AMERITYRE CORP
Form 10-Q
February 08, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **December 31, 2018**

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

For the transition period from ____________________ to ____________________.

Commission file 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) 293-1930

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

The number of shares outstanding of Registrant's Common Stock as of February 8, 2019: 46,532,867

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERITYRE CORPORATION

Balance Sheets

	December 31, 2018 (Unaudited)	**June 30, 2018**
ASSETS		
CURRENT ASSETS		
Cash	$295,431	$213,854
Accounts receivable	276,638	410,425
Inventory - net	493,372	516,334
Prepaid and other current assets	116,835	84,892
Total Current Assets	1,182,276	1,225,505
PROPERTY AND EQUIPMENT		
Leasehold improvements	280,376	201,074
Molds and models	583,611	583,611
Equipment	2,989,297	2,989,297
Furniture and fixtures	59,057	59,057
Construction in progress	572	1,000
Software	247,610	247,610
Less - accumulated depreciation	(3,899,947)	(3,870,155)
Total Property and Equipment	260,576	211,494
OTHER ASSETS		
Patents and trademarks - net	121,176	132,605
Non-current inventory	220,305	206,842
Deposits	11,000	11,000
Total Other Assets	352,481	350,447
TOTAL ASSETS	$1,795,333	$1,787,446
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$518,979	$379,086
Current portion of long-term debt	20,896	20,377
Current portion of lease liability	-	726
Deferred revenue	13,917	20,712

Total Current Liabilities	553,792	420,901
Long-term debt	95,779	105,633
TOTAL LIABILITIES	649,571	526,534
STOCKHOLDERS' EQUITY		
Preferred stock: 5,000,000 shares authorized of $0.001 par value, 2,000,000 shares issued and outstanding, respectively	2,000	2,000
Common Stock: 75,000,000 shares authorized of $0.001 par value, 46,532,867 and 44,476,346 shares issued and outstanding, respectively	46,533	44,476
Additional paid-in capital	62,675,993	62,638,754
Stock payable	583	14,601
Accumulated deficit	(61,579,347)	(61,438,919)
Total Stockholders' Equity	1,145,762	1,260,912
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,795,333	$1,787,446

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

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AMERITYRE CORPORATION

Statements of Operations

(Unaudited)

	For the Three Months Ended December 31, 2018	For the Three Months Ended December 31, 2017	For the Six Months Ended December 31, 2018	For the Six Months Ended December 31, 2017
NET SALES	$785,105	$866,944	$1,612,349	$1,792,660
COST OF GOODS SOLD	637,265	592,335	1,198,277	1,244,152
GROSS PROFIT	147,840	274,609	414,072	548,508
EXPENSES				
Research and development	24,717	53,002	47,790	111,143
Sales and marketing	53,325	49,583	104,249	115,318
General and administrative	163,895	173,328	353,443	368,279
Total Expenses	241,937	275,913	505,482	594,740
LOSS FROM OPERATIONS	(94,097)	(1,304)	(91,410)	(46,232)
OTHER (EXPENSE)/INCOME				
Interest expense	(776)	(1,331)	(2,338)	(2,814)
Interest income	129	66	232	174
Other income	-	-	3,089	-
Loss on asset abandonment	-	-	-	(17,352)
Total Other (Expense)/Income	(647)	(1,265)	983	(19,992)
NET LOSS	(94,744)	(2,569)	(90,427)	(66,224)
Preferred Stock Dividend	(25,000)	(25,000)	(50,000)	(50,000)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(119,744)	$(27,569)	$(140,427)	$(116,224)
BASIC AND DILUTED LOSS PER SHARE	$(0.00)	$(0.00)	$(0.00)	$(0.00)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	45,886,695	43,312,107	45,200,365	43,312,107

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

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AMERITYRE CORPORATION

Statements of Cash Flows

(Unaudited)

	For the Six Months Ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(90,427)	$(66,224)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization expense	41,221	44,467
Stock based compensation	17,778	14,191
Loss on asset abandonment	-	17,352
Changes in operating assets and liabilities:		
Accounts receivable	133,787	(208,211)
Inventory and inventory reserve	9,499	52,973
Prepaid and other current assets	(32,669)	(33,938)
Accounts payable and accrued expenses	96,819	(11,851)
Deferred revenue	(6,794)	-
Net Cash Provided (Used) by Operating Activities	169,214	(191,241)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(78,302)	(6,062)
Net Cash Used by Investing Activities	(78,302)	(6,062)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on lease liability	-	(3,638)
Payments on notes payable	(9,335)	(8,859)
Net Cash (Used) by Financing Activities	(9,335)	(12,497)
NET INCREASE (DECREASE) IN CASH	81,577	(209,800)
CASH AT BEGINNING OF PERIOD	213,854	340,256
CASH AT END OF PERIOD	$295,431	$130,456

SUPPLEMENTAL SCHEDULE OF CASH FLOW ACTIVITIES

Interest paid	$2,338	$2,815
Income taxes paid	$-	$-

NON-CASH INVESTING AND FINANCING ACTIVITIES

Accrued preferred stock dividends	$50,000	$50,000
Write off fully depreciated fixed assets no longer in use	$-	$16,280
Application of last payment of lease liability prepaid in previous period	$726	$-

Reclassification of accrued expense to stock payable	$7,500	$-
Issuance of common stock previously accrued for	$35,427	$-

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

AMERITYRE CORPORATION

Notes to the Unaudited Financial Statements

December 31, 2018

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. 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, 2018 Annual Report on Form 10-K. Operating results for the quarter ended December 31, 2018 are not necessarily indicative of the results that may be expected for the current fiscal year ending June 30, 2019.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies disclosed therein have not changed since our audited financial statements and notes thereto included in our June 30, 2018 Annual Report on Form 10-K, except as noted below.

Revenue Recognition

The majority of our revenue is derived from short-term sales contracts. We account for revenue in accordance with Accounting Standards Codification (“ASC”) Topic 606, “Revenue from Contracts with Customers”.

Revenue for our products is recognized at the time in which our performance obligation is satisfied which we have defined as “control” of the product by the customer. “Control” is defined as a customer having “rights/obligations of physical control over the product or has the rights and intention to control the product.” Based on the terms of our contracts, a customer’s “control” is based on analysis of the following; (i) when a customer arranges their own shipping, and once the product has left our dock, Amerityre recognizes revenue for the product. In effect by arranging their own shipping the customer is “taking control” of the product when it leaves our warehouse; or (ii) when a customer does not arrange their own shipping we cannot recognize revenue until it is delivered and the customer takes “control” of the product.

This establishes a “deferred revenue” event until such time as delivery of the product has been completed and we have proof from the shipper of the delivery (and change in control).

Deferred revenue was $13,917, inclusive of $739 of shipping and handling revenue (see below), as of December 31, 2018. Deferred revenue was $0 as of December 31, 2017.

Shipping and Handling

Shipping and Handling Fees require that freight costs charged to customers be classified as revenues. Freight expenses are included in costs of sales and are recognized as incurred. Due to our adoption of ASC 606 as discussed above, we defer the revenues of shipping and handling until the related revenue is also recognized.

The result of this accounting is a deferral of $739 as of December 31, 2018 and $0 as of December 31, 2017.

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.

Our outstanding stock options and warrants and shares issuable upon conversion of outstanding convertible notes have been excluded from the basic and fully diluted net loss per share calculation. We excluded 6,300,000 and 3,730,000 common stock equivalents for the periods ended December 31, 2018 and 2017, respectively, because they are anti-dilutive.

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AMERITYRE CORPORATION

Notes to the Unaudited Financial Statements

December 31, 2018

Recent Accounting Pronouncements

Recently Adopted and Recently Issued Accounting Guidance

Issued

In February 2016, the FASB issued ASU No. 2016-02, "Leases", ("ASU 2016-02") which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 will become effective for public companies during interim and annual reporting periods beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on the Company's financial statements as this pronouncement will take effect in our next immediate quarter.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the SEC, did not, or are not believed by management to, have a material impact on the Company's present or future financial position, results of operations or cash flows.

NOTE 3 - INVENTORY

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

	December 31, 2018 (Unaudited)	**June 30, 2018**
Raw Materials	$ 241,073	$214,787

Finished Goods	534,086	569,294
Inventory reserve	(61,482)	(60,905)
Inventory - net	$ 713,677	723,176

Our inventory reserve reflects items that were deemed to be defective or obsolete based on an analysis of all inventories on hand.

In fiscal years 2019 and 2018, the Company critically reviewed all slow moving inventory to determine if defective or obsolete. If not defective or obsolete we presented these items as non-current inventory, although all inventory is ready and available for sale at any moment.

NOTE 4 - DEBT

A former board member, Silas O. Kines, was the principal owner of Forklift Tire of Florida and K-2 Industrial Tire, Inc. In accordance with the Commission Agreement with Forklift Tire of Florida, dated February 2, 2011, between Amerityre Corporation and K-2 Industrial Tire, Inc., K-2 is due a five percent (5%) commission on all forklift tire sales. In exchange for the forklift models transferred to Amerityre under that agreement, the first $96,000 in commission payments will be used to extinguish the long term liability recorded on the transaction. As of December 31, 2018, $2,000 and $62,193 (June 30, 2018, $2,000 and $62,468) were recorded for the current and long-term portion, respectively, of the related liability.

In June 2016, the Company executed a term note with U.S. Bank to finance critical manufacturing equipment and operating enhancements. Manufacturing equipment of approximately $29,000 was placed in service in July 2016. Various operating enhancements, inclusive of a website redesign, were implemented in fiscal 2017. In the first quarter of fiscal 2018 the last operational enhancement related to a sales customer relation management ("CRM") system was abandoned due to challenges with the selected implementation vendor. The Company is pursuing other options to address its CRM system needs and the amount financed for the CRM system ($15,000) through this debt instrument remains the Company's liability to pay. Total amount financed for the CRM system, website upgrade, and manufacturing equipment was $55,068, at 5.59% interest, with payments of $1,059 due for 60 months starting July 2016.

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AMERITYRE CORPORATION

Notes to the Unaudited Financial Statements

December 31, 2018

In July 2016, the Company executed a term note with U.S. Bank to finance critical plant facility equipment which was placed into service in July 2017. The total amount financed was $37,666 at 5.59% interest, with payments of $720 due for 60 months starting October 2016.

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Bank debt (both US Bank facilities above)	$56,591	$21,349	$35,242	$ -	$ -

NOTE 5 - STOCK OPTIONS AND WARRANTS

Prior Issuances of options

On December 1, 2016, 480,000 options were granted to the Company's Chief Executive Officer as part of his employment offer. The options have a strike price of $0.10, vest December 1, 2017 and expire December 1, 2020. As of December 31, 2018 all options have vested.

On January 1, 2018, 480,000 options were granted to the Company's Chief Executive Officer as part of his employment offer. The options have a strike price of $0.10, vest ratably January 1, 2018 to December 31, 2018 and expire December 31, 2021. Year to date expense related to these options is $3,868 as of December 31, 2018. These options were inadvertently excluded from the option table in the Company's Form 10-K filed on September 14, 2018. The financial consequence of this was deemed both qualitatively and quantitatively immaterial by management and all of the related expense has been recognized in fiscal year 2019.

As of December 31, 2018, all stock-based compensation expense related to stock option was recognized.

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

Risk-free interest rate	2.010	%
Expected life	3.0	years
Expected volatility	114.38	%
Dividend yield	0.00	%

A summary of the status of our outstanding stock options as of December 31, 2018 and June 30, 2018 and changes during the periods then ended is presented below:

	December 31, 2018			**June 30, 2018**		
	Shares	**Weight Average Exercise Price**	**Intrinsic Value**	**Shares**	**Weight Average Exercise Price**	**Intrinsic Value**
Outstanding beginning of period	3,730,000	$ 0.13		4,280,000	$ 0.12	
Granted	480,000	$ 0.10		-	$ 0.00	
Expired/Cancelled	(240,000)	$ (0.10)		(550,000)	$ 0.10	
Exercised	-	$ 0.00		-	$ 0.00	
Outstanding end of period	3,970,000	$ 0.12	$ -	3,730,000	$ 0.13	$ -
Exercisable	3,970,000	$ 0.12	$ -	3,730,000	$ 0.13	$ -

The following table summarizes the range of outstanding and exercisable options as of December 31, 2018:

Range of Exercise Prices	Number Outstanding at December 31, 2018	Weighted Average Remaining Contractual Life
$ 0.08	150,000	2.92
$ 0.10	2,370,000	1.56
$ 0.17	1,450,000	1.74
	3,970,000	

NOTE 6 - SUBSEQUENT EVENTS

On January 2, 2019, 60,000 shares were granted to the Company's Chief Financial Officer as part her employment renewal. The shares are valued as of January 2, 2019 and vest ratably through December 2019. No additional changes were made her to compensation on renewal of her employment.

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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. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Part I. Item 1A. Risk Factors" as well as those discussed elsewhere in this report. The historical results set forth in this discussion and analyses 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

Amerityre engages in the research and development, manufacturing, and sale of polyurethane tires. We believe that we have developed unique polyurethane formulations that allow us to make products with superior performance characteristics, including abrasion resistance, energy efficiency and load-bearing capabilities, when compared to conventional rubber tires. We also believe that our manufacturing processes are more energy efficient than the traditional, rubber 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. We believe tires produced with our proprietary polyurethane formulations last longer, are less susceptible to failure and are friendlier to the environment when compared to competitor offerings.

We concentrate on three segments of the flat free tire market: light duty polyurethane foam tires, polyurethane elastomer industrial tires and agricultural tires. Our focus continues to be applications and markets where our advantages in product technology and tire performance give us an opportunity to obtain premium pricing. Our most recent activities in these areas are set forth below:

Light Duty Polyurethane Foam Tires – The sale of polyurethane foam tires to original equipment manufacturers, distributors and dealers accounts for the majority of our revenue. We produce a broad range of products for the light duty tire market. Our product development and marketing efforts are focused on building customer relationships and expand sales with original equipment manufacturers and tire distributors. Our competitive advantage is creating unique product solutions for customers with specific tire performance requirements. Our results for the fiscal second quarter of 2019 were impacted by a decline in purchases from a major PU foam customer.

Polyurethane Elastomer Industrial Tires – Sales of our forklift tires continues to be much lower than expected, and we do not expect this to change in the near future. We are at a price disadvantage versus rubber forklift tires which are popular in the market. The average forklift tire consumer is still very price sensitive, which limits the pool of potential customers for our premium performance tires. These products contributed negligible revenue during the first half of fiscal year 2019.

During the 4th quarter of fiscal year 2018, the Company developed a new elastomer formulation for use in several of its larger tire applications. This new Elastothane ™ formulation provides higher static load bearing capability as well as higher abrasion resistance compared to our closed cell foam formulation. Field testing of this formulation continues to be successful and more customers purchased samples of this formulation for evaluation. Target markets for this new formulation are personnel carrier tires (5.70 x 12), baggage cart tires (4.80 x 12), and various lawn mower tires.

Agricultural Tires – Sales of agricultural tires continue to be negatively impacted by low farm income, the result of low commodity prices. The Chinese tariffs have hurt US farmers and the prospects for improved agricultural commodity pricing are not promising. We continue to look for opportunities to develop new products for this market segment, but given the overall negative sentiment in this market segment we are likely to find better investment of our development funds in other market segments.

Due to the Company’s limited resources, tire projects which are contingent on additional significant development, such as automotive tires, have been put on hold and will be revisited at a later date. However, we believe investment in R&D for new and improved products is important to the continued turnaround in our overall business, and we will selectively invest in promising opportunities that fit in our current budget We expect our investments in our current R&D activities will prove to be a prudent use of our limited capital resources.

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As described above, our product line covers diverse market segments which are unrelated in terms of customer base, product distribution, market demands and competition. Our external sales team is comprised of independent manufacturer representatives, whose experience is complementary to our product portfolio. The Company's continued emphasis on proper product pricing and new marketing campaigns continue to drive more profitable sales. Our website has helped to educate the marketplace about our products as well as generate some online sales. As we expected, the increasingly challenging economic environment, worsened by the Chinese trade war, has negatively impacted our results.

Increases in the price of raw materials and wheel rims, as well as the additional tariffs on imported materials, has been the main factor in our decreasing profitability compared to year ago results. In response to these increased costs, we raised prices in September 2018. We plan to hold pricing level for the remainder of FY 2019 provided the current cost environment for raw materials does not worsen. Any positive impact of this price increase has been offset by a more frugal customer, with sales declining during this time period. We are hopeful that raw material costs will stabilize during the rest of FY 2019. The question as to whether sales volumes will recover is still unknown. Despite reports of a robust economy, we are seeing evidence of an economic slowdown adversely affecting demand for our products. We are therefore proceeding forward with a cautious view on demand, and managing our business activities accordingly.

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 direct labor conducting research and development, equipment and materials used in new product development and product improvement using our technologies;

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

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

- Stock based compensation expense related to stock and stock option awards issued to employees and consultants for services performed for the Company.

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 United States generally accepted accounting principles. 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.

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Revenue Recognition

The majority of our revenue is derived from short-term sales contracts. We account for revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers".

Revenue for our products is recognized at the time in which our performance obligation is satisfied which we have defined as "control" of the product by the customer. "Control" is defined as a customer having "rights/obligations of physical control over the product or has the rights and intention to control the product." Based on the terms of our contracts, a customer's "control" is based on analysis of the following; (i) when a customer arranges their own shipping, and once the product has left our dock, Amerityre recognizes revenue for the product. In effect by arranging their own shipping the customer is "taking control" of the product when it leaves our warehouse; or (ii) when a customer does not arrange their own shipping we cannot recognize revenue until it is delivered and the customer takes "control" of the product.

This establishes a "deferred revenue" event until such time as delivery of the product has been completed and we have proof from the shipper of the delivery (and change in control).

Deferred revenue was $13,917, inclusive of $739 of shipping and handling revenue (see below), as of December 31, 2018. Deferred revenue was $0 as of December 31, 2017.

Shipping and Handling

Shipping and Handling Fees require that freight costs charged to customers be classified as revenues. Freight expenses are included in costs of sales and are recognized as incurred. Due to our adoption of ASC 606 as discussed above, we defer the revenues of shipping and handling until the related revenue is also recognized.

The result of this accounting is a deferral of $739 as of December 31, 2018 and $0 as of December 31, 2017.

Valuation of Intangible Assets and Goodwill

Patent and trademark costs have been capitalized at December 31, 2018, totaling $487,633 with accumulated amortization of $366,457 for a net book value of $121,176. Patent and trademark costs capitalized at December 31, 2017, totaled $487,633 with accumulated amortization of $434,598 for a net book value of $144,036.

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. Amortization begins once the patents have been issued. As of December 31, 2018 and 2017, respectively, there were no pending patents. Annually, pending or expired patents are inventoried and analyzed, which resulted in the recognition of a loss on abandonment, expiration or retirement of patents and trademarks of $-0- for each of the periods ended December 31, 2018 and 2017, respectively.

Amortization expense for the years ended December 31, 2018 and 2017 was $11,429 and $11,916 respectively. The Company evaluates the recoverability of intangibles and reviews the amortization period on a continual basis utilizing the guidance of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*. 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
- 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 cost of finished goods includes the cost of raw material, direct and indirect labor, and other indirect manufacturing costs. The inventory consists of chemicals, finished goods produced in the Company's plant and products purchased for resale.

Stock-Based Compensation

We account for stock-based compensation under the provisions of FASB ASC 718, *Compensation – Stock Compensation*. Our financial statements as of and for the fiscal years ended December 31, 2018 and 2017 reflect the impact of FASB ASC 718. Stock-based compensation expense recognized under FASB ASC 718 for the six months ended December 31, 2018 and 2017 was $17,778 and $14,191, respectively, related to employee stock options and employee stock grants.

FASB ASC 718 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 six months ended December 31, 2018 and 2017 assume all awards will vest; therefore no reduction has been made for estimated forfeitures.

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 sales and cash flows. These key performance indicators include:

- Revenues, net of returns and trade discounts, which consists of product sales and services and 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 goods sold of our products and the mix of product and license fees, if any;

- Growth in our customer base, which is an indicator of the success of our sales efforts; and

• Distribution of sales across our products offered.

The following summary table presents a comparison of our results of operations for the fiscal quarters ended December 31, 2018 and 2017 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	For the Three Months Ended December 31, (in 000's)		**Change**	**For the Six Months Ended December 31 (in 000's)**		**Change**
	2018	**2017**	**2018 vs. 2017**	**2018**	**2017**	**2018 vs. 2017**
Net revenues	$785	$867	(9.5 %)	$1,612	$1,793	(10.1 %)
Cost of revenues	(637)	(592)	7.6 %	(1,198)	(1,244)	(3.7 %)
Gross profit	148	275	(46.2 %)	414	549	(24.6 %)
Research & development	(25)	(53)	(52.8 %)	(48)	(111)	(56.8 %)
Sales and marketing	(53)	(50)	6.0 %	(104)	(115)	(9.6 %)
General and administrative	(164)	(173)	(5.2 %)	(353)	(368)	(4.1 %)
Loss on asset abandonment	-	-	0.0 %	-	(17)	(100.0 %)
Other income (expense)	(1)	(2)	(50. %)	1	(4)	(100.0 %)
Net income (loss)	(95)	(3)	3066.7 %	(90)	(65)	37.9 %
Preferred stock dividend	(25)	(25)	0.00 %	(50)	(50)	0.0 %
Net loss attributable to common shareholders	$(120)	$(28)	328.6 %	$(140)	$(115)	21.6 %

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Quarter Ended December 31, 2018 Compared to December 31, 2017

Net Sales. Net sales of $785,105 for the quarter ended December 31, 2018, represents a 9.5% decrease over net sales of $866,944 for the same period in 2017. These results were in line with expectations as decreased demand for polyurethane foam tires from a significant customer adversely impacted results. Our forecast for the remainder of Fiscal 2019 anticipates continued low farm income and depressed agricultural tire sales. We expect our polyurethane foam products to continue to constitute the majority of our sales.

Cost of Revenues. Cost of revenues for the quarter ended December 31, 2018 was $637,265 or 81.2% of sales compared to $592,336 or 68.3% of sales for the same period in 2017. Higher raw material costs were the main driver of the increased cost of revenues. The Company continues to maintain sufficient production capacity to meet anticipated customer demand without incurring a proportionate increase in overall production costs.

Gross Profit. Gross profit for the quarter ended December 31, 2018 was $147,840 compared to $274,609 for the same period in 2017. Gross profit for the quarter ended December 31, 2018 decreased by $126,769 or 46.2% over the same period in 2017 due to lower gross sales as well as increased raw material costs. The December 31, 2018 gross profit reflects an 18.8% gross margin for product sales compared to a gross margin on product sales of 31.7% in 2017.

Research & Development Expenses (R&D). Research and development expenses for the quarter ended December 31, 2018 were $24,717 compared to $53,002 for the same period in 2017. The difference between periods is due to lower personnel costs. We continue to focus on investment in product formulation research and new product development. The Company plans to continue investing in R&D as attractive opportunities are discovered in our target markets.

Sales & Marketing Expenses. Sales and marketing expenses for the quarter ended December 31, 2018 were $53,325 compared to $49,583 for the same period in 2017. The difference between periods relates to higher sales commissions due to how our commissions plan was changed in the first quarter fiscal year 2019, and reduction in trade show expense during the quarter, when compared to the same quarter in 2017.

General & Administrative Expenses. General and administrative expenses for the quarter ended December 31, 2018 were $163,895 compared to $173,328 for the same period in 2017. We continue to control costs and find more efficient ways to run our business activities.

Other Income (Expense). Other expense, net, for the quarter ended December 31, 2018 was $647 compared to $1,265 for the same period in 2017. The transactions in this area are interest expense in association with our debt offset by period bank interest income.

Net Loss. Net loss for the quarter ended December 31, 2018 of $94,744 compared to $2,569 for the same period in 2017, an increase of $92,175.

Six Months Ended December 31, 2018 Compared to December 31, 2017

Net Sales. Net sales of $1,612,349 for the six month period ended December 31, 2018, represents a 10.1% decrease over net sales of $1,792,660 for the same period in 2017. These results were in line with expectations as decreased demand for polyurethane foam tires from a significant customer adversely impacted results. Our forecast for the remainder of Fiscal 2019 anticipates continued low farm income and depressed agricultural tire sales. We expect our polyurethane foam products to constitute the majority of our sales during the upcoming fiscal year.

Cost of Revenues. Cost of revenues for the six month period ended December 31, 2018 was $1,198,277 or 74.3% of sales compared to $1,244,153 or 69.4% of sales for the same period in 2017. This decrease in Gross Margin was due to large increases in chemical raw material costs as well as increases in steel wheel costs due to tariffs. The prospect for relief in these areas is unclear at this time as the prognosis for a successful conclusion to the current trade negotiations with China are uncertain at best The Company continues to maintain sufficient production capacity to meet anticipated customer demand without incurring a proportionate increase in overall production costs.

Gross Profit. Gross profit for the six month period ended December 31, 2018 was $414,072 compared to $548,507 for the same period in 2017. Gross profit for the six month period ended December 31, 2018 decreased by $134,435 or 24.6% over the same period in 2017 due to lower gross sales as outlined in the discussion above, as well as the effect of our cost control programs. The December 31, 2018 gross profit reflects a 25.7% gross margin for product sales compared to a gross margin on product sales of 30.6% in 2017.

Research & Development Expenses (R&D). Research and development expenses for the six month period ended December 31, 2018 were $47,790 compared to $111,143 for the same period in 2017. The difference between periods is the result of lower personnel costs in this department in 2018 when compared to 2017. We continue to focus on investment in product formulation research and new product development. The Company plans to continue investing in R&D as a key factor of our new product and business improvement initiatives.

Sales & Marketing Expenses. Sales and marketing expenses for the six month period ended December 31, 2018 were $104,249 compared to $115,318 for the same period in 2017. The difference between periods relates to lower sales commission expense due to lower sales levels and a reduction in trade show expense during the six month period, when compared to the same six month period in 2017.

General & Administrative Expenses. General and administrative expenses for the six month period ended December 31, 2018 were $353,443 compared to $368,279 for the same period in 2017. We continue to control costs and find more efficient ways to run our business activities.

Other Income (Expense). Other income for the quarter ended December 31, 2018 was $983 compared to other expense of $19,992 for the same period in 2017. Other expense in the prior year consists of a one-time loss on the abandonment of fixed assets in relation to a failed CRM implementation.

Net Loss. Net loss for the six month period ended December 31, 2018 of $90,427 compared to $66,224 for the same period in 2017, an increase of $24,203.

Liquidity and Capital Resources

Our principal sources of liquidity consist of cash and payments received from our customers. We do not have any significant revolving credit arrangements. Historically, our expenses have exceeded our sales, 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 and the placement of short-term debt instruments. At the end of 2016, we were able to obtain term bank debt financing to finance critical manufacturing equipment and operating enhancements, the majority of which was placed in service in fiscal year 2017. Management continues to evaluate financing options but is choosing to delay financing at terms that subject the Company to high costs of debt and we are reluctant to raise money through stock sales at what we believe are highly dilutive share prices. Additionally, management has notified our preferred shareholder that we are suspending future payments of preferred cash dividend payments, so the Company can increase its working capital levels.

We have historically not succeeded in establishing favorable revolving short term financing such as lines of credit. In the quarter ended March 31, 2015, we entered into a short term receivable factoring agreement with a third party to sell our receivable invoices. This agreement enables us to sell individual customer invoices for faster cash flow to the Company as we deem needed. As of December 31, 2018, we have not needed to activate this financing option due to increased focus on adherence to established collection policies and proactive communication with repeat customers, including adjusting credit limits to allow for increased sales volume where warranted.

Cash Flows

The following table sets forth our cash flows for the periods below.

	Six Months ended Dec. 31, (in 000's)	
	2018	**2017**
Net cash (used) provided by operating activities	$169	$(191)
Net cash used in investing activities	(78)	(6)
Net cash used by financing activities	(9)	(13)
Net (decrease) increase in cash during the period	$82	$(210)

Net Cash Used by Operating Activities. Our primary sources of operating cash during the period ended December 31, 2018 came from collections from customers and an increase in our accounts payable due to continuing to accrue but not pay any dividends associated with our preferred stock. Our primary use of operating cash was an increase in prepaid and other current assets, specifically related to renewal of insurance policies. Net cash provided by operating activities was $169,214 for the period ended December 31, 2018 compared to net cash used by operating activities of $191,242 for the same period in 2017.

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Non-cash items include depreciation and amortization and stock based compensation. Our net loss was $90,427 for the period ended December 31, 2018 compared to a net loss of $66,224 for the same period in 2017. The net loss for the period ended December 31, 2018 included non-cash expenses for depreciation and amortization of $41,221 and stock-based compensation of $17,778. As of December 31, 2017, depreciation and amortization was $44,467 and stock-based compensation totaled $14,191.

Net Cash Used by Investing Activities. Net cash used by investing activities was $78,302 for the period ended December 31, 2018 and $6,062 for the same period in 2017. In the recent quarter we purchased new facility lighting with cash on hand, which will also be offset in part in fiscal year 2019 by a grant from the federal government.

Net Cash Used by Financing Activities. Net cash used by financing activities was $9,335 for the period ended December 31, 2018 and $12,497 for the same period in 2017. The use of cash for the period ended December 31, 2018 was payment toward notes payable.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments at December 31, 2018.

	Payments due by period				
	Total	**Less than 1 year**	**1 to 3 years**	**3 to 5 years**	**After 5 years**
Facility lease (1)	$207,000	$138,000	$69,000	$ -	$ -
Bank debt (2)	56,591	21,349	35,242	-	-
Total contractual cash obligations	$263,591	$159,349	$104,242	$ -	$ -

(1) In May 2015, we negotiated a five (5) year extension of the lease on our executive office and manufacturing facility located at 1501 Industrial Road, Boulder City, Nevada. The property consists of a 49,200 square foot building. We currently occupy all 49,200, inclusive of approximately 5,500 square feet of office space, situated on approximately 4.15 acres. All other terms and conditions of the building lease remain in effect.

(2) In June and July 2016, in two separate bank promissory notes, we financed critical manufacturing and facility equipment and operating enhancements, the majority of which was placed in service in fiscal year 2017.

Cash Position, Outstanding Indebtedness and Future Capital Requirements

At February 6, 2019, our total cash balance was $238,200, none of which is restricted; accounts receivables was $253,533; and inventory, net of reserves for slow moving or obsolete inventory, and other current assets was $916,407. Our total indebtedness was $574,600 and includes $461,002 in accounts payable and accrued expenses, $19,442 in current portion of long-term debt and $94,156 in long-term debt.

We have been working during the past year to improve our liquidity and access to capital resources. In order to fully execute the annual strategic business plan discussed during our shareholder meeting in November 2018, we required more capital resources. However, management continues to maintain that an equity financing at the current market conditions would be too dilutive and not in the best interests of our shareholders. We will continue to pursue potential opportunities to secure short-term loans, long-term bank financing, revolving lines of credit with banking institutions and equity based transactions with interested financial firms and strategic industry partners in our effort to improve the Company’s financial position and enhance shareholder value.

The Company currently does not have an existing revolving credit facility. At the end of 2016 we were able to obtain term bank debt financing to finance critical manufacturing equipment and operating enhancements. The majority of these improvements were placed in service during fiscal year 2017. We continue to work with our vendors to obtain extended credit terms and increase credit lines where needed. Additionally, we continue to focus on adherence to established collection policies and proactive communication with repeat customers, including adjusting credit limits to allow for increased sales volume where warranted.

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We are intent on focusing on the sale and distribution of profitable product lines. Management continues to search for additional financing facilities at affordable terms to provide the Company with the needed additional working capital to finance new sales growth opportunities. We are limiting our capital expenditures to that required to maintain current manufacturing capability or support key business initiatives identified in our strategic sales plan. We continue to work to reduce our overall costs wherever possible.

To help address our cash resources, which at times may be limited, we have held discussions with banks and other lenders regarding establishing a line of credit for short term cash needs. However at this time we have not succeeded in establishing such a line of credit. We have entered into a short term receivable factoring agreement with a third party to sell our receivable invoices. This agreement enables us to sell individual customer invoices for faster cash flow to the Company as we deem needed. During fiscal year 2019 we have not had the need to utilize any factoring of our invoices.

Management continues to execute its strategic plan focusing on “Profitability as a Mindset”. While we are experiencing adverse effects on our business due to an increase in raw material prices, we believe our continued emphasis on cost controls will enable the Company to be successful in this competitive market environment. Our strategic plan is based on identifying key partners who can provide better access and distribution in our target markets. These partnerships will help us achieve the potential of our current products as well as leverage our other intellectual property into adding value for Amerityre shareholders.

In assessing our liquidity, management reviews and analyzes our current cash, accounts receivable, accounts payable, capital expenditure commitments and other obligations. In connection with the preparation of our financial statements for the period ended December 31, 2018, we have analyzed our cash needs for the next twelve months. We have concluded that our available cash and accounts receivables are sufficient to meet our current minimum working capital, capital expenditure and other cash requirements for this period. This is based on the current business environment not becoming worse and our continued diligence in managing discretionary spending and expenses during the upcoming year.

The Company has, on occasion, instituted initiatives to incentivize sales of slower moving inventory through promotional pricing. These programs will continue to be selectively utilized in the upcoming quarters to monetize inventory, promote individual product lines, and improve our cash flow.

As of February 8, 2019, the Company has approximately 491,000 shares authorized and available for issuance. Although we are reluctant to raise money through stock sales at what we believe are dilutive share prices, these authorized but unissued and unreserved shares of our common stock can be utilized if necessary to fund the expansion of our manufacturing operations or to obtain additional working capital.

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.

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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

The Company maintains 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.

As required by SEC Rule 13a-15(b), an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive and 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 Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective at the reasonable assurance level.

Due to our adoption of Accounting Standards Codification (“ASC”) Topic 606, “Revenue from Contracts with Customers”, we changed our accounting software to automatically defer revenue recognition and we daily review shipping notifications for which customers have received their product, and we can therefore recognize revenue. Other than the above, 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.

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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, 2018.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101 INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101 SCH	XBRL Taxonomy Extension Schema Document
101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document
101 LAB	XBRL Taxonomy Extension Label Linkbase Document
101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 8, 2019

AMERITYRE CORPORATION
By:

/s/ Michael F. Sullivan	/s/ Lynda R. Keeton-Cardno
Michael F. Sullivan	Lynda R. Keeton-Cardno
Chief Executive Officer	Chief Financial Officer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)

Amerityre Corp --06-30 true false false 0000945828 Yes Non-accelerated Filer 2019 Q2 0000945828 2018-12-31 0000945828 2018-06-30 0000945828 2018-10-01 2018-12-31 0000945828 2017-10-01 2017-12-31 0000945828 2018-07-01 2018-12-31 0000945828 2017-07-01 2017-12-31 0000945828 2017-06-30 0000945828 2017-12-31 0000945828 2019-02-08 0000945828 amty:ShippingAndHandlingRevenueMember 2018-07-01 2018-12-31 0000945828 us-gaap:NotesPayableOtherPayablesMember 2018-07-01 2018-12-31 0000945828 us-gaap:NotesPayableOtherPayablesMember 2018-12-31 0000945828 us-gaap:NotesPayableOtherPayablesMember 2018-06-30 0000945828 2016-07-01 2016-07-31 0000945828 us-gaap:NotesPayableToBanksMember 2016-06-30 0000945828 us-gaap:NotesPayableToBanksMember 2016-06-01 2016-06-30 0000945828 us-gaap:NotesPayableToBanksMember 2016-07-31 0000945828 us-gaap:NotesPayableToBanksMember 2016-07-01 2016-07-31 0000945828 us-gaap:NotesPayableToBanksMember 2018-12-31 0000945828 us-gaap:ChiefExecutiveOfficerMember 2016-12-01 2016-12-01 0000945828 us-gaap:ChiefExecutiveOfficerMember 2016-12-01 0000945828 us-gaap:ChiefExecutiveOfficerMember 2018-01-01 2018-01-01 0000945828 us-gaap:ChiefExecutiveOfficerMember 2018-01-01 0000945828 us-gaap:ChiefExecutiveOfficerMember 2018-07-01 2018-12-31 0000945828 2017-07-01 2018-06-30 0000945828 amty:OptionsAt0.08Member 2018-12-31 0000945828 amty:OptionsAt0.08Member 2018-07-01 2018-12-31 0000945828 amty:OptionsAt0.10Member 2018-12-31 0000945828 amty:OptionsAt0.10Member 2018-07-01 2018-12-31 0000945828 amty:OptionsAt017Member 2018-12-31 0000945828 amty:OptionsAt017Member 2018-07-01 2018-12-31 0000945828 us-gaap:ChiefFinancialOfficerMember us-gaap:SubsequentEventMember 2019-01-02 2019-01-02 iso4217:USD iso4217:USD xbrli:shares xbrli:shares xbrli:pure