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AMERICAN AMMUNITION INC/FL
Form 10KSB/A
May 18, 2004

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

Form 10-KSB/A

(Mark One)

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

For the fiscal year ended December 31, 2003

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

For the transition period from _____ to _____

Commission File No.: 000-32379

American Ammunition, Inc.

(Name of small business registrant in its charter)

California

(State or other jurisdiction of
incorporation or organization)

91-2021594

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

3545 NW 71st Street
Miami, FL

(Address of principal executive offices)

33147

(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

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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 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.

State registrant's revenues for its most recent fiscal year. \$1,984,997

The aggregate market value of the voting common equity held by non-affiliates as of December 31, 2003 was \$10,786,078.24 based upon 66,893,628 shares outstanding of which 38,521,708 was held by non-affiliates and a share price of \$0.28. No non-voting common equity is outstanding.

The purpose of this first amendment to the Company's Annual Report on Form 10-KSB is to correct four (4) errors to the audited financial statements for the period ended December 31, 2003. Amended financial statements are attached hereto.

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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 FirstTelevision.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 acquirer 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

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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.

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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").

La Jolla Cove Investors

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.

During the second quarter of Calendar 2003, the Holder made additional cash advances to the Company totaling \$350,000 which were applied to the then outstanding principal balance on the Debenture.

The Debenture bears interest at 8.0% and matures on October 4, 2004. 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.

At December 31, 2003 and 2002, respectively, the outstanding balance on the Debenture was approximately \$391,365 and \$250,000.

In December 2002, the Company and the Debenture Holder amended the above-referenced debenture and warrants as follows:

The number of common shares into which the debenture may be converted is equal to the dollar amount of the debenture being converted multiplied by eleven, minus the product of the conversion price, multiplied by ten times

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the dollar amount of the debenture being converted, divided by the conversion price. The conversion price is obtained by multiplying the average of the five (5) lowest Volume Weighted Average Prices (VWAP) during the 20 trading days prior to the date of conversion by the Discount Multiplier of 80%.

The warrants are exercisable at \$1.00 per share for up to 2,500,000 shares. The warrant holder is obligated to exercise the warrant concurrently with the conversion of the debenture for a number of shares equal to ten times the dollar amount of the debenture being converted.

The Company was 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. This Registration Statement was declared effective by the U. S. Securities and Exchange Commission on May 14, 2003.

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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%.

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 "Stockholders' 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 stockholder's equity section for the par value and excess amount over the par value of the respective shares issued.

As the warrant is non-detachable from the Debenture and requires simultaneous exercise upon conversion of the Debenture, 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.

On various dates through December 31, 2003, the Debenture Holder elected to convert an aggregate \$208,635, through 24 separate transactions, in outstanding Debenture principal into restricted, unregistered common stock. This election caused the Company to issue 4,561,753 shares of restricted, unregistered common stock to the Debenture Holder. Additionally, pursuant to the contract terms, the

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Debenture Holder concurrently exercised a portion of the outstanding Warrant to purchase 2,086,350 shares of the Company's restricted, unregistered common stock for gross proceeds of \$2,086,350.

As of December 31, 2003, pursuant to the conversion terms of the Debenture, the Debenture Holder was approximately \$77,500 in arrears in the contractually obligated conversions, and accordingly, the related mandatory warrant exercise of approximately \$775,000.

Preferred Stock Transactions

Preferred stock consists of the following as of December 31, 2003 and 2002, respectively:

| | December 31, 2003 | | December 31, 2002 | |
|---------------------------------------|-------------------|------------|-------------------|------------|
| | # shares | value | # shares | value |
| Series A Cumulative Convertible Stock | 12,000 | \$ 60,000 | 41,000 | \$ 205,000 |
| Series B Cumulative Convertible Stock | 91,700 | 458,500 | - | - |
| | 103,700 | \$ 518,500 | 41,000 | \$ 205,000 |
| | ===== | ===== | ===== | ===== |

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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 a Private Placement Memorandum. 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 stockholder 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.

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

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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.

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.

In January 2003, three separate holders of 9,000 shares of Series A Preferred Stock exercised their conversion rights and converted these shares of Series A Preferred stock into 99,000 shares of restricted, unregistered common stock.

In May 2003, the Company sold an aggregate 91,700 shares of \$5.00 Series B Convertible Preferred Stock (Series B Preferred Stock) for total proceeds of approximately \$458,500 through a separate Private Placement Memorandum. The Series B 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 B 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.

Common Stock Transactions

In February 2002, the Company converted \$100,000 in short-term debt payable and accrued interest of approximately \$25,000 to an existing stockholder 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. This transaction paid in full all outstanding short-term debt.

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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 stockholder and other public relation services. This transaction was valued at approximately \$15,000, or \$0.36 per

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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 stockholder to reimburse said stockholder for his cash payment on behalf of the Company of previously accrued legal fees associated with the bank related litigation, which was concluded in June 2001, and for other consulting services currently being provided by the stockholder. 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.

In July 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing stockholder 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 stockholder 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 stockholder 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.

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In August 2002, the Company issued 24,999 shares of restricted, unregistered common stock to an unrelated party for stockholder 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 stockholder 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 stockholder 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 stockholder 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 stockholder 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 stockholder 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 stockholder 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.

In January 2003, the Company issued an aggregate 937,568 shares of restricted, unregistered common stock for cash proceeds of approximately \$324,182. These sales were made at a price of either \$0.23 or \$0.36 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 for operating working capital.

In February 2003, the Company issued 384,615 shares of restricted, unregistered common stock for cash proceeds of approximately \$100,000. 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 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 reduce the Company's outstanding long-term debt.

In March 2003, the Company issued 972,222 shares of restricted, unregistered common stock for cash proceeds of approximately \$350,000. These sales were made at a price of \$0.36 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 reduce the Company's outstanding long-term debt.

In March 2003, the Company issued an aggregate 966,608 shares of restricted, unregistered common stock to the Holder of the Company's 8.0% Convertible Debenture upon notice of conversion of \$35,000 of outstanding principal and exercise of a portion of the outstanding warrant to purchase 350,000 shares of common stock. This transaction was valued at \$385,000, or approximately \$0.40 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 cash proceeds of this transaction were used to provide working capital and support operations.

In May 2003, the Company issued 1,967 shares of restricted, unregistered common stock in payment of approximately \$1,200 in accrued dividends payable on the Company's outstanding Series A Preferred Stock for the quarter ended March 31, 2003.

During the period from July 1, 2003 through September 30, 2003, the Company issued an aggregate 2,902,129 shares of common stock, in 15 separate transactions, in exchange for the redemption of approximately \$93,500 in outstanding debenture balance and approximately \$935,000 in cash from the exercise of the affiliated warrant. Where the closing price of the Company's common stock was in excess of the respective price per share on the respective transaction date, the Company recognized a charge to operations for "compensation expense related to common stock issuances at less than "fair value". The cumulative effect of transactions where the transaction price, as established in the Debenture Agreement, was less than the closing price on the date of the respective transactions resulted in a cumulative charge to

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operations of approximately \$317,539 during this time period.

In October 2003, in a separate transaction, the Company sold 2,200,000 shares of restricted, unregistered common stock to the Debenture Holder for cash proceeds of approximately \$400,000, or approximately \$0.18 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 cash proceeds of this transaction were used to provide working capital and support operations.

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In October 2003, the Company issued an aggregate 1,659,847 shares of common stock, in 3 separate transactions, in exchange for the redemption of approximately \$40,000 in outstanding debenture balance and approximately \$400,000 in cash from the exercise of the affiliated warrant. Where the closing price of the Company's common stock was in excess of the respective price per share on the respective transaction date, the Company recognized a charge to operations for "compensation expense related to common stock issuances at less than "fair value". The cumulative effect of transactions where the transaction price, as established in the Debenture Agreement, was less than the closing price on the date of the respective transactions resulted in a cumulative charge to operations of approximately \$146,189 during this time period.

In October 2003, the Company issued an aggregate 37,866 shares of restricted, unregistered common stock in payment of approximately \$16,710 in accrued dividends payable on the Company's outstanding Series A and Series B Preferred Stock for the quarters ended June 30, 2003 and September 30, 2003, collectively.

Long-Term Debt Payable to a Bank

On June 28, 2001, the Company executed a \$950,000 note payable to a financial institution. This 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 aggregating \$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.

During Calendar 2003, the Company made two (2) lump-sum principal reductions aggregating \$450,000 to the outstanding balance on this note. As of March 31, 2003, this note was retired in full.

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

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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.

We had minimal operations until September 2001, when we acquired American Ammunition Inc. and since such acquisition are engaged principally in the manufacture and sale of ammunition for retail and wholesale sales. American Ammunition is an established small arms munitions manufacturer with an existing distribution network. The ammunition market is dominated by three major manufacturers, however, we believe we are poised to enter and impact the growing ammunition market with our manufacturing equipment and techniques. In addition, we are an approved Department of Defense contractor.

We began as an assembler and re-loader of ammunition in several calibers. As we grew, management realized that the only way to break into the industry was to become a vertically integrated manufacturer. Our founders invested heavily in research and development, equipment, and technology and focused on increasing our market share. As a result, we continued manufacturing our initial calibers along with special order ammunition for the Department of Defense. Further streamlining of the operations resulted in the manufacture of the current

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ammunition product line: 9 millimeter, .45 automatic, .380 automatic, .32 automatic, .40 Smith and Wesson, 38 Special, 30 carbine, 223 Remington, 38 Super, .44 Special and 32 Smith and Wesson Long . We have also added .44 Magnum, .308, .50 AE and .50 caliber manufacture in Israel and shipped to the Company for distribution under the Company's brand name. We have identified these products as having the largest share of the market for the next several years.

We sell our products into both domestic and foreign markets. At this time, our domestic sales are made to both private sector entities and governmental agencies, principally Federal. Our international sales are, at this time, made solely to foreign governments, principally for military use. During Calendar 2003 and 2002, our sales were approximately 93.8% and 100.0% domestic and approximately 6.2% and 0.0% international. We anticipate the international governmental portion of our business to grow in future periods; however, we do not anticipate our international business to outgrow our domestic sales.

Equipment and Production Line Capabilities

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

Our technology and equipment enable us to produce a large variety of handgun and rifle ammunition. We have a machine shop and maintains our 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. We purchase raw materials in bulk and strive 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.

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We are evaluating the addition of several products to our 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. We also are making provisions to increase other aspects of production capacity, which would complement long term goals of both production volume and product diversity.

In 2003 and 2004 we acquired equipment which will allow us to expand our production capacity in areas which they have traditionally been slower than other areas of our manufacturing process. The acquisition of additional presses, for example, has helped us to balance out our assembly line process so that all portions of our projectiles are manufactured in time with each other. We hope this will cut our manufacturing and labor costs and as a result, make us more efficient at producing small arms ammunition.

We also recently acquired laser gauging computer equipment for the purpose of improving and automating quality control processes. This newly acquired equipment, when added to the production line, will automatically eject bad projectiles from the assembly line. This should further improve the final products we produce and cut labor costs associated with manual inspection of product.

Business Strategy

American Ammunition is an autonomous manufacturer of ammunition, with the technology and equipment to take advantage of the growing market.

The barrier to entry into the ammunition market is extremely high, however, American Ammunition is an established small arms munitions manufacturer, with an existing distribution network. We manufacture our ammunition by creating most of the components ourselves.

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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 Ammunition to make a significant impact in sales through distributors in commercial markets and in addition sales to government agencies, the military and exports. American Ammunition 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

Traditionally, American Ammunition has had a domestic sales network of distributors and sales representatives. In the past, Ellett Brothers, Inc. accounted for large portions of the Company's total sales for fiscal year 2001, 2002 and even 2003. However, in first quarter 2004, the Company launched its Dealer Direct Program and hired Paul Goebel as its National Sales Manager. In doing so, the Company has completely revamped the way it distributes and sells its products domestically.

In essence, the Company cut out the "middle man" distributor by offering its products directly to and soliciting orders directly from the 66,000 licensed dealers in the United States. In doing this, the Company may offer its products

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to dealers cheaper than dealers would otherwise obtain them from distributors, while increasing the Company's profit margins as well. It also eliminates a second freight charge from the distributor to the dealer, as product is shipped directly from the manufacturer to the dealer.

The Company's marketing strategy consists of several new key features to attract dealers directly to the Company, rather than to a distributor. First, the Company is offering "net 60" day credit terms to smaller dealers, who would ordinarily be forced to pay for product up front. The Company has developed a screening process for qualifying these smaller dealers on an individual basis. Although offering net 60 credit terms to dealers results in increased risk to the Company in its account receivables as compared to payment in advance, the Company has exponentially diversified its receivables (and therefore its credit risk) from thirteen (13) main distributors to potentially thousands of individual dealers.

Secondly, the Company now offers free freight (shipping) to dealers on certain orders which exceed a specified amount. Shipping of small arms ammunition has always been a large portion of the cost passed to consumers as the product is heavy and requires extra care in shipping. The Company has determined that it can ship its products at a reduced rate in quantity and offers free shipping as an incentive on qualified orders. As previously, explained, a second freight charge has also been avoided by eliminating the distributor from the transaction.

Additionally, the Company's increasing automation and dealer direct program have considerably sped up the time it takes to provide a dealer with demanded product. Company management has become aware of an unfulfilled need of dealers to be provided with almost instant gratification when demand at retail establishments increases. Many dealers have communicated with the Company complaining that it took their distributors too long to provide them with additional product supply when demand dictated. The Company believes that its new distribution strategy complimented with recent automation has cut the time it takes a dealer to receive the Company's products by more than half.

The Company only recently upgraded its website to include e-commerce capacity, wherein licensed dealers who are pre-registered with the Company can order online direct from the Company. Sales in this manner are slow, but the Company is hopeful that as it steers dealers who currently order from the Company to the site, it will further automate the way in which dealers place product orders from the Company.

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 Ammunition 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

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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.

We are marketing our manufacturing flexibility to numerous Department of Defense and commercial munitions manufacturers as subcontractors allowing prime contractors to reap the benefits of our "HUBZone certification", thereby allowing such prime contractors to comply with Federal Acquisition 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 called for HUBZone contracts to increase from 1.5% of these procurements to 3% by 2003.

Pricing and Value

We have been able to price our products competitively at a price lower than any of the "big three" manufacturers, Remington, ATK, and Winchester. We capitalize 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 our product, add significant profit and sell such product at a retail price that is lower than that at which the distributor can purchase the competitors' product.

Advertising & Promotion

American Ammunition intends to gear its advertising towards magazine and print media, focused on the gun and Ammunition, handgun and shooting markets. We believe that such advertising will result in greater name recognition among individual consumers. Currently, our sales are generated with very little advertising and we believe that advertising could significantly improve retail/mass merchandiser sales and increase market share.

Status of Publicly Announced Products and Services

Israeli Military Industries Ltd.

The Company has developed a relationship with Israeli Military Industries Ltd. ("IMI"), whereby the two (2) companies work together on individual projects. To date, the companies have primarily focused their cooperation on federal contracts and on the Company's dealer direct program. In such contracts, projectiles manufactured by IMI have been assembled by the Company under IMI's strict quality control requirements.

The joint venture has benefited the Company in several ways. First and foremost, IMI has a distinct following as a result of offering very high quality products of the course of many years. Associating the Company's name with IMI's history has added value to the Company's brand and reputation in the small arms ammunition industry. Second, IMI manufactures different calibers and products than the Company, thereby increasing the catalogue of items the Company may offer to its dealers. IMI produces commercial ammunition, similar to the Company. However, it also specializes in the production of law enforcement and military grade ammunition, which the Company currently does not have the

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production capability to produce on its own. Lastly, on past and current cooperation initiatives, IMI has shipped projectiles and materials for assembly at no cost to the Company, thereby saving the Company the time value of such costs were it to have produced such items or purchased such raw materials itself.

Triton

On February 10, 2004, the Company executed a non-binding letter of intent to acquire the assets of Triton Ammunition Corporation ("Triton"). Such assets include machinery, raw materials and intellectual property rights. Triton will convey patents and licenses for the Hi-Vel and Quik-Shok lines of ammunition. For such assets, the Company is obligated to issue shares of the Company's restricted common stock valued at \$1,400,000 based upon the average closing market price for the five (5) trading days ending on the third (3rd) trading day immediately prior to closing on the definitive agreement. The letter of intent is subject to further due diligence and expired if a definitive agreement was not executed on or before February 21, 2004, however the LOI has since been extended.

The Company believes that with the acquisition of certain Triton specialty ammunition and its partnership with IMI on certain ventures, the Company will be able to offer an increased product line to its dealers.

ECO-AMMO(TM)

The Company is now manufacturing and distributing ECO-AMMO(tm). It is a lead-free projectile with reduced lead pollutants sometimes referred to as "green" ammo. ECO-AMMO is ideal for indoor ranges since it disintegrates upon impact and therefore does not ricochet. AAMI has been acquiring and developing technology to market this environmentally friendly ammunition for some time. The advent of the dealer direct program enables the product to be distributed at a lower cost and should open up the market to more consumers.

Aircraft Bullet

We were assigned a serial number (60/325,046) from the U.S. Patent and Trademark Office for our 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.

We departed completely from standard ballistics for the design of this projectile to meet what American Ammunition 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 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 our website at www.a-merc.com in the New Product Section. We believe that these research and development efforts will provide a new product

to the public safety and security marketplace.

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

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.

We believe it is feasible to increase our 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 we had reduced sales in fiscal 2001 due to a lack of funding. We have already received significant bank and private placement funding in fiscal 2002 to ramp up operations thereby significantly increasing our presence in the market.

Sources and Availability of Raw Materials

We manufacture our ammunition by creating most of the components ourselves. The materials needed to produce our ammunition products are widely available from numerous third parties. No shortage of materials is expected in the foreseeable future.

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

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We intend to protect our original intellectual property with patents, copyrights and/or trademarks as appropriate.

Our head stamp "A-MERC " was registered as a trademark on May 10,1994. We were assigned a serial number (60/325,046) from the U.S. Patent and Trademark Office for our 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, we are required to be licensed to import firearms and manufacture ammunition for firearms. Such licensing is subject to limitations in Chapter 44, Title 18, United States Code. In the event such licenses are not renewed for any reason, we would have to cease our operations

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In accordance with these requirements, we carry 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, 2006; and

License No. 1-59-025-08-3D-69454 for "08-Importer of Firearm other than Destructive Devices", which license expires on April 1, 2006.

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

We are 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

We are 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 us from continuing our operations. Should such legislation be enacted, and should the we be precluded from continuing our operations, it would have a materially adverse effect upon our business and future.

Cost and Effects of Compliance with Environmental Laws

As a manufacturer, we are subject to general local, state and federal regulations governing environmental concerns. We believe that we have always been and continue to be in compliance with all such laws.

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

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Employees

At March 1, 2004, we employed 61 persons. None of these employees are represented by a labor union for purposes of collective bargaining. We consider our relations with our employees to be excellent. We may employ additional personnel, as necessary, to accommodate future sales and production requirements.

Item 2. Description Of Property

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 \$5,410, including applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on July 31, 2004 and contains a clause that upon expiration, the Company and the controlling shareholder shall renegotiate the annual rental amount. Total rent expense under this lease was approximately \$67,075 and \$54,100, respectively, for each of the years ended December 31, 2003 and 2002.

The Company's subsidiary, IPE, leases its manufacturing facility from an unrelated third-party under a long-term operating lease agreement. This lease is for a period of five (5) years and requires graduated monthly payments, changing on the lease anniversary date, ranging from approximately \$1,751 to \$1,914, plus the applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on February 28, 2007 and may be renewed for an additional five (5) year term at a rental rate of approximately \$1,971, plus applicable sales taxes for the first renewal year and 3.0% increase on each succeeding anniversary date. Total rent expense under this lease was approximately \$20,752 and \$16,622, respectively, for each of the years ended December 31, 2003 and 2002.

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Future minimum rental payments on the above leases are as follows:

| Year ended December 31, ----- | Amount ----- |
|-------------------------------------|---------------------|
| 2004 | \$ 60,754 |
| 2005 | 23,565 |
| 2006 | 24,276 |
| 2007 | 4,076 |
| | ----- |
| Totals | \$ 112,671 ===== |

We believe that our facilities are adequate for our needs for the foreseeable future.

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.

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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 |
| 12/31/2002 - 03/31/2003 | 0.78 | 0.53 |
| 04/01/2003 - 06/30/2003 | 0.85 | 0.42 |
| 07/01/2003 - 09/30/2003 | 0.55 | 0.37 |
| 10/01/2003 - 12/31/2003 | 0.42 | 0.22 |
| 1/1/2004 - 3/31/2004 | 0.50 | 0.27 |

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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, 2003 the Company had one hundred seventy-eight (178) shareholders of record of its 66,893,628 outstanding shares of common stock, 32,077,324 of which were restricted Rule 144 shares and 34,816,304 of which were free-trading. Of the Rule 144 shares, 24,067,705 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

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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 FirstTelevision.com. We subsequently changed our corporate name to FBI Fresh Burgers International which unsuccessfully marketed a business plan concept of a national "fast food" restaurant chain.

American Ammunition, Inc. is a holding company with two operating subsidiaries: F&F Equipment, Inc. and Industrial Plating Enterprise Co.

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."

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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 third quarter of 2003, the Company's operations experienced the negative impact of a lower than anticipated or budgeted purchases by Ellett Brothers, a significant customer.

However, during this same time period, the Company has entered into a strategic alliance with IMI, an entity owned by the State of Israel, for the cross-production and sale of various small arms ammunition. This alliance is anticipated to greatly expand the Company's catalog of products and assist in utilizing existing production capacity.

The Company has executed a private labeling agreement with Century International Arms, Inc. ("Century"). Under this agreement, the Company will produce its standard catalog of small arms ammunition plus one specialty small arms cartridge to Century's specifications for packaging in Century's designated labeling. This agreement will require no modifications to the Company's production line and will not require the addition of supplemental personnel or equipment. The initial shipment under this agreement is for an aggregate 2,010,000 rounds of ammunition at selling prices of \$81.00 to \$120.00 per 1,000 rounds, as defined in this agreement. The agreement is for an initial period of nine (9) months and covers periodic orders/shipments of an aggregate 13,670,000 rounds of ammunition from the Company's standard catalog of products and 1,000,000 of the specialty rounds made to Century's specifications. The Company began shipments under this agreement during the fourth quarter of 2003.

Additionally, the Company has been awarded three (3) separate contracts from various departments of the U. S. Government. Each contract is for an initial term of one (1) year (commencing between April 24, 2003 and September 30, 2003) with four (4) successive individual one-year extension options. The contracts are summarized as follows:

Contract 1: U. S. Department of State. Minimum annual volume of approximately 100,000 rounds of military grade small arms ammunition. Maximum annual volume of approximately 5,000,000 rounds. Maximum volume may be increased at the discretion of the Contracting Officer and respective utilization requirements. Through October 22, 2003, the Company has received firm orders for 2,265,000 rounds of ammunition under this contract and has approximately 1,265,000 rounds ready for shipment. The ammunition under this contract will be subject to the strategic alliance with IMI.

Contract 2: U. S. Department of Energy. This contract covers seven (7) separate products in the Company's standard catalog of products. The U. S. Department of Energy is obligated to purchase an aggregate of 4,549,000 rounds of ammunition under this contract. Through December 31, 2003, the Company has not shipped any product under this contract.

Contract 3: U. S. Department of Homeland Security. This contract covers four (4) separate products being introduced to the Company's catalog through the strategic alliance with IMI and requires no modifications to the Company's production facilities or additions to the labor force. The minimum annual volume is 1,000 rounds of each product and a maximum annual volume of 9,600,000 rounds of two (2) products and 36,000,000 of the remaining two (2) products. Management anticipates shipments of production product to commence during the first quarter of 2004.

Results of Operations

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Year ended December 31, 2003 compared with the year ended December 31, 2002

During the year ended December 31, 2003, we experienced aggregate net revenues of approximately \$1,985,000, with approximately \$769,000 being realized during the 4th quarter, as compared to approximately \$1,409,000 for the year ended December 31, 2002.

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We experienced costs of goods sold of approximately \$3,232,000 for the year ended December 31, 2003 as compared to approximately \$2,457,000 for the year ended December 31, 2002. During 2003, we experienced negative trends off of our standard production costs for material and labor due to difficulties in training new employees and adding new products to our catalog. Management is of the opinion that the production labor force is stable and able to maintain a constant standard of quality for future periods. We experience variable costs in the area of material consumption and direct labor. We have recognized depreciation expense on production equipment of approximately \$669,000 and \$653,000, 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, 2003 and 2002, respectively, we have generated a negative gross profit of approximately \$(1,247,000), or (62.82%), and approximately \$(1,047,000), or (74.31%). We anticipate that with the fulfillment of the various private labeling agreements and government contracts discussed above, continued retail consumer demand for our product line, lower production costs being experienced from internally generated plating activities and adequate liquidity, we 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 and further refined during 2003, 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 \$4,000 and \$3,700, respectively, during the years ended December 31, 2003 and 2002, principally related to the expansion of our product line.

Other general and administrative expenses increased by approximately \$282,000 from approximately \$845,000 for the year ended December 31, 2002 as compared to approximately \$1,127,000 for the year ended December 31, 2003. The most significant increases relate to advertising and marketing expenses, office and administrative wages and salaries and overall office overhead.

Included in our results of operations for both 2003 and 2002 2001 are non-cash expenditure charges. During 2003 and 2002, respectively, we experienced charges to operations of approximately \$883,000 and \$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

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services provided to us by third parties. During 2003, we experienced a charge of approximately \$94,000 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 2003.

We recognized a net loss of approximately \$(2,968,000) and \$(1,883,000) for the respective years ended December 31, 2003 and 2002, respectively, or \$(0.05) and \$(0.04) per share.

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.

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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

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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.

Liquidity And Capital Resources

As of December 31, 2003 and 2002, respectively, we had working capital of approximately \$2,000,000 and \$56,000. Our working capital position improved significantly at December 31, 2003 due to the volume of shipments during the 4th quarter to our customers and increases in inventory to support the pending U. S. Government contracts.

We have used cash in operating activities of approximately \$2,918,000 and \$1,236,000 during the years ended December 31, 2003 and 2002, respectively.

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The most significant use of cash in operations during the year ended December 31, 2003 was the production of inventory shipped on open account during the 4th quarter and the increase in inventory levels to support the U. S. Government contracts with shipments to commence during the 1st quarter of 2004.

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. This 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 were due until June 28, 2007 which payments shall represent the amount necessary to fully amortize the remaining

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principal balance of the note. The monthly payments shall be recalculated at the time of any change in the applicable interest rate. At December 31, 2002, we owed \$450,000 on this note and retired the note in full during the first quarter of 2003.

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 years ended December 31, 2003 and 2002, respectively, we added approximately \$289,000 and \$387,000 in new equipment, of which approximately \$225,000 was acquired in 2002 for 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 an additional 50% to 100%, as influenced by the availability of manufacturing equipment on the open market and product sales demand. 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 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. (La Jolla) for the sale of a \$250,000 8% convertible debenture and a warrant to purchase up to 30,000,000 shares of our common stock. The debenture bears interest at 8% and matures two years from the date of issuance.

In December 2002, the Company and La Jolla, the Debenture and/or Warrant Holder, amended the above-referenced debenture and warrants as follows:

The number of common shares into which the debenture may be converted is equal to the dollar amount of the debenture being converted multiplied by eleven, minus the product of the conversion price, multiplied by ten times the dollar amount of the debenture being converted, divided by the conversion price. The conversion price is obtained by multiplying the average of the five (5) lowest Volume Weighted Average Prices (VWAP) during the 20 trading days prior to the date of conversion by the Discount Multiplier of 80%.

The warrants are exercisable at \$1.00 per share for up to 2,500,000 shares. The Warrant Holder is obligated to exercise the warrant concurrently with the conversion of the debenture for a number of shares equal to ten times the dollar amount of the debenture being converted.

We were 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. Our Registration Statement on Form SB-2 was deemed effective by the U. S. Securities and Exchange Commission on May 14, 2003 at 1:00 pm EDT.

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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 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 La Jolla 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 them or their 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 could have demanded 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 May 14, 2003, the date that underlying Registration Statement under the Securities Act of 1933 was declared effective by the U. S. Securities and Exchange Commission, within 3 business days of such demand. If the repayment was accelerated, we were obligated to issue 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.

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 "Stockholders' 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 stockholder's equity section for the par value and excess amount over the par value of the respective shares issued.

As the warrant is non-detachable from the Debenture and requires simultaneous exercise upon conversion of the Debenture, 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, we executed an engagement letter with La Jolla's counsel for legal representation with regard to the preparation of the Registration Statement under the Securities Act of 1933 on Form SB-2.

On March 13, 2003 and May 6, 2003, La Jolla Cove Investors, Inc., the holder of the Company's convertible debenture, advanced the Company an additional \$200,000 and \$150,000, respectively, for working capital purposes. During the second quarter of 2003, La Jolla elected to allocate the entire \$350,000 in additional

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funding to the principal balance of the convertible debenture.

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On various dates between May 7, 2003 and June 30, 2003, La Jolla elected to convert an aggregate \$75,135, through six (6) separate transactions, in outstanding Debenture principal into restricted, unregistered common stock. This election caused the Company to issue 1,334,777 shares of restricted, unregistered common stock to the Debenture Holder. Additionally, pursuant to the contract terms, the Debenture Holder concurrently exercised a portion of the outstanding Warrant to purchase 751,350 shares of the Company's restricted, unregistered common stock for gross proceeds of \$751,350.

During the period from July 1, 2003 through September 30, 2003, the Company issued an aggregate 2,902,129 shares of common stock, in 15 separate transactions, to La Jolla in exchange for the redemption of approximately \$93,500 in outstanding debenture balance and approximately \$935,000 in cash from the exercise of the affiliated warrant. Where the closing price of the Company's common stock was in excess of the respective price per share on the respective transaction date, the Company recognized a charge to operations for "compensation expense related to common stock issuances at less than "fair value". The cumulative effect of transactions where the transaction price, as established in the Debenture Agreement, was less than the closing price on the date of the respective transactions resulted in a cumulative charge to operations of approximately \$317,539 during this time period.

In October 2003, the Company issued an aggregate 1,659,847 shares of common stock, in 3 separate transactions, in exchange for the redemption of approximately \$40,000 in outstanding debenture balance and approximately \$400,000 in cash from the exercise of the affiliated warrant. Where the closing price of the Company's common stock was in excess of the respective price per share on the respective transaction date, the Company recognized a charge to operations for "compensation expense related to common stock issuances at less than "fair value". The cumulative effect of transactions where the transaction price, as established in the Debenture Agreement, was less than the closing price on the date of the respective transactions resulted in a cumulative charge to operations of approximately \$146,189 during this time period.

Research and Development

Depending on the demand for new product lines and the refinement of our production processes under our production agreement with IMI for the cross-production and sale of various small arms ammunition, we may or may not incur increased spending on research and development activities during Calendar 2004.

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.

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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.

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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.

Item 8A. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on an evaluation conducted within 90 days prior to the filing date of this Annual Report on Form 10-KSB, that the Company's disclosure controls and procedures have functioned effectively so as to provide those officers the information necessary whether:

- (i) this Annual Report on Form 10-KSB contains any untrue statement of a material fact or omits 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 on Form 10-KSB, and
- (ii) the financial statements, and other financial information included in this Annual Report on Form 10-KSB, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Annual Report on Form 10-KSB. There have been no significant changes in the Company's internal controls

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or in other factors since the date of the Chief Executive Officer's and Chief Financial Officer's evaluation that could significantly affect these internal controls, including any corrective actions with regards to significant deficiencies and material weaknesses.

Critical Accounting Policies and Procedures

The Company records the intrinsic value of the beneficial conversion feature of the convertible debenture as additional paid-in capital and amortizes the interest over the life of the debenture.

Research and development costs are charged to operations when incurred.

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. | 67 | Chairman of the Board and Director of Sales |
| Andres F. Fernandez | 38 | President and Chief Executive Officer |
| Emilio D. Jara | 39 | Vice-President of Operations, Secretary and Director |
| Maria A. Fernandez | 44 | Director |

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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 67, currently serves as the Chairman of the Board and Director of 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

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has utilized such experience for the growth and development of the Company. He is fluent in Spanish.

Andres Fernandez, age 38, 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 39, 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.

Maria A. Fernandez, age 44, 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.

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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.

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SUMMARY COMPENSATION TABLE

| (a) Name and Principal Position (1) | (b) Year | Annual Compensation | | | Long Term Compensation Awards | | Payouts | |
|--|-------------|-----------------------|----------------------|---|--|---|-----------------------------|--|
| | | (c) Salary (\$) | (d) Bonus (\$) | (e) Other Annual Compensation (\$) | (f) Restricted Stock Award(s) (\$) | (g) Securities Underlying Options/ SARs (f) | (h) LTIP Pay- outs | (i) 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 |
| | 2003 | \$104,000 | \$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 |
| | 2003 | \$132,600 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

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| | | | | | | | | |
|--|------|-----------|----------|-----|-----|-----|-----|-----|
| 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 |
| | 2003 | \$ 52,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Amelia Fernandez, Former Vice President And former 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 |
| | 2003 | \$ 78,702 | \$50,000 | \$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 |
| | 2003 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

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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 certain information regarding beneficial ownership of our common stock as of December 31, 2003 by:

- * each person who is known by us to beneficially own more than 5% of our common stock;
- * each of our officers and directors;
- * all of our officers and directors as a group.

Except as otherwise noted, each person's address is c/o American Ammunition, Inc., 3545 NW 71st Street, Miami, FL 33147.

| Name and Address of Beneficial Owner | Shares Beneficially Owned | |
|--------------------------------------|---------------------------|---------|
| | Number | Percent |
| ----- | ----- | ----- |

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| | | |
|---|------------|-------|
| Andres F. Fernandez, President, CEO and CFO | 8,485,365 | 12.7% |
| J. A. Fernandez, Sr., Chairman of the Board and Director of Sales | 14,905,905 | 22.3% |
| Amelia C. Fernandez, Vice President and Director | 4,281,900 | 6.4% |
| Maria A. Fernandez, Director | 260,000 | 0.4% |
| Emilio D. Jara, Director | 54,250 | * |
| Total securities held by officers and directors as a group (5 people): | 27,987,420 | 41.8% |

* Less than 1%

Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of December 31, 2003 are deemed outstanding for computing the percentage of the person holding such option or warrant but are not deemed outstanding for computing the percentage of any other person.

J.A. Fernandez, Sr. and Amelia Fernandez are the father and mother of Andres and Maria Fernandez.

The table above does not include the 384,500 shares Maria Fernandez holds as a Trustee for an Irrevocable Trust in which neither she nor any of the other Officers or Directors is the beneficial owner. However, the table does include the shares owned by Amelia Fernandez, who was an officer and director during 2003.

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 \$5,410, including applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on July 31, 2004 and contains a clause that upon expiration, the Company and the controlling shareholder shall renegotiate the annual rental amount. Total rent expense under this lease was approximately \$67,075 and \$54,100, respectively, for each of the years ended December 31, 2003 and 2002.

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:

| Exhibit No. | Description |
|-------------|-------------|
| ----- | ----- |

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31.1 * Certification by Chief Executive Officer pursuant to 18 U.S.C. 1350.

32.1 * Certification by Chief Financial Officer pursuant to 18 U.S.C. 1350.

* 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.

A report on Form 8-K was filed on February 11, 2004 in connection with a press release describing both fourth quarter and year end results for 2003.

Another report on Form 8-K was filed on February 11, 2004 stating that the Company had executed a non-binding letter of intent to acquire the assets of Triton Ammunition Corporation.

Item 14 - Principal Accountant Fees and Services

The Company paid or accrued the following fees in each of the prior two fiscal years to its principal accountant, S. W. Hatfield, CPA of Dallas, Texas.

| | Year ended December 31, 2003 | Year ended December 31, 2002 |
|------------------------|------------------------------------|------------------------------------|
| | ----- | ----- |
| (1) Audit fees | \$ 28,193 | \$ 30,205 |
| (2) Audit-related fees | - | - |
| (3) Tax fees | 1,208 | - |
| (4) All other fees | - | - |
| | ----- | ----- |
| Totals | \$ 29,401 ===== | \$ 30,205 ===== |

We have considered whether the provision of such non-audit services is compatible with S. W. Hatfield, CPA maintaining its independence and determined that these services do not compromise their independence.

Financial Information System Design and Implementation. S. W. Hatfield, CPA did not charge the Company any fees for financial information system design and implementation fees.

The Company has no formal audit committee. However, the entire Board of Directors (the "Board") is the Company's defacto audit committee. In discharging its oversight responsibility as to the audit process, the Board obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence as required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." The Board discussed with the auditors any relationships that may impact their objectivity and independence, including fees for non-audit services, and satisfied itself as to the auditors'

independence. The Board also discussed with management, the internal auditors and the independent auditors the quality and adequacy of the Company's internal controls. The Board reviewed with the independent auditors their management letter on internal controls.

The Board discussed and reviewed with the independent auditors all matters required to be discussed by auditing standards generally accepted in the United States of America, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees". The Board reviewed the audited consolidated financial statements of the Company as of and for the year ended December 31, 2003, with management and the independent auditors. Management has the responsibility for the preparation of the Company's financial statements and the independent auditors have the responsibility for the examination of those statements. Based on the above-mentioned review and discussions with the independent auditors and management, the Board of Directors approved the Company's audited consolidated financial statements and recommended that they be included in its Annual Report on Form 10-KSB for the year ended December 31, 2003, for filing with the Securities and Exchange Commission. The Board also approved the reappointment of S. W. Hatfield, CPA as independent auditors.

The Company's principal accountant, S. W. Hatfield, CPA, did not engage any other persons or firms other than the principal accountant's full-time, permanent employees.

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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)

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Date: May 5, 2004

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/ Maria A. Fernandez

Maria A. Fernandez, 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 | May 5, 2004 |
| /s/ Andres F. Fernandez ----- Andres F. Fernandez | President and Chief Executive Officer | May 5, 2004 |
| /s/ Emilio D. Jara ----- Emilio D. Jara | Vice-President of Operations, Secretary and Director | May 5, 2004 |
| /s/ Maria A. Fernandez ----- Maria A. Fernandez | Director | May 5, 2004 |

AMERICAN AMMUNITION, INC. AND SUBSIDIARIES

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Consolidated Financial Statements

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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, 2003 and 2002 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, 2003 and 2002, 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. and Subsidiaries as of December 31, 2003 and 2002 and the results of their consolidated operations and consolidated cash flows for each of the two years ended December 31, 2003 and 2002, respectively, in conformity with accounting principles generally accepted in the United States of America.

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

Dallas, Texas
January 23, 2004

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AMERICAN AMMUNITION, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002

| | December 31, 2003 | December 31, 2002 |
|--|--------------------------|--------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current Assets | | |
| Cash on hand and in bank | \$ 505,671 | \$ 157,316 |
| Accounts receivable - trade, net of allowance for doubtful accounts of \$-0- and \$-0-, respectively | 520,835 | 31,288 |
| Inventory | 1,112,756 | 384,814 |
| Prepaid expenses | 40,388 | 19,391 |
| | ----- | ----- |
| Total Current Assets | 2,179,650 | 592,809 |
| | ----- | ----- |
| Property and Equipment - at cost or contributed value | | |
| Manufacturing equipment | 7,131,233 | 6,843,135 |
| Office furniture and fixtures | 62,893 | 58,528 |
| Leasehold improvements | 184,690 | 188,263 |
| | ----- | ----- |
| Accumulated depreciation | 7,378,816 (4,066,390) | 7,089,926 (3,393,301) |
| | ----- | ----- |
| Net Property and Equipment | 3,312,426 | 3,696,625 |
| | ----- | ----- |
| Other Assets | | |
| Deposits and other | 77,860 | 77,860 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 5,569,936 | \$ 4,367,294 |
| | ===== | ===== |

- Continued -

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

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AMERICAN AMMUNITION, INC.
CONSOLIDATED BALANCE SHEETS - CONTINUED
December 31, 2003 and 2002

| | December 31, 2003 | December 31, 2002 |
|---|----------------------|----------------------|
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Current maturities of leases payable | \$ 7,841 | \$ 9,507 |
| Customer deposits | 4,100 | 80,953 |
| Accounts payable - trade | 128,865 | 414,910 |
| Accrued interest payable | - | 18,709 |
| Accrued dividends payable | 11,020 | 12,600 |
| | ----- | ----- |
| Total Current Liabilities | 151,826 | 536,679 |
| Long-Term Liabilities | | |
| Note payable to a bank | - | 450,000 |
| Capital leases payable | - | 7,841 |
| | ----- | ----- |
| Total Liabilities | 151,826 | 994,520 |
| | ----- | ----- |
| Commitments and Contingencies | | |
| Mandatory Convertible Debenture | 391,365 | 250,000 |
| | ----- | ----- |
| Mandatory Convertible Preferred Stock | | |
| 103,700 and 41,000 shares issued and outstanding | 518,500 | 205,000 |
| | ----- | ----- |
| 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. 66,893,628 and 55,328,166 shares issued and outstanding | 66,894 | 55,328 |
| Additional paid-in capital | 21,070,395 | 16,523,164 |

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| | | |
|--|--------------|--------------|
| Accumulated deficit | (16,629,044) | (13,660,718) |
| | ----- | ----- |
| Total Stockholders' Equity | 4,508,245 | 2,917,774 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 5,569,936 | \$ 4,367,294 |
| | ===== | ===== |

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

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AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
Years ended December 31, 2003 and 2002

| | Year ended December 31, 2003 | Year ended December 31, 2002 |
|---|------------------------------------|------------------------------------|
| | ----- | ----- |
| Revenues | \$ 1,984,997 | \$ 1,409,364 |
| | ----- | ----- |
| Cost of Sales | | |
| Materials | 1,355,098 | 1,041,553 |
| Direct Labor | 868,004 | 663,787 |
| Other direct costs and expenses | 340,346 | 128,371 |
| Depreciation | 668,574 | 652,943 |
| | ----- | ----- |
| Total Cost of Sales | 3,232,022 | 2,456,654 |
| | ----- | ----- |
| Gross Profit | (1,247,025) | (1,047,290) |
| | ----- | ----- |
| Operating Expenses | | |
| Research and development expenses | 4,038 | 3,662 |
| Marketing and promotion expenses | 115,767 | 23,453 |
| Salaries, wages and related expenses | 399,710 | 341,532 |
| Other operating expenses | 567,700 | 389,732 |
| Interest expense | 35,154 | 72,444 |
| Depreciation expense | 4,516 | 2,642 |
| Compensation expense related to common stock issuances at less than "fair value" | 882,291 | 11,538 |
| | ----- | ----- |
| Total Operating Expenses | 2,009,176 | 845,003 |
| | ----- | ----- |
| Loss from Operations | (3,256,201) | (1,892,293) |
| | ----- | ----- |
| Other Income (Expense) | | |
| Other income (expense) | 63,382 | 9,206 |
| Gain on forgiveness of accounts payable | 339,202 | - |
| Gain on sale of equipment | 7,900 | - |
| Amortization of Beneficial Conversion | | |

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| | | |
|--|----------------|----------------|
| Feature Discount on Preferred Stock | (93,678) | - |
| Loss before Income Taxes | (2,939,395) | (1,883,087) |
| Provision for Income Taxes | - | - |
| Net Loss | (2,939,395) | (1,883,087) |
| Other Comprehensive Income | - | - |
| Comprehensive Loss | (2,939,395) | (1,883,087) |
| Preferred Stock Dividends | (28,931) | (23,000) |
| Net Loss available to Common Shareholders | \$ (2,968,326) | \$ (1,883,087) |
| Loss per weighted-average share of common stock outstanding, computed on net loss - basic and fully diluted | \$ (0.05) | \$ (0.04) |
| Weighted-average number of common shares outstanding | 61,202,839 | 52,605,993 |

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

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AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2003 and 2002

| | Mandatory Convertible Preferred Stock | | Common Stock | | Addition paid-capital |
|--|---------------------------------------|------------|--------------|-----------|-----------------------|
| | Shares | Amount | Shares | Amount | |
| Balances at January 1, 2002 | 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 |
| Issuance of preferred stock for Cash | 91,700 | 458,500 | - | - | - |

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| | | | | | |
|--|----------|------------|------------|-----------|----------|
| Less costs of raising capital | - | - | - | - | (45) |
| Issuance of common stock for | | | | | |
| Cash | - | - | 4,552,183 | 4,552 | 1,179 |
| Conversion of debenture | - | - | 4,561,753 | 4,562 | 1,086 |
| Exercise of warrant for cash | - | - | 2,086,350 | 2,086 | 2,084 |
| Payment of preferred stock dividends | - | - | 46,176 | 46 | 20 |
| Conversion of preferred stock | (29,000) | (145,000) | 319,000 | 319 | 144 |
| Costs of acquiring convertible debenture | - | - | - | - | (16) |
| Beneficial Conversion Discount | | | | | |
| Feature on preferred stock | - | - | - | - | 93 |
| Dividends declared on Preferred Stock | - | - | - | - | |
| Net loss for the year | - | - | - | - | |
| | ----- | ----- | ----- | ----- | ----- |
| Balances at December 31, 2003 | 62,700 | \$ 518,500 | 66,893,628 | \$ 66,894 | \$21,070 |
| | ===== | ===== | ===== | ===== | ===== |

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

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AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2003 and 2002

| | Year ended December 31, 2003 | D |
|---|------------------------------------|-------|
| | ----- | ----- |
| Cash flows from operating activities | | |
| Net loss for the year | \$ (2,939,395) | \$ |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation and amortization | 673,090 | |
| Bad debt expense | 2,522 | |
| Gain on forgiveness of accounts payable | (339,202) | |
| Gain on sale of equipment | (7,900) | |
| Amortization of conversion discount on preferred stock | 93,678 | |
| Compensation expense related to common stock issuances at less than "fair value" | 882,291 | |
| Common stock issued for fees and services | - | |
| Accrued interest converted to common stock | - | |
| (Increase) Decrease in | | |
| Accounts receivable | (492,069) | |
| Inventory | (727,942) | |
| Prepaid expenses, deposits and other | (20,997) | |
| Increase (Decrease) in | | |
| Accounts payable and other accrued liabilities | 53,157 | |
| Accrued payroll | (18,709) | |
| Customer deposits | (76,853) | |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | (2,918,329) | |

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| | | |
|--|------------|-------|
| | ----- | |
| Cash flows from investing activities | | |
| Cash received on sale of equipment | 7,900 | |
| Purchase of property and equipment | (288,891) | |
| | ----- | |
| Net cash used in investing activities | (280,991) | |
| | ----- | |
| Cash flows from financing activities | | |
| Increase in cash overdraft | - | |
| Cash received (paid) on short term loans - net | - | |
| Cash received on long-term loans | - | |
| Principal paid on long-term loans | (450,000) | |
| Principal paid on long-term capital leases | (9,507) | |
| Cash received on sale of Mandatory Convertible Preferred Stock | 458,500 | |
| Cash received on issuance of Mandatory Convertible Debenture | 350,000 | |
| Cash received on sale of common stock | 3,260,532 | |
| Cash paid to acquire capital | (61,850) | |
| | ----- | |
| Net cash provided by financing activities | 3,547,675 | |
| | ----- | |
| INCREASE (DECREASE) IN CASH | 348,355 | |
| Cash at beginning of year | 157,316 | |
| | ----- | |
| Cash at end of year | \$ 505,671 | \$ |
| | ===== | ===== |

- Continued -

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

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AMERICAN AMMUNITION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
Years ended December 31, 2003 and 2002

| | Year ended December 31, 2003 | D |
|---|------------------------------------|-------|
| | ----- | |
| Supplemental disclosure of interest and income taxes paid | | |
| Interest paid for the period | \$ 26,170 | \$ |
| | ===== | ===== |
| Income taxes paid for the period | \$ - | \$ |
| | ===== | ===== |
| Supplemental disclosure of non-cash investing and financing activities | | |

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| | | |
|--|------------|----|
| Conversion of debt into common stock | \$ 208,635 | \$ |
| | ===== | = |
| Payment of accounts payable with issuance of common stock | \$ - | \$ |
| | ===== | = |
| Payment of accrued dividends on preferred stock with common stock | \$ 30,511 | \$ |
| | ===== | = |

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

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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 FirstTelevision.com. AAI subsequently changed its corporate name to FBI Fresh Burgers International which unsuccessfully marketed a business plan concept of a national "fast food" restaurant chain.

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.

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 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. was the accounting acquiror for financial statement

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purposes. Accordingly, the historical financial statements of the Company are those of F&F Equipment, Inc. from its 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.

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.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note B - Preparation of Financial Statements - Continued

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. 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

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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.

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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, 2003 and 2002, 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.

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As of December 31, 2003 and 2002, 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 December 31, 2003 and 2002, and subsequent thereto, the Company had no options outstanding. The outstanding warrants and convertible preferred stock and mandatorily convertible debentures are anti-dilutive due to the Company's net operating loss position.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note C - Summary of Significant Accounting Policies - Continued

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.

Note D - 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.

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Note E - Inventory

As of December 31, 2003 and 2002, inventory consisted of the following components:

| | December 31, 2003 | December 31, 2002 |
|-----------------|----------------------|----------------------|
| | ----- | ----- |
| Raw materials | \$ 523,550 | \$ 149,824 |
| Work in process | 360,450 | 116,216 |
| Finished goods | 212,832 | 118,774 |
| | ----- | ----- |
| Totals | \$1,112,756 ===== | \$ 384,814 ===== |

Note F - Property and Equipment

Property and equipment consist of the following components:

| | December 31, 2003 | December 31, 2002 | Estimated useful life |
|-------------------------------|----------------------|----------------------|--------------------------|
| | ----- | ----- | ----- |
| Manufacturing equipment | \$7,131,233 | \$6,843,135 | 3-10 years |
| Office furniture and fixtures | 62,893 | 58,528 | 3- 7 years |
| Leasehold improvements | 184,690 | 188,263 | 8-20 years |
| | ----- | ----- | |
| | 7,378,816 | 7,089,926 | |
| Accumulated depreciation | (4,066,390) | (3,393,301) | |
| | ----- | ----- | |
| Net property and equipment | \$3,312,426 ===== | \$3,696,625 ===== | |

Total depreciation expense charged to operations for the years ended December 31, 2003 and 2002 was approximately \$673,090 and \$655,585, respectively.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note F - Property and Equipment - Continued

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

| December 31, 2003 | December 31, 2002 |
|----------------------|----------------------|
| ----- | ----- |

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| | | |
|--|-----------|-----------|
| Manufacturing and processing equipment | \$153,400 | \$153,400 |
| Less accumulated depreciation | (69,859) | (54,519) |
| | ----- | ----- |
| | \$ 83,541 | \$ 98,881 |
| | ===== | ===== |

Note G - Capital Leases Payable

Capital leases payable consist of the following as of December 31, 2003 and 2002, respectively:

| | December 31, 2003 | December 31, 2002 |
|--|----------------------|----------------------|
| | ----- | ----- |
| Three separate capital leases payable to various equipment financing companies. Interest ranging between 11.37% and 14.05%. Payable in aggregate monthly installments of approximately \$935, including interest. Final maturities occur between September 2004 and December 2004. Collateralized the underlying leased manufacturing equipment. | \$ 7,841 | \$17,348 |
| Less current maturities | (7,841) | (9,507) |
| | ----- | ----- |
| Long-term portion | \$ - | \$ 7,841 |
| | ===== | ===== |

Future maturities of capital leases payable are as follows:

| Year ending December 31 | Amount |
|----------------------------|---------|
| ----- | ----- |
| 2004 | \$7,841 |
| | ===== |

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note H - Long-Term Debt Payable to a Bank

On June 28, 2001, the Company executed a \$950,000 note payable to a financial institution. This 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

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aggregating \$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.

During Calendar 2003, the Company made two (2) lump-sum principal reductions aggregating \$450,000 to the outstanding balance on this note. As of March 31, 2003, this note was retired in full.

Note I - 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.

During the second quarter of Calendar 2003, the Holder made additional cash advances to the Company totaling \$350,000 which were applied to the then outstanding principal balance on the Debenture.

The Debenture bears interest at 8.0% and matures on October 4, 2004. 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.

At December 31, 2003 and 2002, respectively, the outstanding balance on the Debenture was approximately \$391,365 and \$250,000.

In December 2002, the Company and the Debenture Holder amended the above-referenced debenture and warrants as follows:

The number of common shares into which the debenture may be converted is equal to the dollar amount of the debenture being converted multiplied by eleven, minus the product of the conversion price, multiplied by ten times the dollar amount of the debenture being converted, divided by the conversion price. The conversion price is obtained by multiplying the average of the five (5) lowest Volume Weighted Average Prices (VWAP) during the 20 trading days prior to the date of conversion by the Discount Multiplier of 80%.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note I - Convertible Debenture - Continued

The warrants are exercisable at \$1.00 per share for up to 2,500,000 shares. The warrant holder is obligated to exercise the warrant concurrently with the conversion of the debenture for a number of shares equal to ten times the dollar amount of the debenture being converted.

The Company was obligated to file a Registration Statement under the Securities

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Act of 1933 to register the underlying conversion shares on either Form SB-2 or S-3. This Registration Statement was declared effective by the U. S. Securities and Exchange Commission on May 14, 2003.

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%.

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 "Stockholders' 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 stockholder's equity section for the par value and excess amount over the par value of the respective shares issued.

As the warrant is non-detachable from the Debenture and requires simultaneous exercise upon conversion of the Debenture, 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.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note I - Convertible Debenture - Continued

On various dates through December 31, 2003, the Debenture Holder elected to convert an aggregate \$208,635, through 24 separate transactions, in outstanding Debenture principal into restricted, unregistered common stock. This election caused the Company to issue 4,561,753 shares of restricted, unregistered common stock to the Debenture Holder. Additionally, pursuant to the contract terms, the Debenture Holder concurrently exercised a portion of the outstanding Warrant to purchase 2,086,350 shares of the Company's restricted, unregistered common stock for gross proceeds of \$2,086,350.

As of December 31, 2003, pursuant to the conversion terms of the Debenture, the

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Debenture Holder was approximately \$77,500 in arrears in the contractually obligated conversions, and accordingly, the related mandatory warrant exercise of approximately \$775,000.

Note J - Preferred Stock Transactions

Preferred stock consists of the following as of December 31, 2003 and 2002, respectively:

| | December 31, 2003 | | December 31, 2002 | |
|---------------------------------------|-------------------|-----------|-------------------|-----------|
| | # shares | value | # shares | value |
| Series A Cumulative Convertible Stock | 12,000 | \$ 60,000 | 41,000 | \$205,000 |
| Series B Cumulative Convertible Stock | 91,700 | 458,500 | - | - |
| | 103,700 | \$518,500 | 41,000 | \$205,000 |
| | ===== | ===== | ===== | ===== |

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 a Private Placement Memorandum. 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 stockholder 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.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note J - 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.

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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.

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.

In January 2003, three separate holders of 9,000 shares of Series A Preferred Stock exercised their conversion rights and converted these shares of Series A Preferred stock into 99,000 shares of restricted, unregistered common stock.

In May 2003, the Company sold an aggregate 91,700 shares of \$5.00 Series B Convertible Preferred Stock (Series B Preferred Stock) for total proceeds of approximately \$458,500 through a separate Private Placement Memorandum. The Series B 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 B 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.

Note K - Common Stock Transactions

In February 2002, the Company converted \$100,000 in short-term debt payable and accrued interest of approximately \$25,000 to an existing stockholder 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. 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.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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Note K - Common Stock Transactions - Continued

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 stockholder 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 stockholder to reimburse said stockholder for his cash payment on behalf of the Company of previously accrued legal fees associated with the bank related litigation, which was concluded in June 2001, and for other consulting services currently being provided by the stockholder. 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.

In July 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing stockholder 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.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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Note K - Common Stock Transactions - Continued

In August 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing stockholder 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 stockholder 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 stockholder 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 stockholder 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 stockholder 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 stockholder 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.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note K - Common Stock Transactions - Continued

In November 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing stockholder 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 stockholder 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 stockholder 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.

In January 2003, the Company issued an aggregate 937,568 shares of restricted, unregistered common stock for cash proceeds of approximately \$324,182. These sales were made at a price of either \$0.23 or \$0.36 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 for operating working capital.

In February 2003, the Company issued 384,615 shares of restricted, unregistered common stock for cash proceeds of approximately \$100,000. 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 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 reduce the Company's outstanding long-term debt.

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note K - Common Stock Transactions - Continued

In March 2003, the Company issued 972,222 shares of restricted, unregistered common stock for cash proceeds of approximately \$350,000. These sales were made at a price of \$0.36 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 reduce the Company's outstanding long-term debt.

In March 2003, the Company issued an aggregate 966,608 shares of restricted, unregistered common stock to the Holder of the Company's 8.0% Convertible Debenture upon notice of conversion of \$35,000 of outstanding principal and exercise of a portion of the outstanding warrant to purchase 350,000 shares of common stock. This transaction was valued at \$385,000, or approximately \$0.40 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 cash proceeds of this transaction were used to provide working capital and support operations.

In May 2003, the Company issued 1,967 shares of restricted, unregistered common stock in payment of approximately \$1,200 in accrued dividends payable on the Company's outstanding Series A Preferred Stock for the quarter ended March 31, 2003.

During the period from July 1, 2003 through September 30, 2003, the Company issued an aggregate 2,902,129 shares of common stock, in 15 separate transactions, in exchange for the redemption of approximately \$93,500 in outstanding debenture balance and approximately \$935,000 in cash from the exercise of the affiliated warrant.

Where the closing price of the Company's common stock was in excess of the respective price per share on the respective transaction date, the Company recognized a charge to operations for "compensation expense related to common stock issuances at less than "fair value". The cumulative effect of transactions where the transaction price, as established in the Debenture Agreement, was less than the closing price on the date of the respective transactions resulted in a cumulative charge to operations of approximately \$317,539 during this time period.

In October 2003, in a separate transaction, the Company sold 2,200,000 shares of restricted, unregistered common stock to the Debenture Holder for cash proceeds of approximately \$400,000, or approximately \$0.18 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 cash proceeds of this transaction were used to provide working capital and support operations.

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note K - Common Stock Transactions - Continued

In October 2003, the Company issued an aggregate 1,659,847 shares of common stock, in 3 separate transactions, in exchange for the redemption of approximately \$40,000 in outstanding debenture balance and approximately \$400,000 in cash from the exercise of the affiliated warrant. Where the closing price of the Company's common stock was in excess of the respective price per share on the respective transaction date, the Company recognized a charge to operations for "compensation expense related to common stock issuances at less than "fair value". The cumulative effect of transactions where the transaction price, as established in the Debenture Agreement, was less than the closing price on the date of the respective transactions resulted in a cumulative charge to operations of approximately \$146,189 during this time period.

In October 2003, the Company issued an aggregate 37,866 shares of restricted, unregistered common stock in payment of approximately \$16,710 in accrued dividends payable on the Company's outstanding Series A and Series B Preferred Stock for the quarters ended June 30, 2003 and September 30, 2003, collectively.

Note L - Rental Commitments

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 \$5,410, including applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on July 31, 2004 and contains a clause that upon expiration, the Company and the controlling shareholder shall renegotiate the annual rental amount. Total rent expense under this lease was approximately \$67,075 and \$54,100, respectively, for each of the years ended December 31, 2003 and 2002.

The Company's subsidiary, IPE, leases its manufacturing facility from an unrelated third-party under a long-term operating lease agreement. This lease is for a period of five (5) years and requires graduated monthly payments, changing on the lease anniversary date, ranging from approximately \$1,751 to \$1,914, plus the applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on February 28, 2007 and may be renewed for an additional five (5) year term at a rental rate of approximately \$1,971, plus applicable sales taxes for the first renewal year and 3.0% increase on each succeeding anniversary date. Total rent expense under this lease was approximately \$20,752 and \$16,622, respectively, for each of the years ended December 31, 2003 and 2002.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note L - Rental Commitments - Continued

Future minimum rental payments on the above leases are as follows:

| Year ended December 31, | Amount |
|----------------------------|---------------------|
| ----- | |
| 2004 | \$ 60,754 |
| 2005 | 23,565 |
| 2006 | 24,276 |
| 2007 | 4,076 |
| ----- | |
| Totals | \$ 112,671 ===== |

Note M - Income Taxes

The components of income tax (benefit) expense for the years ended December 31, 2003 and 2002, respectively, are as follows:

| | Year ended December 31, 2003 | Year ended December 31, 2002 |
|----------|------------------------------------|------------------------------------|
| | ----- | |
| Federal: | | |
| Current | \$ - | \$ - |
| Deferred | - | - |
| | ----- | ----- |
| | - | - |
| | ----- | ----- |
| State: | | |
| Current | - | - |
| Deferred | - | - |
| | ----- | ----- |
| | - | - |
| | ----- | ----- |
| Total | \$ - ===== | \$ - ===== |

As of December 31, 2003, the Company has a net operating loss carryforward of approximately \$8,500,000 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.

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AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note M - Income Taxes - Continued

The Company's income tax expense (benefit) for the years ended December 31, 2003 and 2002, respectively, differed from the statutory federal rate of 34 percent as follows:

| | Year ended December 31, 2003 | Year ended December 31, 2002 |
|---|------------------------------------|------------------------------------|
| | ----- | ----- |
| Statutory rate applied to loss before income taxes | \$(999,400) | \$ (640,000) |
| Increase (decrease) in income taxes resulting from: | | |
| State income taxes | - | - |
| Other, including reserve for deferred tax asset | 999,400 | 640,000 |
| | ----- | ----- |
| 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, 2003 and 2002, respectively:

| | Year ended December 31, 2003 | Year ended December 31, 2002 |
|--------------------------------------|------------------------------------|------------------------------------|
| | ----- | ----- |
| Deferred tax assets - long-term | | |
| Net operating loss carryforwards | \$2,900,000 | \$2,244,000 |
| Deferred tax liabilities - long-term | | |
| Statutory depreciation differences | (250,000) | (250,000) |
| | ----- | ----- |
| | 2,650,000 | 1,994,000 |
| Less valuation allowance | (2,650,000) | (1,994,000) |
| | ----- | ----- |
| Net Deferred Tax Asset | \$ - | \$ - |
| | ===== | ===== |

During the years ended December 31, 2003 and 2002, respectively, the valuation allowance increased by approximately \$656,000 and \$629,000.

AMERICAN AMMUNITION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note N - Revenue Concentrations

The Company sells to both commercial and governmental customers, in both domestic and foreign markets. The following table shows the Company's gross revenue composition:

| | Year ended December 31, 2003 | | Year ended December 31, 2002 | |
|--------------|---------------------------------|------------|---------------------------------|------------|
| | Amount | % of total | Amount | % of total |
| Domestic | | | | |
| Commercial | | | | |
| Customer A | \$ 524,210 | 24.96 | \$ 555,895 | 43.24 |
| Customer B | 463,423 | 22.07 | - | - |
| Customer C | 188,546 | 8.98 | 347,100 | 22.80 |
| Others | 348,022 | 16.58 | 619,705 | 33.96 |
| | ----- | ----- | ----- | ----- |
| | 1,524,201 | 72.59 | 1,522,700 | 100.00 |
| | ----- | ----- | ----- | ----- |
| Governmental | | | | |
| Customer D | 421,290 | 20.06 | - | - |
| Others | 23,663 | 1.12 | - | - |
| | ----- | ----- | ----- | ----- |
| | 444,953 | 21.18 | - | - |
| | ----- | ----- | ----- | ----- |
| Foreign | | | | |
| Governmental | 130,710 | 6.23 | - | - |
| | ----- | ----- | ----- | ----- |
| Totals | \$ 2,099,864 | 100.00 | \$ 1,522,700 | 100.00 |
| | ===== | ===== | ===== | ===== |

Note O - Selected Financial Data (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2003 and 2002, respectively.

| | Quarter ended March 31, | Quarter ended June 30, | Quarter ended September 30, | Quarter ended December 31, | Year Dec |
|---|----------------------------|---------------------------|--------------------------------|-------------------------------|-------------|
| Calendar 2003 | | | | | |
| Revenues - net | \$ 608,437 | \$ 289,551 | \$ 317,729 | \$ 769,280 | \$ |
| Gross profit | \$ (66,668) | \$ (463,653) | \$ (462,483) | \$ (254,221) | \$ |
| Net earnings after provision for income taxes | \$ (300,355) | \$ (1,232,951) | \$ (1,200,981) | \$ (205,108) | \$ |
| Basic and fully diluted | | | | | |

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| | | | | | |
|--|--------------|--------------|--------------|--------------|----|
| earnings per share | \$ (0.01) | \$ (0.02) | \$ (0.02) | nil | \$ |
| Weighted average number of shares issued and outstanding | 56,638,979 | 59,294,402 | 61,683,424 | 66,253,535 | |
| Calendar 2002 | | | | | |
| Revenues - net | \$ 272,493 | \$ 434,641 | \$ 570,320 | \$ 131,910 | \$ |
| Gross profit | \$ (144,971) | \$ (74,098) | \$ (223,402) | \$ (604,819) | \$ |
| Net earnings after provision for income taxes | \$ (236,254) | \$ (262,562) | \$ (528,024) | \$ (856,247) | \$ |
| Basic and fully diluted earnings per share | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ |
| Weighted average number of shares issued and outstanding | 50,165,120 | 52,023,409 | 53,395,558 | 54,684,555 | |

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