

ADVANCED MATERIALS GROUP INC
Form 10-Q
April 16, 2001

=====

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

/X/ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2001.
OR

/ / TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 0-16401

ADVANCED MATERIALS GROUP, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA 33-0215295
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

20211 S. SUSANA ROAD, RANCHO DOMINGUEZ, CALIFORNIA 90221
(Address of principal executive offices)

(310) 537-5444
Issuer's telephone number

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or such
shorter period that the issuer was required to file such reports), and (2) has
been subject to such filing requirements for the past 90 days. X Yes No
--- ---

Indicate the number of shares outstanding of each of the issuer's class of
common equity, as of the latest practicable date:

COMMON STOCK, \$.001 PAR VALUE, 8,671,272 SHARES AS OF April 13, 2001.

=====

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

ADVANCED MATERIALS GROUP, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS:

Consolidated Statements of Operations for the three months
ended February 28, 2001 and February 27, 2000

Consolidated Balance Sheets at February 28, 2001 and November 30, 2000

Consolidated Statements of Cash Flows for the three months ended
February 28, 2001 and February 27, 2000

Notes to Consolidated Financial Statements

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of
Operations

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

ITEM 6. Exhibits and Reports on Form 8-K

Signatures

PART I - FINANCIAL INFORMATION

ITEM I - CONSOLIDATED FINANCIAL STATEMENTS

ADVANCED MATERIALS GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED	
	FEBRUARY 28, 2001	FEBRUARY 27, 2000
	-----	-----
Net sales	\$ 9,949,000	\$ 9,481,000
Cost of sales	8,859,000	8,003,000
	-----	-----

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

Gross profit	1,090,000	1,478
Operating expenses:		
Selling, general and administrative	1,233,000	1,051
Depreciation and amortization	80,000	66
Total operating expenses	1,313,000	1,117
Income (loss) from operations	(223,000)	361
Other income (expense):		
Interest expense	(159,000)	(119)
Foreign exchange gain	30,000	11
Other, net	(17,000)	(2)
Total other income and expenses	(146,000)	(110)
Income (loss) before income taxes	(369,000)	251
Income tax expense	(24,000)	---
Net income (loss)	\$ (393,000)	\$ 251
Basic (loss) earnings per common share	\$ (0.05)	\$
Diluted (loss) earnings per common share	\$ (0.05)	\$
Basic weighted average common shares outstanding	8,671,272	8,548
Diluted weighted average common shares outstanding	8,671,272	8,828

See accompanying notes to consolidated financial statements

3

ADVANCED MATERIALS GROUP, INC.
CONSOLIDATED BALANCE SHEETS
FEBRUARY 28, 2001 AND NOVEMBER 30, 2000

ASSETS

Current assets:		
Cash and cash equivalents		\$
Accounts receivable, net		7,
Inventories, net		5,
Income tax receivable		
Deferred income taxes		

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

Prepaid expenses and other		-----
Total current assets	14,	-----
Property and equipment, net	2,	
Goodwill, net		
Deferred income taxes		
Other assets		-----
Total assets	\$ 17,	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,	
Accrued liabilities	1,	
Deferred income		
Line of credit	3,	
Current portion of long-term obligations		-----
Total current liabilities	11,	
Term loan		
Convertible debentures		
Deferred compensation, net of current protion	1,	
Capital leases, net of current portion		-----
Total liabilities	14,	-----
Stockholders' equity:		
Preferred stock-\$.001 par value; 5,000,000 shares authorized no shares issued and outstanding		---
Common stock-\$.001 par value; 25,000,000 shares authorized; 8,671,272 shares issued and outstanding at February 28, 2000 and November 30, 2000, respectively		
Additional paid-in capital	7,	
Accumulated deficit	(3,1	-----
Total stockholders' equity	3,	-----
Total liabilities and stockholders' equity	\$ 17,	=====

See accompanying notes to consolidated financial statements

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

Cash flows from operating activities:		
Net (loss) Income	\$	(393,000)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation		202,000
Amortization		16,000
Provision for obsolete inventory		(9,000)
Discontinued operations		---
Interest on deferred compensation		39,000
Deferred income		41,000
Changes in operating assets and liabilities:		
Accounts receivable - trade		602,000
Inventories		(347,000)
Prepaid expenses and other assets		(168,000)
Accounts payable and accrued liabilities		79,000
Net cash provided by operating activities		62,000
Cash flows from investing activities:		
Purchases of property and equipment		(148,000)
Net cash used in investing activities		(148,000)
Cash flows from financing activities:		
Purchase and retirement of common stock		---
Exercise of common stock options		---
Net repayments under line of credit		(75,000)
Repayments under term loan		(32,000)
Proceeds received from capitalized financing		---
Payments on capital lease obligations		(30,000)
Payments on deferred compensation		(27,000)
Net cash used in financing activities		(164,000)
Net change in cash and cash equivalents		(250,000)
Cash and cash equivalents, beginning of period		1,101,000
Cash and cash equivalents, end of period	\$	851,000
Supplemental disclosures of cash flow information Cash paid during the period for:		
Interest	\$	160,000
Income taxes	\$	5,000

See accompanying notes to consolidated financial statements

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

1) BASIS OF PRESENTATION

These accompanying consolidated financial statements and related notes are unaudited. However, in the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. These interim financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. The interim statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K.

2) INVENTORIES

Inventories are stated at the lower of cost (determined on the first-in, first-out method) or market. Inventories consisted of the following:

	FEBRUARY 28, 2001	NOVEMBER 30, 2000
	-----	-----
Raw Materials	\$ 3,042,000	\$ 3,091,000
Work-in-process	315,000	204,000
Finished Goods	2,108,000	1,823,000
	-----	-----
	5,465,000	5,118,000
Less allowance for obsolete inventory	(147,000)	(156,000)
	-----	-----
	\$ 5,318,000	\$ 4,962,000
	=====	=====

3) BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE

Basic and Diluted income (loss) per share is computed in accordance with Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"). In the February 28, 2001 computation, common equivalent shares are excluded from diluted loss per share as their effect is antidilutive. Basic and Diluted income (loss) for the three months ended February 28 and February 27 are as follows:

	THREE MONTHS

	FEBRUARY 28, 2001

BASIC EPS:	
Net (loss) income	\$ (393,000)
Denominator: Weighted average common shares outstanding	8,671,270

Net (loss) income per share (basic)	\$ (0.045)
	=====
DILUTED EPS:	

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

Net (loss) income	\$	(393,00

Denominator: Weighted average common shares outstanding		8,671,27
Common equivalent shares outstanding (options and warrants)		--
Hypothetical shares repurchased at average market price with proceeds of exercise		--

Total shares		8,671,27

Net (loss) income per share (diluted)	\$	(0.0
		=====

6

4) SEGMENT REPORTING

The Company's foreign operations include both manufacturing and sales. The manufacturing facility is located in Ireland and the sales joint venture is located in Singapore. Both facilities began operations in fiscal 1998. All of the sales are made to unaffiliated customers. The following is a summary of selected financial information by entities within geographic areas for the first quarter and three months ended February 28, 2001 and February 27, 2000.

FY 01 CURRENT THREE MONTHS VERSUS FY 00
REVENUE:

	AMI-US OPERATIONS	AMI-SINGAPORE	AMI
	-----	-----	-----
2001.....	\$5,353,000	\$2,433,000	\$2,
2000.....	\$5,668,000	\$2,274,000	\$1,

NET INCOME (LOSS):

	AMI-US OPERATIONS	AMI-SINGAPORE	AMI
	-----	-----	-----
2001.....	\$ (718,000)	\$ 210,000	\$
2000.....	\$ (156,000)	\$ 370,000	\$

ASSETS: AS OF FEBRUARY 28, 2001 AND NOVEMBER 30, 2000

	AMI-US OPERATIONS	AMI-SINGAPORE	AMI
	-----	-----	-----
2001.....	\$ 11,212,000	\$ 2,850,000	\$3,
2000.....	\$ 11,681,000	\$ 3,648,000	\$3,

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

5) CONTINGENT LIABILITIES

Legal proceedings to which the Company is a party are discussed in Part 1 Legal Proceedings, in the latest Annual Report on form 10-K.

6) RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes account and reporting standards for derivative instruments and requires recognition of all derivatives as assets or liabilities in the statement of financial position and measure of those instruments at fair value. SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. ADMG adopted the standard during the first quarter of fiscal year 2001. The Company currently does not engage in derivative or hedging activities, and accordingly, there has been no impact to its consolidated financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"). SAB 101 summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The Company believes that its current revenue recognition policies comply with SAB 101.

7

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF INTERIM FINANCIAL INFORMATION (UNAUDITED).

The following discussion should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere in this document.

This document contains forward-looking statements that involve risks and uncertainties that could cause the results of the Company and its consolidated subsidiaries to differ materially from those expressed or implied by such forward-looking statements. These risks include the timely development, production and delivery of new products; the challenge of managing asset levels, including inventory and trade receivables; the difficulty of keeping expense growth at modest levels while increasing revenues; and other risks described from time to time in the Company's filings with the Securities and Exchange Commission, including but not limited to the Annual Report on Form 10-K for the year ended November 30, 2000.

Forward-looking statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected.

RESULTS OF OPERATIONS

FY 01 CURRENT THREE MONTHS VERSUS FY 00

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

Net revenue for the first quarter ended February 28, 2001 was \$9,949,000, versus \$9,481,000 for the same period of fiscal 2000, an increase of 4.9%. The increase in net revenues for the first quarter of fiscal 2001 is primarily attributable to higher international sales volumes.

Cost of sales for the first quarter ended February 28, 2001 and February 27, 2000 was \$8,859,000 and \$8,003,000, respectively. Cost of sales as a percentage of net revenue was 89% for the first quarter of fiscal 2001, compared to 84.4% for the first quarter of fiscal 2000. The increase in cost of sales for the first quarter of fiscal 2001, compared to the first quarter of fiscal 2000, is primarily due to manufacturing fixed costs relating to the Company's expansion in Ireland and the gross profit sharing agreement with the Company's strategic manufacturing partner in Singapore.

Operating expenses for the first quarter of February 28, 2001 and February 27, 2000 was \$1,313,000 and \$1,117,000, respectively. The increase was due to Company's expansion in Ireland. The Company continues to focus on the reduction of operating expense ratios and optimization of manufacturing processes in order to improve profitability.

Interest expense for the first quarter of fiscal 2001 was \$159,000, an increase of \$40,000, compared to the first quarter of fiscal 2000. The increase is attributable to higher interest rates and higher average loan balances.

Net loss for the first quarter of fiscal 2001 was \$ (393,000), compared to net income of \$251,000 for the first quarter of 2000. Basic (loss) income per share for the first quarter of fiscal 2001 was \$(.05) per share on a weighted average of 8.7 million shares, compared to \$.03 on a weighted average of 8.5 million shares for the first quarter of fiscal 2000. Diluted income per share for the first quarter of fiscal 2001 was \$(.05) per share on a weighted average of 8.7 million shares.

The Company has not received any notice of investigation, claim or proceeding relating environmental liability nor is the Company aware of any environmental litigation, investigation or unasserted claim involving the Company or its subsidiaries.

SEGMENT INFORMATION

The following is a discussion of operating results for each of the Company's business segments. Quarterly financial data for each segment can be found in Note 4 to these consolidated financial statements. The reportable segments disclosed in this Form 10-Q are based on the Company's internal management responsibility.

8

AMI-U.S. OPERATIONS

Net revenue for the first quarter ended February 28, 2001 was \$5,353,000, compared to net revenue for the first quarter ended February 27, 2000 of \$5,668,000. Net loss for the first quarter ended February 28, 2001 was \$(718,000), compared to net loss for the first quarter of ended February 27, 2000 of \$(156,000). The increase in net loss is primarily attributable to lower net revenue volumes.

AMFSC-SINGAPORE

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

Net revenue for the first quarter ended February 28, 2001 was \$2,433,000, compared to net revenue for the first quarter ended February 27, 2000 of \$2,274,000. The increase in net revenues for the first quarter of fiscal 2000 is primarily attributable to higher volumes of component sales to computer printer manufacturers. Printer supply sales to key customer accounts reflected continued growth in the installed base, growth in printing from the Internet and increased usage of newly introduced products. Net income for the first quarter ended February 28, 2001 was \$210,000, compared to net income for the first quarter ended February 27, 2000 of \$370,000. Decrease in net income is primarily attributable to the gross profit sharing agreement with the Company's strategic manufacturing partner in Singapore.

AML-IRELAND

Net revenue for the first quarter ended February 28, 2001 was \$2,163,000, compared to net revenue for the first quarter ended February 27, 2000 of \$1,539,000. The increase in net revenues for the first quarter of fiscal 2001 is primarily attributable to higher volumes of component sales to computer printer manufacturers. Printer supply sales to key customer accounts reflected continued growth in the installed base, growth in printing from the Internet and increased usage of newly introduced products. Net income for the first quarter ended February 28, 2001 was \$116,000, compared to net income for the first quarter ended February 27, 2000 of \$37,000.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$851,000 at February 28, 2001, compared with \$1,101,000 at November 30, 2000. During the first quarter cash flows from operating activities were used to pay down short- and long-term debt and purchase property, plant and equipment.

Operating activities generated \$62,000 of cash during the first quarter fiscal 2001, compared with \$629,000 in the corresponding period in fiscal 2000. The increase in cash generated from operating activities in fiscal 2001 resulted primarily from operations and decrease in accounts receivables.

Inventory at February 28, 2001 was \$5,318,000, compared to \$4,962,000 at November 30, 2000. Inventory levels increased primarily to support the sales growth in Ireland.

Net trade receivables at February 28, 2001 were \$7,151,000, compared to \$7,753,000 at November 30, 2000. Decrease due to reduction in net revenues.

Capital expenditures were \$148,000 for the first quarter of fiscal 2001, compared to \$241,000 for the corresponding period in fiscal 2000. The Company has instituted a Company-wide program to reduce non-essential capital expenditures, which are not specifically focused on revenue growth.

The Company uses short- and long-term borrowings to supplement internally generated cash flow. Short- and long-term borrowings in the first quarter of fiscal 2001 decreased by \$107,000.

The Company had \$851,000 of cash and cash equivalents at February 28, 2001. The Company's operating credit line with its primary lenders has current availability, as of April 12, 2001, of \$1,460,000 with approximately \$3,540,000 currently outstanding. The Company has an outstanding term loan of \$940,000 as of February 28, 2001. The term loan bears interest at prime plus 1.25% and labor plus 1.0% (9.25% and 6.5% at February 28, 2001). The Company anticipates that existing cash, cash from operations and existing lines of credit will supply sufficient cash for its short and long term projected

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

needs for operations.

At February 28, 2001, the Company was not in compliance with minimum net income and debt service coverage ratio and is in technical default under the compliance provisions of the bank line of credit. The Company is currently in discussions with the lender to amend the financial covenants. Management believes it will be successful in such discussions, however, there can be no assurance of this success nor that management would be successful in finding a replacement lender with acceptable terms.

FACTORS THAT COULD AFFECT FUTURE RESULTS

Competition - We encounter aggressive competition in all areas of our business. We have numerous competitors, ranging from several comparable-size companies to many relatively small companies. The majority of our competitors are private, closely held companies. We compete primarily on the basis of performance, price, quality and customer service. Product life cycles are short,

9

with numerous small one-time customer orders. To remain competitive, the Company must be able to quickly develop new products and enhance existing products in response to customer demands. In particular, management anticipates a continuing need to lower the prices of many of the Company's products to stay competitive and effectively manage financial returns with resulting reduced gross margins. In some of our markets, we may not be able to successfully compete against current and future competitors, and the competitive pressures we face could harm our business and prospects.

New Product Introductions - If the Company cannot continue to rapidly develop and manufacture innovative products that meet customer requirements for performance, price, quality and customer service, we may lose market share and future revenue and earnings may suffer. The process of developing new products and corresponding manufacturing processes is complex and uncertain. The customer decision-making process can be lengthy and some raw materials have extremely long lead times. These circumstances often lead to long delays in new product introductions. After a product is developed, we must be able to manufacture sufficient volumes quickly at low enough costs. To do this we must accurately forecast volumes and mix of products. Customer orders have also been subject to dramatic swings from customer provided forecasts. Thus, matching customers' demand and timing for particular products makes the process of planning production and managing inventory levels increasingly difficult.

Short Product Life Cycles - The short life cycles of many of the Company's products pose a challenge for us to manage effectively the transition from existing products to new products. If we do not manage the transition effectively, our future revenue and earnings could suffer. Among the factors that make a smooth transition from current products to new products difficult are delays in the customer decision-making process, development of manufacturing processes, long lead times for the delivery of raw materials and variations in product costs. Our future revenues and earnings could also suffer due to the timing and introduction of new product offerings, which compete directly or indirectly with our customers' products and new product offerings by our competitors.

Reliance on Suppliers - The Company's manufacturing operations depend on our suppliers' ability to deliver quality raw materials and components in time for us to meet critical manufacturing and distribution schedules. We sometimes experience a short supply of certain raw materials as a result of supplier

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

out-of-stock situations or long manufacturing lead times. If shortages or delays exist, the Company's future operating results could suffer. Furthermore, we may not be able to secure enough raw materials at reasonable prices to manufacture new products in the quantities required to meet customer demand. Sudden or large raw materials price increases could also cause future operating results to suffer.

International - Sales outside the United States make up more than 46% of the Company's revenues. Manufacturing for these products are also located outside of the United States. The Company's future earnings or financial position could be adversely affected by a variety of international factors, including:

- o Changes in a country or region's political or economic conditions,
- o Trade protection measures,
- o Import or export licensing requirements,
- o The overlap of different tax structures,
- o Unexpected changes in regulatory requirements,
- o Problems caused by the conversion of various European currencies to the Euro, and
- o Natural disasters.

Market Risk - The majority of the Company's sales are denominated in U.S. dollars. All costs in Singapore and the majority of direct material costs in Ireland are also denominated in U.S. dollars. However, the Company is exposed to foreign currency exchange risk inherent in our sales commitments, anticipated sales and assets and liabilities denominated in currencies other than the U.S. dollar. See also "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's 1999 Annual Report on Form 10-K for more detailed information.

Earthquake - Our corporate offices and manufacturing division in California are located near major earthquake faults. The ultimate impact on the Company and our general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake. We are predominantly uninsured for losses and interruptions caused by earthquakes.

Environmental - Some of the Company's operations use substances regulated under various federal, state and international laws governing the environment. It is our policy to apply strict standards for environmental protection to sites inside and outside the U.S., even when not subject to local government regulations. THE COMPANY HAS NOT BEEN NOTIFIED OF ANY ENVIRONMENTAL INFRACTIONS.

Profit Margin - The Company's profit margins vary somewhat among our products and geographic markets. Consequently, our overall profitability in any given period is partially dependent on the product, customer and geographic mix reflected in that period's net revenue.

10

Stock Price - The Company's stock price, like that of any other small-cap company, can be volatile. Some of the factors that can affect our stock price are:

- o The Company's, our customer's or our competitor's announcement of new or discontinued products,
- o Quarterly increases or decreases of our earnings,
- o Changes in revenue or earnings estimates by the investment community, and
- o Speculation in the press or investment community.

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

General market conditions and domestic or international macroeconomic factors unrelated to the Company's performance may also affect our stock price. For these reasons, investors should not rely on recent trends to predict future stock prices or financial results. In addition, following periods of volatility in a company's securities, securities class action litigation against a company is sometimes instituted. This type of litigation could result in substantial costs and the diversion of management time and resources.

Earnings Fluctuations - Although management believes the Company has products and resources needed for successful results, we cannot reliably predict future revenue and margin trends. Actual trends may cause us to adjust our operations, which could cause period-to-period fluctuations in our earnings.

The Company's common stock traded on the NASDAQ Small-Cap Stock Market ("NASDAQ") under the symbol "ADMG" from June 23, 1993 until December 13, 2000. Effective as December 14, 2000, the Company's common stock was delisted from the NASDAQ and has traded on the NASD-regulated OTC Bulletin Board ("Bulletin Board") under the symbol "ADMG.OB." The high and low closing prices for the common stock for the past two fiscal years as reported by NASDAQ and the Bulletin Board are set forth in the following table. Such quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

A discussion of the Company's exposure to, and management of, market risk appears in Item 2 of this Form 10-Q under the heading "Factors That Could Affect Future Results."

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 14, 2000, the United States District Court for the Central District of California entered a final judgment in favor of Advanced Materials Group, Inc. (AMG) on the complaint filed by AMG for a judicial declaration that it has no liability for any debts or obligations of Condor Utilities Products, Inc. (Condor), a wholly owned subsidiary of AMG which has now ceased operations. This includes a certain judgment obtained against Condor in 1998 in favor of the former suppliers of Condor, Vern and Shirley Auten, arising out of litigation which preceded the purchase of Condor by AMG in 1993. Evidence presented to the Court indicated that Condor has no other unpaid trade obligations or debts.

The Autens claimed that AMG was the "alter ego" of Condor, and therefore was obliged to pay the outstanding judgment against Condor. The Court reviewed extensive expert accounting testimony indicating that the financial and corporate relationship between AMG and Condor was entirely proper and complied with all corporate and accounting requirements. Based on this evidence, the Court ruled that as a matter of law AMG has no financial responsibility to pay the Auten judgment, or any other debt or obligation of Condor.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Edgar Filing: ADVANCED MATERIALS GROUP INC - Form 10-Q

(a) Exhibits.

None

(b) Reports on Form 8-K

No reported 8-K developments submitted in quarter.

11

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: April 13, 2001

ADVANCED MATERIALS GROUP INC.

By: /s/ STEVE F. SCOTT

Steve F. Scott
President and CEO
(Chief Executive Officer)

/s/ GAYLE ARNOLD

Gayle Arnold
Vice President
(Chief Financial Officer)
(Principal Financial and Accounting Officer)

12