

AMERITYRE CORP  
Form 10-Q  
November 09, 2018

---

---

**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: **September 30, 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 (I.R.S. Employer  
incorporation or organization) Identification No.)

**1501 Industrial Rd., Boulder City, NV 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Emerging Growth Companies

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 November 6, 2018: 45,632,142



## TABLE OF CONTENTS

	<b>Page</b>
<b>PART I</b>	
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4. <u>Controls and Procedures</u>	17
<b>PART II</b>	
Item 1. <u>Legal Proceedings</u>	18
Item 1A. <u>Risk Factors</u>	18
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
Item 3. <u>Defaults Upon Senior Securities</u>	18
Item 4. <u>Not Applicable</u>	18
Item 5. <u>Other Information</u>	18
Item 6. <u>Exhibits</u>	18
<u>SIGNATURES</u>	19

---

Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMERITYRE CORPORATION****Balance Sheets**

	<b>September 30,  2018 (Unaudited)</b>	<b>June 30,  2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$303,482	\$213,854
Accounts receivable	356,757	410,425
Inventory - net	547,687	516,334
Prepaid and other current assets	108,934	84,892
Total Current Assets	1,316,860	1,225,505
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	201,074	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	1,000	1,000
Software	247,610	247,610
Less - accumulated depreciation	(3,884,913 )	(3,870,155 )
Total Property and Equipment	196,736	211,494
<b>OTHER ASSETS</b>		
Patents and trademarks - net	126,890	132,605
Non-current inventory	235,442	206,842
Deposits	11,000	11,000
Total Other Assets	373,332	350,447
<b>TOTAL ASSETS</b>	<b>\$1,886,928</b>	<b>\$1,787,446</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$501,593	\$379,086
Current portion of long-term debt	20,635	20,377

Edgar Filing: AMERITYRE CORP - Form 10-Q

Current portion of lease liability	-	726
Deferred revenue	6,462	20,712
Total Current Liabilities	528,690	420,901
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	100,724	105,633
Total Liabilities	629,414	526,534
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock: 5,000,000 shares authorized		
	2,000	2,000
of \$0.001 par value, 2,000,000 shares issued and outstanding, respectively		
Common Stock: 75,000,000 shares authorized of \$0.001 par value,		
	45,632	44,476
45,632,142 and 44,476,346 shares issued and outstanding, respectively		
Additional paid-in capital	62,659,690	62,638,754
Stock payable	9,795	14,601
Accumulated deficit	(61,459,603 )	(61,438,919 )
Total Stockholders' Equity	1,257,514	1,260,912
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$1,886,928</b>	<b>\$1,787,446</b>

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

Table of Contents**AMERITYRE CORPORATION****Statements of Operations****(Unaudited)**

	<b>For the Three Months Ended</b>	
	<b>September 30, 2018                      2017</b>	
NET SALES	\$827,244	\$925,716
COST OF REVENUES	561,012	651,816
GROSS PROFIT	266,232	273,900
EXPENSES		
Research and development	23,073	58,141
Sales and marketing	50,924	65,735
General and administrative	189,548	194,951
Total Expenses	263,545	318,827
INCOME (LOSS) FROM OPERATIONS	2,687	(44,927 )
OTHER INCOME (EXPENSE)		
Interest income	103	108
Interest expense	(1,562 )	(1,484 )
Other income	3,089	-
Loss on asset abandonment	-	(17,352 )
Total Other Income (Expense)	1,630	(18,728 )
NET INCOME (LOSS)	4,317	(63,655 )
Preferred Stock Dividend	(25,000 )	(25,000 )
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$(20,683 )	\$(88,655 )
BASIC AND DILUTED LOSS PER SHARE	\$(0.00 )	\$(0.00 )
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	44,514,035	43,312,107

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



Table of Contents**AMERITYRE CORPORATION****Statements of Cash Flows****(Unaudited)**

	<b>For the Three Months Ended</b>	
	<b>September 30, 2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 4,317	\$ (63,655 )
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization expense	20,473	23,559
Stock based compensation	9,785	7,168
Loss on asset abandonment	-	17,352
Changes in operating assets and liabilities:		
Accounts receivable	53,668	(66,931 )
Prepaid and other current assets	(24,768 )	(13,234 )
Inventory and any change in inventory reserve	(59,953 )	(27,224 )
Accounts payable and accrued expenses	105,007	81,628
Deferred revenue	(14,250 )	9,637
Net Cash Provided/Used by Operating Activities	94,279	(31,700 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	-	(1,772 )

Payment on lease liability				
Payments on notes payable	(4,651	)	(4,316	)
Net Cash Used by Financing Activities	(4,651	)	(6,088	)
NET INCREASE (DECREASE) IN CASH	89,628		(37,788	)
CASH AT BEGINNING OF PERIOD	213,854		340,256	
CASH AT END OF PERIOD	\$ 303,482		\$ 302,468	

#### NON-CASH FINANCING ACTIVITIES

Interest paid	\$1,562	\$1,484
Income taxes paid	-	-

#### SUPPLEMENTAL SCHEDULE OF CASH FLOW ACTIVITIES

Accrued preferred stock dividends	\$25,000	\$25,000
Write of 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	\$-

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

Table of Contents

**AMERITYRE CORPORATION**

**Notes to the Unaudited Condensed Financial Statements**

**September 30, 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 September 30, 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 herein 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 \$6,462, inclusive of \$1,114 of shipping and handling revenue (see below), as of September 30, 2018. Deferred revenue was \$9,637, inclusive of \$1,532 of shipping and handling revenue (see below), as of September 30, 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 \$1,114 as of September 30, 2018 and \$1,532 as of September 30, 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 4,210,000 and 3,800,000 common stock equivalents for the quarters ended September 30, 2018 and 2017, respectively, because they are anti-dilutive.

Table of Contents

**AMERITYRE CORPORATION**

**Notes to the Unaudited Condensed Financial Statements**

**September 30, 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.

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 market. The inventory consists primarily of chemicals, finished goods produced in our plant and products purchased for resale.

	<b>September 30, 2018 (Unaudited)</b>	<b>June 30, 2018</b>
Raw Materials	\$ 252,902	\$ 214,787
Finished Goods	594,703	569,294

Inventory reserve	(64,476 )	(60,905 )
Inventory – net (current and long term)	\$ 783,129	\$723,176

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

The Company critically reviews all slow moving inventory to determine if it is 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, who passed away on January 11, 2012, was also 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 September 30, 2018, \$2,000 and \$62,315 (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, a sales customer relation management (“CRM”) system, was abandoned due to challenges with the selected implementation vendor. The Company implemented another option to address its CRM system needs and the amount we financed through this debt instrument remains the Company’s liability to pay. Total amount financed for all projects was \$55,068, at 5.59% interest, with payments of \$1,059 due for 60 months starting July 2016.

Table of Contents**AMERITYRE CORPORATION****Notes to the Unaudited Condensed Financial Statements****September 30, 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.

	<b>Payments due by period</b>				<b>After 5 years</b>
	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	
Bank debt (both US Bank facilities above)	\$61,928	\$21,349	\$40,579	\$ -	\$ -

**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 September 30, 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 \$2,901 as of September 30, 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 September 30, 2018, there was \$967 of unrecognized stock-based compensation expense related to stock options that will be recognized over the vesting period ending December 31, 2018.

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	%



Table of Contents**AMERITYRE CORPORATION****Notes to the Unaudited Financial Statements****September 30, 2018**

A summary of the status of our outstanding stock options as of September 30, 2018 and June 30, 2018, and changes during these periods is presented below:

	<b>September 30, 2018</b>			<b>June 30, 2018</b>		
		<b>Weighted Average Exercise Price</b>	<b>Intrinsic Value</b>		<b>Weighted Average Exercise Price</b>	<b>Intrinsic Value</b>
	<b>Shares</b>			<b>Shares</b>		
Outstanding beginning of period	3,730,000	\$ 0.13		4,280,000	\$ 0.12	
Granted	480,000	\$ 0.10		-	\$ 0.00	
Expired/Cancelled	-	\$ 0.00		(550,000 )	\$ 0.10	
Exercised	-	\$ 0.00		-	\$ 0.00	
Outstanding end of period	4,210,000	\$ 0.12	\$ -	3,730,000	\$ 0.13	\$ -
Exercisable	4,090,000	\$ 0.12	\$ -	3,730,000	\$ 0.13	\$ -

<b>Range of Exercise Prices</b>	<b>Outstanding</b>			<b>Exercisable</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Number</b>	<b>Weighted</b>
	<b>at</b>			<b>Exercisable at</b>	<b>Average Remaining</b>
	<b>September 30, 2018</b>			<b>September 30, 2018</b>	<b>Contractual Life</b>
\$ 0.08	150,000	3.17	\$ 0.08	150,000	3.17
\$ 0.10	2,610,000	1.67	\$ 0.10	2,490,000	1.59
\$ 0.17	1,450,000	2.00	\$ 0.17	1,450,000	2.00
	4,210,000			4,090,000	

Table of Contents

**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. Using our polyurethane technologies, we believe tires can be produced which last longer, are less susceptible to failure and are friendlier to the environment.

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 have the ability to produce a broad range of products for the light duty tire market. Our efforts in product development and marketing allow us to build customer relationships and expand sales with original equipment manufacturers and tire distributors. We continue to focus on creating unique product solutions for customers with specific tire performance requirements. During fiscal year 2018 we have seen increased demand for our golf cart and baggage cart tires, and we expect this trend to continue in future quarters.

*Polyurethane Elastomer Industrial Tires* – During the fourth quarter of fiscal year 2016 we relaunched the forklift tire product line with select customers. The acceptance of our forklift tires in the marketplace continues to be much slower than expected, and we do not expect this to change in the near future. Our scissor lift tire has also experienced limited customer interest as OEMs have refused to adopt or endorse our tire, mainly due to higher profit margins on sales of existing rubber tire options versus our offerings. Despite higher demonstrated economics for end users using our scissor lift tires, we have found that the dealer network is reluctant to switch to our tires without an endorsement from the OEMs. These products contributed negligible revenue during the first quarter of fiscal year 2019. We intend to continue promotion of these products in our target markets to improve market acceptance and establish market share.

During the 4<sup>th</sup> quarter of fiscal year 2018, the Company developed a new elastomer formulation for use in several of its larger tire applications. This new Elastothane <sup>TM</sup> formulation provides higher static load bearing capability as well as higher abrasion resistance compared to our closed cell foam formulation. Several customers have purchased tire samples for field testing. We expect more customers to order tires made in this formulation as fiscal year 2019 progresses, with sales ramping up as more customers complete their evaluations. 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. With the recent introduction of tariffs by China on US farm products, the prospects for improved agricultural commodity pricing are not promising. We continue to look for opportunities to develop new products for this market segment, confident that the market will eventually recover and the value proposition our products offer will be recognized.

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.

## Table of Contents

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 sales team is comprised of our in-house sales department supplemented by three 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. We plan to continue to develop new content for the website to promote our products and their value proposition in our target markets. However, we expect that the challenging economic environment, worsened by the implementation of tariffs, will provide strong headwinds and negatively impact our drive towards consistent and increasing profitability. The current US administration's emphasis on "Buy American Products" has not provided any significant new sales opportunities for us.

Since the initial introduction of our strategic initiative, called "Profitability as a Mindset", in 2015, the Company has been successful in implementing improvements to business processes and systems despite limited availability of resources. This program has driven improvements to the bottom line and enabled the Company to remain competitive and financially stable despite a challenging environment for revenue growth. The focus of this program going forward will continue to emphasize development of new distribution channels while maintaining our cost control discipline. Increases in the price of raw materials and wheel rims, as well as the additional tariffs on imported materials, forced us to raise prices during the recent quarter. We plan to hold pricing level for the remainder of FY 2019 provided the current cost environment for raw materials does not worsen. However, until we see a more stabilized market environment related to trade policy it is very difficult to have visibility of what our raw material costs may be over the next 12 months.

## **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.

## Table of Contents

### *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 \$6,462, inclusive of \$1,114 of shipping and handling revenue (see below), as of September 30, 2018. Deferred revenue was \$9,637, inclusive of \$1,532 of shipping and handling revenue (see below), as of September 30, 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 \$1,114 as of September 30, 2018 and \$1,532 as of September 30, 2017.

### *Valuation of Intangible Assets and Goodwill*

Patent and trademark costs have been capitalized at September 30, 2018, totaling \$487,633 with accumulated amortization of \$360,743 for a net book value of \$126,890. Patent and trademark costs capitalized at September 30, 2017, totaled \$487,633 with accumulated amortization of \$337,882 for a net book value of \$149,751.

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 September 30, 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 September 30, 2018 and 2017, respectively.

Amortization expense for the years ended September 30, 2018 and 2017 was \$5,715 and \$6,201 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.

## Table of Contents

### *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 September 30, 2018 and 2017 reflect the impact of FASB ASC 718. Stock-based compensation expense recognized under FASB ASC 718 for the fiscal years ended September 30, 2018 and 2017 was \$9,785 and \$7,168, 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 three months ended September 30, 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 September 30, 2018 and 2017 with respect to certain key financial measures. The comparisons illustrated in the table are discussed in greater detail below.

	<b>Three Month Period Ended September 30, (in 000's)</b>		<b>Percent Change</b>	
	<b>2018</b>	<b>2017</b>	<b>2018 vs. 2017</b>	
Net revenues	\$827	\$926	(10.7	)%
Cost of revenues	(561)	(652)	(14.0	)%
Gross profit	266	274	(2.9	)%
Research and development expenses	(23 )	(58 )	(60.3	)%
Sales and marketing expense	(51 )	(66 )	(22.7	)%
General and administrative expense	(190)	(195)	(2.6	)%
Loss on asset abandonment	-	(17 )	100.0	%
Other income (expense)	2	(3 )	(166.7	)%
Net income (loss)	4	(64 )	(106.3	)%
Preferred stock dividend	(25 )	(25 )	0.0	%
Net loss attributable to common shareholders	\$(21 )	\$(89 )	(76.4	)%

*Quarter Ended September 30, 2018 Compared to September 30, 2017*

As disclosed in our June 30, 2018 Annual Report on Form 10-K, the first quarter of each of our fiscal years has traditionally been our weakest quarter. Despite significantly lower net revenues in the period ending September 30, 2018 versus the year prior, we were able to post net income of \$4,000 for the quarter, compared to a loss of \$64,000 for the period ending September 30, 2017.

Table of Contents

*Net Sales.* Net sales of \$827,244 for the quarter ended September 30, 2018, represents a 10.7% decrease over net sales of \$925,716 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 quarter ended September 30, 2018 was \$561,012 or 67.8% of sales compared to \$651,816 or 70.4% of sales for the same period in 2017. The higher gross margin was due to sales of higher margin products compared to the year earlier period. The loss of revenue experienced during the quarter compared to the previous year was mainly low margin products. 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 September 30, 2018 was \$266,232 compared to \$273,900 for the same period in 2017. Gross profit for the quarter ended September 30, 2018 decreased by \$7,668 or 2.9% 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 September 30, 2018 gross profit reflects a 32.2% gross margin for product sales compared to a gross margin on product sales of 29.6% in 2017.

*Research & Development Expenses (R&D).* Research and development expenses for the quarter ended September 30, 2018 were \$23,073 compared to \$58,141 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 quarter ended September 30, 2018 were \$50,924 as compared to \$65,735 for the same period in 2017. The difference between periods relates to lower sales commissions 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 September 30, 2018 were \$189,548 compared to \$194,951 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 September 30, 2018 was \$1,630 compared to other expense of \$18,728 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 Income (Loss).* Net income for the quarter ended September 30, 2018 of \$4,317 compared to a net loss of \$63,655 for the same period in 2017, an increase in net income of \$67,972.

## **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 September 30, 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.

Table of Contents*Cash Flows*

The following table sets forth our cash flows for the quarters ended September 30, 2018 and 2017.

	<b>Periods ended Sept. 30, (in 000's) 2018 2017</b>	
Net cash provided by/used by operating activities	\$94	\$(32 )
Net cash used in investing activities	-	-
Net cash used by financing activities	(4 )	(6 )
Net increase (decrease) in cash during the period	\$90	\$(38 )

*Net Cash Provided by Operating Activities.* Our primary sources of operating cash during the quarter ended September 30, 2018 came from collections from customers on balances from June 30, 2018 and sales for the quarter. Our primary use of operating cash was an increase in prepaid and other current assets, specifically related to renewal of insurance policies, and use of inventory. Net cash provided by operating activities was \$94,279 for the quarter ended September 30, 2018 compared to net cash used by operating activities of \$31,700 for the same period in 2017.

Non-cash items include depreciation and amortization and stock based compensation. Our net income was \$4,317 for the quarter ended September 30, 2018 compared to a net loss of \$63,655 for the same period in 2017. The net income for the quarter ended September 30, 2018 included non-cash expenses for depreciation and amortization of \$20,473 and stock-based compensation of \$9,785 (both stock issued and options). As of September 30, 2017, depreciation and amortization was \$23,559 and stock-based compensation (stock issued) totaled \$7,168.

*Net Cash Used by Financing Activities.* Net cash used by financing activities was \$4,651 for the quarter ended September 30, 2018 and \$6,088 for the same period in 2017. The primary use of cash for the quarter ended September 30, 2018 was payment toward the payment of notes payable of \$4,651.

*Contractual Obligations and Commitments*

The following table summarizes our contractual cash obligations and other commercial commitments at September 30, 2018.

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Facility lease (1)	\$241,500	\$138,000	\$103,500	\$ -	\$ -
Bank debt (2)	61,928	21,349	40,579	-	-
Total contractual cash obligations	\$303,428	\$159,349	\$144,079	\$ -	\$ -

(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 November 6, 2018, our total cash balance was \$386,168, none of which is restricted; accounts receivables was \$180,993; and inventory, net of reserves for slow moving or obsolete inventory, and other current assets was \$818,211. Our total indebtedness was \$574,721 and includes \$453,412 in accounts payable and accrued expenses, \$17,600 in current portion of long-term debt and \$100,724 in long-term debt.

Table of Contents

We have been working during the past year to improve our liquidity and access to capital resources. In order to fully execute the strategic business plan discussed during our shareholder meeting in November 2017, we required more capital resources. However, management decided that an equity financing at the market conditions at the time 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 but we were able to obtain term bank debt financing at the end of 2016 to finance critical manufacturing equipment and operating enhancements the majority of which was placed in service in 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.

We are intent on focusing on the sale and distribution of profitable product lines. Management continues to look for further financing facilities at affordable terms that will allow the Company to maintain sufficient raw material and finished goods inventory to capitalize on 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. As of September 30, 2018, we have not needed to activate this financing option as explained above.

Management continues to execute its strategic plan focusing on "Profitability as a Mindset". The Company's emphasis on proper product pricing and new marketing campaigns has driven more profitable sales. Improvement in results has continued and the Company has been successful in reducing its required breakeven sales level.

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 September 30, 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. However, to expand manufacturing and sales operations beyond the current level, additional capital may be required.

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 November 9, 2018, the Company has approximately 701,000 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.

Table of Contents

**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 Officers, 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.





Table of Contents

**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**

Our Annual Stockholder's Meeting is scheduled for 10am, Wednesday, November 28, 2018 at 1501 Industrial Rd., Boulder City, NV 89005.

## 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

Table of Contents

**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: November 9, 2018

**AMERITYRE CORPORATION**

By:

/s/ Michael F. Sullivan

Michael F. Sullivan

/s/ Lynda R. Keeton-Cardno

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 Q1 0000945828 2018-09-30  
0000945828 2018-06-30 0000945828 2018-07-01 2018-09-30 0000945828 2017-07-01 2017-09-30 0000945828  
2017-06-30 0000945828 2017-09-30 0000945828 2018-11-06 0000945828  
amty:ShippingAndHandlingRevenueMember 2018-07-01 2018-09-30 0000945828  
amty:ShippingAndHandlingRevenueMember 2017-07-01 2017-09-30 0000945828  
us-gaap:NotesPayableOtherPayablesMember 2018-07-01 2018-09-30 0000945828  
us-gaap:NotesPayableOtherPayablesMember 2018-09-30 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 2018-09-30 0000945828  
us-gaap:ChiefExecutiveOfficerMember 2016-12-01 2016-12-01 0000945828 us-gaap:ChiefExecutiveOfficerMember

Edgar Filing: AMERITYRE CORP - Form 10-Q

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  
2018-09-30 0000945828 2017-07-01 2018-06-30 0000945828 amty:OptionsAt0.08Member 2018-09-30 0000945828  
amty:OptionsAt0.08Member 2018-07-01 2018-09-30 0000945828 amty:OptionsAt0.10Member 2018-09-30  
0000945828 amty:OptionsAt0.10Member 2018-07-01 2018-09-30 0000945828 amty:OptionsAt017Member  
2018-09-30 0000945828 amty:OptionsAt017Member 2018-07-01 2018-09-30 iso4217:USD iso4217:USD  
xbrli:shares xbrli:shares xbrli:pure