AMERICAN AMMUNITION INC /CA
Form 10KSB
March 31, 2003

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-KSB

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

[_] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to ________________

Commission File No.: 333-46160

American Ammunition, Inc.
(Name of small business registrant in its charter)

California	91-2021594
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3545 NW 71st Street Miami, FL	33147
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (305) 835-7400

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
None	

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.001 par value
(Title of class)

Copies of Communications Sent to:

Mintmire & Associates
265 Sunrise Avenue, Suite 204
Palm Beach, FL 33480
Tel: (561) 832-5696 - Fax: (561) 659-5371

Check whether the registrant (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 [X] No [_]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State registrant's revenues for its most recent fiscal year. $1,409,364

The aggregate market value of the voting common equity held by non-affiliates as of December 31, 2002 was $22,131,266.40 based upon 55,328,166 shares outstanding of which 24,333,746 was held by non-affiliates and a share price of $0.40. No non-voting common equity is outstanding.

2

PART I

Item 1. Description of Business

Business Development

Certain statements contained in this annual filing, including, without limitation, statements containing the words "believes", "anticipates", "expects" and words of similar import, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include, among others, the following: international, national and local general economic and market conditions: demographic changes; the ability of the Company to sustain, manage or forecast its growth; the ability of the Company to successfully make and integrate acquisitions; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Given these uncertainties, readers of this Form 10-KSB and investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward- looking statements contained herein to reflect future events or developments.

American Ammunition, Inc. (the "Company") was incorporated on February 1, 2000 in the State of California as FirsTelevision.com. It subsequently changed its corporate name to FBI Fresh Burgers International with a business plan of marketing the concept of a national "fast food" restaurant chain to children and young adults, with a menu of fresh burgers, fries and sandwiches.

On September 29, 2001, the Company, F&F Equipment, Inc. d/b/a American Ammunition ("AA") and the individual shareholders of AA entered into a share exchange agreement whereby the shareholders of AA exchanged 100% of the issued and outstanding stock of AA for 21,000,000 post- forward split shares of restricted common stock of the Company. AA then became a wholly-owned subsidiary of the Company.

The acquisition of AA, on September 29, 2001, by the Company effected a change in control and was accounted for as a "reverse acquisition" whereby AA is the accounting acquiror for financial statement purposes. Accordingly, for all periods subsequent to the September 29, 2001 change in control transaction, the financial statements of the Company reflect the historical financial statements of AA from its inception on October 4, 1983 and the operations of the Company subsequent to September 29, 2001.

Concurrent with the September 29, 2001 reverse acquisition transaction, the Company amended its Articles of Incorporation to change the Company's name to American Ammunition, Inc. and modified the Company's capital structure to allow for the issuance of up to 320,000,000 total equity shares consisting of 20,000,000 shares of preferred stock and 300,000,000 shares of common stock. Both classes of stock have a par value of $0.001 per share.

On October 9, 2001, the Company effected a three (3) for one (1) forward stock split. This action caused the then issued and outstanding shares to increase from 2,990,400 to 8,971,200 on the action date. The effect of this action is reflected in the accompanying financial statements as of the first day of the first period presented.

AA was incorporated on October 4, 1983 under the laws of the State of Florida. The Company was formed to engage principally in the "import, export, retail & wholesale of firearms equipment, ammunition & other devices and for the purpose of transacting any and/or all lawful business."

The Company relied upon Section 4(2) of the Securities Act of 1933, as amended (the "Act") and Rule 506 of Regulation D promulgated thereunder ("Rule 506") for recent issuances of its unregistered securities. In each instance, such reliance was based upon the fact that (i) the issuance of the shares did not involve a public offering, (ii) there were no more than thirty-five (35) investors (excluding "accredited investors"), (iii) each investor who was not an accredited investor either alone or with his purchaser representative(s) has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment, or the issuer reasonably believes immediately prior to making any sale that such purchaser comes within this description, (iv) the offers and sales were made in compliance with Rules 501 and 502, (v) the securities were subject to Rule 144 limitations on resale and (vi) each of the parties was a sophisticated purchaser and had full access to the information on the Company necessary to make an informed investment decision by virtue of the due diligence conducted by the purchaser or available to the purchaser prior to the transaction (the "506 Exemption").

In December 2001, concurrent with a modification in the holding period prior to conversion, certain holders of the Series A Preferred Stock orally notified the Company of their intent to exercise the conversion features on 1,749,720 issued and outstanding shares of Series A Preferred Stock into 19,246,920 shares of common stock prior to December 31, 2001. Due to the timing of the requisite documentation, the clerical activities related to this conversion were not completed until February 2002.

In February 2002, the Company converted $100,000 in short-term debt payable and accrued interest of approximately $25,000 to an existing shareholder into 277,778 shares of restricted, unregistered common stock. This transaction was consummated at a price of $0.45 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The Company utilizes a discount of approximately 50.0% on the quoted closing price to value all transactions settled with restricted, unregistered common stock issued pursuant to Rule 144 of the U. S. Securities and Exchange Commission. This transaction paid in full all outstanding short-term debt.

In March 2002, in two separate transactions, the Company sold an aggregate 1,388,890 shares of restricted, unregistered common stock to two separate investors for aggregate proceeds of approximately $500,000. Each sale was made at a price of $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of each respective transaction. These proceeds were used to supplement operational working capital.

In March 2002, the Company issued 32,000 shares of restricted, unregistered common stock to a member of the Company's Board of Directors for consulting services related to the Company's reverse merger transaction and for various marketing services. This transaction was valued at approximately $11,520, or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In March 2002, the Company issued 41,665 shares of restricted, unregistered common stock to an unrelated party for shareholder and other public relation services. This transaction was valued at approximately $15,000, or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In April and May 2002, the Company issued an aggregate 432,721 shares of restricted, unregistered common stock to three creditors in settlement of approximately $182,017 in open trade accounts payable. Each issuance was made at a price of either $0.45 or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of each respective transaction.

In June 2002, the Company issued 347,223 shares of restricted, unregistered common stock to an existing shareholder to reimburse said shareholder for his payment of previously accrued legal fees associated with the bank related litigation, which was concluded in June 2001, on behalf of the Company and for other consulting services currently being provided by the shareholder. This transaction was valued at approximately $125,000, or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In June 2002, the Company sold 277,778 shares of restricted, unregistered common stock to an investor for aggregate proceeds of approximately $100,000. This sale was made at a price of $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to supplement operational working capital.

During June, July and September 2002, the Company issued an aggregate 21,987 shares of restricted, unregistered common stock in payment of approximately $10,400 in accrued dividends payable on the Company's outstanding Series A Preferred Stock for the quarters ended December 31, 2001, March 31, 2002, June 30, 2002 and September 30, 2002.

In July 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In August 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of $100,000. This sale was made at a price of $0.26 per share, which was below the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The differential between the discounted "fair value" (approximately $0.29 per share) and the selling price resulted in a charge to operations of approximately $11,346 for compensation expense related to common stock issuances at less than "fair value". The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In August 2002, the Company sold 20,506 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $6,152. This sale was made at a price of $0.30 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to directly retire a trade account payable to a specific vendor.

In August 2002, the Company issued 24,999 shares of restricted, unregistered common stock to an unrelated party for shareholder and other public relation services. This transaction was valued at approximately $6,875, or $0.28 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In September 2002, the Company sold 277,778 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In September 2002, the Company sold 277,778 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds from this transaction were used to support operational working capital.

In September 2002, the Company sold 222,222 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.45 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to support operational working capital.

On October 4, 2002, the Company issued an 8.0% Convertible Debenture (Debenture) in the face amount of $250,000 and a Warrant which requires the Holder to purchase shares of common stock equal to ten (10) times the number of shares of common stock issued to the Holder on conversion of the Debenture. In no event shall the number of shares issued under the Warrant exceed 30,000,000.

The Debenture bears interest at 8.0% and matures two years from the date of issuance. The Debenture is convertible into common stock, at the option of the Holder, at the lesser of $1.00 per share or 80.0% of the average of the 5 lowest volume weighted average price days during the 20 trading days before, but not including the date of the Holder's election to convert. The Warrant is exercisable at the same price. The full principal amount of the Debenture is due upon default, as defined in the Debenture agreement. The Debenture interest is payable monthly in arrears commencing on November 15, 2002.

The Company is obligated to file a Registration Statement under the Securities Act of 1933 to register the underlying conversion shares on either Form SB-2 or S-3 and have said Registration Statement effective no later than 120 days after October 4, 2002.

The Debenture Holder has contractually committed to convert not less than 5.0% and not more than 10.0% of the original face value of the Debenture monthly beginning the month after the effective date of the Registration Statement and the Holder is required to concurrently exercise warrants and purchase shares of common stock equal to ten (10) times the number of shares of common stock issued to the Holder upon the respective mandatory conversion of the Debenture.

The Holder has further contractually agreed to restrict its ability to convert the Debenture or exercise their warrants and receive shares of the Company's common stock such that the number of shares held by the Holder and its affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock of the Company.

In the event an election to convert is made and the volume weighted average price of the Company's common stock is below $0.30 per share, the Company shall have the right to prepay any portion of the outstanding Debenture that was elected to be converted, plus any accrued and unpaid interest, at 125.0%.

The Holder may demand repayment of the Debenture of 125.0% of the face amount outstanding, plus all accrued and unpaid interest, in cash at any time prior to the date that underlying Registration Statement under the Securities Act of 1933 has not been declared effective by the U. S. Securities and Exchange Commission within 3 business days of such demand. If the repayment is accelerated, the Company is also obligated to issue to the Holder 25,000 shares of common stock and $10,000 cash for each 30 day period, or portion thereof, during which the face amount, including interest thereon, remains unpaid with the cash payment to increase to $15,000 for each 30 day period the balance remains unpaid after the initial 90 day period.

If the Holder does not elect to accelerate the Debenture, the Company shall immediately issue and pay to the Holder 25,000 shares of common stock and $10,000 cash for each 30 day period, or portion thereof, during which the face amount, including interest thereon, remains unpaid with the cash payment to increase to $15,000 for each 30 day period the balance remains unpaid after the initial 90 day period.

Due to the contractually agreed mandatory conversion of this Debenture, the Company has reflected this transaction in its balance sheet as a "mezzanine" level debt obligation on its balance sheet, between "Total Liabilities" and "Shareholders' Equity". Upon the respective mandatory conversion, the Company will relieve the respective portion of the Debenture and the any related accrued, but unpaid interest, and credit this amount to the respective "common stock" and "additional paid-in capital" accounts in the shareholder's equity section for the par value and excess amount over the par value of the respective shares issued.

No value was assigned to the issued warrant. Upon exercise of the warrant, the Company will record the issuance of the underlying shares as a new issuance of common stock on the date of each respective exercise.

Concurrent with the execution of the Debenture agreement, the Company executed an engagement letter with the Holder's counsel for legal representation with regard to the preparation of the aforementioned Registration Statement under the Securities Act of 1933.

In November 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In December 2002, the Company sold an aggregate 120,170 shares of restricted, unregistered common stock to an existing shareholder in three separate transactions valued at an aggregate of approximately $31,244. These sales were made at a price of $0.26 per share, which was in excess of the discounted "fair value" of the Company's common stock on the date of each respective transaction. The proceeds of this transaction were used to directly retire a trade account payable to a specific vendor.

In December 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which was in excess of the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In December 2002, the Company issued 55,000 shares of restricted, unregistered common stock upon the exercise of 5,000 shares of outstanding Series A Preferred Stock upon the exercise of the conversion option by the Holder of the Series A Preferred Stock.

On February 28 and March 20, 2003, respectively, the Company made additional principal reductions of $100,000 and $350,000 fully retiring the outstanding debt.

8

See (b) "Business of Registrant" immediately below for a description of the Company's business.

Business of Registrant

General

The Company changed its name to American Ammunition, Inc. on September 26, 2001 and currently is quoted on the OTC-BB under the symbol "AAMI".

On September 29, 2001, the Company entered into a Share Exchange Agreement with AA whereby 100% of the shares of AA were acquired by the Company in exchange for shares of the Company's common stock. A new Board of Directors consisting of AA directors took control of the Company.

The Company's principal executive offices are located at 3545 NW 71st Street, Miami, Florida 33147; and its telephone number is (305) 835-7400.

The Company had minimal operations until September 2001 when it acquired AA and since such acquisition is engaged principally in the manufacture and sale of ammunition for retail and wholesale sales. American Ammo is an established small arms munitions manufacturer with an existing distribution network. The ammunition market is dominated by three major manufacturers; however, the Company is poised to enter and impact the growing ammunition market with its technologically advanced manufacturing equipment and techniques. The Company is located in a "Right to Work" state where labor costs are relatively low and it is therefore able to maintain low manufacturing costs.

The Company began as an assembler and re-loader of ammunition in several calibers. As the Company grew, management realized that the only way to break into the industry was to become a vertically integrated manufacturer. Its founders then invested heavily in research and development, equipment and technology and focused on increasing its market share. As a result, the Company continued manufacturing its initial calibers along with special order ammunition for the Department of Defense. Further streamlining of the operations resulted in the manufacture of the current ammunition product line: 9mm, .45auto, ..380auto, .32auto, .40S&W, 38Spl, 30carbine and .223 REM. Management has identified these products as having the largest share of the market for the next several years.

The Company's Equipment and Production Line Capabilities

American Ammo owns all the equipment necessary to take the raw material from cup, lead, primer and powder, to the finished product - a finished, loaded round. The process of manufacturing diverse calibers of ammunition is extremely complex and requires tolerances of +/- .0005" to be maintained throughout the process.

The Company's technology and the equipment enable it to produce a large variety of handgun and rifle ammunition. American Ammo has a state of the art machine shop and maintains its own testing and quality assurance equipment and program. Ammunition is a performance - based product. Therefore, after the manufacturing process is complete, the ammunition must comply with specific protocols such as velocity, accuracy, and pressure. The Company purchases raw materials in bulk and strives to take advantage of prepayment discounts to produce significant savings in the manufacturing process. There are and have been instances when discounts have been and may be missed due to cash flow restrictions.

The Company is evaluating the addition of several products to its existing production lines, including the addition of high speed projectile forming machines to supplement the existing casting machines. This addition would effectively double or triple projectile production capacity, while improving projectile quality and performance. The Company also is making provisions to increase other aspects of production capacity which would complement long term goals of both production volume and product diversity.

On October 26, 2000, the Company's equipment and production lines were appraised at $17,000,000.00 as the Fair Market Value, In-Place, In-Use for the seven bullet manufacturing lines, machine shop and support equipment by Arnold Stewart, ASA, 5761 NW 3th Avenue, Miami, Florida 33142. Such production includes the metallurgical process of case making.

Business Strategy

American Ammo is an autonomous manufacturer of ammunition, with the technology and equipment to take advantage of the growing market. It has developed what it believes is an excellent reputation within the industry.

The barrier to entry into the ammunition market is extremely high; however, American Ammo is an established small arms munitions manufacturer, with an existing distribution network. The Company manufactures its ammunition by creating most of the components itself. Its manufacturing equipment and techniques are technologically advanced and the Company is poised to enter and impact what it perceives as a growing market.

In management's opinion, the ammunition market has grown each year and it appears that supply is not keeping up with demand, thus allowing for companies like American Ammo to make a significant impact in sales through distributors in commercial markets and in addition sales to government agencies, the military and exports. American Ammo has been seeking additional capital to allow it to enlarge its operations to take advantage of its technological capacities, equipment and the existing marketplace.

Marketing and Sales Distribution

American Ammunition currently has agreements with nineteen (19) national distributors throughout the United States in order to diversify its customer base. Ellet Brothers, Inc. accounted for 51% and 42% of the Company's total sales for fiscal year 2001 and 2002 respectively. Exports accounted for 25% of the Company's total sales for fiscal year 2002. The Company has exported its products to South America, the Caribbean and the Middle East. The Company has also entered into an "Assured Payment Program" with a National Buying Syndicate which represents 200 members with 1200 retail locations, and has begun shipping to them in the first quarter of 2003. The agreement with this National Buying Syndicate guarantees payment to the Company from all of individual members of the syndicate. The Company plans to continue to aggressively pursue new customers through promotions, advertising and trade shows. It intends to solicit original equipment manufacturer subcontract work from the three (3) major manufacturers; seek additional means of commercial distribution; seek further Department of Defense and law enforcement contracts; solicit further export sales and increase its dealings with mass merchandisers/chain stores.

American Ammo has been certified by the United States Small Business Administration as a "qualified HUBZone small business concern." Under this program , small businesses can qualify for special set-aside contracts, get up to a 10% edge in competitive contract bidding or even be the sole-source bidder

in some cases. The program's name signifies the effort to promote businesses in "historically under-utilized business zones," generally blighted areas and its purpose is to create jobs for those who live in such areas as well.

The Company also is marketing its unique manufacturing flexibility to numerous DOD and commercial munitions manufacturers as subcontractors allowing prime contractors to reap the benefits of its "HUBZone certification", thereby allowing such prime contractors to comply with FAR requirements for the use of "small and under-utilized minority business" in fulfilling government contracts.

The Small Business Reauthorization Act of 1997 increased the overall government agencies' procurement goals for small business to 23% and calls for HUBZone contracts to increase from 1.5% of these procurements to 3% by 2003.

Pricing and Value

The Company strives to price its products competitively at a price lower than any of the "big three" manufacturers (Remington, ATK and Winchester). The Company capitalizes on the fact that the "big three" have very large corporate infrastructures and, in management's opinion, have to pay much higher labor costs to their plant personnel. This pricing strategy permits the distributor to purchase the Company's product, add a significant profit and sell such product at a retail price that is lower than that at which the distributor can purchase the competitors' product. The Company believes that this strategy can have a significant impact on the market and increase the Company's market share.

Advertising & Promotion

American Ammo intends to gear its advertising towards magazine and print media, focused on the gun and ammo, handgun and shooting markets. It is believed that such advertising will result in greater name recognition among individual consumers. Currently, the Company's sales are generated with very little advertising and it is believed that such advertising could significantly improve retail/mass merchandiser sales and increase market share.

Status of Publicly Announced Products and Services

Aircraft Bullet

The Company was assigned a serial number (60/325,046) from the U.S. Patent and Trademark Office for its provisional patent application filed on September 26, 2001 for a bullet that will not pierce an aircraft fuselage but will penetrate human soft tissue. The product has been specifically designed for use inside the cabin of a commercial aircraft; however, it has additional applications for use in nuclear power plants, at hazardous materials storage facilities, and for home defense.

The Company departed completely from standard ballistics for the design of this projectile to meet what American Ammo perceives as a growing and unfilled need. Two of the basic design criteria in ballistics are penetration and expansion of the projectile. In this design, these two factors have been controlled to meet the specific requirements of weapons discharged inside an aircraft cabin, while insuring fuselage integrity. This design is a new concept in close quarter ammunition: a bullet capable of incapacitating an assailant without damaging surrounding structure.

Design and material selection allows for the inverted expansion and aft internal collapse of the projectile mass. Upon impact with the aircraft fuselage, the bullet (projectile) internally collapses; therefore not allowing for the transfer of kinetic energy forward or penetration above that required for soft tissue penetration. Testing has been successful using test sections of various commercial airliner fuselages as well as ballistic testing using both ordinance gelatin and bovine tissue. This performance criterion is accomplished without sacrificing the standard velocity and accuracy of the caliber being used. A video of those tests can be viewed on the Company's website at www.a-merc.com in the New Product Section. The Company believes that these research and development efforts will provide a new product to the public safety and security marketplace.

Industrial Plating Enterprise Company

Industrial Plating Enterprise Company (IPE), a wholly owned subsidiary, is a high volume "barrel plating" facility currently operating at approximately 30% of its capacity. IPE is meeting all of the parent company's projectile plating needs at this time. As the parent company's projectile plating requirement grows, IPE will increase production to meet that need. IPE's innovative hazardous materials and hazardous waste management and treatment system is fully capable of meeting increased production requirements. IPE's management, intends to explore adding additional metallization and coating processes to diversify its services to the parent company as well as offering its services to other industries with the eventual goal of generating revenue to the parent company.

Competition

The Company faces competition from large, well-established companies with considerably greater financial, marketing, sales and technical resources than those available to the Company. Additionally, many of the Company's present and potential competitors have capabilities that may allow such competitors to offer its products at prices which may compete with the Company's products. The Company's products could be made uneconomical by the introduction of new products, changes affecting the cost of packaging and shipping, or marketing or pricing actions by one or more of the Company's competitors. The Company's business, financial condition or results of operations could be materially adversely affected by one or more of such developments. There can be no assurance that the Company will be able to compete successfully against current or future competitors or that competition will not have an material adverse effect on the Company's business, financial condition or results of operations.

The market for small arms ammunition is becoming increasingly competitive. Companies such as Remington, ATK and Winchester are all better equipped, more experienced and better financed than the Company.

For years the large manufacturers have supplied the component parts of the manufacturing process to smaller companies to assemble and distribute. A company making its own components, can produce and market a quality lower cost product. This concept, coupled with technology and progressive and environmentally sound manufacturing practices (i.e. cans and recycled plastic packaging), has resulted in a quality, affordable product reaching the marketplace.

The U.S. Market for Firearms and Ammunition, Economic Analysis of Markets, Manufacturers and Importers states that, "In 1999 sales for small arms and handgun ammunition exceeded $10 billion. Only five (5) companies in the United States shared 90% of the market. They include Olin Corporation's Winchester Ammunition Division, Remington Arms, ATK and American Ammo."

The Company believes it is feasible to increase its production capacity by 50% to 100% over the next 3 years utilizing existing equipment by increasing only labor, material and other incidental costs. Management bases this prediction on the fact that the Company had reduced sales in fiscal 2001 due to a lack of funding. The Company has already received significant bank and private placement funding in fiscal 2002 (as of the date of this report) to ramp up operations thereby significantly increasing its presence in the market.

The U.S. Market for Firearms and Ammunition, Economic Analysis of Markets, Manufacturers and Importers states that, "Domestic consumption of commercial ammunition exhibited strong growth rates between 1991 and 1996, much in the same manner as the products in which they are used. In 1998 the United States Federal Government purchased $1,687,658,000; U.S. Exports of small arms ammunition were $1,618,000,000 and U.S. commercial consumption totaled $758,000,000."

Sources and Availability of Raw Materials

The Company manufactures its ammunition by creating most of the components itself. The materials needed to produce the Company's ammunition products are widely available from numerous third parties. No shortage of materials is expected in the foreseeable future.

Dependence on one or few customers

The Company currently has agreements with nineteen (19) national distributors throughout the United States to diversify its sales base and plans to continue to aggressively pursue new customers through promotions, advertising and trade shows. It intends to solicit original equipment manufacturer subcontract work from the three major manufacturers; seek additional means of commercial distribution; seek further Department of Defense and Law Enforcement contracts; solicit further Export sales; and increase its dealings with Mass Merchandisers/Chain stores.

Research and Development

The Company believes that research and development is an important factor in its future growth. The small arms ammunition industry is closely linked to the latest technological advances. Therefore, the Company must continually invest in the technology to provide the best quality product to the public and to effectively compete with other companies in the industry. No assurance can be made that the Company will have sufficient funds to purchase technological advances as they become available.

Patents, Copyrights and Trademarks

The Company intends to protect its original intellectual property with patents, copyrights and/or trademarks as appropriate.

The Company's headstamp "A-MERC " was registered as a trademark on May 10,1994.

The Company was assigned a serial number (60/325,046) from the U.S. Patent and Trademark Office for its provisional patent application filed on September 26, 2001 for a bullet that will not pierce an aircraft fuselage but will penetrate human soft tissue.

Governmental Regulation

In accordance with the provisions of Title 1, Gun Control Act of 1968, and the regulations issued thereunder [27 CFR Part 178], the Company is required to be licensed to engage in the importing of firearms other than destructive devices and as the manufacturer of ammunition for firearms. Such licensing is subject to limitations in Chapter 44, Title 18, United States Code and the regulations issued thereunder.

In accordance with these requirements, the Company carries two licenses issued by the Department of Treasury, Bureau of Alcohol, Tobacco and Firearms:

License No. 1-59-025-06-3D 69152 for "06 - Manufacturer of Ammunition for Firearms", which license expires on April 1, 2003; and

License No. 1-59-025-08-3D-69454 for "08-Importer of Firearm other than Destructive Devices", which license expires on April 1, 2003.

In the event such licenses were not renewed for any reason, the Company would be precluded from continuing its operations.

The Company is not aware of any other license requirements or government regulation at a state or federal level specific to their business and believes that it in full compliance with its existing licenses.

Effect of Probable Governmental Regulation on the Business

The Company is not aware of any pending legislation at either the state or federal level that would change the requirements under which it is licensed and is not aware of any reason why the existing licenses cannot be renewed at their expiration dates. There can be no assurance that legislation will not be proposed and enacted at some time in the future that would preclude the Company from continuing its operations. Should such legislation be enacted, and should the Company be precluded from continuing its operations, it would have a materially adverse effect upon the Company's business and future.

Cost and Effects of Compliance with Environmental Laws

As a manufacturer, the Company and its wholly-owned subsidiary are subject to general local, state and federal regulations governing environmental concerns. Management believes that the Company and its subsidiary have always been and continue to be in compliance with all such laws.

Special precautions have been taken by the Company to ensure that adequate ventilation exists for the portion of the Company's operations that utilize lead and/or brass. Additionally, the Company's gunpowder supply is humidity and temperature controlled in a secure facility.

Employees

At December 31, 2002, the Company employed forty-five (45) persons. None of these employees are represented by a labor union for purposes of collective bargaining. The Company considers its relations with its employees to be excellent. The Company may employ additional personnel, as necessary, to accommodate future sales and production requirements.

Item 2. Description of Property

The Company maintains its executive offices at 3545 NW 71st Street, Miami, FL 33147. Its telephone number is (305) 835-7400 and its facsimile number is (305) 694-0037.

The Company leases 24,000 square feet of warehouse space, owned by the family of one of its officers and directors, Andres Fernandez, at a rate of $3,931 per month plus applicable sales taxes. This equates to a rate per square for of $2.71 per year. Management believes comparable rentals in the area average about $4.50 per square foot. The Company is operating under a five-year lease agreement expiring on October 31, 2003 that contains a clause that the lease may be renewed for an additional ten (10) year period upon written notification to the lessor no later than 120 days prior to the scheduled expiration date at a rental rate based upon the fair market value for similar space in a similar location at the time of renewal. This facility is used as the Company's production facility and headquarters.

The wholly owned subsidiary, Industrial Plating Enterprise Company (IPE), is fully operational and filling the immediate needs of projectile plating for the parent company. IPE is located in a 5,000 square foot facility operating under a 5 year lease agreement expiring in March 2007 that contains a clause that the lease may be extended for an additional 5 years upon written notification to the lessor no later than 120 days prior to the scheduled expiration date at a rental rate based upon the fair market value for similar space in a similar location at the time of renewal. The monthly cost varies between $1,700 and $1913.36 throughout the lease. IPE is in full compliance with all Local, State and Federal regulations in its operations.

Item 3. Legal Proceedings

The Company is not a party to any pending litigation at this time nor is any of its property subject to any pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Part II

Item 5. Market for Common Equity and Related Stockholder Matters.

a) Market Information.

The common stock of the Company currently is quoted on the Over the Counter Bulletin Board under the symbol "AAMI" and has been since October 23, 2001. Prior to that time, it was approved for trading under symbol "FBIB," although it never traded under that symbol. The ask/high and bid/low information for each quarter since October 23, 2001 are as follows:

Quarter	Ask/High	Bid/Low
09/01/2001-12/31/2001	1.75	0.53
01/01/2002-03/31/2002	0.81	0.33
04/01/2002-06/31/2002	0.65	0.36
07/01/2002 - 09/30/2002	0.57	0.31
10/01/2002 - 12/31/2002	0.47	0.38

Please note that over-the-counter market quotations have been provided herein. The quotations reflect inter-dealer prices, without retail markup, mark-down or commission and may not represent actual transactions.

(b) Holders.

As of December 31, 2002 the Company had one hundred twelve (112) shareholders of record of its 55,328,166 outstanding shares of common stock, 33,733,598 of which were restricted Rule 144 shares and 23,438,760 of which were free-trading. Of the Rule 144 shares, 30,962,420 shares have been held by affiliates of the Company for more than one (1) year.

(c) Dividends.

The Company has never paid or declared any dividends on its common stock and does not anticipate paying cash dividends in the foreseeable future.

Item 6. Management's Discussion and Analysis

Management's Discussion and Analysis of Financial Condition and Results of Operations

Caution Regarding Forward-Looking Information

Certain statements contained in this Registration Statement including, without limitation, statements containing the words "believes", "anticipates", "expects" and words of similar import, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include, among others, the following: international, national and local general economic and market conditions: demographic changes; the ability of the Company to sustain, manage or forecast its growth; the ability of the Company to successfully make and integrate acquisitions; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Given these uncertainties, readers of this Registration Statement and investors are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

Overview

We were incorporated on February 1, 2000 in the State of California as FirsTelevision.com. We subsequently changed our corporate name to FBI Fresh Burgers International with a business plan of marketing the concept of a national "fast food" restaurant chain to children and young adults, with a menu of fresh burgers, fries and sandwiches.

On September 29, 2001, FBI Fresh Burgers, F&F Equipment, Inc. and the individual shareholders of F&F entered into an "Agreement For The Exchange Of Common Stock" whereby the shareholders of F&F exchanged 100% of the issued and outstanding stock of F&F for 21,000,000 post-forward split shares of restricted, unregistered common stock of FBI Fresh Burgers. F&F Equipment, Inc. then became a wholly-owned subsidiary of FBI Fresh Burgers.

F&F Equipment, Inc. was incorporated on October 4, 1983 under the laws of the State of Florida. The company was formed to engage principally in the "import, export, retail & wholesale of firearms equipment, ammunition & other devices and for the purpose of transacting any and/or all lawful business." F&F conducts its business operations under the assumed name of "American Ammunition."

The acquisition of F&F Equipment, Inc., on September 29, 2001, by us effected a change in control and was accounted for as a "reverse acquisition" whereby F&F Equipment, Inc. is the accounting acquiror for financial statement purposes. Accordingly, for all periods subsequent to the September 29, 2001 change in control transaction, our financial statements reflect the historical financial statements of F&F Equipment, Inc. from its inception on October 4, 1983 and the operations of FBI Fresh Burgers subsequent to September 29, 2001.

Concurrent with the September 29, 2001 reverse acquisition transaction, we amended our articles of incorporation to change our name to American Ammunition, Inc. and modified our capital structure to allow for the issuance of up to 320,000,000 total equity shares consisting of 20,000,000 shares of preferred stock and 300,000,000 shares of common stock. Both classes of stock have a par value of $0.001 per share.

On October 9, 2001, we effected a three for one forward stock split. This action caused the then issued and outstanding shares to increase from 2,990,400 to 8,971,200 on the effective date. The effect of this action is reflected in the accompanying financial statements as of the first day of the first period presented.

During the quarter ended March 31, 2002, management elected to focus its efforts, capital resources and energies in streamlining production methods, securing key sources of raw material and exploring the addition of equipment to allow the Company to produce certain components of its manufacturing process which are currently being outsourced to unrelated third parties.

In June 2002, American Ammunition, Inc. formed a wholly owned subsidiary, Industrial Plating Enterprise Co., which started production on June 14, 2002. Industrial Plating is a fully licensed and approved electrochemical metallization facility with significant capacity for processing our line of projectiles as well as other products and services while employing environmentally sound water conservation and proven waste treatment techniques.

During the quarter ended September 30, 2002, the Company expanded its production capability with the addition of a second production shift. Due to the necessary lead times for hiring and training qualified personnel, the Company experienced significant increases in direct labor, payroll taxes and other related expenses during 2002. Management continues to anticipate events occurring in future quarters including increased levels of expenditures for marketing, increased product demand as a result of increased market exposure and the introduction of new products under development.

Results of Operations

Year ended December 31, 2002 compared with the year ended December 31, 2001.

During the year ended December 31, 2002, we experienced aggregate net revenues of approximately $1,409,000 as compared to approximately $428,000 for the year ended December 31, 2001. The 2002 levels compare favorably to the 2000 revenue levels of approximately $1,716,000.

We experienced costs of goods sold of approximately $2,457,000 for the year ended December 31, 2002 as compared to approximately $1,385,000 for the year ended December 31, 2001. We experience variable costs in the area of material consumption and direct labor. We have recognized depreciation expense on production equipment of approximately $653,000 and $629,000, respectively, in the above cost of goods expense totals.

These depreciation levels are anticipated to remain fairly constant for future periods as management does not anticipate any significant capital equipment acquisitions in future periods. Further, the addition of the Industrial Plating Enterprise Co. equipment allows us to produce certain components which were previously outsourced to unrelated third parties.

For the year ended December 31, 2002 and 2001, respectively, we have generated a negative gross profit of approximately $(1,047,000), or (74.31%), and approximately $(957,000), or (223.84%). We anticipate that with continued demand for our product, lower production costs being experienced from internally generated plating activities and adequate liquidity, it will be able to generate a positive gross profit in future periods. Further, based on production cost information developed during the 4th quarter of 2002, management has developed a new model for the pricing of its products to its customers. It is anticipated that this model will allow management to better manage expense levels, control labor costs and maximize revenue opportunities.

We experienced nominal research and development expenses of approximately $3,700 and $4,000, respectively, during the years ended December 31, 2002 and 2001, principally related to the expansion of our product line to add a .223 caliber round and the evolving development of a new patent-pending projectile for use in ammunition specifically for the public safety and security marketplace, especially in the rapidly expanding U. S. Air Marshall program and other product improvements.

Other general and administrative expenses decreased significantly from approximately $845,000 for the year ended December 31, 2002 as compared to approximately $1,806,433 for the year ended December 31, 2001. The most significant reductions came in interest expense as a result of settling all litigation with the Company's former lending institution, savings in the areas of legal and professional fees and other general and administrative fees.

Included in our results of operations for both 2002 and 2001 are various non-cash expenditure charges. During 2002, we experienced charges to operations of approximately $11,500 for compensation expense related to common stock issuances at less than "fair value". The calculation of these charges result from our issuing common stock for either cash or services at valuations below the closing quoted market price of our common stock (as discounted, as applicable) and either the cash received or the value of the services provided to us by third parties. During 2001, we experienced a charge of approximately $1,208,000 for the amortization of the Beneficial Conversion Feature Discount on our Preferred Stock. This charge results from the difference between the closing quoted market price on our common stock and the equivalent converted price of our Mandatory Convertible Preferred Stock which was sold and converted during 2001.

We recognized a net loss of approximately $(1,883,000) and $(3,216,577) for the respective years ended December 31, 2002 and 2001, respectively, or $(0.04) and $(0.11) per share.

Year ended December 31, 2001 compared with the year ended December 31, 2000.

Our operations were hampered during 2001 as a result of on-going litigation between us and our financial lending institution. As we were unable to access credit lines for working capital, we were unable to offer selling terms comparable to our competitors and, accordingly, experienced a significant reduction in sales from prior years. This litigation was settled during June 2001 and we negotiated a new working capital note with a different financial institution which provided liquidity for the remainder of 2001.

During the year ended December 31, 2001, we experienced revenues of approximately $428,000 as compared to approximately $1,716,000 for the year ended December 31, 2000.

We experienced costs of goods sold of approximately $1,629,000 and $2,026,000 for the years ended December 31, 2001 and 2000, respectively. We experience variable costs in the area of material consumption and direct labor. We recognized depreciation expense on production equipment of approximately $629,000 and $617,000, respectively, in the above cost of goods expense totals. These depreciation levels are anticipated to remain fairly constant for future periods unless we are successful in our plans to expand production.

We have realized a gross profit of approximately ($1,201,000), or (280.97%) for the year ended December 31, 2001 and approximately ($310,000), or (18.07%) for the year ended December 31, 2000. We anticipate that with adequate liquidity, we will be able to generate a positive gross profit during Calendar 2002.

We incurred nominal research and development expenses of approximately $3,800, during 2001 related to the development of a new patent-pending projectile for use in ammunition specifically for the public safety and security marketplace, especially in the rapidly expanding U. S. Air Marshall program and Home Defense Market.

Other general and administrative expenses increased from approximately $87,000 during Calendar 2000 to approximately $535,000 during Calendar 2001. The majority of this increase was a result of professional and consulting fees related to our reverse acquisition transaction in September 2001, and includes approximately $415,000 for non-cash charges related to fees and services charged to operations which were paid with common stock.

We also experienced non-cash income (charges) to operations resulting from a one-time gain of approximately $755,000 for the settlement of the litigation with our former lending institution and approximately ($392,000) in amortization of a beneficial conversion feature discount on preferred stock with an equivalent post-conversion common stock price at an amount less than the quoted closing market price of our common stock as of the sale date of the underlying convertible preferred stock.

We recognized a net loss of approximately $(2,212,000) and $(1,216,000) for the years ended December 31, 2001 and 2000, respectively, or $(0.08) and $(0.05) per share.

Liquidity And Capital Resources

As of December 31, 2002 and 2001, respectively, we had working capital of approximately $56,000 and $152,000. Our working capital position improved significantly in Calendar 2001 with the settlement of litigation involving its outstanding debt to its-then financial institution and the concurrent restructuring of working capital debt into a long-term instrument.

We have used cash in operating activities of approximately $1,236,000 and $1,100,000 during the years ended December 31, 2002 and 2001, respectively.

The most significant use of cash in operations during the year ended December 31, 2002 was the rebuilding of our operations after the problems encountered during 2001 while we were in litigation with our former primary lending institution. We further used cash in building up our inventory in anticipation of Calendar 2003 orders as communicated to us by our customer base.

We experience relatively consistent expenditure levels for executive and administrative compensation, interest expense and depreciation expense. During the third quarter of 2001, we renegotiated our working capital note in the principal amount of $950,000. The note bore interest at the Wall Street Journal published prime rate plus 2.0%. During 2002, we reduced the outstanding principal on five (5) separate occasions to a balance of approximately $450,000. The note payment terms were also modified as follows: payments of interest only through January 28, 2004. Thereafter, starting on January 28, 2004, equal monthly payments of principal and interest shall be due until June 28, 2007 which payments shall represent the amount necessary to fully amortize the remaining principal balance of the note. The monthly payments shall be recalculated at the time of any change in the applicable interest rate. As of December 31, 2002, we owed $450,000 on this note.

The note is secured by virtually all of our real and personal property. A portion of the proceeds from the financing were used to pay the $550,000 required in the Settlement and Compromise Agreement. Accordingly, we anticipate relatively stable interest expense, or declining levels, in future periods depending on expansion and additional equipment financing requirements. We do not anticipate the addition of significant additions to office and administrative personnel.

On February 28 and March 20, 2003, respectively, the Company made additional principal reductions of $100,000 and $350,000 fully retiring the outstanding debt.

20

We anticipate that our improved liquidity position will continue to improve as management is of the opinion that the production capacity is in place to support all existing orders and accept existing inquiries which have previously been denied due to the lack of production capacity and liquidity.

During the year ended December 31, 2002, we added approximately $387,000 in new equipment, of which approximately $225,000 was acquired in our new wholly-owned subsidiary, Industrial Plating Enterprise Co. This equipment allows us to replace previously outsourced portions of our manufacturing process with internally managed processes which resulted in cost savings to us and improve turnaround time on this process.

Depending on future demand for our products, we may develop plans to increase our production capability in the foreseeable future by 50% to 100%, as influenced by the availability of manufacturing equipment on the open market and product sales demand. This expansion, when undertaken, will require additional capital which is anticipated to be raised in various combinations of capital leases, bank debt and/or equity offerings. At this time, we have no definitive budgets or timetables for such expansion and this expansion, if any, will be dependent upon market demand for our products. Management is of the opinion that sufficient demand will be present, as supported by new product development and increased product marketing efforts, to justify this expansion. However, we may not be able to obtain additional funding or, that such funding, if available, will not be obtained on terms favorable to or affordable by us.

Convertible Debenture

On October 4, 2002, we signed a Securities Purchase Agreement with La Jolla Cove Investors, Inc. for the sale of a $250,000 8% convertible debenture and a warrant to purchase up 30,000,000 shares of our common stock. The debenture bears interest at 8%, matures in two years from the date of issuance, and is convertible into our common stock, at the selling stockholder's option, at the lesser of (i) $1.00 or (ii) 80% of the average of the five lowest volume weighted average price days during the 20 trading days before but not including the conversion date. The warrant may only be exercised concurrently with a conversion of the debenture and then only for that number of shares of common stock equal to 10 times the number of shares common stock issued to the debenture holder on that conversion date. The exercise price of the warrant is the lesser of (i) $1.00; or (ii) 80% of the average of the five lowest volume weighted average price during the 20 trading days prior to the holder's election to convert. See the "Selling Stockholders" section for a description of the convertible debenture and warrant issued to the La Jolla Cove Investors, Inc.

We are obligated to file this Registration Statement under the Securities Act of 1933 to register the underlying conversion shares on either Form SB-2 or S-3 and have said Registration Statement effective no later than 120 days after October 4, 2002.

La Jolla Cove Investors, Inc. (La Jolla) has contractually committed to convert not less than 5.0% and not more than 10.0% of the original face value of the Debenture monthly beginning the month after the effective date of the Registration Statement and the Holder is required to concurrently exercise warrants and purchase shares of common stock equal to ten (10) times the number of shares of common stock issued to the Holder upon the respective mandatory conversion of the Debenture.

La Jolla has further contractually agreed to restrict its ability to convert the Debenture or exercise their warrants and receive shares of our common stock such that the number of shares held by the Holder and its affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of our common stock.

In the event an election to convert is made and the volume weighted average price of our common stock is below $0.30 per share, we have the right to prepay any portion of the outstanding Debenture that was elected to be converted, plus any accrued and unpaid interest, at 125.0%.

La Jolla may demand repayment of the Debenture of 125.0% of the face amount outstanding, plus all accrued and unpaid interest, in cash at any time prior to the date that underlying Registration Statement under the Securities Act of 1933 has not been declared effective by the U. S. Securities and Exchange Commission within 3 business days of such demand. If the repayment is accelerated, we are also obligated to issue to the Holder 25,000 shares of common stock and $10,000 cash for each 30 day period, or portion thereof, during which the face amount, including interest thereon, remains unpaid with the cash payment to increase to $15,000 for each 30 day period the balance remains unpaid after the initial 90 day period.

If La Jolla does not elect to accelerate the Debenture, the Company shall immediately issue and pay La Jolla 25,000 shares of common stock and $10,000 cash for each 30 day period, or portion thereof, during which the face amount, including interest thereon, remains unpaid with the cash payment to increase to $15,000 for each 30 day period the balance remains unpaid after the initial 90 day period.

Due to the contractually agreed mandatory conversion of this Debenture, we have reflected this transaction in our balance sheet as a "mezzanine" level debt obligation on its balance sheet, between "Total Liabilities" and "Shareholders' Equity". Upon the respective mandatory conversion, we will relieve the respective portion of the Debenture and the any related accrued, but unpaid interest, and credit this amount to the respective "common stock" and "additional paid-in capital" accounts in the shareholder's equity section for the par value and excess amount over the par value of the respective shares issued.

No value was assigned to the warrant issued to La Jolla. Upon exercise of the warrant, we will record the issuance of the underlying shares as a new issuance of common stock on the date of each respective exercise.

Concurrent with the execution of the Debenture agreement, we executed an engagement letter with La Jolla's counsel for legal representation with regard to the preparation of this Registration Statement under the Securities Act of 1933.

22

Research and Development

We plan on significantly increasing our spending on research and development activities during Calendar 2003. We believe that research and development activities will allow for the development and introduction of new products into the ammunition marketplace. Over the next 12 calendar months, we anticipate completing the design, development and introduction of our new patent-pending projectile for use in ammunition specifically for the public safety and security marketplace, especially in the rapidly expanding U. S. Air Marshall program. Management also believes that this projectile will have wide acceptance in the home security and sport hunting markets.

Further, additional ammunition calibers and/or projectiles may be developed by us depending upon market research, acceptance in the marketplace of existing products and production capabilities. At this time, there are no definitive plans for the further introduction of other new products into the marketplace.

Item 7. Financial Statements

The required consolidated financial statements begin on page F-1 of this document.

23

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

On January 29, 2002 the Company notified its accountants, Roger G. Castro, CPA that they were being dismissed as the Company's independent auditors. The stated reasons were that the Registrant wanted to retain the auditor of its wholly-owned subsidiary, needed to consolidate the audits of the parent and subsidiary to comply with SEC requirements and did not want to engage the services of more than one (1) auditor. The Company's Board of Directors made the decision to change accountants.

During the Registrant's past two (2) fiscal years and during any subsequent interim period preceding the date of dismissal, the Company has had no disagreements with Roger G. Castro, CPA on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

The report of Roger G. Castro, CPA on the financial statements for the past two (2) fiscal years did not contain an adverse opinion nor a disclaimer of opinion nor was the report qualified or modified as to uncertainty, audit scope or accounting principles.

On January 29, 2002 the Company provided Roger G. Castro, CPA with a copy of this disclosure and requested that it furnish a letter to the Company, addressed to the SEC, stating that it agreed with the statements made herein or the reasons why it disagreed. On January 29, 2002, the Company received a letter from Roger G. Castro, CPA that it agreed with the statements contained herein.

On January 29, 2002, the Company engaged the firm of S.W. Hatfield, CPA, P.O.

Box 820392, Dallas, TX 75382 as the Company's independent auditors. Such appointment was accepted by S.W. Hatfield, President of the firm. Prior to such engagement, the Registrant had not consulted S.W. Hatfield, CPA on any prior matters, including any matters relative to the application of accounting principles or any subject of disagreement with Roger G. Castro, CPA.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Set forth below are the names, ages, positions, with the Company and business experiences of the executive officers and directors of the Company.

Name	Age	Position(s) with Company
J.A. Fernandez, Sr.	66	Chairman of the Board and Director of Sales
Andres F. Fernandez	37	President and Chief Executive Officer
Emilio D. Jara	38	Vice-President of Operations, Secretary and Director
Amelia Fernandez	66	Vice President and Director
Maria A. Fernandez	43	Director
Len Hale	58	Director

All directors hold office until the next annual meeting of the Company's shareholders and until their successors have been elected and qualify. Officers serve at the pleasure of the Board of Directors. The officers and directors will devote such time and effort to the business and affairs of the Company as may be necessary to perform their responsibilities as executive officers and/or directors of the Company.

Family Relationships

J.A. Fernandez, Sr. and Amelia Fernandez are the father and mother of Andres and Maria Fernandez. There are no other family relationships between or among the executive officers and directors of the Company.

Business Experience

J. A. Fernandez, Sr., age 66, currently serves as the Chairman of the Board and Director or Sales. He has been employed by AA since its inception in 1983. Mr. Fernandez is the patriarch of what began as a family business and is responsible for the sales activities of the Company. Mr. Fernandez has over 40 years experience in diverse industries including aerospace, advanced polymer manufacturing, munitions, mining and processing of gemstones and metal ores and has utilized such experience for the growth and development of the Company. He is fluent in Spanish.

Andres Fernandez, age 37, currently serves as President and Chief Executive Officer. Mr. Fernandez has served in each of these capacities since September 2001. He has been employed by AA for over a decade. Mr. Fernandez is responsible for day to day operations and has been a driving force behind the Company and its success in becoming a vertically integrated manufacturer. He studied physics and calculus at St. Thomas University, FL and at the University of Miami, FL. He is a licensed pilot, having graduated from the American Institute of Aeronautics, FL, and received his certificate as a private pilot (fixed wing) as well as private helicopter (rotary)in 1989. In 1989, Mr. Fernandez graduated from the Institute of Public Service (Pan Am), GA as a tactical rappel instructor. In 1990, he graduated from Omni Explosives, TN with a specialty in tactical explosives. Mr. Fernandez was certified by the Florida Department of Law Enforcement Academy in special operations/entry techniques in 1990. He has served as a tactical advisor to U.S. Treasury Department, Bureau of Alcohol, Tobacco and Firearms, U.S. Customs Service and the Florida Department of Law Enforcement. He has received numerous commendations and letters of appreciation. He also served on the Board of Veterans Affairs (Hialeah , FL) from 1990 to 1991. He is fluent in Spanish.

Emilio Jara, age 38, currently serves as Vice President of Operations, Secretary and a Director. Mr. Jara has served in each of these capacities since September 2001. He has been employed with AA since 1988. He has been an integral part of the Company's technological growth. His abilities have contributed to the Company's research and development and subsequent increase in the number of production lines. Mr. Jara is extremely well versed in metallurgical and ballistic issues. He studied business administration at Miami-Dade Community College (1984/1985). In 1989, he graduated from the Institute of Public Service (Pan Am), GA as a Tactical Rappel Instructor. In 1990, Mr. Jara graduated from Omni Explosives, TN with a specialty in Tactical Explosives. He is fluent in Spanish.

Amelia Fernandez, age 66, currently serves as Vice President and Director. Mrs. Fernandez has served in each of these capacities since September 2001. She graduated from Conservatorio Falcon (1950) and the National Conservatory of Music in Havana, Cuba in 1952. Mrs. Fernandez holds the degrees of Professor of Piano and Professor of Solmization Theory. She is an accomplished classical pianist, opera singer and artist. As a diamond importer and wholesaler, she completed and graduated from numerous Gemological Institute of America courses, including the diamond and colored stone courses. She achieved success as a jewelry designer for a select group of buyers, both corporate and individual. She has managed, owned and operated several business enterprises in the competitive world of wholesale and retail diamonds and precious stones. She has been employed by AA since 1986 as its Office Manager and Human Resources Coordinator, including the research and development of training manuals and procedures for the selection of personnel. She is fluent in Spanish.

Maria A. Fernandez, age 43, currently serves as a Director. Mrs. Fernandez has served as a Director since September 2001. She has been the managing partner at Fernandez Friedman Grossman & Kohn PLLC since May 1998. Prior to that date, she was a partner at Taustine Post Sotsky Berman Fineman & Kohn. She concentrates her legal practice in the areas of estate planning, probate and administration. She also practices in the areas of Medicaid and disability planning, corporate and individual taxation and Corporate law, with an emphasis in closely held corporations. She is a graduate of the University of Miami, FL (Bachelor of Business Administration and Master of Professional Accounting) and the Brandeis School of Law at the University of Louisville, KY. Ms. Fernandez is licensed to practice in Kentucky and Florida. She has lectured in the areas of estate planning and probate, Medicaid planning and elder law. She is a member of the Louisville, Florida, Kentucky and American Bar Associations and is fluent in Spanish. Ms. Fernandez is the past President of the Women Lawyers Association of Jefferson County, Kentucky and current Board Member of the Louisville Bar Association. A Graduate of the Kentucky Women's Leadership Network, she is active in various civic organizations and is on the board of several non-profit corporations.

Len Hale, age 58, currently serves as a Director. Mr. Hale has served as a Director since September 2001. He is the President of Hale Consulting, LLC in Montgomery, AL, a management consulting firm focusing on sales, marketing and management systems. Mr. Hale has more than 20 years experience as a proven leader in the firearms industry. From 1995-1998, he served as group president of Blount International, Inc. (AL). As president of this public manufacturing company consisting of 10 sporting goods brands, he oversaw a $300 million plus operation with three (3) division Presidents and increased sales from $84M to in excess of $300M through internal growth and acquisitions, improved operating income and return on capital employed. From 1990-1995, Mr. Hale served as Executive Vice-President and Chief Operating Officer of Ellett Brothers, Inc.(SC) Under his leadership, sales improved from $69M to $160 M and profits grew from a negative profit to in excess of $6M. He also installed a marine division, archery division and manufacturing divisions. He has served on numerous boards and industry organizations, including the Board of Governors of SAAMI (Sporting Arms and Ammunition Manufacturers Association) and the Board of Governors of the National Shooting Sports Foundation.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

No Director, Officer, Beneficial Owner of more than ten percent (10%) of any class of equity securities of the Company failed to file reports required by Section 16(a) of the Exchange Act during the most recent fiscal year or prior fiscal years.

Item 10. Executive Compensation

The following summary compensation table sets forth the aggregate cash compensation paid or accrued by the Company to each of the Company's executive officers and key employees for services rendered to the Company during the Company's fiscal year ended 2002, 2001 and 2000 and all plan and non-plan compensation awarded to, earned by or paid to certain designated executive officers.

SUMMARY COMPENSATION TABLE

					Long Term Compensation			
		Annual Compensation			Awards		Payouts	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name and Principal Position (1)	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Restricted Stock Award(s) ($)	Securities Underlying Options/ SARs (f)	LTIP Pay-outs	All Other Compe satio
J.A. Fernandez, Sr., Chairman, Director of Sales	2000	$59,202	$0	$0	$0	$0	$0	$0
	2001	$50,859	$0	$0	$0	$0	$0	$0
	2002	$77,770	$0	$0	$0	$0	$0	$0

Andres F. Fernandez, President and Chief Executive Officer	2000	$88,438	$0	$0	$0	$0	$0	$0
	2001	$74,290	$0	$0	$0	$0	$0	$0
	2002	$103,508	$0	$0	$0	$0	$0	$0
Emilio D. Jara, Vice-President of Operations, Secretary and Director	2000	$36,400	$0	$0	$0	$0	$0	$0
	2001	$42,500	$0	$0	$0	$0	$0	$0
	2002	$43,000	$0	$0	$0	$0	$0	$0
Amelia Fernandez, Vice President and Director	2000	$59,202	$0	$0	$0	$0	$0	$0
	2001	$59,923	$0	$0	$0	$0	$0	$0
	2002	$64,598	$0	$0	$0	$0	$0	$0
Maria A. Fernandez, Director	2000	$0	$0	$0	$0	$0	$0	$0
	2001	$0	$0	$0	$0	$0	$0	$0
	2002	$0	$0	$0	$0	$0	$0	$0
Len Hale, Director	2000	$0	$0	$0	$0	$0	$0	$0
	2001	$0	$0	$0	$0	$0	$0	$0
	2002	$0	$0	$0	$0	$0	$0	$0

Compensation of Directors

The Company has no standard arrangements for compensating the directors of the Company for their attendance at meetings of the Board of Directors.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of December 31, 2002, regarding the ownership of the Company's common stock by each shareholder known by the Company to be the beneficial owner of more than five percent (5%) of its outstanding shares of common stock, each director and all executive officers and directors as a group. Except as otherwise indicated, each of the shareholders has sole voting and investment power with respect to the share of common stock beneficially owned.

Name and Address of Beneficial Owner	Title of Class	Amount and Nature of Beneficial Owner	Percent of Class
J.A. Fernandez, Sr. 3545 NW 71st Street Miami, Florida 33147	Common	14,905,905	26.9%

Andres F. Fernandez(2) 3545 NW 71st Street Miami, Florida 33147	Common	11,293,115	20.4%
Amelia C. Fernandez 3545 NW 71st Street Miami, Florida 33147	Common	4,281,900	7.7%
Maria A. Fernandez (3) Fernandez Friedman Grossman & Kohn PLLC 101 S. 5th Street Suite 2400 Louisville, KY 40202-3115	Common	259,500	0.5%
Emilio D. Jara 3545 NW 71st Street Miami, Florida 33147	Common	54,000	0.1%
Len C. Hale Hale Consulting, LLC 3700 Jesse Court Montgomery, AL 36106	Common	200,000	0.4%
All officers and directors as a group (6 persons)(4)	Common	30,994,420	56.0%

----

(1) J.A. Fernandez, Sr. and Amelia C. Fernandez are husband and wife and the parents of Andres F. Fernandez and Maria A. Fernandez. Some or all of the securities owned by the individual Fernandez family members may be aggregated together and/or ownership imputed to one another.

28

(2) In addition to his common stock, in September 2001, Andres Fernandez converted unsecured indebtedness of the Company to him in the amount of $7,553,600 for 1,510,720 shares of $5.00 Series A Convertible Preferred Stock. The Series A Convertible Preferred Stock provides for cumulative dividends at the rate of 8% per year, payable quarterly, in cash or shares of the Company's common stock at the Company's election. Each share of Series A Convertible Preferred Stock is convertible, at the option of the holder, into eleven (11) shares of the Company's common stock at any time after six (6) months from the date of issuance and prior to notice of redemption, subject to adjustments for customary anti-dilution events. In February 2002, certain holders of the Series A Preferred Stock, including Andres F. Fernandez, notified the Company of their intent to exercise the conversion features on 1,749,720 issued and outstanding shares of Series A Preferred Stock into 19,246,920 shares of common stock. Andres F. Fernandez converted 1,510,720 shares of such Preferred Stock into 16,617,920 shares of restricted common stock of the Company. Due to the timing of the conversion in relation to the Company's year-end and the first available date for such conversion, the effect of the conversion exercise is reflected in this report as well as the accompanying financial statements as if the conversion had occurred on December 31, 2001.

(3) These do not include the 384,500 shares Maria Fernandez holds as a Trustee for an entity in which neither she nor any of the other Officer or Director

is the beneficial owner.

(4) Except as noted above, each of the Officers and Directors received all of their other shares as part of the Share Exchange whereby the Company acquired AA in September 2001.

Item 12. Certain Relationships and Related Transactions

The Company leases its corporate office and manufacturing facility from its controlling stockholder under a long-term operating lease agreement. The lease requires a monthly payment of approximately $3,931, plus applicable sales taxes. Further, the Company is responsible for all utilities and maintenance expenses. The lease expires on October 31, 2003 and contains a clause that the lease may be renewed for an additional ten year period upon written notification to the lessor no later than 120 days prior to the scheduled expiration date at a rental rate based upon the fair value for similar space in a similar location.

Item 13. Exhibits and Reports on Form 8-K.

(a) The exhibits required to be filed herewith by Item 601 of Regulation S-B, as described in the following index of exhibits, are incorporated herein by reference, as follows:

29

Exhibit No.	Description
2.1 [1]	Share Exchange Agreement Between FBI Fresh Burgers International and F&F Equipment, Inc., dated September 29, 2001 (Incorporated by referenced to our Form 8-K filed with the SEC on October 4, 2001).
3.1 [1]	Articles of Incorporation (Incorporated by reference to our registration statement on Form SB-2 filed with the SEC on September 20, 2000, File No. 333-4660).
3.2 [1]	Certificate of Amendment of Articles of Incorporation (Incorporated by referenced to our Form 8-K filed with the SEC on October 4, 2001).
3.4 [1]	Certificate of Amendment of Articles of Incorporation (Incorporated by reference to our registration statement on Form SB-2 filed with the SEC on September 20, 2000, File No. 333-4660).
3.5 [1]	Amended and Restated Bylaws (Incorporated by reference to our Form 10QSB for the quarter ended September 30, 2001).
3.6 *	Articles of Incorporation for Industrial Plating Enterprise Co., subsidiary of American Ammunition, Inc.
3.7 *	ByLaws of Incorporation for Industrial Plating Enterprise Co., subsidiary of American Ammunition, Inc.
4.1 [1]	Common Stock Purchase Warrant with La Jolla Cove Investors, Inc., dated October 4, 2002.
4.2 [1]	Convertible Debenture with La Jolla Cove Investors, Inc., dated October 4, 2002.
4.3 [1]	Addendum with La Jolla Cove Investors, Inc., dated October 4, 2002.

4.4	[1]	Letter Agreement with La Jolla Cove Investors, dated October 4, 2002.
4.5	[1]	Registration Rights Agreement with La Jolla Cove Investors, dated October 4, 2002.
4.6	[2]	Letter Agreement with La Jolla Cove, dated December 2002.
5.1	[2]	Sichenzia Ross Friedman Ference LLP Opinion and Consent.
23.1	[2]	Consent of accountants.
23.2	[2]	Consent of legal counsel.
99.1	*	Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350.
99.2	*	Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350.

[1] Previously filed with the Company's Registration Statement on Form SB-2 filed October 24, 2002

[2] Previously filed with the Company's Registration Statement on Form SB-2 which was refiled in its entirety on January 6, 2003.

* Filed herewith

(b) A report on Form 8-K was filed on October 4, 2001 reporting the Share Exchange conducted between the Company, F&F Equipment, Inc. and the shareholders of F&F Equipment, Inc. on September 29, 2001.

A report on Form 8-K was filed on January 29, 2002 reporting a change in the Registrant's Certifying Accountant.

A report on Form 8-K was filed on October 21, 2002 reporting a Convertible Debenture and a Warrant to La Jolla Cove Investors, Inc.

30

SIGNATURES

In accordance with Section 13 and 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Ammunition, Inc.
(Registrant)

Date: March 27, 2003

By: /s/ J.A. Fernandez, Sr.

J.A. Fernandez, Sr., Chairman and Director of Sales

By: /s/ Andres F. Fernandez

Andres F. Fernandez, President and CEO

By: /s/ Emilio D. Jara

Emilio D. Jara, V.P. of Operations, Secretary and Director

By: /s/ Amelia Fernandez

Amelia Fernandez, V.P. and Director

By: /s/ Maria A. Fernandez

Maria A. Fernandez, Director

By: /s/ Len Hale

Len Hale, Director

Pursuant to the requirements of the Exchange Act, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ J.A. Fernandez, Sr. ---------------------- J.A. Fernandez, Sr.	Chairman of the Board and Director of Sales	March 27, 2003
/s/ Andres F. Fernandez ---------------------- Andres F. Fernandez	President and Chief Executive Officer	March 27, 2003
/s/ Emilio D. Jara ---------------------- Emilio D. Jara	Vice-President of Operations, Secretary and Director	March 27, 2003
/s/ Amelia Fernandez ---------------------- Amelia Fernandez	Vice President and Director	March 27, 2003
/s/ Maria A. Fernandez ---------------------- Maria A. Fernandez	Director	March 27, 2003
/s/ Len Hale ---------------------- Len Hale	Director	March 27, 2003

31

CERTIFICATIONS

I, Andres Fernandez, certify that:

1. I have reviewed this annual report on Form 10-KSB of American Ammunition, Inc.

2. Based on my knowledge, this annual 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 annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material

respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in exchange act rules 13a-14 and 15d- 14) for the registrant and have:

(a.) designed such disclosure controls and procedures 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 annual report is being prepared;

(b.) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "evaluation date"); and

(c.) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the evaluation date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a.) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

By: /s/ Andres Fernandez

Andres Fernandez,
Chief Executive Officer or equivalent thereof

I, Andres Fernandez, certify that:

1. I have reviewed this annual report on form 10-KSB of American Ammunition, Inc.

2. Based on my knowledge, this annual 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 annual report.

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in exchange act rules 13a-14 and 15d- 14) for the registrant and have:

(a.) designed such disclosure controls and procedures 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 annual report is being prepared;

(b.) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "evaluation date"); and

(c.) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the evaluation date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a.) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

By: /s/ Andres Fernandez

Andres Fernandez,
Chief Financial Officer or equivalent thereof

AMERICAN AMMUNITION, INC.

CONTENTS

S. W. HATFIELD, CPA
certified public accountants

Member: Texas Society of Certified Public Accountants
Press Club of Dallas

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
American Ammunition, Inc.

We have audited the accompanying consolidated balance sheets of American Ammunition, Inc. (a California corporation) and Subsidiaries (Florida corporations) as of December 31, 2002 and 2001 and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity and cash flows for each of the two years ended December 31, 2002 and 2001, respectively. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Ammunition, Inc. as of December 31, 2002 and 2001 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years ended December 31, 2002 and 2001, respectively, in conformity with generally accepted accounting principles generally accepted in the United States of America.

/s/ S.W. Hatfield, CPA
S. W. HATFIELD, CPA

Dallas, Texas
March 7, 2003 (except for Note J
as to which the date is March 20, 2003)

Use our past to assist your future [sm]

(secure mailing address)
P. O. Box 820395
Dallas, Texas 75382-0395
214-342-9635 (voice)
800-244-0639

(overnight delivery/shipping address)
9002 Green Oaks Circle, 2nd Floor
Dallas, Texas 75243-7212
(fax) 214-342-9601
SWHCPA@aol.com

AMERICAN AMMUNITION, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001

	December 31, 2002	December 31, 2001
ASSETS		
Current Assets		
Cash on hand and in bank	$ 157,316	$ 596,419
Accounts receivable - trade, net of allowance for doubtful accounts of $-0- and $-0-, respectively	31,288	-
Inventory	384,814	125,930
Prepaid expenses	19,391	9,458
Total Current Assets	592,809	731,807

Property and Equipment - at cost or contributed value		
Manufacturing equipment	6,843,135	6,470,064
Office furniture and fixtures	58,528	50,856
Leasehold improvements	188,263	182,052
	7,089,926	6,702,972
Accumulated depreciation	(3,393,301)	(2,737,717)
Net Property and Equipment	3,696,625	3,965,255
Other Assets		
Deposits and other	77,860	74,310
TOTAL ASSETS	$ 4,367,294	$ 4,771,372

- Continued -

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

AMERICAN AMMUNITION, INC.
CONSOLIDATED BALANCE SHEETS - CONTINUED
December 31, 2002 and 2001

	December 31, 2002	December 31, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of leases payable	$ 9,507	$ 8,365
Customer deposits	80,953	-
Accounts payable - trade	414,910	469,543
Accrued interest payable	18,709	1,000
Accrued dividends payable	12,600	-
Note payable to stockholder	-	100,000
Total Current Liabilities	536,679	579,908

Long-Term Liabilities		
Note payable to a bank	450,000	950,000
Capital leases payable	7,841	17,348
Total Liabilities	994,520	1,547,256
Commitments and Contingencies		
Mandatory Convertible Debenture	250,000	-
Mandatory Convertible Preferred Stock 41,000 and 46,000 shares issued and outstanding	205,000	230,000
Stockholders' Equity		
Preferred stock - $0.001 par value 20,000,000 shares authorized. 1,795,320 shares allocated to Series A	-	-
Common stock - $0.001 par value. 300,000,000 shares authorized. 55,328,166 and 49,975,614 shares issued and outstanding	55,328	49,971
Additional paid-in capital	16,523,164	14,700,776
Accumulated deficit	(13,660,718)	(11,754,631)
Total Stockholders' Equity	2,917,774	2,996,116
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,367,294	$ 4,771,372

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

F-4

AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
Years ended December 31, 2002 and 2000

	Year ended December 31, 2002	Year ended December 31, 2001

Revenues	$ 1,409,364	$ 427,529
Cost of Sales		
Materials	1,041,553	428,909
Direct Labor	633,787	260,012
Other direct costs and expenses	128,371	66,664
Depreciation	652,943	628,925
Total Cost of Sales	2,456,654	1,384,510
Gross Profit	(1,047,290)	(956,981)
Operating Expenses		
Research and development expenses	3,662	3,963
Marketing and promotion expenses	23,453	4,043
Salaries, wages and related expenses	341,532	365,079
Other operating expenses	389,732	968,494
Interest expense	72,444	453,943
Depreciation expense	2,642	0,911
Compensation expense related to common stock issuances at less than "fair value"	11,538	-
Total Operating Expenses	845,003	1,806,433
Loss from Operations	(1,892,293)	(2,763,414)
Other Income (Expense)		
Other income (expense)	9,206	
Settlement of litigation	-	754,830
Amortization of Beneficial Conversion Feature Discount on Preferred Stock	-	(1,207,993)
Loss before Income Taxes	(1,883,087)	(3,216,577)
Provision for Income Taxes	-	-
Net Loss	(1,883,087)	(3,216,577)
Other Comprehensive Income	-	-
Comprehensive Loss	$ (1,883,087)	$ (3,216,577)
Loss per weighted-average share of common stock outstanding, computed on net loss - basic and fully diluted	$ (0.04)	$ (0.11)
Weighted-average number of common shares outstanding	52,605,993	28,019,722

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

F-5

AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2002 and 2001

	Mandatory Convertible Preferred Stock Shares	Mandatory Convertible Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additi paid- capit
Balances at January 1, 2001	-	-	22,000,000	$ 22,000	$ 4,142
Recapitalization due to reverse acquisition transaction with FBI Fresh Burgers International	-	-	4,850,000	4,850	(4
Issuance of common stock for					
Cash	-	-	222,222	222	99
Settlement of accounts payable	-	-	535,272	535	240
Consulting fees	-	-	3,121,200	3,122	410
Private placement of Preferred Stock	284,600	1,423,000	-	-	
Less costs of raising capital	-	-	-	-	(144
Beneficial Conversion Feature Discount on Preferred Stock	-	-	-	-	1,207
Conversion of shareholder debt and accrued interest into Preferred Stock	1,510,720	7,553,600	-	-	
Conversion of Preferred Stock to Common Stock	(1,749,320)	(8,746,600)	19,242,520	19,242	8,727
Net loss for the year	-	-	-	-	
Balances at December 31, 2001	46,000	230,000	49,971,214	49,971	14,678
Issuance of common stock for					
Cash	-	-	4,470,805	4,471	1,469
Conversion of debt and accrued interest	-	-	277,777	278	124
Conversion of trade accounts payable	-	-	432,721	433	181
Consulting fees	-	-	98,664	98	33
Payment of preferred stock dividends	-	-	21,985	22	10
Conversion of Preferred Stock	(5,000)	(25,000)	55,000	55	24
Costs of acquiring convertible debenture	-	-	-	-	
Dividends declared on Preferred Stock	-	-	-	-	
Net loss for the year	-	-	-	-	
Balances at December 31, 2002	41,000	$ 205,000	55,328,166	$ 55,328	$ 16,523

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

F-6

AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002 and 2001

	Year ended December 31, 2002	Year ended December 31, 2001
Cash flows from operating activities		
Net loss for the year	$ (1,883,087)	$ (3,216,577)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	655,585	639,836
Gain on litigation settlement	-	(754,830)
Common stock issued for fees and services	33,395	540,534
Accrued interest converted to preferred stock	-	240,440
Amortization of conversion discount on preferred stock	-	1,207,993
Accrued interest converted to common stock	24,000	-
Compensation expense related to common stock issuances at less than "fair value"	11,538	-
(Increase) Decrease in		
Accounts receivable	(31,288)	60,415
Inventory	(258,884)	207,480
Prepaid expenses, deposits and other	(13,483)	(24,056)
Increase (Decrease) in		
Accounts payable and accrued liabilities	126,384	(639)
Interest payable	18,709	(1,000)
Customer deposits	80,953	-
Net cash provided by (used in) operating activities	(1,236,178)	(1,100,404)
Cash flows from investing activities		
Purchase of property and equipment	(386,955)	(105,657)
Net cash used in investing activities	(386,955)	(105,657)
Cash flows from financing activities		
Increase in cash overdraft	-	7,760
Cash received (paid) on short term loans - net	-	(451,652)
Cash received on long-term loans	-	950,000
Principal paid on long-term loans	(500,000)	-
Principal paid on long-term capital leases	(8,365)	(82,571)
Cash received on sale of Mandatory Convertible Preferred Stock	-	1,423,000
Cash received on issuance of Mandatory Convertible Debenture	250,000	-
Cash received on sale of common stock	1,462,395	100,000
Cash paid to acquire capital	(20,000)	(144,915)
Net cash provided by financing activities	1,184,030	1,801,622

INCREASE (DECREASE) IN CASH	(439,103)	595,561
Cash at beginning of year	596,419	858
Cash at end of year	$ 157,316	$ 596,419

- Continued -

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

AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
Years ended December 31, 2001 and 2000

	Year ended December 31, 2002	Year ended December 31, 2001
Supplemental disclosure of interest and income taxes paid		
Interest paid for the period	$ 29,735	$ 214,503
Income taxes paid for the period	$ -	$ -
Supplemental disclosure of non-cash investing and financing activities		
Conversion of debt and accrued interest payable to a shareholder into preferred stock	$ -	$ 7,553,600
Conversion of debt and prior period accrued interest into common stock	$ 101,000	$ -
Payment of accounts payable with issuance of common stock	$ 182,017	$ 240,872
Payment of accrued dividends on preferred stock with common stock	$ 10,400	$ -

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

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A - Organization and Description of Business

American Ammunition, Inc. (AAI or Company) was incorporated on February 1, 2000 in the State of California as FirsTelevision.com. AAI subsequently changed its corporate name to FBI Fresh Burgers International with a business plan of marketing the concept of a national "fast food" restaurant chain to children and young adults, with a menu of fresh burgers, fries and sandwiches. However, there was no assurance that this business concept would be successful.

On September 29, 2001, the Company, F&F Equipment, Inc. (F&F) and the individual shareholders of F&F entered into an "Agreement For The Exchange Of Common Stock" (Exchange Agreement) whereby the shareholders of F&F exchanged 100.0% of the issued and outstanding stock of F&F for 21,000,000 post-forward split shares of restricted, unregistered common stock of the Company. F&F Equipment, Inc. then became a wholly-owned subsidiary of the Company.

Concurrent with the September 29, 2001 reverse acquisition transaction, the Company amended its Articles of Incorporation to change the Company's name to American Ammunition, Inc. and modified the Company's capital structure to allow for the issuance of up to 320,000,000 total equity shares consisting of 20,000,000 shares of preferred stock and 300,000,000 shares of common stock. Both classes of stock have a par value of $0.001 per share.

On October 9, 2001, the Company effected a three (3) for one (1) forward stock split. The effect of this action is reflected in the accompanying financial statements as of the first day of the first period presented.

F&F Equipment, Inc.(Company) was incorporated on October 4, 1983 under the laws of the State of Florida. The Company was formed to engage principally in the "import, export, retail & wholesale of firearms equipment, ammunition & other devices and for the purpose of transacting any and/or all lawful business." The Company conducts its business operations under the assumed name of "American Ammunition".

In June 2002, American Ammunition, Inc. formed a wholly owned subsidiary, Industrial Plating Enterprise Co. (IPE), which started production on June 14, 2002. IPE is a fully licensed and approved state of the art electrochemical metallization facility with enormous capacity for processing the Company's line of projectiles as well as other products and services while employing environmentally sound water conservation and proven waste treatment techniques. The facility meets or exceeds all current environmental requirements and enjoys the "conditionally exempt small quantity generator" status for State and Federal regulations.

Note B - Preparation of Financial Statements

The acquisition of F&F Equipment, Inc., on September 29, 2001, by the Company effected a change in control and was accounted for as a "reverse acquisition" whereby F&F Equipment, Inc. is the accounting acquiror for financial statement purposes. Accordingly, the historical financial statements of the Company are those of F&F Equipment, Inc. from it's inception and those of the consolidated entity subsequent to the September 29, 2001 transaction date.

The Company and its subsidiaries follow the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and have adopted a year-end of December 31 for all entities.

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note B - Preparation of Financial Statements - Continued

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 from those estimates.

Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented

For segment reporting purposes, the Company operated in only one industry segment during the periods represented in the accompanying financial statements and makes all operating decisions and allocates resources based on the best benefit to the Company as a whole.

The accompanying consolidated financial statements contain the accounts of American Ammunition, Inc. (formerly FBI Fresh Burgers International) and its wholly-owned subsidiaries, F&F Equipment, Inc. and Industrial Plating Enterprise Co. All significant intercompany transactions have been eliminated. The consolidated entities are collectively referred to as "Company".

Note C - Summary of Significant Accounting Policies

1. Cash and cash equivalents

   For Statement of Cash Flows purposes, the Company considers all cash on hand and in banks, including accounts in book overdraft positions, certificates of deposit and other highly-liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents.

   Cash overdraft positions may occur from time to time due to the timing of making bank deposits and releasing checks, in accordance with the Company's cash management policies.

2. Accounts receivable and Revenue Recognition

In the normal course of business, the Company extends unsecured credit to virtually all of its customers which are located throughout the United States. Because of the credit risk involved, management has provided an allowance for doubtful accounts which reflects its opinion of amounts which will eventually become uncollectible. In the event of complete non-performance, the maximum exposure to the Company is the recorded amount of trade accounts receivable shown on the balance sheet at the date of non-performance.

The Company ships all product on an FOB-Plant basis. Accordingly, revenue is recognized by the Company at the point at which an order is shipped at a fixed price, collection is reasonably assured, the Company has no remaining performance obligations and no right of return by the purchaser exists.

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note C - Summary of Significant Accounting Policies - Continued

3. Inventory

Inventory consists of raw materials, work-in-process and finished goods related to the production and sale of small arms ammunition. Inventory is valued at the lower of cost or market using the first-in, first-out method.

4. Property, plant and equipment

Property and equipment are recorded at historical cost. These costs are depreciated over the estimated useful lives of the individual assets using the straight-line method, generally three to ten years.

Gains and losses from disposition of property and equipment are recognized as incurred and are included in operations.

5. Income Taxes

The Company uses the asset and liability method of accounting for income taxes. At December 31, 2002 and 2001, the deferred tax asset and deferred tax liability accounts, as recorded when material to the financial statements, are entirely the result of temporary differences. Temporary differences represent differences in the recognition of assets and liabilities for tax and financial reporting purposes, primarily accumulated depreciation and amortization, allowance for doubtful accounts and vacation accruals.

As of December 31, 2002 and 2001, the deferred tax asset related to the Company's net operating loss carryforward is fully reserved. If these carryforwards are not utilized, they will begin to expire in 2005.

6. Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted-average number of shares of common stock and common stock equivalents (primarily outstanding options and warrants). Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method. The calculation of fully diluted earnings (loss) per share assumes the dilutive effect of the exercise of outstanding options and warrants at either the beginning of the respective period presented or the date of issuance, whichever is later. As of September 30, 2002 and 2001, and subsequent thereto, the Company had no warrants and/or options outstanding.

7. Advertising costs

The Company does not conduct any direct response advertising activities. For non-direct response advertising, the Company charges the costs of these efforts to operations at the first time the related advertising is published.

8. Reclassifications

Certain amounts in the accompanying financial statements for the quarter ended September 30, 2001 have been reclassified to conform to the Fiscal 2002 presentations.

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note D - Correction of an Error

During Management's review of the Company's internal control structure, it was noted that the Company continues to realize a negative gross profit and that the inventory valuation calculations for the recorded carrying cost of inventory on the balance sheet as of December 31, 2001 had not been properly calculated using the "lower of cost or market" method by recognizing a targeted gross profit percentage based on Management's best estimate. This error created an overstatement in the inventory carrying value at December 31, 2001 and an understatement in cost of goods sold for the year ended December 31, 2001.

The effect of any and all changes are reflected in the accompanying financial statements as of the respective date of each transaction and the effect of the corrections are summarized below by fiscal period and cumulatively.

	Year ended December 31, 2001	Cumulative effect of changes
Net Loss, as previously reported	$(3,028,766)	

Effect of the correction of an error		
Recalculation of the carrying value of inventory at December 31, 2001	(187,811)	$(187,811)
Total effect of changes on Loss from Operations and Net Loss	(187,811)	(187,811)
Net Loss, as restated	$(3,216,577)	$(187,811)
Earnings per share, as previously reported	$(0.11)	
Total effect of changes	-	$ -
Earnings per share, as restated	$(0.11)	

Note E - Fair Value of Financial Instruments

The carrying amount of cash, accounts receivable, accounts payable and notes payable, as applicable, approximates fair value due to the short term nature of these items and/or the current interest rates payable in relation to current market conditions.

Interest rate risk is the risk that the Company's earnings are subject to fluctuations in interest rates on either investments or on debt and is fully dependent upon the volatility of these rates. The Company does not use derivative instruments to moderate its exposure to interest rate risk, if any.

Financial risk is the risk that the Company's earnings are subject to fluctuations in interest rates or foreign exchange rates and are fully dependent upon the volatility of these rates. The company does not use derivative instruments to moderate its exposure to financial risk, if any.

Note F - Inventory

As of December 31, 2002 and 2001, inventory consisted of the following components:

	December 31, 2002	December 31, 2001
Raw materials	$ 149,824	$ 82,454
Work in process	116,216	24,232
Finished goods	118,774	19,244
Totals	$ 384,814	$ 125,930

Note G - Property and Equipment

Property and equipment consist of the following components:

	December 31, 2002	December 31, 2001	Estimated useful life
Manufacturing equipment	$6,843,135	$6,470,064	10 years
Office furniture and fixtures	58,528	50,856	7 years
Leasehold improvements	188,263	182,052	20 years
	7,089,926	6,702,972	
Accumulated depreciation	(3,393,301)	(2,737,717)	
Net property and equipment	$3,696,625	$3,965,255	

Total depreciation expense charged to operations for the years ended December 31, 2002 and 2001 was approximately $655,585 and $639,836, respectively.

Included in the amounts reflected in the accompanying balance sheet are the following fixed assets on long-term capital leases:

	December 31, 2001	December 31, 2000
Manufacturing and processing equipment	$ 153,400	$ 153,400
Less accumulated depreciation	(54,519)	(39,179)
	$ 98,881	$ 114,221

Note H - Notes payable to a Bank

During 2001, the Company was operating under a bank approved moratorium on the payment of principal and interest on all notes payable and the Company and its President commenced litigation against the lending institution. On June 29, 2001, the Company and the Bank executed a Settlement and Compromise Agreement whereby all loans and debts of the Company to the Bank were settled and cancelled for a one-time cash payment of $550,000. The source of funds for the $550,000 settlement came from a new $950,000 note payable to another financial institution.

As a result of the June 29, 2001 transaction, the Company recognized a one-time gain on the settlement of approximately $754,830 on the settlement date.

Note I - Capital Leases Payable

Capital leases payable consist of the following as of December 31, 2002 and 2001, respectively:

	December 31, 2002	December 31, 2001
Three capital leases, respectively, payable to various equipment financing companies. Interest, at December 31, 2002, ranging between 11.37% and 14.05%. Payable in aggregate monthly installments of approximately $935, including accrued interest, as of December 31, 2002. Final maturities occur between September 2004 and December 2004. Collateralized the underlying leased manufacturing equipment.	$ 17,348	$ 25,713
Less current maturities	(9,507)	(8,365)
Long-term portion	$ 7,841	$ 17,348

Future maturities of capital leases payable are as follows:

Year ending December 31	Amount
2003	$ 9,507
2004	7,841
Totals	$ 17,348

(Remainder of this page left blank intentionally)

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note J - Long-Term Debt Payable to a Bank

On June 28, 2001, in anticipation of the settlement of litigation with a financial institution, the Company executed a $950,000 note payable to another financial institution. The note bore interest at the Wall Street Journal published prime rate plus 2.0%.

During Calendar 2002, the Company made five (5) lump-sum principal reductions of $100,000 each (or an aggregate of $500,000) to the outstanding balance on this note. As of December 31, 2002, the Company owed $450,000 on this note. Upon each lump-sum payment, the Company executed a modification to the payment terms on the note.

At December 31, 2002, the note payment terms were as follows: payments of interest only beginning July 28, 2003 through January 28, 2004. Thereafter, starting on January 28, 2004, equal monthly payments of principal and interest shall be due until June 28, 2007 which payments shall represent the amount necessary to fully amortize the remaining principal balance of the note. The monthly payments shall be recalculated at the time of any change in the applicable interest rate. The note is secured by virtually all of the Company's real and personal property. A portion of the proceeds from the financing were used to pay the $550,000 required in the Settlement and Compromise Agreement.

On February 28 and March 20, 2003, respectively, the Company made additional principal reductions of $100,000 and $350,00 fully retiring the outstanding debt.

Note K - Convertible Debenture

On October 4, 2002, the Company issued an 8.0% Convertible Debenture (Debenture) in the face amount of $250,000 and a Warrant which requires the Holder to purchase shares of common stock equal to ten (10) times the number of shares of common stock issued to the Holder on conversion of the Debenture. In no event shall the number of shares issued under the Warrant exceed 30,000,000.

The Debenture bears interest at 8.0% and matures two years from the date of issuance. The Debenture is convertible into common stock, at the option of the Holder, at the lesser of $1.00 per share or 80.0% of the average of the 5 lowest volume weighted average price days during the 20 trading days before, but not including the date of the Holder's election to convert. The Warrant is exercisable at the same price. The full principal amount of the Debenture is due upon default, as defined in the Debenture agreement. The Debenture interest is payable monthly in arrears commencing on November 15, 2002.

The Company is obligated to file a Registration Statement under the Securities Act of 1933 to register the underlying conversion shares on either Form SB-2 or S-3 and have said Registration Statement effective no later than 120 days after October 4, 2002.

The Debenture Holder has contractually committed to convert not less than 5.0% and not more than 10.0% of the original face value of the Debenture monthly beginning the month after the effective date of the Registration Statement and the Holder is required to concurrently exercise warrants and purchase shares of common stock equal to ten (10) times the number of shares of common stock issued to the Holder upon the respective mandatory conversion of the Debenture.

The Holder has further contractually agreed to restrict its ability to convert the Debenture or exercise their warrants and receive shares of the Company's common stock such that the number of shares held by the Holder and its affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note K - Convertible Debenture - Continued

In the event an election to convert is made and the volume weighted average price of the Company's common stock is below $0.30 per share, the Company shall have the right to prepay any portion of the outstanding Debenture that was elected to be converted, plus any accrued and unpaid interest, at 125.0%.

The Holder may demand repayment of the Debenture of 125.0% of the face amount outstanding, plus all accrued and unpaid interest, in cash at any time prior to the date that underlying Registration Statement under the Securities Act of 1933 has not been declared effective by the U. S. Securities and Exchange Commission within 3 business days of such demand. If the repayment is accelerated, the Company is also obligated to issue to the Holder 25,000 shares of common stock and $10,000 cash for each 30 day period, or portion thereof, during which the face amount, including interest thereon, remains unpaid with the cash payment to increase to $15,000 for each 30 day period the balance remains unpaid after the initial 90 day period.

If the Holder does not elect to accelerate the Debenture, the Company shall immediately issue and pay to the Holder 25,000 shares of common stock and $10,000 cash for each 30 day period, or portion thereof, during which the face amount, including interest thereon, remains unpaid with the cash payment to increase to $15,000 for each 30 day period the balance remains unpaid after the initial 90 day period.

Due to the contractually agreed mandatory conversion of this Debenture, the Company has reflected this transaction in its balance sheet as a "mezzanine" level debt obligation on its balance sheet, between "Total Liabilities" and "Shareholders' Equity". Upon the respective mandatory conversion, the Company will relieve the respective portion of the Debenture and the any related accrued, but unpaid interest, and credit this amount to the respective "common stock" and "additional paid-in capital" accounts in the shareholder's equity section for the par value and excess amount over the par value of the respective shares issued.

No value was assigned to the issued warrant. Upon exercise of the warrant, the Company will record the issuance of the underlying shares as a new issuance of common stock on the date of each respective exercise.

Concurrent with the execution of the Debenture agreement, the Company executed an engagement letter with the Holder's counsel for legal representation with regard to the preparation of the aforementioned Registration Statement under the Securities Act of 1933.

Note L - Preferred Stock Transactions

In September, October and November 2001, the Company sold an aggregate 222,600 shares of $5.00 Series A Convertible Preferred Stock (Series A Preferred Stock) for total proceeds of approximately $1,113,000 through an ongoing private placement. The Series A Convertible Preferred Stock provides for cumulative dividends at a rate of 8.0% per year, payable quarterly, in cash or shares of the Company's common stock at the Company's election. Each share of Series A Preferred Stock is convertible into 11 shares of the Company's common stock initially at any time after 6 months of the date of issue and prior to the notice of redemption at the option of the holder, subject to adjustments for customary anti-dilution events. In December 2001, at the request of the holders of the Series A Preferred Stock, the Company and the individual holders modified the holding period for conversion to allow for conversion in December 2001.

In September 2001, the Company's principal shareholder converted approximately $4,007,327 of unsecured debt and approximately $3,546,273 of cumulative and unpaid accrued interest into 1,510,710 shares of Series A Preferred Stock.

Note L - Preferred Stock Transactions - Continued

In September 2001, a creditor of the Company agreed to convert approximately $10,000 of trade accounts payable into 2,000 shares of Series A Preferred Stock.

In December 2001, concurrent with a modification in the holding period prior to conversion, certain holders of the Series A Preferred Stock orally notified the Company of their intent to exercise the conversion features on 1,749,720 issued and outstanding shares of Series A Preferred Stock into 19,246,920 shares of common stock prior to December 31, 2001. Due to the timing of the requisite documentation, the clerical activities related to this conversion were not completed until February 2002.

In conjunction with the Series A Preferred Stock, certain shares were sold after the Company's common stock was approved for trading by the National Association of Securities Dealers on the OTC Bulletin Board in October 2001. The shares of Series A Preferred Stock sold subsequent to this date had an equivalent per share value of common stock below the ending quoted market price of the Company's common stock on their respective issue dates. This difference created a Beneficial Conversion Feature Discount of approximately $1,207,993. This discount was then amortized over the unexpired time period between the date of issue of the eligible shares and the eligible conversion date, as amended. All of the shares sold subsequent to the initial trading date were converted in December 2001 and, accordingly, the approximate $1,207,993 in Beneficial Conversion Feature Discount was fully amortized to operations. As the Company's common stock did not have any trading activity prior to the October 2001 approval for trading and the first posted price for the Company's common stock on October 23, 2001, and there was no available equivalent per share value for the shares of Series A Preferred Stock, no Beneficial Conversion Feature Discount was generated on Series A Preferred Stock sold prior to the initial trading date.

In December 2002, a holder of 5,000 shares of Series A Preferred Stock exercised his conversion rights and converted these shares of Series A Preferred Stock into 55,000 shares of restricted, unregistered common stock.

Note M - Common Stock Transactions

Concurrent with the September 29, 2001 reverse acquisition transaction, the Company amended its Articles of Incorporation to change the Company's name to American Ammunition, Inc. and modified the Company's capital structure to allow for the issuance of up to 320,000,000 total equity shares consisting of 20,000,000 shares of preferred stock and 300,000,000 shares of common stock. Both classes of stock have a par value of $0.001 per share.

On October 9, 2001, the Company effected a three (3) for one (1) forward stock split. The effect of this action is reflected in the accompanying financial statements as of the first day of the first period presented.

In September 2001, the Company issued an aggregate 21,000,000 shares of restricted, unregistered common stock to the shareholders of F&F Equipment, Inc. in exchange for 100.0% of the issued and outstanding stock of F&F Equipment, Inc. F&F Equipment, Inc. became a wholly-owned subsidiary of the Company as a result of this transaction.

In December 2001, the Company issued 222,222 shares of restricted, unregistered common stock to an unrelated entity in exchange for the cancellation of $100,000 of short-term debt. In March 2002, the Company issued an additional 277,777 shares of restricted, unregistered common stock in payment for $100,000 in short-term debt payable and $25,000 in agreed-upon interest payable to a shareholder, thereby satisfying all outstanding short-term debt in full.

Note M - Common Stock Transactions

In December 2001, the Company issued 535,272 shares of restricted, unregistered common stock to a creditor in settlement of approximately $242,872 in open trade accounts payable.

In February 2002, the Company converted $100,000 in short-term debt payable and accrued interest of approximately $25,000 to an existing shareholder into 277,778 shares of restricted, unregistered common stock. This transaction was consummated at a price of $0.45 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The Company utilizes a discount of approximately 50.0% on the quoted closing price to value all transactions settled with restricted, unregistered common stock issued pursuant to Rule 144 of the U. S. Securities and Exchange Commission. This transaction paid in full all outstanding short-term debt.

In March 2002, in two separate transactions, the Company sold an aggregate 1,388,890 shares of restricted, unregistered common stock to two separate investors for aggregate proceeds of approximately $500,000. Each sale was made at a price of $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of each respective transaction. These proceeds were used to supplement operational working capital.

In March 2002, the Company issued 32,000 shares of restricted, unregistered common stock to a member of the Company's Board of Directors for consulting services related to the Company's reverse merger transaction and for various marketing services. This transaction was valued at approximately $11,520, or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In March 2002, the Company issued 41,665 shares of restricted, unregistered common stock to an unrelated party for shareholder and other public relation services. This transaction was valued at approximately $15,000, or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In April and May 2002, the Company issued an aggregate 432,721 shares of restricted, unregistered common stock to three creditors in settlement of approximately $182,017 in open trade accounts payable. Each issuance was made at a price of either $0.45 or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of each respective transaction.

In June 2002, the Company issued 347,223 shares of restricted, unregistered common stock to an existing shareholder to reimburse said shareholder for his payment of previously accrued legal fees associated with the bank related litigation, which was concluded in June 2001, on behalf of the Company and for other consulting services currently being provided by the shareholder. This transaction was valued at approximately $125,000, or $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In June 2002, the Company sold 277,778 shares of restricted, unregistered common stock to an investor for aggregate proceeds of approximately $100,000. This sale was made at a price of $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to supplement operational working capital.

Note M - Common Stock Transactions - Continued

In July 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In August 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of $100,000. This sale was made at a price of $0.26 per share, which was below the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The differential between the discounted "fair value" (approximately $0.29 per share) and the selling price resulted in a charge to operations of approximately $11,346 for compensation expense related to common stock issuances at less than "fair value". The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In August 2002, the Company sold 20,506 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $6,152. This sale was made at a price of $0.30 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to directly retire a trade account payable to a specific vendor.

In August 2002, the Company issued 24,999 shares of restricted, unregistered common stock to an unrelated party for shareholder and other public relation services. This transaction was valued at approximately $6,875, or $0.28 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction.

In September 2002, the Company sold 277,778 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In September 2002, the Company sold 277,778 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds from this transaction were used to support operational working capital.

In September 2002, the Company sold 222,222 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.45 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to support operational working capital.

In November 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

Note M - Common Stock Transactions - Continued

In December 2002, the Company sold an aggregate 120,170 shares of restricted, unregistered common stock to an existing shareholder in three separate transactions valued at an aggregate of approximately $31,244. These sales were made at a price of $0.26 per share, which was in excess of the discounted "fair value" of the Company's common stock on the date of each respective transaction. The proceeds of this transaction were used to directly retire a trade account payable to a specific vendor.

In December 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately $100,000. This sale was made at a price of $0.26 per share, which was in excess of the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

In December 2002, the Company issued 55,000 shares of restricted, unregistered common stock upon the exercise of 5,000 shares of outstanding Series A Preferred Stock upon the exercise of the conversion option by the Holder of the Series A Preferred Stock.

During June, July and September 2002, the Company issued an aggregate 21,987 shares of restricted, unregistered common stock in payment of approximately $10,400 in accrued dividends payable on the Company's outstanding Series A Preferred Stock for the quarters ended December 31, 2001, March 31, 2002, June 30, 2002 and September 30, 2002.

Note N - Related Party Transactions

The Company leases its corporate office and manufacturing facility from its controlling stockholder under a long- term operating lease agreement. The lease requires a monthly payment of approximately $3,931, plus applicable sales taxes. Further, the Company is responsible for all utilities and maintenance expenses. The lease expires on October 31, 2003 and contains a clause that the lease may be renewed for an additional ten year period upon written notification to the lessor no later than 120 days prior to the scheduled expiration date at a rental rate based upon the fair value for similar space in a similar location.

Note O - Income Taxes

The components of income tax (benefit) expense for the years ended December 31, 2002 and 2001, respectively, are as follows:

	Year ended December 31, 2002	Year ended December 31, 2001
Federal:		
Current	$ -	$ -
Deferred	-	-
	-	-
State:		
Current	-	-
Deferred	-	-
	-	-
Total	$ -	$ -

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note O - Income Taxes - Continued

As of December 31, 2002, the Company has a net operating loss carryforward of approximately $6,600,000 to offset future taxable income. Subject to current regulations, components of this carryforward will begin to expire in 2003. The amount and availability of the net operating loss carryforwards may be subject to limitations set forth by the Internal Revenue Code. Factors such as the number of shares ultimately issued within a three year look-back period; whether there is a deemed more than 50 percent change in control; the applicable long-term tax exempt bond rate; continuity of historical business; and subsequent income of the Company all enter into the annual computation of allowable annual utilization of the carryforwards.

The Company's income tax expense (benefit) for the years ended December 31, 2002 and 2001, respectively, differed from the statutory federal rate of 34 percent as follows:

	Year ended December 31, 2002	Year ended December 31, 2001
Statutory rate applied to loss before income taxes	$ (640,000)	$(1,094,000)
Increase (decrease) in income taxes resulting from:		
State income taxes	-	-
Other, including reserve for deferred tax asset	640,000	1,094,000
Income tax expense	$ -	$ -

Temporary differences, consisting primarily of statutory differences in the depreciable lives for property and equipment, between the financial statement carrying amounts and tax bases of assets and liabilities give rise to deferred tax assets and liabilities as of December 31, 2002 and 2001, respectively:

	Year ended December 31, 2002	Year ended December 31, 2001
Deferred tax assets - long-term		
Net operating loss carryforwards	$ 2,244,000	$ 1,615,000
Deferred tax liabilities - long-term		
Statutory depreciation differences	(250,000)	(250,000)
	1,994,000	1,365,000
Less valuation allowance	(1,994,000)	(1,365,000)
Net Deferred Tax Asset	$ -	$ -

During the years ended December 31, 2002 and 2001, respectively, the valuation allowance increased by approximately $629,000 and $815,000.

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note P - Contingencies

In May 1998, the Company entered into a $500,000 accounts receivable factoring facility with its then financial institution. The facility provided for the purchase of various trade accounts receivable by the bank from the Company at 80.0% of the face value of the underlying invoice. The Company paid a discount fee of 1.5% for invoices settled between 1 and 30 days of invoice date, 3.0% for invoices settled between 31 and 60 days of invoice date and an additional 1.5% for each additional 30 days thereafter. All accounts receivable invoices were factored with full recourse to the Company and the Company bears all credit risk associated with the factored invoices. This Agreement was terminated in conjunction with the execution of the Settlement and Compromise Agreement on June 29, 2001.

Note Q - Significant Customers

During the year ended December 31, 2002, the Company had two separate customers responsible for an aggregate of approximately 66.0% (43.2% and 22.8%, respectively) of total sales. There were no other customers responsible for more than 10.0% of total net sales during 2002.

During the year ended December 31, 2001, the Company had a single customer responsible for an aggregate of approximately 51.0% of total sales. There were no other customers responsible for more than 10.0% of total net sales during 2001.