 for the quarter ended June 30, 2016. This increase in net loss is primarily due to the decrease in revenues and increase in operating costs discussed above.

Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

The following table summarizes the results of our operations during the six-month periods ended June 30, 2017 and 2016 and provides information regarding the dollar and percentage increase or (decrease) in such periods:

Item	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	$ Increase (Decrease)	Percentage Increase (Decrease)
REVENUES	$ 9,328,066	$ 8,521,407	$ 806,659	9%
COST OF REVENUES	4,652,808	4,023,669	$ 629,139	16%
GROSS PROFIT	4,675,258	4,497,738	$ 177,520	4%
PRODUCT ROYALTY INCOME	50,917	53,531	$ (2,614)	-5%
OPERATING EXPENSES				
Salaries and Wages	1,314,757	1,205,214	$ 109,543	9%
Commissions and Consulting	279,321	299,992	$ (20,671)	-7%
Professional Fees	430,772	252,318	$ 178,454	71%
Advertising and Marketing	809,335	714,394	$ 94,941	13%
Office Rent and Expenses	132,678	127,152	$ 5,526	4%
Research and Development Costs	645,398	681,059	$ (35,661)	-5%
Bad Debt Expense (Recovery)	650	(22,557)	$ 23,207	103%
General and Administrative	835,490	961,798	$ (126,308)	-13%
Depreciation	191,455	210,998	$ (19,543)	-9%
Total Operating Expenses	4,639,856	4,430,368	$ 209,488	5%
INCOME FROM OPERATIONS	86,319	120,901	$ (34,582)	-29%
Other Income (Expenses)	(5,555)	68,809	$ (74,364)	-108%
INCOME BEFORE INCOME TAXES	80,764	189,710	$ (108,946)	-57%
Income Taxes	29,867	88,186	$ (58,319)	-66%
NET INCOME	$ 50,897	$ 101,524	$ (50,627)	-50%

Revenues We earn revenues from the sale of our protective gear comprising of neck braces, body armor, helmets and other products, parts and accessories both in the United States and internationally. Revenues for the six months ended June 30, 2017 were $9.33 million, an 9% increase, compared to revenues of $8.52 million for the quarter ended June 30, 2016. Revenues associated with international customers were $5.61 million and $4.80 million, or 60% and 56% of revenues, respectively, for the six months ended June 30, 2017 and 2016. This increase in global revenues is attributable to a $0.21 million increase in neck brace sales, a $0.63 million increase in body armor sales and a $0.26 million increase in sales of other products, parts and accessories that was partially offset by a $0.29 million decrease in helmet sales.

The following table sets forth our revenues by product line for the six months ended June 30, 2017 and 2016:

	Six months ended June 30			
	2017	% of Revenues	2016	% of Revenues
Neck braces	$ 3,105,964	33%	$ 2,893,782	34%
Body armor	4,606,934	49%	3,980,901	47%
Helmets	892,490	10%	1,183,214	14%
Other Products, Parts and Accessories	722,678	8%	463,510	5%
	$ 9,328,066	100%	$ 8,521,407	100%

Sales of our flagship neck brace accounted for $3.11 million and $2.89 million, or 33% and 34% of our revenues for the six-month periods ended June 30, 2017 and 2016, respectively. The 7% increase in neck brace revenues is primarily attributable to an increase in the volume of neck braces sold to our customers both in the United States and abroad.

Our body armor products are comprised of chest protectors, full upper body protectors, upper body protection vests, back protectors, knee braces and knee and elbow guards. Body armor sales accounted for $4.61 million and $3.98 million, or 49% and 47% of our revenues for the six-month periods ended June 30, 2017 and 2016, respectively. The 16% increase in body armor revenues was primarily the result of increased sales of the Company s C-Frame knee brace line in the United States and abroad due to the successful introduction of the C-Frame Pro Knee Brace.

Our Helmets accounted for $0.89 million and $1.18 million, or 10% and 14% of our revenues for the six-month periods ended June 30, 2017 and 2016, respectively. Although the Company successfully shipped initial stocking shipments of our DBX All Mountain helmet during the first half of 2017, the 25% decrease in Helmet revenues is due to initial stocking shipments of our GPX 5.5 Composite, GPX 6.5 Carbon, DBX 6.0 Carbon and DBX 5.0 Composite helmets to our international customers during the six months ended June 30, 2016.

Our other products, parts and accessories are comprised of aftermarket support items required primarily to replace worn or damaged parts through our global distribution network, as well as clothing, outerwear and accessories that include hats, jackets, bags, hydration kits and cooling garments. Other products, parts and accessories sales accounted for $0.72 million and $0.46 million, or 8% and 5% of our revenues for the six-month periods ended June 30, 2017 and 2016, respectively. The 56% increase in revenues from the sale of other products, parts and accessories is primarily due to the inclusion of our GPX and DBX apparel lines designed for off-road motorcycle and bicycle use respectively.

Cost of Revenues and Gross Profit Cost of revenues for the six-months ended June 30, 2017 and 2016 were $4.65 million and $4.02 million, respectively. Gross Profit for the six-month periods ended June 30, 2017 and 2016 were $4.68 million and $4.50 million, respectively, or 50% and 53% of revenues respectively. Neck brace products continue to generate a higher gross margin than our other product categories. Neck brace revenues accounted for 33% and 34% of our revenues for the six months ended June 30, 2017 and 2016 respectively.

Product Royalty Income Product royalty income is earned on sales to distributors that have royalty agreements in place, as well as on sales of licensed products by third parties that have licensing agreements in place. Product royalty income for the six-month periods ended June 30, 2017 and 2016 were $50,917 and $53,531, respectively. The 5% decrease in product royalty income is due to a decrease in the sale of licensed products by licensees in the 2017 period.

Salaries and Wages Salaries and wages for the six-month periods ended June 30, 2017 and 2016 were $1,314,757 and $1,205,214, respectively. This 9% increase in salaries and wages during the 2017 period was primarily due to the employment of additional sales and marketing staff based in Europe as well as the vesting of share options issued to key personnel during the six-month period ended June 30, 2017.

Commissions and Consulting Expense During the six-month periods ended June 30, 2017 and 2016, commissions and consulting expenses were $279,321 and $299,992, respectively. This 7% decrease in commissions and consulting expenses is primarily due to the restructuring of commissions paid the Company s US internal and external sales staff and representatives.

Professional Fees Professional fees consist of costs incurred for audit, tax and regulatory filings, as well as patent protection and product liability litigation expenses incurred as the Company continues to expand. Professional fees for the six-month periods ended June 30, 2017 and 2016 were $430,772 and $252,318, respectively. This 71% increase in professional fees is primarily due to increased spending on product liability litigation during the 2017 period.

Advertising and Marketing The Company places paid advertising in various motorsport magazines and online media, and sponsors a number of events, teams and individuals to increase product and brand visibility. Advertising and marketing expenses for the six-months ended June 30, 2017 and 2016 were $809,335 and $714,394, respectively. The 13% increase in advertising and marketing expenditures during the 2017 period is primarily due to the production and implementation of marketing campaigns designed to globally support and promote the Company s widening product range, target market reach and brand awareness.

Office Rent and Expenses Office rent and expenses for the six-month periods ended June 30, 2017 and 2016 were $132,678 and $127,152, respectively. The 4% increase in office rent and expenses during the 2017 period is in line with lease escalation clauses for the Company s worldwide facilities.

Research and Development Costs These costs consist of the salaries of personnel who are directly involved in the research and development of innovative products, as well as the direct costs associated with developing these products. Research and development costs for the six-month periods ended June 30, 2017 and 2016, decreased to $645,398, from $681,059, during the same 2016 quarter. The 5% decrease in research and development costs is primarily due to a restructuring of the salaries paid to personnel in the research and development department.

Bad Debt Expense (Recovery) Bad Debt Expense (Recovery) for the six-month periods ended June 30, 2017 and 2016 were $650 and ($22,557), respectively. This increase in Bad Debt Expense is primarily the result of the recovery of previously unrecoverable debts during the 2016 period.

General and Administrative Expenses General and administrative expenses consist of insurance, travel, merchant fees, telephone, office and computer supplies. General and administrative expenses for the six-month periods ended June 30, 2017 and 2016 were $835,490 and $ 961,798, respectively. The 13% decrease in general and administrative expenses is primarily as a result of a decrease in product liability insurance premiums.

Depreciation Expense Depreciation Expense for the six-month periods ended June 30, 2017 and 2016 were $191,455 and $210,998, respectively. This 9% decrease in depreciation is primarily due to certain assets that were fully depreciated during the period as they had reached the end of their economic lives.

Total Operating Expenses Total operating expenses increased by $209,488, to $4.64 million in the six month periods ended June 30, 2017, or 5%, compared to $4.43 million in the 2016 period. This increase is primarily due to increased salaries and wages, professional fees as well as advertising and marketing expenses that were partially offset by decreased general and administrative costs discussed above.

Net income Net income after income taxes for the six-month period ended June 30, 2017 was $50,897 as opposed to a net income after income taxes of $101,524 for the six-month period ended June 30, 2016. This decrease in net income is primarily due to the increase in operating expenses that were partially offset by increased revenues and gross margin discussed above.

Liquidity and Capital Resources

At June 30, 2017, we had cash and cash equivalents of $1.36 million and $0.06 million of short-term investments. The following table sets forth a summary of our cash flows for the periods indicated:

	June 30,			
		2017		**2016**
Net cash provided by operating activities	$	1,107,711	$	331,894
Net cash used in investing activities	$	(603,191)	$	(52,641)
Net cash used in financing activities	$	(275,890)	$	(348,014)
Effect of exchange rate changes on cash and cash equivalents	$	30,404	$	14,770
Net increase (decrease) in cash and cash equivalents	$	259,034	$	(53,991)
Cash and cash equivalents at the beginning of period	$	1,103,003	$	1,054,750
Cash and cash equivalents at the end of period	$	1,362,037	$	1,000,759

Cash increased by $259,034, or 23%, for the six months ended June 30, 2017. The primary sources of cash for the six months ended June 30, 2017 were decreased inventory of $1.2 million and decreased accounts receivables of $582,146. The primary uses of cash for the six months ended June 30, 2017 were decreased accounts payable and accrued expenses of $945,555, increased prepaid expenses and other current assets of $172,633, capital expenditures of $603,180, and the repayment of the short-term loan amount for $275,890. As of June 30, 2017, we did not have any credit facilities or significant amounts owed to third party lenders.

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

Pursuant to a Premium Finance Agreement, dated October 13, 2016, between the Company and AFCO Acceptance Corporation AFCO, the Company is obligated to pay AFCO an aggregate sum of $637,260 in eleven payments of $58,921, at an annual interest rate of 3.397%, commencing on November 1, 2016 and ending on September 1, 2017. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of June 30, 2017, the Company had not defaulted on its payment obligations under this agreement.

Pursuant to a Premium Finance Agreement, dated May 22, 2017, between the Company and AFCO, the Company is obligated to pay AFCO an aggregate sum of $89,708 in eleven payments of $8,315 at a 3.900% annual interest rate, commencing on June 1, 2017 and ending on April 1, 2018. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of June 30, 2017, the Company had not defaulted on its payment obligations under this agreement.

Pursuant to a Premium Finance Agreement, dated March 30, 2017, between the Company and AFCO, the Company is obligated to pay AFCO an aggregate sum of $7,195 in five payments of $1,453 at a 3.397% annual interest rate, commencing on May 1, 2017 and ending on September 1, 2018. Any late payment during the term of the agreement will be assessed a late penalty of 5% of the payment amount due, and in the event of default AFCO has the right to accelerate the payment due under the agreement. As of June 30, 2017, the Company had not defaulted on its payment obligations under this agreement.

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, Innovate has agreed to serve as the Company s exclusive research, development and marketing consultant, in exchange for a monthly fee of $35,639; provided that Dr. Leatt personally performs the services to be performed by Innovate under the Agreement, pursuant to a separate employment agreement between Innovate and Dr. Leatt. The parties further agreed that all intellectual property generated in connection with the services provided under the Consulting Agreement will be the sole property of the Company. The Consulting Agreement was effective as of May 15, 2015, and will continue unless terminated by either party in accordance with its terms. Either party has the right to terminate the Consulting Agreement upon 6 months' prior written notice, except that the Consulting Agreement may be terminated immediately without notice if the services to be performed under the Consulting Agreement cease to be performed by Dr. Leatt, or for any other material breach of the Agreement. The parties have agreed to settle any dispute under the Consulting Agreement through arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (AAA), and that the resulting arbitration award will be final and binding on both parties and will not be subject to any appeal. The foregoing description does not purport to be a complete statement of the parties rights and obligations under the Consulting Agreement and the transactions contemplated thereby or a complete explanation of the materials thereof.

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 - 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 (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. Revenue is considered to be realized or realizable and earned when all of the following criteria are met: title and risk of loss have passed to the customer, persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable and collectability is reasonably assured. 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 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. International sales (other than in 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 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.

***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.

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 six-month periods ended June 30, 2017 and 2016 was $292,767 and $173,695, 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 quarters ended June 30, 2017 and 2016.

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 8, 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 of our consolidated financial position, results of operations and cash flows.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

As of June 30, 2017, the Company s management, under the direction of its Chief Executive Officer and the Chief Financial Officer, Mr. Sean Macdonald, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer determined that the Company s disclosure controls and procedures were deemed to be effective.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting during the period ended June 30, 2017, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

On February 25, 2015, a lawsuit was filed against the Company on behalf of a motorcycle rider in the Northern District Court of Indiana, Lafayette Division for strict liability, breach of warranty, negligence, punitive damages and deceptive and misleading advertising and marketing. Discovery has been completed and the trial is currently scheduled to commence October 30, 2017. The Company believes that the lawsuit is without merit and intends to vigorously defend itself.

ITEM 1A. RISK FACTORS.

There are no material changes from the risk factors previously disclosed in Item 1A Risk Factors of our annual report on Form 10-K for the period ended December 31, 2016.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

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

ITEM 6. EXHIBITS.

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

Exhibit No.	Description
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive data files pursuant to Rule 405 of Regulation S-T

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

SIGNATURES

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

Date: August 11, 2017 **LEATT CORPORATION**

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

EXHIBIT INDEX

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