AMERITYRE CORP
Form 10-Q
November 14, 2008

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:

September 30, 2008

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

For the transition period from ____________________ to ____________________.

Commission file number: **000-50053**

AMERITYRE CORPORATION

(Exact name of small business issuer as specified in its charter)

NEVADA	87-0535207
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1501 INDUSTRIAL ROAD, BOULDER CITY, NEVADA	89005
(Address of principal executive offices)	(Zip Code)

(702) 294-2689

(Issuer s telephone number)

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 ý No ¨

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 ¨ Accelerated filer Non-accelerated filer ý Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ Noý

The number of shares outstanding of Registrant s Common Stock as of November 7, 2008: 23,454,595

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows, and stockholders' equity in conformity with generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Our unaudited balance sheet at September 30, 2008 and our audited balance sheet at June 30, 2008; the related unaudited statements of operations for the three month periods ended September 30, 2008 and 2007; and the related unaudited statement of cash flows for the three month periods ended September 30, 2008 and 2007, are attached hereto.

AMERITYRE CORPORATION
Balance Sheets

ASSETS	Sep. 30, 2008 (unaudited)	June 30, 2008
CURRENT ASSETS		
Cash and cash equivalents	$ 789,872	$ 1,701,191
Accounts receivable net	592,127	494,690
Inventory	913,066	819,403
Deposit on equipment	33,254	147,047
Prepaid and other current assets	138,602	140,241
Total Current Assets	2,466,921	3,302,572
PROPERTY AND EQUIPMENT		
Construction in progress	7,564	7,564
Leasehold Improvements	162,683	162,683
Molds and models	500,078	495,214
Equipment	2,901,620	2,901,620
Furniture and Fixtures	100,142	100,142
Software	286,046	286,046
Less accumulated depreciation	(2,894,751)	(2,831,691)
Total Property and Equipment	1,063,382	1,121,578
OTHER ASSETS		
Patents and trademarks net	662,884	658,534
Deposits	71,568	71,568
Total Other Assets	734,452	730,102
TOTAL ASSETS	$ 4,264,755	$ 5,154,252

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

AMERITYRE CORPORATION

Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS EQUITY	Sep. 30, 2008	June 30, 2008
	(unaudited)	
CURRENT LIABILITIES		
Accounts payable	$ 289,347	$ 212,467
Accrued expenses	65,642	111,205
Deferred revenue special projects	2,687	9,451
Total Current Liabilities	357,676	333,123
TOTAL LIABILITIES	357,676	333,123
STOCKHOLDERS EQUITY		
Preferred stock: 5,000,000 shares authorized of $0.001 par value, -0- shares issued and outstanding	-	-
Common stock: 40,000,000 shares authorized of $0.001 par value, 23,454,595 and 23,429,595 shares issued and outstanding, respectively	23,452	23,427
Additional paid-in capital	56,397,407	56,275,163
Accrued interest on subscription notes receivable	(34,036)	(25,480)
Subscription notes receivable	(399,329)	(399,329)
Deferred consulting and directors compensation	(13,332)	(33,331)
Retained deficit	(52,067,083)	(51,019,321)
Total Stockholders Equity	3,907,079	4,821,129
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,264,755	$ 5,154,252

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

AMERITYRE CORPORATION
Statements of Operations
(unaudited)

	For the Three Months Ended September 30, 2008	2007
NET REVENUES		
Products	$ 729,673	$ 612,830
Equipment	89,911	-
Licenses	33,333	50,000
Total Net Revenues	852,917	662,830
COST OF REVENUES		
Products	485,254	464,963
Equipment	87,372	-
Total Cost of Revenues	572,626	464,963
GROSS PROFIT	280,291	197,867
EXPENSES		
Consulting	136,498	30,919
Depreciation and amortization	69,864	80,636
Research and development	107,623	158,171
(Gain) Loss on impairment of assets	-	(89)
Selling, general and administrative	1,030,692	1,087,383
Total Expenses	1,344,677	1,357,020
LOSS FROM OPERATIONS	(1,064,386)	(1,159,153)
OTHER INCOME		
Interest income	18,979	68,992
Miscellaneous income (expenses)	(2,355)	227

Total Other Income		16,624		69,219
NET LOSS	$	(1,047,762)	$	(1,089,934)
BASIC AND DILUTED LOSS PER SHARE	$	(0.04)	$	(0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		23,437,747		23,432,008

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

AMERITYRE CORPORATION
Statements of Cash Flows
(unaudited)

	For the Three Months Ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,047,762)	$ (1,089,934)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation & amortization expense	69,864	80,636
Gain (Loss) on impairment of assets	-	(89)
Bad debt expense	5,345	-
Common stock issued/accrued for services	16,098	38,481
Stock option granted for services	35,692	10,086
Interest income on subscription note receivable	(8,555)	-
Stock-based compensation expense related to employee options	70,480	80,195
Amortization of expense prepaid w/ common stock	19,999	15,000
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(102,782)	29,434
(Increase) in prepaid and other current assets	1,639	(18,645)
Decrease (Increase) in other assets	113,793	(9,258)
(Increase) Decrease in inventory	(93,663)	20,662
Increase (Decrease) in accounts payable and accrued expenses	24,551	(195,737)
Net Cash Used by Operating Activities	(895,301)	(1,039,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for patents and trademarks	(11,155)	(13,648)
Proceeds from the sale of property and equipment	-	744
Purchase of property and equipment	(4,863)	(7,303)
Net Cash Used by Investing Activities	(16,018)	(20,207)
	-	-

CASH FLOWS FROM FINANCING ACTIVITIES				
NET DECREASE IN CASH AND CASH EQUIVALENTS		(911,319)		(1,059,376)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		1,701,191		5,788,602
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	789,872	$	4,729,226

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

AMERITYRE CORPORATION
Statements of Cash Flows (Continued)
(unaudited)

	For the Three Months Ended September 30,			
	2008		2007	
SUPPLEMENTAL SCHEDULE OF CASH FLOW ACTIVITIES				
CASH PAID FOR:				
Interest	$	-	$	-
Income taxes	$	-	$	-
NON-CASH OPERATING ACTIVITIES				
Common stock issued/accrued for services	$	16,098	$	38,481
Stock-based compensation expense related to employee options	$	70,480	$	80,195
Stock option granted for services	$	35,692	$	10,086
NON-CASH INVESTING/ FINANCING ACTIVITIES				
Common stock issued for accrued liabilities	$	-	$	100,500

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

AMERITYRE CORPORATION

Notes to the Unaudited Financial Statements

September 30, 2008 and June 30, 2008

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed financial statements have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although we believe the disclosures and information presented are adequate to make the information not misleading. These interim condensed financial statements should be read in conjunction with our most recent audited financial statements and notes thereto included in our June 30, 2008 Annual Report on Form 10-K. Operating results for the three months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the current fiscal year ending June 30, 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock Based-Compensation Expense

On July 1, 2005, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS 123(R)). Our financial statements as of and for the three month periods ended September 30, 2008 and 2007 reflect the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the three month periods ended September 30, 2008 and 2007 was $70,480 and $80,195, respectively, related to employee stock options issued during the respective periods.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Statement of Operations. Stock-based compensation expense recognized in our Statements of Operations for the three month periods ended September 30, 2008 and 2007 assumes all awards will vest, therefore no reduction has been made for estimated forfeitures.

Basic and Fully Diluted Net Loss Per Share

Basic and Fully Diluted net loss per share is computed using the weighted-average number of common shares outstanding during the period.

	For the Three Months Ended September 30,	
	2008	2007
Loss (numerator)	$ (1,047,762)	$ (1,089,934)
Shares (denominator)	23,437,747	23,432,008
Per share amount	$ (0.04)	$ (0.05)

Our outstanding stock options have been excluded from the basic and fully diluted net loss per share calculation. We excluded 5,102,370 and 3,715,000 common stock equivalents for the three month periods ended September 30, 2008 and 2007, respectively, because they are anti-dilutive.

AMERITYRE CORPORATION

Notes to the Unaudited Financial Statements

September 30, 2008 and June 30, 2008

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Liquidity

Our financial statements are prepared using generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. We have historically incurred significant losses which have resulted in a total retained deficit of $52,067,083 at September 30, 2008. Although for the fiscal years ended June 30, 2006, 2007 and 2008, we have losses from operations and have used cash in our operating activities in excess of our revenues, we have had little, if any, debt and have consistently had a positive net tangible book value. In connection with the preparation of our financial statements for the year ended June 30, 2008, we have analyzed our cash needs for fiscal 2009. Based on this analysis, we concluded that our available cash will not be sufficient to meet our current working capital, capital expenditure and other cash requirements for fiscal 2009. In order to fully implement our business plan we believe we will need an additional $1,500,000 in capital. We will seek to raise additional capital through the issuance of debt or equity securities. In June 2006, we filed a shelf registration statement with the Securities and Exchange Commission. The shelf registration statement, which was declared effective in July 2006, would allow us to offer common stock, preferred stock, warrants, senior debt securities and subordinated debt securities or any combination of any of these securities in one or more offerings at an aggregate initial offering price not to exceed $120,000,000. Our ability to obtain financing through the offer and sale of our securities is subject to market conditions and other factors beyond our control. We cannot assure you that we will be able to obtain financing on favorable terms or at all.

Income Tax

We file federal income tax returns in the U.S. and state income tax returns in those state jurisdictions where we are required to file. With few exceptions, we are no longer subject to U.S. federal, state or and local income tax examinations by tax authorities for years before June 30, 2004.

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, on July 1, 2007, the first day of our current fiscal year. As a result of the implementation of Interpretation 48, no adjustment should be made for unrecognized tax benefits.

There are no tax positions included in the balance at September 30, 2008 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

Our policy is to recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

NOTE 3 - STOCK OPTIONS AND WARRANTS

General Option Information

During the three month period ended September 30, 2008, we did not grant any options. During the three month period ended September 30, 2007, we granted options to acquire an aggregate of 250,000 shares of our common stock to certain employees and consultants in connection with their employment (the Employment Options). The Employment Options granted during the three month period ended September 30, 2007 vest annually over a period of one to two years based on the employee s continued employment. The exercise price for the Employment Options granted during the period was $4.04 per share. We use the Black-Scholes model to value stock options. The Black-Scholes model requires the use of employee exercise behavior data and the use of a number of assumptions, including volatility of our stock price, the weighted average risk-free interest rate, and the weighted average expected life of the options. Because we do not pay dividends, the dividend rate variable in the Black-Scholes model is zero.

AMERITYRE CORPORATION

Notes to the Unaudited Financial Statements

September 30, 2008 and June 30, 2008

NOTE 3 - STOCK OPTIONS AND WARRANTS (Continued)

We estimated the fair value of the stock options at the grant date based on the following weighted average assumptions:

	For the three month period ended September 30, 2008	For the three month period ended September 30, 2007
Risk free interest rate	N/A	4.64%
Expected life	N/A	5 years
Expected volatility	N/A	55%
Dividend yield	N/A	0%

A summary of the status of our outstanding stock options as of September 30, 2008 and June 30, 2008 and changes during the periods then ended is presented below:

	September 30, 2008		June 30, 2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding beginning of period	4,260,000	$6.34	3,915,000	$ 6.81
Granted	0	-	525,000	$ 2.89
Expired/Cancelled	0	-	(180,000)	$ 6.51
Exercised	0	-	-	-
Outstanding end of period	4,260,000	$6.34	4,260,000	$ 6.34

Exercisable	3,835,000	$6.75	3,835,000	$ 6.75

The following table summarizes the range of outstanding and exercisable options as of September 30, 2008:

		Outstanding		Exercisable	
Range of Exercise Prices	Number Outstanding at Sep. 30, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Sep. 30, 2008	Weighted Average Exercise Price
$1.79	200,000	4.62	$1.79	-	$-
2.02	75,000	4.50	2.02	-	-
3.55	25,000	1.29	3.55	25,000	3.55
4.04	250,000	3.87	4.04	100,000	4.04
4.31	30,000	1.43	4.31	30,000	4.31
5.36	150,000	1.75	5.36	150,000	5.36
6.40	105,000	1.21	6.40	105,000	6.40
6.60	425,000	1.75	6.60	425,000	6.60
7.00	3,000,000	0.95	7.00	3,000,000	7.00
$1.79-$7.00	4,260,000	1.48	6.34	3,835,000	6.75

As of September 30, 2008, the unrecognized stock-based compensation related to stock options was approximately $462,953. This cost is expected to be expensed over a period of 2.75 years.

AMERITYRE CORPORATION

Notes to the Unaudited Financial Statements

September 30, 2008 and June 30, 2008

NOTE 3 - STOCK OPTIONS AND WARRANTS (Continued)

General Warrant Information

The following table summarizes outstanding warrants to purchase our common stock at September 30, 2008.

Number of Warrants Outstanding at September 30, 2008	Expiration Date	Exercise Price
102,825	2/1/2009	$5.00
103,825	2/1/2011	$5.50
510,720	March 2009	$4.50
550,000	4/30/2009	$4.50
1,267,370		

NOTE 4 - STOCK ISSUANCES

Pursuant to the terms of his employment agreement, effective August 31, 2008, we issued 25,000 shares of common stock to our chief executive officer. The shares were valued at $4.04 per share, based on the closing price of the shares on the date of the stock award.

NOTE 5 - INVENTORY

Inventory is stated at the lower of cost (computed on a first-in, first-out basis) or market. The inventory consists of chemicals, finished goods produced in our plant and products purchased for resale.

	Sep 30, 2008		June 30, 2008	
	(Unaudited)			
Raw Materials	$	310,091	$	275,282
Finished Goods	$	602,975	$	544,120
Total Inventory	**$**	913,066	**$**	819,402

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

This discussion and analysis contains statements of a forward-looking nature relating to future events or our future financial performance or financial condition. Such statements are only predictions and the actual events or results may differ materially from the results discussed in or implied by the forward-looking statements. The historical results set forth in this discussion and analysis are not necessarily indicative of trends with respect to any actual or projected future financial performance. This discussion and analysis should be read in conjunction with the financial statements and the related notes thereto included elsewhere in this report.

Overview and Recent Developments

Since our inception in 1995, we have been engaged in the research and development of technologies related to the formulation of polyurethane compounds and the manufacturing process for producing tires constructed of polyurethane. We believe that we have developed unique polyurethane formulations that, when used in tire applications substantially simplify the production process and allow for the creation of products with superior performance characteristics, including abrasion resistance and load-bearing capabilities, than conventional rubber tires. We also believe that the manufacturing processes we have developed to produce polyurethane tires are more efficient than traditional tire manufacturing processes, in part because our polyurethane compounds do not require the multiple processing steps, extreme heat, and high pressure that are necessary to cure rubber. Using our polyurethane technologies, we believe tires can be produced that last longer, are less susceptible to failure and offer improved fuel economy.

While the sale of polyurethane foam tires to original equipment manufacturers, distributors and retail stores continues to account for most of our revenue at this time, Elastothane® and Amerifill® and other proprietary polyurethane materials are significant to our potential future growth. We are concentrating on five principal product areas: tire fill, low duty cycle tires, solid tires, composite tires and pneumatic tires; as well as developing new products, such as polyurethane foam fire retardant material. Our most recent activities in these areas are set forth below:

Tire fill Through research and testing, we have found that our Amerifill® material is not compatible with most tire fill equipment in use today; therefore our customers must also acquire the necessary tire fill equipment to use our materials. In order to penetrate this market we are supplying our customers with tire fill equipment at our cost. Profits from this initiative will be derived from the sale of Amerifill® to our customers. Since launching this program in the spring of 2008 we have completed shipment of five (5) light-weight fill machines. Each fill machine is expected to pump between 100,000 to 200,000 lbs. of fill material annually, although the capacity of each machine is in excess of 500,000 lbs. per year. We expect to place six (6) additional machines with other potential customers before the end of this calendar year.

Low duty tires We recently announced that Supergrip, a leading supplier of superior commercial grade industrial and mining tires, has selected us to manufacture and supply a new line of long-wearing, flat-proof polyurethane tires. The tires will be manufactured in multiple sizes for a variety of commercial applications using the unique, proprietary polyurethane formulations developed by Amerityre. The tires will carry the Supergrip brand name.

Solid tires In September 2008, our President and Chief Executive Officer made a presentation at International Tire Exhibition and Conference (ITEC) in Akron, Ohio, titled Price Competitive High Volume Solid Polyurethane Tire Production. Dr. Benninger discussed our process for manufacturing cost-competitive MDI polyurethane solid tires at a high rate of production and present laboratory and vehicle test data. In addition, he provided a detailed pricing model demonstrating competitive pricing of the MDI polyurethane tire with a comparable solid rubber tire. We have demonstrated the capability of making solid polyurethane elastomer forklift tires at the rate of one tire per minute, using our advanced production technology and hope to see these products go commercial during this current fiscal year.

Composite tires There are multiple applications for use of our polyurethane elastomer material as treads for new or retread tire casings. The first commercial application for this technology is being initiated by Desert Research Technology (DRT), to manufacture paddle-type sand tires. DRT has recently commenced commercial production of this product and we have begun to supply DRT with the chemical system necessary to produce the tires. Our licensee, Qingdao Qizhou Rubber Company, LTD. (Qingdao) has told us that due to the slow-down in the international economy, it will not meet its original September 2008 deadline for commencing OTR tire retreads and we cannot estimate the extent of the delay at this time. However, once Qingdao s OTR tire retread facility is operational, Qingdao will purchase the polyurethane elastomer chemical systems necessary to produce the OTR tire retreads directly from us.

Pneumatic tires We continue to manufacture prototype passenger car tires to evaluate the properties of the tires in the laboratory and on vehicles. We have also provided prototype tires to other tire or automotive manufacturers for performance evaluation, which may include uniform tire quality grading or other performance testing and/or testing to non-U.S. safety standards. In addition, we have been working to finalize the elements of the manufacturing process that is intended to achieve a production rate of one tire per minute. In connection with our objective, during the period we announced that we have entered into a Phase I development program with a multi-billion dollar defense industry contractor that is a leader in aerospace composite technology. The objective of the Phase I development program is to establish the base line performance characteristics of the polyurethane passenger car tire incorporating a composite hoop belt , as opposed to traditional tire belting material. The objective of the composite hoop belt is to improve tire performance while simplifying the tire manufacturing process.

Polyurethane Foam Fire Retardant Material - We have recently formulated and tested flame retardant polyurethane foam for use as packaging material. The flame retardant material has performed well in flammability testing and exceeded the requirements of the UL 94-HB (Horizontal Burn) test. We are currently evaluating commercial applications for this product.

Factors Affecting Results of Operations

Our operating expenses consisted primarily of the following:

- Cost of sales, which consists primarily of raw materials, components and production of our products, including applied labor costs and benefits expenses, maintenance, facilities and other operating costs associated with the production of our products;

- Selling, general and administrative expenses, which consist primarily of salaries, commissions and related benefits paid to our employees and related selling and administrative costs including professional fees;

- Research and development expenses, which consist primarily of equipment and materials used in the development of our technologies;

- Consulting expenses, which consist primarily of amounts paid to third-parties for outside services;

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Depreciation and amortization expenses which result from the depreciation of our property and equipment, including amortization of our intangible assets; and

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Amortization of deferred compensation that results from the expense related to certain stock options to our employees.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates, including those related to uncollectible receivables, inventory valuation, deferred compensation and contingencies. We base our estimates on historical performance and on various other assumptions that we believe to be reasonable under the circumstances. These estimates allow us to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

We believe the following accounting policies are our critical accounting policies because they are important to the portrayal of our financial condition and results of operations and they require critical management judgments and estimates about matters that may be uncertain. If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected.

Revenue Recognition

Revenue for products is recognized when the sales amount is determined, shipment of goods to the customer has occurred and collection is reasonably assured. Generally, we ship all of our products FOB origination. License fee revenue is recognized as earned, and no revenue is recognized until the inception of the license term.

Valuation of Intangible Assets and Goodwill

At September 30, 2008, we had capitalized patent and trademark costs totaling $776,938. The patents which have been granted are being amortized over a period of 20 years. Patents which are pending or are being developed are not amortized until a patent has been issued. We evaluate the recoverability of intangibles and review the amortization period on a continual basis utilizing the guidance of Statement of Financial Accounting Standards SFAS No. 142, "Goodwill and Other Intangible Assets." We test our patents and trademarks for impairment at least annually and whenever events or changes in circumstances indicated that the carrying value may not be recoverable. We consider the following indicators, among others, when determining whether or not our patents are impaired:

- any changes in the market relating to the patents that would decrease the life of the asset;

- any adverse change in the extent or manner in which the patents are being used;

- any significant adverse change in legal factors relating to the use of the patents;

- current-period operating or cash flow loss combined with our history of operating or cash flow losses;

- future cash flow values based on the expectation of commercialization through licensing; and

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current expectations that, more likely than not, the patents will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

Inventory

Inventory is stated at the lower of cost (computed on a first-in, first-out basis) or market. The inventory consists of chemicals, finished goods produced in our plant and products purchased for resale.

Stock-Based Compensation

Equity securities issued for services rendered have been accounted for at the fair market value of the securities on the date of authorization. On July 1, 2005, we adopted SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS 123(R)). SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our Statement of Operations. Under SFAS 123(R), stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. The stock-based compensation expense recognized under SFAS 123(R) for the three month periods ended September 30, 2008 and 2007 was $70,480 and $80,195, respectively, and assumes all awards will vest. Therefore, no reduction has been made for estimated forfeitures.

The valuation of options and warrants granted to unrelated parties for services are measured as of the earlier of the date at which a commitment for performance by the counterparty to earn the equity instrument is reached, or the date the counterparty s performance is complete. Pursuant to the requirements of Emerging Issues Task Force No. 96-18, the options and warrants will be revalued in situations where they are granted prior to the completion of the performance.

Results of Operations

Our management reviews and analyzes several key performance indicators in order to manage our business and assess the quality and potential variability of our revenues and cash flows. These key performance indicators include:

- Net revenues, which consists of sales revenues and license fees;
- Sales revenue, net of returns and trade discounts, which is an indicator of our overall business growth and the success of our sales and marketing efforts;
- Gross profit, which is an indicator of both competitive pricing pressures and the cost of revenues of our products;
- Growth in our customer base, which is an indicator of the success of our sales efforts; and
- Distribution of revenue across our products offered.

The following summary table presents a comparison of our results of operations for the three month periods ended September 30, 2008 and 2007 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	Three Month Period Ended September 30,				Percent Change 2008 vs. 2007
		2008		2007	
Net revenues [(1)]	$	852,917	$	662,830	28.7%
Cost of revenues	$	572,626	$	464,963	23.1%
Gross profit	$	280,291	$	197,867	41.6%
Selling, general, and administrative expenses [(2)]	$	1,030,692	$	1,087,383	(5.2%)
Consulting expenses [(3)]	$	136,498	$	30,919	341.5%
Research and development expenses	$	107,623	$	158,171	(32.0%)
Depreciation and amortization expenses	$	69,864	$	80,636	(13.4%)
Loss on sales and impairment of assets	$	-	$	(89)	(100%)
Other Income	$	16,624	$	69,219	(75.9%)
Net loss	$	(1,047,762)	$	(1,089,934)	(3.9%)

(1) Includes $33,333 and $50,000 of license revenue in the three month periods ended September 30, 2008 and 2007, respectively, with no associated cost of revenues for the periods.

(2) Includes deferred compensation associated with employee stock options of $70,480 and $80,195 in the three month periods ended September 30, 2008 and 2007, respectively.

(3) For the three months ended September 30, 2008 this amount includes $26,562 for the pro rata value of the stock option granted to Mr. Steinke during the period for services pursuant to a consulting agreement dated September 1, 2007. It also includes $9,131, representing the pro rata value of the stock option granted to Mr. Chacon during the period for services pursuant to a consulting agreement dated May 1, 2008. For the three months ended September 30, 2007 this amount includes $10,086 for the pro rata value of the stock option granted to Mr. Steinke.

Three Month Period Ended September 30, 2008 Compared to September 30, 2007

Net revenues. We had net revenues of $852,917 for the three month period ended September 30, 2008, a 29% increase over net revenues of $662,830 for the three month period ended September 30, 2007. The 29% increase as compared with 2007 is due to a combination of an increase in product and new equipment sales offset by a small decrease in license fees. Sales of our closed-cell polyurethane foam products ($729,673), equipment ($89,911) and licensee fees ($33,333) accounted for approximately 86%, 10% and 4%, respectively, of our net revenues for the three month period ended September 30, 2008.

The $729,673 of foam product revenues represents a 19% increase compared to $612,830 for the same period in 2007. During the reporting period, we increased our number of product units sold to our original equipment manufacturer, retail chain and distributor customers by 13% over the three month period ended September 30, 2007, despite an overall weakness in U.S. consumer markets in 2008.

We had $33,333 of revenues derived from licensing fees compared to $50,000 for the three month period ended September 30, 2007. The decrease in license fees is a result of reaching the end of the license fee arrangement with our Chinese OTR retread licensee. Any additional revenue we may derive from our Chinese OTR retread licensee will come from the sale of equipment and/or chemical systems.

For the three month period ended September 30, 2008, we had $89,911 of revenues derived from sales of tire fill equipment, or approximately 10% of total net revenues. We had no revenue derived from sales of equipment for the three month period ended September 30, 2007.

Also during the three month period ended September 30, 2008 we had $16,785 and $2,608 of returns of our products and trade discounts, respectively, compared to $8,025 and $3,691, respectively, for the same period in 2007.

Cost of revenues. Our cost of revenues of $572,626 for the three month period ended September 30, 2008, representing approximately 67% of net revenues, compared to cost of revenues of $464,963 or approximately 70% of net revenues for the three month period ended September 30, 2007.

For the three month period ended September 30, 2008 our cost of revenues related to foam products was $485,254, or 67% of foam product revenues, compared to $464,963, or 76% of foam product revenues for the same three month period in 2007. We believe that our cost of revenues related to foam products can continue to improve if our increased sales efforts generate additional product orders so that we can take advantage of manufacturing efficiencies. We believe we currently have sufficient foam product manufacturing equipment and employees to accomplish a substantial increase in production without incurring a proportionately equivalent increase in labor costs.

During the three month period ended September 30, 2008 our cost of revenues related to equipment sales was $87,372, or approximately 97% of equipment sales. As indicated in the Overview and Recent Developments section above, in order to penetrate the tire fill market we are supplying our customers with tire fill equipment effectively at our cost. We anticipate that profits from this initiative will be derived from the sale of tire fill material to our customers.

Gross Profit. For the three month period ended September 30, 2008 we had $280,291 of gross profit compared to $197,867 for the same period in 2007. Gross profit for the three month period ended September 30, 2008 increased by $82,424, or 42%, over same period in 2007 due primarily to the increase in foam product sales during the period detailed above. Because our profit margin on licensee fees (with no associated cost of revenues) and foam products is substantially higher than our profit margin on equipment, our gross profit margin in future periods will be influenced by the percent of total revenues derived from foam product sales, equipment sales and licensee fees, respectively.

Selling, General, and Administrative Expenses. For the three month period ended September 30, 2008 we had $1,030,692 of SG&A expenses, including the amortization of deferred compensation, compared to $1,087,383 for the same period in 2007. We amortized $70,480 of deferred compensation for the three month period ended September 30, 2007 compared to $80,195 for same period in 2007. We expect our quarterly SG&A expenses to decrease during the balance of the 2009 fiscal year as a result of cost reduction measures currently being implemented.

Research and Development Expenses. For the three month period ended September 30, 2008 we had $107,623 of research and development expenses compared to $158,171 for the same period in 2007. Our research and development expenses for the three month period ended September 30, 2008, decreased by $50,548, or 32%, as compared with the same period in 2007 due primarily to a decrease in outside testing services and a reduction in research and development tooling expenses during the period. We expect research and development expenses to slightly decrease over the balance of the fiscal year ending June 30, 2009.

Consulting Expenses. For the three month period ended September 30, 2008, we had $136,498 in consulting expenses compared to $30,919 in consulting expenses for the same period in 2007. Our consulting expenses for the three month period ended September 30, 2008, increase by $105,579, or 341% as compared with the same period in 2007 due primarily to our consulting agreement with our former CEO, Richard Steinke and our former Chief Chemical Systems Formulator, Manuel Chacon. We expect consulting expenses for the balance of the fiscal year to be consistent with the three month period ended September 30, 2008.

Depreciation and Amortization Expenses. For the three month period ended September 30, 2008 we had $69,864 of depreciation and amortization expenses compared to $80,636 for the same period in 2007. Our depreciation and amortization expenses for the three month period ended September 30, 2008 decreased by $10,772, or 13%, compared to the same period in 2007, due to reductions for fully depreciated assets.

Net Loss. For the three month period ended September 30, 2008 we had a net loss of $1,047,762 compared to a net loss of $1,089,934 for the same period in 2007. Our net loss for the three month period ended September 30, 2008 decreased by $42,172 as compared with the same period in 2007, due primarily to the increase in product sales.

Liquidity and Capital Resources

Our principal sources of liquidity consist of cash and cash equivalents and payments received from our customers. We have no long-term liabilities, and we do not have any significant credit arrangements. Historically, our expenses have exceeded our revenues, resulting in operating losses. From time to time, we have obtained additional liquidity to fund our operations through the sale of shares of our common stock. In assessing our liquidity, our management reviews and analyzes our current cash balances on-hand, short-term investments, accounts receivable, accounts payable, capital expenditure commitments and other obligations.

Cash Flows

The following table sets forth our cash flows for the three month periods ended September 30, 2008 and 2007.

	Three Months Ended September 30,	
	2008	2007
Net cash used by operating activities	$ (895,301)	$ (1,039,169)
Net cash used in investing activities	(16,018)	(20,207)
Net cash provided by financing activities	-	-
Net (decrease) increase in cash and cash equivalents during period	$ (911,319)	$ (1,059,376)

Net Cash Used By Operating Activities. Our primary sources of operating cash during the three month period ended September 30, 2008 was proceeds from prior period finance activities and collected accounts receivable. Our primary uses of operating cash are payments made to our vendors and employees. Net cash used by operating activities was $895,301 for the three months ended September 30, 2008 compared to $1,039,169 for the same period in 2007. The decrease in cash used in operating activities is due to increases in accounts payable and decrease in capital expenditures for the three months ended September 30, 2008 compared to the same period in 2007. Non-cash items include depreciation and amortization and stock based compensation. Our net loss was $1,047,762 for the three months ended September 30, 2008 compared to a net loss of $1,089,934 for the same period in 2007. Net loss for the three month period ended September 30, 2008 included non-cash expenses of $70,480 for stock-based compensation related to employee stock options, $35,692 for the issuance of a stock option for consulting services, $16,098 for stock issued/accrued for services. Net loss for the three month period ended September 30, 2007 included non-cash expenses of $80,195 for stock-based compensation related to employee stock options.

Net Cash Used In Investing Activities. Net cash used by investing activities was $16,018 for the three month period ended September 30, 2008 and $20,207 for the same period in 2007. Our primary uses of investing cash for the three month period ended September 30, 2008 were $11,155 deposits on patents and trademarks and $4,863 for property and equipment. Our primary use of investing cash for the three month period ended September 30, 2007 was $13,648 for patents and trademarks and $7,303 for property and equipment.

Net Cash Provided by Financing Activities. During the three months ended September 30, 2008 and September 30, 2007, we did not engage in any financing activities.

Cash Position and Outstanding Indebtedness

Our total indebtedness at September 30, 2008 was $289,347 in accounts payable, and $68,329 in accrued expenses and deferred revenues, and our total cash and cash equivalents were $789,872, none of which is restricted. We have no long-term liabilities.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments at September 30, 2008.

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
	(in thousands)				
Facility lease [1]	$ 1,217,700	$ 295,200	$ 885,600	$ 36,900	$
Total contractual cash obligations	$ 1,217,700	$ 295,200	$ 885,600	$ 36,900	$

(1) In November 2007, we negotiated an extension of the lease for our executive and manufacturing facilities located at 1501 Industrial Road, Boulder City, Nevada. The property consists of a 49,200 square foot building, which includes approximately 5,500 square feet of office space, situated on approximately 4.15 acres. The extension term of the lease is 5 years expiring November 14, 2012. The base rent is $24,600 per month subject to annual adjustments based on the consumer price index.

Future Capital Requirements

In an effort to increase revenues, we have recently expanded our product lines and begun the sale of polyurethane foam tire fill and solid polyurethane elastomer tires. In December 2007, we offered aggressive sales projections based on our assessment of our planned sales initiatives. We believe the increased revenues reported for the current fiscal quarter are only beginning to reflect our progress toward our sales projections, which we anticipate will become more apparent during our fiscal year ending June 30, 2009.

Although we believe that we will successfully implement our business plan to provide for additional revenues to offset operating costs, management cannot give any assurances that it will be able to do so or that we will ever operate profitably. Our business plan assumes, among other things, that our revenues will increase from the sale of the new product lines, our raw materials expenses may increase, and our expenses from operations will decrease due to the cost reduction measures currently being implemented.

At September 30, 2008, we had approximately $789,872 available to finance our operations plus approximately $592,127 in accounts receivable. We estimate that we will need approximately $1,500,000 to supplement our cash needs during the remainder of the 2009 fiscal year. We intend to issue common stock in lieu of cash as compensation for employment, development and other professional services when possible and seek project funding for business and technology development outside our core operations. We will seek to raise additional capital through the issuance of debt or equity securities. Our ability to obtain financing through the offer and sale of our securities is subject to market conditions and other factors beyond our control. If we do seek additional capital, we cannot assure you that we will be able to obtain financing on favorable terms or at all.

Off-Balance Sheet Arrangements

We do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*, an amendment of SFAS 141, which provides additional guidance on business combinations including defining the acquirer, recognizing and measuring the identifiable assets acquired and the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS Nos. 141(R) is scheduled to become effective for us for financial statements issued for fiscal year 2009. We are currently evaluating the effects, if any, that this statement will have on our future financial position, results of operations and operating cash flows.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, which amended ARB 51, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is scheduled to become effective for us for financial statements issued for fiscal year 2009. We are currently evaluating the effects, if any, that this statement will have on our future financial position, results of operations and operating cash flows.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133 ("SFAS No. 161"). SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how the instruments are accounted for under SFAS No. 133 and its related interpretations, and how the instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 (fiscal year 2009 for the Company). The Company is currently evaluating the potential impact of the adoption of SFAS No. 161 on its disclosures in the Company's financial statements.

In May of 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* This statement identifies literature established by the FASB as the source for accounting principles to be applied by entities which prepare financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States. This statement is effective 60 days following approval by the SEC of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* This statement will require no changes in the Company s financial reporting practices.

In May of 2008 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 163, *Accounting for Financial Guarantee Insurance an interpretation of FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises*. This statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This statement also clarifies how Statement 60 applies to financial guarantee insurance contracts. This statement is effective for fiscal years beginning after December 15, 2008. This statement has no effect on the Company s financial reporting at this time.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in prevailing market interest rates affecting the return on our investments but do not consider this interest rate market risk exposure to be material to our financial condition or results of operations. We invest primarily in United States Treasury instruments with short-term (less than one year) maturities. The carrying amount of these investments approximates fair value due to the short-term maturities. Under our current policies, we do not use derivative financial instruments, derivative commodity instruments or other financial instruments to manage our exposure to changes in interest rates or commodity prices.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), an evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, our management, including our principal executive officer and our principal financial officer, concluded that the design and operation of these disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

For information regarding risk factors, see Part I. Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended June 30, 2008.

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

Pursuant to the terms of his employment agreement, effective August 31, 2008, we issued 25,000 shares of common stock to our chief executive officer. The shares were valued at $4.04 per share, based on the closing price of the shares on the date of the stock award. The securities were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933 as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Our Annual Meeting of Stockholders will be held in the Sunset Room at the Sunset Station Hotel and Casino, 1301 West Sunset Road, Henderson, Nevada 89014, on December 5, 2008, at 10:00 am, Pacific Time, to:

1. Elect eight directors to serve until the 2008 Annual Meeting of Stockholders;

2. Ratify the selection of HJ & Associates, LLC as the Company s independent auditor for the Company s fiscal year ending June 30, 2009;

3. Transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

The foregoing matters are described in more detail in our Proxy Statement mailed to all stockholders and filed with the Commission on or about October 28, 2008.

ITEM 6. EXHIBITS

Exhibit 31.01 - CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

Exhibit 31.02 - CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

Exhibit 32.01 - CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

Exhibit 32.02 - CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 14, 2008

AMERITYRE CORPORATION

/S/GARY N. BENNINGER

Gary N. Benninger

Chief Executive Officer

/S/ANDERS A. SUAREZ

Anders A. Suarez

Chief Financial Officer and

Principal Accounting Officer