

AMERITYRE CORP
Form 10-Q
February 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2006

☐ 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 registrant as specified in its charter)

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NEVADA

(State or other jurisdiction of
incorporation or organization)

87-0535207

(I.R.S. Employer
Identification No.)

1501 INDUSTRIAL ROAD, BOULDER CITY, NEVADA

(Address of principal executive offices)

89005

(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 twelve (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 ninety (90) days Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Indicate by check mark whether 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 2, 2007: 21,045,111

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 December 31, 2006 and our audited balance sheet at June 30, 2006; the related unaudited statements of operations for the three and six month periods ended December 31, 2006 and 2005; and the related unaudited statement of cash flows for the six month periods ended December 31, 2006 and 2005, are attached hereto.

AMERITYRE CORPORATION

Balance Sheets

Dec. 31, 2006
(unaudited)

June 30, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	884,709	\$	3,065,675
Accounts receivable net		231,178		237,788
Inventory		659,193		592,122
Prepaid expenses and other current assets		185,723		180,742
Deferred stock offering expenses		275,277		162,963
Deposit on equipment		179,283		49,373
Total Current Assets		2,415,363		4,288,663

PROPERTY AND EQUIPMENT

Leasehold Improvements		157,410		157,410
Molds and models		379,086		375,751
Equipment		2,817,803		2,677,687
Furniture and Fixtures		79,341		79,341
Software		280,337		280,337
Less accumulated depreciation		(2,395,935)		(2,218,155)
Total Property and Equipment		1,318,042		1,352,371

OTHER ASSETS

Patents and trademarks net		556,868		463,053
Deposits		61,000		36,000
Total Other Assets		617,868		499,053

TOTAL ASSETS	\$	4,351,273	\$	6,140,087
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The accompanying notes are an integral part of these unaudited financial statements.

AMERITYRE CORPORATION

Balance Sheets (Continued)

	Dec. 31, 2006 (unaudited)	June 30, 2006
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 193,439	\$ 246,536
Accrued expenses	181,275	10,046
Deferred revenue special projects	-	100,000
Deferred revenue license fees	83,333	-
Deferred revenue equipment sales	180,000	-
Total Current Liabilities	638,047	356,582
TOTAL LIABILITIES	638,047	356,582
COMMITMENTS AND CONTINGENCIES		
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, 21,045,111 and 21,020,180 shares issued and outstanding, respectively	21,043	21,018
Additional paid-in capital	47,983,582	47,579,729
Deferred consulting and directors compensation	(55,000)	(29,167)
Retained deficit	(44,236,399)	(41,788,075)
Total Stockholders Equity	3,713,226	5,783,505
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 4,351,273	\$ 6,140,087

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

AMERITYRE CORPORATION

Statements of Operations

(unaudited)

	For the Three Months Ended December 31,	
	2006	2005
NET REVENUES		
Products	\$ 521,426	\$ 302,255
Licenses	75,000	-
Total Net Revenues	596,426	302,255
COST OF REVENUES	368,461	258,439
GROSS PROFIT	227,965	43,816
EXPENSES		
Consulting	125,001	99,498
Depreciation and amortization	91,700	91,873
Research and development	203,966	151,825
Loss on impairment of assets	973	-
Selling, general and administrative	1,071,013	1,040,743
Total Expenses	1,492,653	1,383,939
LOSS FROM OPERATIONS	(1,264,688)	(1,340,123)
OTHER INCOME		
Interest income	14,305	7,649
Miscellaneous income	448	9
Total Other Income	14,753	7,658
NET LOSS	\$ (1,249,936)	\$ (1,332,465)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.06)	\$ (0.07)

WEIGHTED AVERAGE NUMBER OF
SHARES OUTSTANDING

21,036,552

20,038,287

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

AMERITYRE CORPORATION

Statements of Operations

(unaudited)

	For the Six Months Ended December 31,	
	2006	2005
NET REVENUES		
Products	\$ 1,115,661	\$ 738,224
Licenses	116,667	-
Total Net Revenues	1,232,328	738,224
COST OF REVENUES	787,199	612,781
GROSS PROFIT	445,129	125,443
EXPENSES		
Consulting	136,112	99,498
Depreciation and amortization	193,984	181,129
Research and development	456,477	388,208
Loss on impairment of assets	3,082	-
Selling, general and administrative	2,145,768	2,026,340
Total Expenses	2,935,423	2,695,175
LOSS FROM OPERATIONS	(2,490,294)	(2,569,732)
OTHER INCOME		
Interest income	41,115	24,953
Miscellaneous income	854	1,061
Total Other Income	41,969	26,014
NET LOSS	\$ (2,448,325)	\$ (2,543,718)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.12)	\$ (0.13)
WEIGHTED AVERAGE NUMBER OF	21,028,366	19,877,047

SHARES OUTSTANDING

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

AMERITYRE CORPORATION

Statements of Cash Flows

(unaudited)

For the Six Months Ended

	December 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,448,325)	\$ (2,543,718)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation & amortization expense	193,984	181,129
Loss on impairment of assets	3,082	-
Common stock issued for services	-	126,350
Stock-based compensation expense related to employee options	334,691	317,900
Amortization of expense prepaid w/ common stock	34,167	105,834
Changes in operating assets and liabilities:		
Decrease in accounts receivable	6,611	93,221
(Increase) in prepaid expenses	(4,981)	(43,662)
(Increase) in other assets	(267,224)	(296,629)
(Increase) decrease in inventory	(67,071)	79,411
Increase in accounts payable and accrued expenses	281,464	294,103
Net Cash Used by Operating Activities	(1,933,602)	(1,686,061)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for patents and trademarks	(104,285)	(43,572)
Purchase of property and equipment	(152,266)	(61,813)
Net Cash Used by Investing Activities	(256,551)	(105,385)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from stock subscription	-	836,820
Proceeds from the sale of common stock	9,187	1,410,000
Net Cash Provided by Financing Activities	9,187	2,246,820
	(2,180,966)	455,374

NET (DECREASE) INCREASE IN CASH AND
CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,065,675	2,122,320
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 884,709	\$ 2,577,694

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

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

For the Six Months Ended

		December 31,	
	2006		2005
SUPPLEMENTAL SCHEDULE OF CASH FLOW ACTIVITIES			
CASH PAID FOR:			
Interest	\$	-	\$ -
Income taxes	\$	-	\$ -
NON-CASH OPERATING ACTIVITIES			
Common stock issued for services rendered	\$	-	\$ 126,350
Common stock issued for prepaid services	\$	-	\$ 270,000
Stock-based compensation expense related to employee options	\$	334,691	\$ 317,900
NON-CASH INVESTING/ FINANCING ACTIVITIES			
Common stock issued for property and equipment	\$	-	\$ 91,000

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

AMERITYRE CORPORATION

Notes to the Financial Statements

December 31, 2006 (unaudited) and June 30, 2006

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying 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, 2006 Annual Report on Form 10-K. Operating results for the three and six months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the current fiscal year ending June 30, 2007.

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)) which requires the measurement and recognition of compensation expense for all share-based payments to employees and directors including employee stock options and stock purchases related to the Company's employee stock option and award plans based on estimated fair values. SFAS 123(R) supersedes our previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R).

We adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of July 1, 2005, the first day of our fiscal year 2006. Our financial statements as of and for the six month periods ended December 31, 2006 and 2005 reflect the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the six month periods ended December 31, 2006 and 2005 was \$334,691 and \$317,900, 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 and six month periods ended December 31, 2006 and 2005 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 Six Months Ended December 31,	
	<u>2006</u>	<u>2005</u>
Loss (numerator)	\$ (2,448,325)	\$ (2,543,718)
Shares (denominator)	21,028,366	19,877,047
Per share amount	\$ (0.12)	\$ (0.13)

Our outstanding stock options have been excluded from the basic and fully diluted net loss per share calculation. We excluded 4,160,000 and 4,100,000 common stock equivalents for the six month periods ended December 31, 2006 and 2005, respectively, because they are antidilutive.

AMERITYRE CORPORATION

Notes to the Financial Statements

December 31, 2006 (unaudited) and June 30, 2006

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 \$44,236,399 at December 31, 2006. Although for the fiscal years ended June 30, 2004, 2005 and 2006, 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 we have analyzed our cash needs for fiscal 2007. Based on this analysis, our cash on hand will not be adequate to meet our current working capital, capital expenditure, and other cash requirements through June 30, 2007, the end of our current fiscal year. To fully implement our business plan, we will need additional capital. We will seek to raise additional capital through the issuance of debt or equity securities, pursuant to an offering under our effective shelf registration statement or one or more private placements. 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.

NOTE 3 - STOCK OPTIONS

General Option Information

During the six month period ended December 31, 2006, we did not grant any options. During the six month period ended December 31, 2005, we granted options to acquire an aggregate of 775,000 shares of our common stock to certain employees in connection with their employment (the Employment Options). The Employment Options granted during the six month period ended December 31, 2005 vest annually over a period of one to three years based on the employee's continued employment. The exercise price for the Employment Options granted during the period ranged from \$5.36 to \$6.60 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. We estimated the fair

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

	For the six month period ended	For the six month period ended
	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Risk free interest rate	N/A	4.13%
Expected life	N/A	3 years
Expected volatility	N/A	57.693%
Dividend yield	N/A	0.00%

AMERITYRE CORPORATION

Notes to the Financial Statements

December 31, 2006 (unaudited) and June 30, 2006

NOTE 3 - STOCK OPTIONS (Continued)

A summary of the status of our outstanding stock options as of December 31, 2006 and June 30, 2006 and changes during the periods then ended is presented below:

	<u>December 31, 2006</u>		<u>June 30, 2006</u>	
		Weighted Average <u>Exercise Price</u>		Weighted Average <u>Exercise Price</u>
	<u>Shares</u>		<u>Shares</u>	
Outstanding beginning of period	4,190,000	\$6.69	3,945,000	\$6.31
Granted	-	-	775,000	\$6.36
Expired/Cancelled	-	-	(60,000)	\$(6.70)
Exercised	<u>(30,000)</u>	\$(3.80)	<u>(470,000)</u>	\$(3.00)
Outstanding end of period	<u>4,160,000</u>	\$6.71	<u>4,190,000</u>	\$6.69
Exercisable	<u>3,660,000</u>	\$6.76	<u>415,000</u>	\$5.06

The following table summarizes the range of outstanding and exercisable options as of December 31, 2006:

<u>Outstanding</u>			<u>Exercisable</u>		
Weighted					
Range of	Number Outstanding	Average	Number	Weighted	
Exercise	at	Remaining	Exercisable at	Average	
<u>Prices</u>	<u>Dec. 31, 2006</u>	<u>Contractual Life</u>	<u>Dec. 31, 2006</u>	<u>Exercise Price</u>	
\$4.00	200,000	0.69	200,000	\$4.00	
5.36	150,000	5.75	50,000	\$5.36	
6.40	185,000	2.34	185,000	\$6.40	
6.60	625,000	5.71	225,000	\$6.60	
7.00	<u>3,000,000</u>	2.96	<u>3,000,000</u>	\$7.00	

\$4.00-\$7.00	<u>4,160,000</u>	3.34	\$6.71	<u>3,660,000</u>	\$6.76
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As of December 31, 2006, the unrecognized stock-based compensation related to stock options was approximately \$1,032,443. This cost is expected to be expensed over a weighted average period of 1.55 years.

NOTE 4 - STOCK ISSUANCES

On September 30, 2006, we issued 11,553 shares of our common stock to an officer pursuant to the cashless exercise of 30,000 outstanding stock options.

On November 7, 2006, we issued 1,750 shares of our common stock for the exercise of outstanding warrants for \$9,187 cash.

In December 2006, we approved the issuance of 1,938 shares of our restricted common stock to the Chairman of our audit committee as partial compensation for his services as Chairman. The value of the shares was \$10,000, based on the closing price of \$5.16 per share.

In December 2006, we approved the issuance of an aggregate of 9,690 shares (1,938 shares each) of our restricted common stock to our five (5) non-employee directors as annual compensation for their services as members of our board of directors for the period commencing December 1, 2006 through November 30, 2007. The aggregate value of the shares was \$50,000, based on the closing price of \$5.16 per share.

AMERITYRE CORPORATION

Notes to the Financial Statements

December 31, 2006 (unaudited) and June 30, 2006

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.

	<u>Dec. 31, 2006</u>	<u>June 30, 2006</u>
	(Unaudited)	
Raw Materials	\$ 156,681	\$ 139,658
Work in Progress	\$ -	\$ -
Finished Goods	\$ 502,512	\$ 452,464
Total Inventory	\$ 659,193	\$ 592,122

NOTE 6 License Fees

The table below sets forth the contractual aggregate license revenue from manufacturing licenses granted by us to licensees during the six month period ended December 31, 2006.

Fiscal Year 2007					Fiscal Years
		Dec. 31, 2006	Mar. 31, 2007	Jun. 30, 2007	2008-2016
License Fees ⁽¹⁾ ⁽²⁾	\$	1,400,000	\$ 116,667	\$ 75,000	\$ 75,000
					\$ 1,133,333

(1) The License Agreement with Flatfree-Korea provides for an annual minimum license payment of \$100,000 per year over an initial term of 10 years.

(2) The License Agreement with Qingdao Qizhou Rubber Co., Ltd., provides for an aggregate \$400,000 license fee payable to us in quarterly installments over two (2) years beginning September 1, 2006.

NOTE 7 SIGNIFICANT EVENT

In October 2006, we gave our landlord notice that we intend to exercise our option to purchase the building and related real property located at 1501 Industrial Road for the purchase price of \$2,600,000, pursuant to an option to purchase the property contained in our lease agreement. We provided an earnest money deposit of \$25,000, which will be applied towards the purchase price. It is anticipated that the closing of the purchase will take place after February 15, 2007, subject to us obtaining adequate financing for the purchase. We will continue to pay the monthly lease amount of \$18,500 until the closing of the purchase. 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.

AMERITYRE CORPORATION

Notes to the Financial Statements

December 31, 2006 (unaudited) and June 30, 2006

NOTE 8 SUBSEQUENT EVENTS

On January 17, 2007, our Board of Directors announced a transition plan for the replacement of our current Chairman and Chief Executive Officer, Richard Steinke. Mr. Steinke will step down as Chairman and Chief Executive Officer effective October 1, 2007. Upon stepping down as Chairman and Chief Executive Officer, Mr. Steinke will become a full-time technology consultant to the Company and work on specific projects designated by the Company. The terms for Mr. Steinke's consulting agreement will be negotiated prior to his stepping down.

The search for a new Chief Executive Officer will be headed by Kenneth C. Johnsen, who was unanimously reappointed to the Board of Directors. In connection with his reappointment to the Board of Directors, Mr. Johnsen resigned as the Company's President. In addition to leading the search for a new Chief Executive Officer, Mr. Johnsen will be responsible for promptly finalizing a consulting agreement with Mr. Steinke and will continue to work directly with Mr. Steinke as a consultant in advancing Amerityre's business strategies and completing key projects.

In connection with Mr. Johnsen's resignation as President, in January 2007, our board authorized the issuance of 25,000 shares of restricted common stock to him as additional compensation for his tenure as President. The aggregate value of the shares was \$88,750, based on the closing price of \$3.55 per share (the closing price for our common stock on January 12, 2007, the last trading day prior to the authorization). In addition, the board authorized the issuance of an option to Mr. Johnsen to purchase up to 25,000 additional shares, exercisable for three years from the grant date of January 15, 2007, at an exercise price of \$3.55 per share. The stock based compensation expense recognized under SFAS 123(R) for this option grant, based on the Black-Sholes calculation, will be approximately \$33,700 and will be recorded in the three month period ending March 31, 2007.

As part of the transition plan, Elliott N. Taylor, the Company's Chief Administrative Officer, Executive Vice President, Secretary and General Counsel has resigned as an officer and will become our outside general legal counsel following a 30 to 60 day transition period. Mr. Taylor's executive and administrative duties will be assigned to new or current executive officers. The terms of Mr. Taylor's agreement to act as outside general counsel will be negotiated during the transition period.

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

We were incorporated as a Nevada corporation on January 30, 1995 under the name American Tire Corporation and changed our name to Amerityre Corporation in December 1999. 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 allow for the creation of tire products with superior performance characteristics, including abrasion resistance and load-bearing capabilities, compared to those of conventional rubber tires. In addition, we believe that the manufacturing processes we have developed are more efficient than traditional tire manufacturing processes, in part because our polyurethane compounds do not require the processing steps, extreme heat, and high pressure that are necessary to cure rubber. Using our polyurethane technologies, we believe tires can be produced that are cost-competitive, and more durable and more fuel efficient than existing rubber tires.

Within the overall tire market, we have chosen to focus our immediate attention and resources on the specialty tire segment. We believe industries that rely upon specialty tires, such as mining, materials handling, construction, agriculture and forestry, are well suited to benefit from our polyurethane technologies due to their severe operating conditions, the high cost of tire failure and current tire shortages.

With respect to our polyurethane passenger car tire technology, we have successfully completed testing for FMVSS 109 (the current U.S. safety standard for new pneumatic passenger car tires) and completed significant portions of FMVSS 139 (the pending U.S. safety standard) testing on our Arcus® run-flat tire design. Successfully completed components of the testing to date include bead unseating, tire strength and the strenuous high speed component. We are now working on the remaining endurance component of the testing protocol and management believes that we are on track to complete that testing successfully.

We are pursuing a commercialization strategy that includes expanding our existing manufacturing capacity as well as transferring our technology to strategic partners consisting of industry leading tire manufacturers and users of specialty tires. We currently have the capacity to produce up to 2,000,000 closed-cell foam or solid, Elastothane™ (non-pneumatic) polyurethane tires per year at our Boulder City, Nevada facility. We have devoted resources to strengthen and expand our sales and marketing efforts for these products. We are also developing a program to introduce a lightweight polyurethane foam tire fill material.

We may construct and operate, either by ourselves or with a strategic partner, a manufacturing facility that would give us the ability to retread off the road (OTR) tires using ElastothaneTM. Depending on the success of our ongoing discussions with potential strategic partners, we may determine that it is unnecessary for us to undertake the construction and operation of a facility ourselves. Our ability to build and operate such a facility without a partner is limited by our current financial resources and therefore would be subject to obtaining adequate financing.

We also intend to commercialize our ElastothaneTM tire products, including medium commercial truck retreads, Arcus® pneumatic and non-pneumatic tires, by transferring our technology to our strategic partners through licensing agreements, co-development projects and the sale of equipment and our proprietary chemical formulations. Our test work on using our polyurethane elastomer material for specialty tires continues with a specialty tire manufacturer. We are benchmarking the performance characteristics of our proprietary polyurethane materials and evaluating specific commercial applications in which the materials can serve as a replacement for rubber, however, additional work and testing is still required.

We intend to commercialize our polyurethane technologies through licensing agreements, co-development projects and the sale of equipment, chemical formulations and tire products to strategic partners consisting of

industry leading tire manufacturers and users of specialty tires. We expect these strategic relationships to result in revenue opportunities for Amerityre as well as further development of polyurethane technologies. We have already begun to establish important relationships:

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In September 2006, we entered into a manufacturing license agreement with Qingdao Qizhou Rubber Company, LTD. (Qingdao), a Chinese company, to manufacture retreads using our polyurethane elastomer compound for large size OTR tires used in mining operations. Qingdao is currently constructing an OTR retread manufacturing facility in Shandong Province, China. The construction project, commenced in September 2006, was originally targeted for completion in September 2007. In January 2007, Qingdao reported to us that the construction of the facility is estimated to be approximately two months ahead of schedule.

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In September 2006, we entered into an agreement with Phelps Dodge Mining Company to evaluate polyurethane elastomer retreads for large size OTR tires. We are currently developing a program for us or a third party strategic partner such as Qingdao to produce several test polyurethane elastomer retreads for OTR tires and Phelps Dodge will provide the OTR tire casings.

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In August 2006, we entered into a memorandum of understanding with a manufacturer of specialty tires to develop, produce and test solid tires, semi-solid tires, OTR tires and medium radial truck retreads made with our polyurethane elastomer compound. Various tires produced from our polyurethane elastomers materials are currently undergoing testing and evaluation pursuant to the terms of the memorandum of understanding.

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In July 2006, we entered into an agreement with Flatfree Korea, a South Korean company (Flatfree), to manufacture and distribute our polyurethane closed-cell foam tire products in Asia. Flatfree pays us an annual license fee and will purchase the polyurethane foam chemical systems from us once they commence manufacturing operations.

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In October 2005, we entered into a development agreement with Genmar Holdings, Inc., a leading recreational boat manufacturer, to design and develop a polyurethane elastomer run-flat tire for boat trailers. We believe that passing FMVSS 139 testing on the run-flat passenger car tire design is the foundation for completing our development of the run-flat trailer tire. We originally estimated that the boat trailer tire project would require approximately six months for us to develop prototype tires. However, due to significant delays associated with the tire tooling equipment and testing, our estimate for completing this development has been extended into the first six months of the calendar year

2007.

We believe that we have identified new, innovative applications of polyurethane formulations and that our proprietary technologies allow for the development of products that otherwise could not be produced using polyurethane. We have tested our polyurethane elastomer material for glass encapsulation applications and have achieved positive test results for the material in weatherization testing. We are now conducting a broader range of tests to determine the performance characteristics of the material for use in automotive glass applications.

We intend to expand our intellectual property portfolio through our own research and development as well as co-development efforts with industry leaders. We have nine additional patent applications pending relating to our tire technology. By expanding our intellectual property, we believe that we will strengthen our competitive position and continue to be an innovator in the development of polyurethane technologies.

As a company focused on the advanced chemistry and potential innovative applications of polyurethane, we believe there is a significant opportunity to apply our materials to several industries. The high price of rubber, combined with its inherent limitations, demonstrates the need for and potential benefits of alternative materials. We believe that significant product performance improvements can be realized by substitution of our unique polyurethane compounds for both rubber and inferior polyurethane compounds. While our current focus is on our existing products, there are numerous markets that can benefit from products made with either our polyurethane foam or elastomer compounds as a result of their unique product requirements, such as:

-
- Tire fill
-
- Carpet backing
-
- Marine floatation
-
- Building materials
-
- Insulation
-
- Protective coatings
-
- Encapsulated glass products (i.e., sunroofs, fixed window panels and rear sliding windows)
-
- Hoses and vehicle tracks
-
- Conveyor belts and equipment liners

Factors Affecting Results of Operations

While the sale of polyurethane foam tires to original equipment manufacturers, distributors and retail stores accounts for almost all of our revenue at this time, Elastothane™ and the technology to produce tires using this proprietary formulation are significant to our potential future growth. Our business model provides for a diversified revenue stream. We intend to generate revenue through license agreements relating to the use of our patented manufacturing methods and systems; the sale of specialty equipment; the sale of proprietary chemical systems; the sale of a select number of finished tire products; and contract research and development services.

Historically, our expenses have exceeded our revenues. In each of these periods, our expenses consisted primarily of the following:

-

Cost of revenues, 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 and amounts paid to Centurion Holdings, LLC, for advisory services related to capital raising and operational strategies;

-

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

-

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 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.

Valuation of Intangible Assets and Goodwill

At December 31, 2006, we had capitalized patent and trademark costs, net of accumulated amortization expenses, totaling \$556,868. 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. Amortization expense for the fiscal years ended June 30, 2006, 2005 and 2004 was \$25,514, \$30,847 and \$1,309, respectively. 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

•

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)) which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payments to employees and Directors, including employee stock options and stock purchases related to our employee stock option and award plans. SFAS 123(R) supersedes our previous accounting under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees for periods beginning in the fiscal year ended June 30, 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R).

We adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of July 1, 2005, the first day of our fiscal year ended June 30, 2006. Our financial statements as of and for the six month periods ended December 31, 2006 and 2005 reflect the impact of SFAS 123(R). Stock based compensation expense recognized under SFAS 123(R) for the six month periods ended December 31, 2006 and 2005 was \$344,691 and \$317,900, 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. 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. Stock-based compensation expense recognized in our Statement of Operations for the three and six month periods ended December 31, 2006 and 2005 assumes all awards will vest, therefore, no reduction has been made for estimated forfeitures.

Seasonality

A substantial majority of our sales are to customers within the United States. We experience some seasonality in the sale of our closed-cell polyurethane foam tires for bicycles and lawn and garden products because sales of these products generally decline during the winter months in the United States. Sales of our closed-cell polyurethane form tire products generally peak during the spring and summer months, typically resulting in greater sales volumes during the third and fourth quarters of the fiscal year.

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 and six month periods ended December 31, 2006 and 2005 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

Three Months Ended Dec. 31,					Six Months Ended Dec. 31,		
	2006	2005	% Change		2006	2005	% Change
Net revenues ⁽¹⁾	\$ 596,426	\$ 302,255	97	\$	1,232,328	\$ 738,224	67

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Cost of revenues	\$	368,461	\$	258,439	43	\$	787,199	\$	612,781	28
Gross profit	\$	227,965	\$	43,816	420	\$	445,129	\$	125,443	255
Selling, general, and administrative expenses ⁽²⁾	\$	1,071,013	\$	1,040,743	3	\$	2,145,768	\$	2,026,340	6
Consulting	\$	125,001	\$	99,498	26	\$	136,112	\$	99,498	37
Research and development expenses	\$	203,966	\$	151,825	34	\$	456,477	\$	388,208	18
Depreciation and amortization expenses	\$	91,700	\$	91,873	(0.2)	\$	193,984	\$	181,129	7
Loss on sales and impairment of assets	\$	973	\$	-	n/a	\$	3,082	\$	-	n/a
Other Income	\$	14,753	\$	7,658	93	\$	41,969	\$	26,014	61
Net loss	\$	(1,249,936)	\$	(1,332,465)	(6)	\$	(2,448,325)	\$	(2,543,718)	(4)

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(1) Includes \$75,000 and \$116,667, respectively, of license revenue in the three and six months ended December 31, 2006 with no associated cost of revenues for the period.

(2) Includes deferred compensation for employee stock options of \$167,345 and \$144,764 in the three month periods ended December 31, 2006 and 2005, respectively, and deferred compensation for employee stock options of \$334,691 and \$317,900 in the six month periods ended December 31, 2006 and 2005, respectively.

Three Month Period Ended December 31, 2006 Compared to December 31, 2005

Net revenues. Sales of our closed-cell polyurethane foam products accounted for all but \$75,000 of our net revenues during the three month period ended December 31, 2006. The \$75,000 was derived from fees received from third-party licensees for use of our technology. For the three month period ended December 31, 2006 we had \$596,426 of net revenues compared to \$302,255 for the same period for 2005. Net revenues for the three month period ended December 31, 2006 increased by \$294,171 or 97%, as compared with 2005 due to a combination of licensee fees, an increase in the number of product units sold and an increase in product pricing effected during the period. During the three and six month periods ended December 31, 2006 we had \$5,179 and \$2,063 of returns of our products and trade discounts, respectively, compared to \$6,780 and \$1,734, respectively, for the same period in 2005.

Cost of revenues. For the three month period ended December 31, 2006 our total cost of revenues was \$368,461, or 62% of net revenues, compared to \$258,439, or 86% of net revenues for the same period in 2005. Excluding \$75,000 of licensee revenue with no associated cost of revenues, our cost of revenues as a percentage of net revenues decreased to 71% of net revenues for the three months ended December 31, 2006, as compared with the same period in 2005. The reduction in our cost of revenues was a result of our increased sales efforts generating additional product orders to 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.

Gross Profit. For the three month period ended December 31, 2006 we had \$227,965 of gross profit compared to \$43,816 for the same period in 2005. Gross profit for the three month period ended December 31, 2006 increased by \$184,149, or 420%, over the same period in 2005 due primarily to the increase in net revenues and the additional revenue related to third-party license fees. Our gross profit margin increased to 38% in 2006 from 15% for the same period in 2005. The increase in our gross profit for the three month period ended December 31, 2006 as compared to the three month period ended December 31, 2005 was the result of 13% of net revenues derived from third-party license fees, combined with an increase in product sales. During the balance of the fiscal year ending June 30, 2007, we believe that the foregoing factors will allow us to maintain our gross margin consistent with the three months ended December 31, 2006.

Selling, General, and Administrative Expenses. For the three month period ended December 31, 2006 we had \$1,071,013 of SG&A expenses, including the amortization of deferred compensation, compared to \$1,040,743 for the same period in 2005. As we increased our commercialization efforts our SG&A for the three month period ended December 31, 2006 increased by \$30,270, or 3%, as compared with the same period in 2005, due primarily to increased expenses for the amortization of deferred compensation related to employee stock option grants. We amortized \$167,345 of deferred compensation for the three month period ended December 31, 2006 compared to \$144,764 for same period in 2005. We anticipate that SG&A for the balance of the 2007 fiscal year will be consistent with the three months ended December 31, 2006.

Research and Development Expenses. For the three month period ended December 31, 2006 we had \$203,966 of research and development expenses compared to \$151,825 for the same period in 2005. Our research and development expenses for the three month period ended December 31, 2006, increased by \$52,141, or 34%, as

compared with the same period in 2005 due primarily to an increase in outside testing services and the hiring of additional research and development technicians during the period. We expect research and development expenses to increase approximately 10% during the balance of the fiscal year ending June 30, 2007 as we identify and pursue research and development projects of additional applications for our polyurethane technology outside the tire industry.

Consulting Expenses. For the three month period ended December 31, 2006, we had \$125,001 in outside consulting expenses. We had \$99,498 in outside consulting expenses for the same period in 2005. During the balance of the fiscal year ending June 30, 2007 we expect consulting expenses to remain consistent due to our

agreement to pay Centurion Holdings, LLC, or Centurion, \$41,667 per month beginning October 2006 through September 2008 for assisting us with our marketing and capital raising efforts and on various other operational strategies.

Depreciation and Amortization Expenses. For the three month period ended December 31, 2006 we had \$91,700 of depreciation and amortization expenses compared to \$91,873 for the same period in 2005. Our depreciation and amortization expenses for the three month period ended December 31, 2006 decreased slightly compared to the same period in 2005.

Net Loss. For the three month period ended December 31, 2006 we had a net loss of \$1,249,936 compared to a net loss of \$1,332,465 for the same period in 2005. Our net loss for the three month period ended December 31, 2006 decreased by \$82,529 as compared with the same period in 2005, due primarily to the increase in the gross profit margin for the three month period ended December 31, 2006.

Six Month Period Ended December 31, 2006 Compared to December 31, 2005

Net revenues. Sales of our closed-cell polyurethane foam products accounted for all but \$116,667 of our net revenues during the six month period ended December 31, 2006. The \$116,667 was derived from fees received from third-party licensees for use of our technology. For the six month period ended December 31, 2006 we had \$1,232,328 of net revenues compared to \$738,224 for the same period for 2005. Net revenues for the six month period ended December 31, 2006 increased by \$494,104, or 67%, as compared with 2005 due to a combination of licensee fees, an increase in the number of product units sold and an increase in product pricing effected during the period. During the six month period ended December 31, 2006 we had \$13,893 and \$6,491 of returns of our products and trade discounts, respectively, compared to \$9,268 and \$4,660, respectively, for the same period in 2005.

Cost of revenues. For the six month period ended December 31, 2006 our total cost of revenues was \$787,199, or 64% of net revenues, compared to \$612,781, or 83% of net revenues for the same period in 2005. Excluding \$116,667 of licensee revenue with no associated cost of revenues, our cost of revenues as a percentage of net revenues decreased to 70% of net revenues for the six months ended December 31, 2006, as compared with the same period in 2005. The reduction in our cost of revenues was a result of increased pricing for our products and reduced pricing obtained on chemical raw materials and wheel components. We believe that our cost of revenues can improve as our increased sales efforts generate additional product orders to take further 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.

Gross Profit. For the six month period ended December 31, 2006 we had \$445,129 of gross profit compared to \$125,443 for the same period in 2005. Gross profit for the six month period ended December 31, 2006 increased by \$319,686, or 255%, over same period in 2005 due primarily to the increase in net revenues and the additional revenue related to third-party license fees. Our gross profit margin increased to 36% in 2006 from 17% for the same period in 2005. The increase in our gross profit for the six month period ended December 31, 2006 as compared to the six month period ended December 31, 2005 was the result of 9% of net revenues derived from third-party license fees, combined with an increase in product pricing and increased product sales. During the balance of the fiscal year ending June 30, 2007, we believe that the foregoing factors will allow us to maintain our gross margin consistent with the six months ended December 31, 2006.

Selling, General, and Administrative Expenses. For the six month period ended December 31, 2006 we had \$2,145,768 of SG&A expenses, including the amortization of deferred compensation, compared to \$2,026,340 for the same period in 2005. As we increased our commercialization efforts our SG&A for the six month period ended December 31, 2006 increased by \$119,428, or 6%, as compared with the same period in 2005, due primarily to increases in sales and marketing, directors fees, executive personnel, outside consulting, insurance and amortized expenses for employee stock options, offset by decreases in office and facilities expenses. We anticipate that SG&A

for the balance of the 2007 fiscal year will be consistent with the six months ended December 31, 2006.

Research and Development Expenses. For the six month period ended December 31, 2006 we had \$456,477 of research and development expenses compared to \$388,208 for the same period in 2005. Our research and development expenses for the six month period ended December 31, 2006, increased by \$68,269, or 18%, as compared with the same period in 2005 due primarily to an increase in outside testing services and the hiring of additional research and development technicians during the period. We expect research and development expenses

to increase approximately 10% during the balance of the fiscal year ending June 30, 2007 as we identify and pursue research and development projects of additional applications for our polyurethane technology outside the tire industry.

Consulting Expenses. For the six month period ended December 31, 2006, we had \$136,112 in outside consulting expenses. We had \$99,498 in outside consulting expenses for the same period in 2005. During the balance of the fiscal year ending June 30, 2007 we expect consulting expenses to remain consistent due to our agreement to pay Centurion \$41,667 per month beginning October 2006 through September 2008 for assisting us with our marketing and capital raising efforts and on various other operational strategies.

Depreciation and Amortization Expenses. For the six month period ended December 31, 2006 we had \$193,984 of depreciation and amortization expenses compared to \$181,129 for the same period in 2005. Our depreciation and amortization expenses for the six month period ended December 31, 2006 increased by \$12,855, or 7%, compared to the same period in 2005, due to the addition of newly acquired assets during the period.

Net Loss. For the six month period ended December 31, 2006 we had a net loss of \$2,448,325 compared to a net loss of \$2,543,718 for the same period in 2005. Our net loss for the six month period ended December 31, 2006 decreased by \$95,393 as compared with the same period in 2005, due primarily to the increase in the gross profit margin for the six month period ended December 31, 2006.

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 consolidated cash flows for the six month periods ended December 31, 2006 and 2005.

	Six Months Ended December 31,	
	2006	2005
Net cash used by operating activities	\$ (1,933,602)	\$ (1,686,061)
Net cash used in investing activities	(256,551)	(105,385)
Net cash provided by financing activities	9,187	2,246,820
Net (decrease) increase in cash and cash equivalents during period	\$ (2,180,966)	\$ 455,374

Net Cash Used By Operating Activities. Our primary sources of operating cash during the six month period ended December 31, 2006 was receipts from our customers. Our primary uses of operating cash are payments made to our vendors and employees. Net cash used by operating activities was \$1,933,602 for the six months ended December 31, 2006 compared to \$1,686,061 for the same period in 2005. The increase in cash used in operating activities is primarily due to increases in inventory, deposits on equipment and other prepaid assets for the six months ended

December 31, 2006 compared to the same period in 2005. Non-cash items include depreciation and amortization and stock based compensation. Our net loss was \$2,448,325 for the six months ended December 31, 2006 compared to a net loss of \$2,543,718 for the same period in 2005. Net loss for the six month period ended December 31, 2006 included non-cash expenses of \$334,691 for stock-based compensation related to employee stock options and \$193,984 for amortization and depreciation expenses.

Net Cash Used In Investing Activities. Net cash used by investing activities was \$256,551 for the six month period ended December 31, 2006 and \$105,385 for the same period in 2005. Our primary uses of investing cash for the six month period ended December 31, 2006 were \$104,285 deposits on patents and trademarks and \$152,266 for property and equipment. Our primary use of investing cash for the six month period ended December 31, 2005 was \$43,572 for patents and trademarks and \$61,813 for property and equipment.

Net Cash Provided by Financing Activities. During the six months ended December 31, 2006, financing activities provided net cash of \$9,187 for the issuance of common stock on the exercise of outstanding warrants for cash. During the six month period ended December 31, 2005, financing activities provided net cash of \$2,246,820, received in connection with the issuance of common stock on the exercise of outstanding options for cash and the proceeds from stock subscriptions.

Cash Position and Outstanding Indebtedness

Our total indebtedness at December 31, 2006 was \$638,047 and our total cash and cash equivalents were \$884,709, none of which is restricted. Our total indebtedness at December 31, 2006 includes \$193,439 in accounts payable, \$181,275 in accrued expenses, primarily consisting of legal and consulting expenses, and \$263,333 in deferred revenue, primarily consisting of pre-paid license and equipment sales fees. We have no long-term liabilities.

Contractual Obligations and Commitments

The following table summarizes our contractual cash obligations and other commercial commitments at December 31, 2006.

		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⁾	\$ 176	\$ 176	\$	\$	\$
Other long-term liabilities ⁽²⁾	875	500	375		
Total contractual cash obligations	\$ 1,051	\$ 676	\$ 375	\$	\$

(1) In October 2002, we leased 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 term of the lease is five years expiring October 14, 2007, subject to our right to purchase the property. In October 2006, we gave our landlord notice that we intend to exercise our option to purchase the property for the purchase price of \$2,600,000. We provided an earnest money deposit of \$25,000, which will be applied towards the purchase price. It is anticipated that the closing of the purchase will take place after February 15, 2007, subject to us obtaining adequate financing for the purchase. We will continue to pay the monthly lease amount of \$18,500 until the closing of the purchase.

(2) In September 2004, we entered into an agreement with Centurion whereby Centurion assists us with our marketing and capital raising efforts and on various other operational strategies. In exchange for such services we pay to Centurion \$41,667 per month or \$500,000 per year, beginning September 2006 and continuing through September 2008.

Future Capital Requirements

Our cash on hand will not be adequate to meet our current working capital, capital expenditure, and other cash requirements through June 30, 2007, the end of our current fiscal year. To fully implement our business plan, we will need additional capital. We will seek to raise additional capital through the issuance of debt or equity securities, pursuant to an offering under our effective shelf registration statement or one or more private placement transactions. 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.

Although we believe that we will successfully implement our business plan, 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 selling, general and administrative expenses will continue at a rate similar to the rate we experienced for the six month period ended December 31, 2006, that we will not experience a material decline in our product pricing, and that we will not experience a material increase in our customer bad debt. We are now obligated to pay Centurion \$41,667 per month through September 2008 for assisting us with our marketing and capital raising efforts and on various other operational strategies. If we are able to obtain additional funding, we may purchase our manufacturing facility, which we currently lease and we also may decide to construct an OTR retread facility.

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 September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108 which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB No. 108 is effective for us as of January 1, 2007. We are currently evaluating the impact of SAB No. 108 on our financial statements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The Company will adopt the provisions of SFAS 157 effective January 1, 2008. We do not expect SFAS 157 to have a material impact on our results of operations, financial position, or cash flows.

Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158), improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 will not have an impact on our results of operations, financial position, or cash flow.

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

We are involved in legal proceedings in the normal course of our business that we do not expect to have a material adverse effect on our business, financial condition or results of operations. The significant proceedings in which we are involved are discussed below.

In November 2005, Continental Automotive Licensing Corp. filed a petition for Cancellation #92045199 in the United States Patent and Trademark Office against Richard A. Steinke, our Chairman and Chief Executive Officer, concerning the registration of Amerityre®, Registration No. 2,401,989. Petitioner alleges that it has been damaged by the continued existence of the Amerityre® trademark and has asked the Trademark Office to cancel the registration.

Automotive Licensing Corp. bases its petition on its use and registration of various marks incorporating AMERI for tires. Our registration of the Amerityre® trademark was issued November 7, 2000 by the Trademark Office to Mr. Steinke and assigned by him to us in June 2001. We believe that we have strong defenses to the petition and we plan to vigorously defend our use and registration of the trademark.

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 fiscal year ended June 30, 2006.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

Our Annual Meeting of Stockholders was held in the Sunset Room at the Sunset Station Hotel and Casino, 1301 West Sunset Road, Henderson, Nevada 89014, on Friday, December 1, 2006, at 10:00 am, Pacific Time. The stockholders voted on the following matters:

1. Elected six directors to serve until the 2007 Annual Meeting of Stockholders; and
2. Ratified the selection of HJ & Associates, LLC as the Company's independent auditor for the Company's fiscal year ending June 30, 2007.

Voting results on the above matters were as follows:

<u>1. Directors</u>	<u>For</u>	<u>Against</u>	<u>Withheld</u>
Richard A. Steinke	17,521,164	357,000	34,835
Henry D. Moyle	17,815,217	73,247	24,535
Louis M. Haynie	17,546,520	341,944	24,535
Wesley G. Sprunk	17,797,648	90,816	24,535
Norman H. Tregenza	17,785,307	103,157	24,535
Steve M. Hanni	17,838,920	49,544	24,535
 <u>2. Ratify HJ & Associates, LLC</u>	 17,799,958	 93,172	 19,869

A total of 17,912,999 shares were represented at the meeting in person or by proxy, or approximately 85% of the total 21,031,733 shares eligible to vote.

ITEM 5. OTHER INFORMATION

None.

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: February 9, 2007

AMERITYRE CORPORATION

/S/RICHARD A. STEINKE

Richard A. Steinke

Chief Executive Officer

/S/ANDERS A. SUAREZ

Anders A. Suarez

Chief Financial Officer and

Principal Accounting Officer