Advanced Materials Group, Inc.
Form 10QSB
October 13, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended August 31, 2006**

o **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 registrant as specified in its charter)

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

**3303 Lee Parkway Suite 105 Dallas, Texas 75219**
(Address of principal executive offices)(Zip code)

**(972) 432-0602**
(Registant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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 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 o Noþ

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common Stock, $.001 par value, 12,116,026 shares outstanding as of October 2, 2006.

Transitional Small Business Disclosure Format (check one): Yes o Noþ

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

**PART I - FINANCIAL INFORMATION**

**ITEM 1 - FINANCIAL STATEMENTS**

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | August 31, 2006 | August 31, 2005 | August 31, 2006 | August 31, 2005 |
| Net sales | $ 2,327,246 | $ 1,943,450 | $ 7,228,617 | $ 5,967,379 |
| Cost of sales | 1,714,339 | 1,550,911 | 5,221,472 | 4,786,436 |
| Gross profit | 612,907 | 392,539 | 2,007,145 | 1,180,943 |
| | | | | |
| Operating expenses: | | | | |
| Selling, general and administrative | 453,370 | 344,344 | 1,375,046 | 1,259,710 |
| Depreciation and amortization | 19,751 | 39,214 | 66,816 | 139,656 |
| Total operating expenses | 473,121 | 383,558 | 1,441,862 | 1,399,366 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Income (loss) from operations | | 139,786 | | 8,981 | | 565,283 | | (218,423) |
| Other income (expense): | | | | | | | | |
| Interest expense | | (32,671) | | (39,982) | | (111,623) | | (113,471) |
| Other, net | | 1,019 | | 51,358 | | 12,202 | | 90,034 |
| Total other income (expense), net | | (31,652) | | 11,376 | | (99,421) | | (23,437) |
| Net income (loss) | $ | 108,134 | $ | 20,357 | $ | 465,862 | $ | (241,860) |
| Basic and diluted earnings (loss) per common share | $ | 0.01 | $ | 0.00 | $ | 0.04 | $ | (0.02) |
| Weighted Average Common Shares Outstanding: | | | | | | | | |
| Basic | | 12,116,026 | | 10,932,693 | | 12,116,026 | | 10,654,915 |
| Diluted | | 12,230,854 | | 10,941,264 | | 12,172,626 | | 10,654,915 |

See accompanying notes to consolidated financial statements

**ADVANCED MATERIALS GROUP, INC.**
**CONSOLIDATED BALANCE SHEETS**

| | | August 31, 2006 (unaudited) | | November 30, 2005 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ | 341,811 | $ | 407,039 |
| Accounts receivable, net | | 1,634,316 | | 1,470,805 |
| Inventories, net | | 974,991 | | 1,085,057 |
| Prepaid expenses and other | | 87,496 | | 218,242 |
| Total current assets | | 3,038,614 | | 3,181,143 |
| Property and equipment, net | | 391,979 | | 519,888 |
| Other assets | | 78,862 | | 80,964 |
| Total assets | $ | 3,509,455 | $ | 3,781,995 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ | 413,471 | $ | 849,715 |
| Accrued liabilities | | 17,013 | | 233,287 |
| Notes payable - related parties | | 57,736 | | 99,418 |
| Line of credit | | 1,235,012 | | 1,168,879 |
| Current portion of term loan | | 55,000 | | 90,000 |

| | | | | |
|---|---|---|---|---|
| Current portion of capital lease obligations | | 22,204 | | 31,886 |
| Total current liabilities | | 1,800,436 | | 2,473,185 |
| | | | | |
| Capital lease obligations, net of current portion | | 25,013 | | 54,781 |
| Term loan, net of current portion | | -- | | 35,885 |
| Total liabilities | | 1,825,449 | | 2,563,851 |
| | | | | |
| Commitments and contingencies | | -- | | -- |
| | | | | |
| 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; 12,116,026 shares issued and outstanding at August 31, 2006 and November 30, 2005 | | 12,116 | | 12,116 |
| Additional paid-in capital | | 8,355,497 | | 8,355,497 |
| Accumulated deficit | | (6,683,607) | | (7,149,469) |
| Total stockholders' equity | | 1,684,006 | | 1,218,144 |
| Total liabilities and stockholders' equity | $ | 3,509,455 | $ | 3,781,995 |

See accompanying notes to consolidated financial statements

**ADVANCED MATERIALS GROUP, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | | Nine Months Ended | | |
|---|---|---|---|---|
| | | **August 31, 2006** | | **August 31, 2005** |
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ | 465,862 | $ | (241,860) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | | | |
| Depreciation and amortization | | 174,996 | | 295,957 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | | (163,511) | | 122,099 |
| Inventories | | 110,066 | | (403,783 ) |
| Prepaid expenses and other assets | | 132,848 | | (92,220) |
| Accounts payable and accrued liabilities | | (652,518) | | 194,716 |
| Restructuring reserve | | -- | | (12,656) |
| Net cash provided by (used in) operating activities | | 67,743 | | (137,747) |

| | | | | |
|---|---|---|---|---|
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | | (47,087) | | (22,261) |
| Net cash used in investing activities | | -- | | (22,261) |
| | | | | |
| Cash flows from financing activities: | | | | |
| Sale of common stock | | -- | | 249,833 |
| Net borrowings (repayments) under line of credit | | 66,133 | | 189,621 |
| Repayments under term loan | | (70,885) | | (77,500) |
| Repayments of other long-term obligations | | (81,132) | | (116,734) |
| Net cash provided by (used in) financing activities | | (85,884) | | 245,220 |
| Net change in cash and cash equivalents | | (65,228) | | 85,212 |
| | | | | |
| Cash and cash equivalents, beginning of period | | 407,039 | | 55,289 |
| Cash and cash equivalents, end of period | $ | 341,811 | $ | 140,501 |
| | | | | |
| Supplemental disclosures of cash flow information | | | | |
| Cash paid during the period for: | | | | |
| Interest | $ | 111,623 | $ | 113,470 |
| Income taxes | $ | | $ | -- |

See accompanying notes to consolidated financial statements

**ADVANCED MATERIALS GROUP, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## 1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with 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 financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America.

The unaudited consolidated financial statements do, however, reflect all adjustments, consisting of only normal recurring adjustments, which are, in the opinion of management, necessary to state fairly the financial position as of August 31, 2006 and the results of operations and cash flows for the interim periods ended August 31, 2006 and August 31, 2005. However, these results are not necessarily indicative of results for any other interim period or for the year. It is suggested that the accompanying consolidated financial statements be read in conjunction with the Company's audited consolidated financial statements and accompanying notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended November 30, 2005.

<u>Principles of Consolidation</u>

The consolidated financial statements include the accounts of Advanced Materials Group, Inc. and its wholly owned subsidiary, Advanced Materials, Inc. and Advanced Materials, Ltd. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

**2) EARNINGS (LOSS) PER SHARE**

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 requires the presentation of basic and diluted net income per share. Basic earnings per share exclude dilution and are computed by dividing net income by the weighted average of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. Potential common share equivalents including stock options and warrants have been excluded for the three-month periods ended August 31, 2006 and August 31, 2005, as their effect would be anti-dilutive.

There were 656,000 and 2,436,000 potentially dilutive options and warrants outstanding at August 31, 2006 and August 31, 2005, respectively, that were not included in the computation of the net income (loss) per share because they would be anti-dilutive.

**3) STOCK BASED COMPENSATION**

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure", which amended FAS No. 123, "Accounting for Stock-Based Compensation." The new standard provides alternative methods of transition for a voluntary change to the fair market value based method for accounting for stock-based employee compensation. Additionally, the statement amends the disclosure requirements of FAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. In compliance with FAS No. 148, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by APB No. 25.

The following table represents the effect on net income and earnings per share if the Company had applied the fair value based method and recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **August 31, 2006** | **August 31, 2005** | **August 31, 2006** | **August 31, 2005** |
| Net income (loss) available to common stockholders | $ 108,134 | $ 20,357 | $ 465,862 | $ (241,860) |
| Plus: Stock-based employee compensation included in reported net income (loss) | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| Less: Total stock-based employee compensation determined using fair value based method | (1,700) | (9,378) | (11,200) | (18,755) |
| Pro forma net income (loss) available to common stockholders | 106,434 | 10,979 | 454,662 | (260,615) |
| | | | | |
| Net income (loss) per common share - as reported: | | | | |
| Basic | 0.01 | 0.00 | 0.04 | (0.02) |
| Diluted | 0.01 | 0.00 | 0.04 | (0.02) |
| Net income (loss) per common share - pro forma: | | | | |
| Basic | 0.01 | 0.00 | 0.04 | (0.02) |
| Diluted | 0.01 | 0.00 | 0.04 | (0.02) |

**4) INVENTORIES**

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

| | August 31, 2006 (unaudited) | November 30, 2005 |
|---|---|---|
| | | |
| Raw Materials | $ 525,114 | $ 479,206 |
| Work-in-process | 143,795 | 150,763 |
| Finished Goods | 320,982 | 489,988 |
| | | |
| Less allowance for obsolete inventory | (14,900) | (34,900) |
| | $ 974,991 | $ 1,085,057 |

**ITEM 2 -MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

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

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-KSB for the year ended November 30, 2005 and in "Factors That Could Affect Future Results" below.

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.

**General**

As of August 31, 2006, we had working capital of $1,238,178 compared to working capital of $707,958 at November 30, 2005. The change is primarily related our reduction of outstanding accounts payable and accrued liabilities by $436,244 and $216,274 respectively, over the nine month period. The reduction in accounts payable is due to the more timely payment of normal operating expenses as a result of the companies overall improved financial resources and cash management. Accrued liabilities have decreased due to paying of auditing and other SEC related expenses for past years and the reduction in debt. The Company continues to improve the operating results of the operations to further strengthen the financial health of the company.

**Results of Operations Three Months Ended August 31, 2006 compared to the Three Months Ended August 31, 2005**

Net sales for the quarter ended August 31, 2006 were $2,327,246 versus $1,943,450 for the same period of fiscal 2005, an increase of $383,976 or 20%. Revenues from the Singapore strategic manufacturing venture decreased to $135,185 in the three-month period ended August 31, 2006 from $153,660 in the comparable period in 2005. Revenues from U.S. operations increased to $2,192,061 in the third quarter of 2006 from $1,789,790 in 2005. The Company is realizing the result of the change in strategy that was implemented some two years past. This operating change is a result of increased sales of existing products and the introduction of new company owned products into the marketplace. The Company will continue to focus on the strategy of increasing sales to existing customers and to new customers.

Cost of sales for the quarters ended August 31, 2006 and August 31, 2005 were $1,714,339 and $1,550,991, respectively. The Company's gross profit percentage was 26% in 2006 period, compared to 20% in the 2005 period. The Company continues to focus on securing long term pricing commitments from it suppliers of raw materials to guard against market fluctuations. This strategy has resulted in securing lower costs than market for raw materials while we have increased our business in the marketplace. The Company monitors the external factors that could affect our raw materials pricing on a constant basis.

Selling, general and administrative expenses for the third quarter of fiscal 2006 and 2005 were $453,370 and $344,344, respectively, an increase of $109,026 or 32%. SG&A expenses have increased due to increased research and development costs of new products owned by the company and to strengthen the sales team and the Company. The Company monitors this expense level closely to keep it in line with the revenue generation of new products. This expense will remain at the current level or increase in order to further push the Companies products to market.

Interest expense for the third quarter of fiscal 2006 and 2005 was $32,671 and $39,982, respectively. Interest expense relates primarily to bank borrowings and is not expected to fluctuate significantly in the near future. The Company is in the process of renegotiating the current line of credit to achieve costs savings for the coming months. The Company feels it will be successful in accomplishing this task as the overall financial health of the company has improved over past years performance.

Net income for the third quarter of fiscal 2006 was $108,134 compared to net income of $20,357 for the third quarter of fiscal 2005. Basic and diluted income per share for the third quarter of fiscal 2006 was $0.01 per share, compared to net income of $0.00 per share for the third quarter of fiscal 2005.

**Results of Operations Nine Months Ended August 31, 2006 compared to the Nine Months Ended August 31, 2005**

Net sales for the nine-month period ended August 31, 2006 were $7,228,617 versus $5,967,379 for the same period of fiscal 2005, a increase of $1,261,238 or 21%. Revenues from the Singapore strategic manufacturing venture increased to $458,009 in the nine-month period ended August 31, 2006 from $407,581 in the comparable period in 2005. Revenues from U.S. operations increased to $6,770,608 in the nine-month period ended August 31, 2006 from $5,559,798 in 2005.

The increase in sales for U.S. operations is due to both increased sales prices and higher sales volumes. The Company continues to shift its primary focus to generating its own proprietary opportunities with both its existing customer base as well as new prospects in order to build a more competitive base of business in the United States. The Company is pursing all of its current customers to strengthen the partnerships that exist between the Company and the Customer. The Company is also aggressively seeking out new opportunities with new customers to diversify our current concentrations of business. The Company will be launching selling campaigns to launch it own patented products over the coming months.

Cost of sales for the nine-month periods ended August 31, 2006 and August 31, 2005 were $5,221,472 and $4,786,436, respectively. The Company's gross profit percentage was 28% in 2006 period, compared to 20% in the 2005 period. Due to the signing of new business at higher gross profit margins the company is showing increased gross profits. As the company continues to focus its efforts on manufacturing and selling its own proprietary products this trend is expected to continue. Costs control of manufacturing operations also has played a large part in the achievement of these gross profits. The Company continues to explore new technologies to assist in the manufacturing process. It is also believed that these improved methods will continue to assist in the improvement of gross margins. The company has set internal goals of increased profit margins with it own proprietary products which we are confident we can achieve over the coming months.

Selling, general and administrative expenses for the nine-month periods ended August 31, 2006 and 2005 were $1,375,046 and $1,259,710, respectively, an increase of $115,336 or 9%.

Interest expense for the nine-month periods ended August 31, 2006 and 2005 was $111,623 and $113,471, respectively. Interest expense relates primarily to bank borrowings and is not expected to fluctuate significantly in the near future.

Net income for the nine-month period ended August 31, 2006 was $465,862, compared to A net loss of $241,860 for the same period of fiscal 2005. Basic and diluted income (loss) per share for the nine-month period ended August 31, 2006 was $0.04 per share, compared to $(0.02) per share for the same period of fiscal 2005.

**Liquidity and Capital Resources**

Cash and cash equivalents were $341,811 at August 31, 2006, compared with $407,039 at November 30, 2005. Operating activities provided $67,743 of cash during the nine-month period of fiscal 2006, compared with cash used of $137,747 in the corresponding period of fiscal 2005.

Capital expenditures were $47,087 for the nine months ended August 31, 2006, compared to $22,261 for the corresponding period in fiscal 2005. The Company has instituted a Company-wide program to reduce non-essential capital expenditures that are not specifically focused on revenue growth. Capital expenditures were for normal operating equipment used in the normal daily operations of the business. As the Company adds new customers and new products capital expenditures are expected to increase in the coming months to accommodate the needs of the business.

The Company uses short- and long-term borrowings to supplement internally generated cash flow. Activity related to short- and long-term borrowings in the nine-months ended August 31, 2006 resulted in cash used in financing activities of $85,884 compared to cash provided of $245,220 for the corresponding period in fiscal 2005. The improvement is a significant sign that the company continues to improve the financial operations of the company. This improvement allows the company to compete in the marketplace to achieve greater results than in the past.

FACTORS THAT COULD AFFECT FUTURE RESULTS

BANKING - The Company continues to improve the balance sheet through the realization of positive earnings quarter over quarter. This has allowed the Company to seek out conventional bank financing other than the current asset based credit facility in place. The Company is working towards moving to conventional bank line of credit by the fourth quarter of 2006 and is confident of obtaining favorable results.

COMPETITION - The Company encounters aggressive competition in all areas of its business. It has numerous competitors, ranging from several comparable-size companies to many relatively small companies. The majority of the competitors are private, closely held companies. There is also the risk that a supplier to the Company could become a competitor. The Company competes primarily on the basis of performance, price, quality and customer service. Product life cycles are short, 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 some of its markets, the Company may not be able to successfully compete against current and future competitors, and the competitive pressures faced could harm the Company's 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, it 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, the Company must be able to manufacture sufficient volumes quickly at low enough costs. To do this it 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.

RELIANCE ON SUPPLIERS - The Company's manufacturing operations depend on its suppliers' ability to deliver quality raw materials and components in time for the Company to meet critical manufacturing and distribution schedules. The Company sometimes experiences a short supply of certain raw materials as a result of supplier out-of-stock situations or long manufacturing lead times. If shortages or delays exist, the Company's future operating results could suffer. Furthermore, it 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 if the Company is not able to increase its sales prices to account for the materials price increases.

EARTHQUAKE - The manufacturing division in California is located near major earthquake faults. The ultimate impact on the Company and its general infrastructure is unknown, but operating results could be materially affected in the event of a major earthquake. The Company is 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 the Company's 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 its products. Consequently, the overall profitability in any given period is partially dependent on the product and customer mix reflected in that period's net sales.

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 the stock price are:

¡¡è The Company's, its customer's or its competitor's announcement of new or discontinued products,

¡¡è Quarterly increases or decreases in earnings,

¡¡è Changes in revenue or earnings estimates by the investment community, and

¡¡è Speculation in the press or investment community.

General market conditions and domestic or international macroeconomic factors unrelated to the Company's performance may also affect the 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, it cannot reliably predict future revenue and margin trends. Actual trends may cause it to adjust its operations, which could cause period-to-period fluctuations in earnings.

**ITEM 3 - CONTROLS AND PROCEDURES**

The Company¡¯s Chief Executive Officer and President/Chief Financial Officer (the Company¡¯s principal executive officer and principal financial officer), have evaluated the effectiveness of the Company¡¯s 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 period ended August 31, 2006, the period covered by this Quarterly Report on Form 10-QSB. Based upon that evaluation, the Company¡¯s principal executive officer and principal financial officer have concluded that the disclosure controls and procedures were effective as of August 31, 2006 to provide reasonable assurance that material information relating to the Company is made known to management including the CEO and President/CFO.

There were no changes in the Company¡¯s internal control over financial reporting that occurred during the period ended August 31, 2006 that have materially affected, or are reasonable likely to materially affect, the Company¡¯s internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS.**

NONE

**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.**

NONE

**ITEM 5. OTHER INFORMATION.**

NONE

**ITEM 6. EXHIBITS**

(a) Exhibits.

| **Exhibit No.** | **Description** |
|---|---|
| 31.1<br>31.2 | Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**SIGNATURES**

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

Dated: October 13, 2006 ADVANCED MATERIALS GROUP, INC.

By: /s/ William G. Mortensen
William G. Mortensen
President and Chief Financial Officer

EXHIBIT 31.1

CERTIFICATIONS

I, Ricardo G. Brutocao, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Advanced Materials Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [language omitted pursuant to SEC Release 34-47986] for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Omitted pursuant to SEC Release 34-47986];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal Control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2006

/s/ RICARDO G. BRUTOCAO
Ricardo G. Brutocao
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, William G. Mortensen, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Advanced Materials Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [language omitted pursuant to SEC Release 34-47986] for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Omitted pursuant to SEC Release 34-47986];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal Control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2006

/s/ WILLIAM G. MORTENSEN
William G. Mortensen
President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-QSB of Advanced Materials Group, Inc. (the "Company") for the quarter ended August 31, 2006 (the "Report"), the undersigned hereby certifies in his capacities as Chief Executive Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material as of, and for, the periods presented in the report respects, the consolidated financial condition and results of operations of the Company.

Dated: October 13, 2006 By: /s/ RICARDO G. BRUTOCAO
Ricardo G. Brutocao
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-QSB of Advanced Materials Group, Inc. (the "Company") for the quarter ended August 31, 2006 (the "Report"), the undersigned hereby certifies in his capacities as Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material as of, and for, the periods presented in the report respects, the consolidated financial condition and results of operations of the Company.

Dated: October 13, 2006 By: /s/ WILLIAM G. MORTENSEN
William G. Mortensen

President and Chief Financial Officer