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AMERICAN AMMUNITION INC /CA  
Form 10QSB/A  
May 23, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

Form 10-QSB/A

-----  
(Mark one)

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 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 Number: 0-32379

American Ammunition, Inc.

-----  
(Exact name of small business issuer as specified in its charter)

California

91-2021594

-----  
(State of incorporation)

-----  
(IRS Employer ID Number)

3545 NW 71st Street, Miami, FL 33147

-----  
(Address of principal executive offices)

(305) 835-7400

-----  
(Issuer's telephone number)  
-----

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: May 19, 2003: 58,696,522

Transitional Small Business Disclosure Format (check one): YES  NO

American Ammunition, Inc.

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Form 10-QSB for the Quarter ended March 31, 2003

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### Part I

#### Item 1 - Financial Statements

American Ammunition, Inc.  
Consolidated Balance Sheets  
March 31, 2003 and 2002  
(Unaudited)

|   | March 31,<br>2003<br>----- |
|---|----------------------------|
| ASSETS  |                            |
| Current Assets  |                            |
| Cash on hand and in bank  | \$ 597,778                 |
| Accounts receivable - trade, net of<br>allowance for doubtful accounts of \$-0- and \$-0-, respectively | 194,827                    |

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|                                  |              |
|----------------------------------|--------------|
| Inventory                        | 409,940      |
| Prepaid expenses                 | 25,307       |
|                                  | -----        |
| Total Current Assets             | 1,224,852    |
|                                  | -----        |
| Property and Equipment - at cost |              |
| Manufacturing equipment          | 6,848,344    |
| Office furniture and fixtures    | 58,528       |
| Leasehold improvements           | 190,028      |
|                                  | -----        |
|                                  | 7,096,900    |
| Accumulated depreciation         | (3,558,507)  |
|                                  | -----        |
| Net Property and Equipment       | 3,538,393    |
|                                  | -----        |
| Other Assets                     |              |
| Deposits and other               | 77,710       |
|                                  | -----        |
| TOTAL ASSETS                     | \$ 4,841,105 |
|                                  | =====        |

- Continued -

The financial information presented herein has been prepared by management without audit by independent certified public accountants.

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

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American Ammunition, Inc.  
Consolidated Balance Sheets - Continued  
March 31, 2003 and 2002  
(Unaudited)

|                                      |                   |
|--------------------------------------|-------------------|
|                                      | March 31,<br>2003 |
|                                      | -----             |
| LIABILITIES AND STOCKHOLDERS' EQUITY |                   |
| Current Liabilities                  |                   |
| Current maturities of leases payable | \$ 9,507          |
| Customer deposits                    | 30,000            |
| Accounts payable - trade             | 384,115           |

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|   |              |
|---|--------------|
| Working capital advance                                 | 200,000      |
| Accrued expenses  | 18,709       |
| Accrued dividends payable                               | 14,000       |
|   | -----        |
| Total Current Liabilities                               | 656,431      |
| Long-Term Liabilities                                   |              |
| Note payable to a bank                                  | -            |
| Capital leases payable                                  | 5,572        |
|   | -----        |
| Total Liabilities                                       | 662,003      |
|   | -----        |
| Commitments and Contingencies                           |              |
| Convertible Debenture                                   | 215,000      |
|   | -----        |
| Mandatory Convertible Preferred Stock                   |              |
| 32,000 and 45,600 shares issued and outstanding         | 160,000      |
|   | -----        |
| 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.                          |              |
| 58,696,522 and 51,642,276 shares issued and outstanding | 58,697       |
| Additional paid-in capital                              | 17,710,578   |
| Accumulated deficit                                     | (13,965,173) |
|   | -----        |
| Total Stockholders' Equity                              | 3,804,102    |
|   | -----        |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY              | \$ 4,841,105 |
|   | =====        |

The financial information presented herein has been prepared by management without audit by independent certified public accountants.

The accompanying notes are an integral part of these consolidated financial statements. 4

American Ammunition, Inc.  
 Consolidated Statements of Operations and Comprehensive Loss  
 Three months ended March 31, 2003 and 2002  
 (Unaudited)

|                |                    |
|----------------|--------------------|
|                | Three months ended |
| March 31, 2003 | March 31, 2002     |
| -----          | -----              |

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|   |              |              |
|---|--------------|--------------|
| Revenues - net of returns and allowances  | \$ 608,437   | \$ 272,493   |
|   | -----        | -----        |
| Cost of Sales   |              |              |
| Materials, Direct Labor and other direct costs  | 510,786      | 259,767      |
| Depreciation  | 164,319      | 157,697      |
|   | -----        | -----        |
| Total Cost of Sales   | 675,105      | 417,464      |
|   | -----        | -----        |
| Gross Profit  | (66,668)     | (144,971)    |
|   | -----        | -----        |
| Operating Expenses  |              |              |
| Research and development expenses   | -            | 2,048        |
| Marketing and promotion expenses  | 9,932        | 550          |
| Other operating expenses  | 211,149      | 42,145       |
| Interest expense  | 11,720       | 43,974       |
| Depreciation expense  | 886          | 2,566        |
|   | -----        | -----        |
| Total Operating Expenses  | 233,687      | 91,283       |
|   | -----        | -----        |
| Loss from Operations  | (300,355)    | (236,254)    |
| Other Income (Expense)  | -            | -            |
|   | -----        | -----        |
| Loss before Income Taxes  | (300,355)    | (236,254)    |
| Provision for Income Taxes  | -            | -            |
|   | -----        | -----        |
| Net Loss  | (300,355)    | (236,254)    |
| Other Comprehensive Income  | -            | -            |
|   | -----        | -----        |
| Comprehensive Loss  | \$ (300,355) | \$ (236,254) |
|   | =====        | =====        |
| Loss per weighted-average share of common<br>stock outstanding, computed on net loss -<br>basic and fully diluted | \$ (0.01)    | \$ (0.01)    |
|   | =====        | =====        |
| Weighted-average number of<br>common shares outstanding   | 56,635,979   | 50,165,120   |
|   | =====        | =====        |

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

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American Ammunition, Inc.  
 Consolidated Statements of Cash Flows  
 Three months ended March 31, 2003 and 2002  
 (Unaudited)

|   | Three months<br>March 31, 2003<br>----- |
|---|---|
| Cash flows from operating activities  |   |
| Net loss for the year   | \$ (300,355)                            |
| Adjustments to reconcile net loss to<br>net cash provided by operating activities     |   |
| Depreciation and amortization   | 165,205                                 |
| Common stock issued for fees and services   | -                                       |
| (Increase) Decrease in  |   |
| Accounts receivable   | (163,539)                               |
| Inventory   | (22,126)                                |
| Prepaid expenses, deposits and other  | (5,916)                                 |
| Increase (Decrease) in  |   |
| Accounts payable - trade  | (30,795)                                |
| Customer deposits   | (50,953)                                |
| Net cash provided by (used in) operating activities                                   | -----<br>(408,479)<br>-----             |
| Cash flows from investing activities  |   |
| Purchase of property and equipment  | (6,972)                                 |
| Net cash used in investing activities   | -----<br>(6,972)<br>-----               |
| Cash flows from financing activities  |   |
| Cash received on working capital advance  | 200,000                                 |
| Principal paid on long-term capital leases  | (2,269)                                 |
| Cash paid for debt and equity financing   | (16,000)                                |
| Cash received from sale of common stock and warrant exercise                          | 1,124,182                               |
| Net cash provided by financing activities   | -----<br>855,913<br>-----               |
| Increase (Decrease) in Cash   | 440,462                                 |
| Cash at beginning of period   | 157,316                                 |
| Cash at end of period   | -----<br>\$ 597,778<br>=====            |
| Supplemental disclosure of interest and income taxes paid                             |   |
| Interest paid for the period  | \$ 11,720<br>=====                      |
| Income taxes paid for the period  | \$ -<br>=====                           |
| Supplemental disclosure of non-cash investing and financing activities                |   |
| Conversion of debt and accrued interest<br>payable to a stockholder into common stock | \$ 125,000<br>=====                     |
| Conversion of convertible preferred stock<br>into common stock                        | \$ 45,000                               |

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Conversion of convertible debenture  
into common stock

=====  
\$ 35,000  
=====

The financial information presented herein has been prepared by management without audit by independent certified public accountants.

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 with a business plan of marketing the concept of a national "fast food" restaurant chain to children and young adults, with a menu of fresh burgers, fries and sandwiches. However, there was no assurance that this business concept would be successful.

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

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

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

F&F Equipment, Inc. (F&F) 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".

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

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The facility meets or exceeds all current environmental requirements and enjoys the "conditionally exempt small quantity generator" status for State and Federal regulations.

### Note B - Preparation of Financial Statements

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

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American Ammunition, Inc.

### Notes to Consolidated Financial Statements - Continued

#### Note B - Preparation of Financial Statements - Continued

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

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

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

During interim periods, the Company follows the accounting policies set forth in its annual audited financial statements filed with the U. S. Securities and Exchange Commission on its Annual Report on Form 10-KSB for the year ended December 31, 2002. The information presented within these interim financial statements may not include all disclosures required by accounting principles generally accepted in the United States of America and the users of financial information provided for interim periods should refer to the annual financial information and footnotes when reviewing the interim financial results presented herein.



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In the opinion of management, the accompanying interim financial statements, prepared in accordance with the U. S. Securities and Exchange Commission's instructions for Form 10-QSB, are unaudited and contain all material adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows of the Company for the respective interim periods presented. The current period results of operations are not necessarily indicative of results which ultimately will be reported for the full fiscal year ending December 31, 2003.

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

### Note C - Summary of Significant Accounting Policies

#### 1. Cash and cash equivalents

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

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

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American Ammunition, Inc.

### Notes to Consolidated Financial Statements - Continued

#### Note C - Summary of Significant Accounting Policies - Continued

#### 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.

#### 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.

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### 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 March 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.

As of March 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 March 31, 2003 and 2002, and subsequent thereto, the Company had no warrants and/or options outstanding.

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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.

### 8. Reclassifications

Certain amounts in the accompanying financial statements for the quarter ended March 31, 2002 have been reclassified to conform to the Fiscal 2003

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presentations.

### 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.

### Note E - Concentrations of Credit Risk

The Company maintains its cash accounts in a financial institution subject to insurance coverage issued by the Federal Deposit Insurance Corporation (FDIC). Under FDIC rules, the separate companies are each entitled to aggregate coverage of \$100,000 per account type per separate legal entity per financial institution. During the three months ended March 31, 2003, the various operating companies had deposits in a financial institution with credit risk exposures in excess of statutory FDIC coverage. The Company has incurred no losses as a result of any of these unsecured situations.

### Note F - Inventory

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

|                 | March 31,<br>2003 | March 31,<br>2002 |
|-----------------|-------------------|-------------------|
| Raw materials   | \$ 265,000        | \$ 166,759        |
| Work in process | 120,601           | 387,866           |
| Finished goods  | 21,339            | 64,824            |
|                 | -----             | -----             |
| Totals          | \$ 406,940        | \$ 619,449        |
|                 | =====             | =====             |

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American Ammunition, Inc.

Notes to Consolidated Financial Statements - Continued

### Note G - Property and Equipment

Property and equipment consist of the following components:

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|                               | March 31,<br>2003 | March 31,<br>2002 | Estimated<br>useful life |
|-------------------------------|-------------------|-------------------|--------------------------|
|                               | -----             | -----             | -----                    |
| Manufacturing equipment       | \$ 6,848,344      | \$ 6,560,626      | 10 years                 |
| Office furniture and fixtures | 58,528            | 50,856            | 7 years                  |
| Leasehold improvements        | 190,028           | 183,052           | 20 years                 |
|                               | -----             | -----             |                          |
|                               | 7,096,900         | 6,794,534         |                          |
| Accumulated depreciation      | (3,558,507)       | (2,897,980)       |                          |
|                               | -----             | -----             |                          |
| Net property and equipment    | \$ 3,696,625      | \$ 3,896,554      |                          |
|                               | =====             | =====             |                          |

Total depreciation expense charged to operations for the three months ended March 31, 2003 and 2002 was approximately \$165,206 and \$160,263. respectively.

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

|  | March 31,<br>2003 | March 31<br>2002 |
|--|-------------------|------------------|
|  | -----             | -----            |
| Manufacturing and processing equipment | \$ 153,400        | \$ 153,400       |
| Less accumulated depreciation          | (58,354)          | (43,014)         |
|  | -----             | -----            |
|  | \$ 95,046         | \$ 110,386       |
|  | =====             | =====            |

Note H - Working Capital Advance

On March 13, 2003, La Jolla Cove Investors, Inc., the holder of the Company's convertible debenture, advanced the Company an additional \$200,000 for working capital purposes. At La Jolla Cove's sole discretion, the \$200,000 may be allocated in any proportion to a) an increase in the principal amount of the debenture and/or b) a prepayment for a future warrant exercise. As of March 31, 2003 and subsequent thereto, La Jolla has not made any election on the ultimate allocation of the \$200,000 working capital advance.

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American Ammunition, Inc.

Notes to Consolidated Financial Statements - Continued

Note I- Capital Leases Payable

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

|   | March 31,<br>2003 | March 31,<br>2002 |
|---|-------------------|-------------------|
|   | -----             | -----             |
| Three capital leases, respectively, payable to various equipment financing companies. Interest, at March 31, 2002, ranging between 11.37% and 14.05%. Payable in aggregate monthly installments of approximately \$935, including accrued interest, as of December 31, 2002. Final maturities occur between September 2004 and December 2004. Collateralized the underlying leased manufacturing equipment. | \$ 15,709         | \$ 23,705         |
| Less current maturities   | (9,507)           | (8,365)           |
|   | -----             | -----             |
| Long-term portion   | \$ 5,572          | \$ 15,340         |
|   | =====             | =====             |

Future maturities of capital leases payable are as follows:

| Year ending<br>December 31 | Amount    |
|----------------------------|-----------|
|                            | -----     |
| 2003                       | \$ 9,507  |
| 2004                       | 7,841     |
|                            | -----     |
| Totals                     | \$ 17,348 |
|                            | =====     |

### Note I - Long-Term Debt Payable to a Bank

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

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

During the first quarter of Fiscal 2003, the Company made additional principal reductions of \$100,000 and \$350,000 fully retiring the outstanding debt.

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### Notes to Consolidated Financial Statements - Continued

#### Note J - Convertible Debenture

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

The Debenture bears interest at 8.0% and matures two years from the date of issuance.

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%.

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 full principal amount of the Debenture is due upon default, as defined in the Debenture agreement. The Debenture interest is payable monthly in arrears commencing on November 15, 2002.

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

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

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

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

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American Ammunition, Inc.

Notes to Consolidated Financial Statements - Continued

### Note J- Convertible Debenture - Continued

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

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

Due to the contractually agreed mandatory conversion of this Debenture, the Company has reflected this transaction in its balance sheet as a "mezzanine" level debt obligation on its balance sheet, between "Total Liabilities" and "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.

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

On March 19, 2003, the Debenture Holder elected to convert \$35,000 in outstanding Debenture principal into restricted, unregistered common stock. This election caused the Company to issue 616,608 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 350,000 shares of the Company's restricted, unregistered common stock for gross proceeds of \$350,000.

### Note K - Preferred Stock Transactions

In September, October and November 2001, the Company sold an aggregate 222,600 shares of \$5.00 Series A Convertible Preferred Stock (Series A Preferred Stock)

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

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American Ammunition, Inc.

Notes to Consolidated Financial Statements - Continued

### Note K - Preferred Stock Transactions - Continued

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 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.



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### Note L - 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

### Note L - 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

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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.

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American Ammunition, Inc.

Notes to Consolidated Financial Statements - Continued

Note L - Common Stock Transactions - Continued

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

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\$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.

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American Ammunition, Inc.

Notes to Consolidated Financial Statements - Continued

Note L - Common Stock Transactions - Continued

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

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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.

### Note M - Related Party Transactions

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

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American Ammunition, Inc.

Notes to Consolidated Financial Statements - Continued

Note N - Income Taxes

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

|          | Three months ended |                |
|----------|--------------------|----------------|
|          | March 31, 2003     | March 31, 2002 |
|          | -----              |                |
| Federal: |                    |                |
| Current  | \$ -               | \$ -           |
| Deferred | -                  | -              |
|          | -----              | -----          |
|          | -                  | -              |
|          | -----              | -----          |
| State:   |                    |                |
| Current  | -                  | -              |
| Deferred | -                  | -              |
|          | -----              | -----          |
|          | -                  | -              |
|          | -----              | -----          |
| Total    | \$ -               | \$ -           |
|          | =====              | =====          |

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

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

|   | Three months ended |                |
|---|--------------------|----------------|
|   | March 31, 2003     | March 31, 2002 |
|   | -----              |                |
| Statutory rate applied to loss before income taxes  | \$ (102,000)       | \$ (80,325)    |
| Increase (decrease) in income taxes resulting from: |                    |                |
| State income taxes                                  | -                  | -              |
| Other, including reserve for deferred tax asset     | 102,000            | 80,325         |
|   | -----              | -----          |
| Income tax expense                                  | \$ -               | \$ -           |

=====

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

|                                       | March 31, 2003 | March 31, 2002 |
|---------------------------------------|----------------|----------------|
|                                       | -----          | -----          |
| Deferred tax assets - long-term - net | \$ 2,000,000   | \$ 884,000     |
| Less valuation allowance              | (2,000,000)    | (884,000)      |
|                                       | -----          | -----          |
| Net Deferred Tax Asset                | \$ -           | \$ -           |
|                                       | =====          | =====          |

During the three months ended March 31, 2003 and 2002, respectively, the valuation allowance increased by approximately \$56,000 and \$884,000.

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Item 2 - Management's Discussion and Analysis or Plan of Operation

(1) 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.

(2) Overview

We were incorporated on February 1, 2000 in the State of California as

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FirsTelevision.com. We subsequently changed our corporate name to FBI Fresh Burgers International with a business plan of marketing the concept of a national "fast food" restaurant chain to children and young adults, with a menu of fresh burgers, fries and sandwiches.

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

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

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

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

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

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

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

During the quarter ended September 30, 2002, the Company expanded its production capability with the addition of a second production shift. Due to the necessary lead times for hiring and training qualified personnel, the Company experienced significant increases in direct labor, payroll taxes and other related expenses during 2002. Management continues to anticipate events occurring in future

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quarters including increased levels of expenditures for marketing, increased product demand as a result of increased market exposure and the introduction of new products under development.

### (3) Results of Operations

Three months ended March 31, 2003 compared to Three months ended March 31, 2002

During the three months ended March 31, 2003, the Company experienced revenues of approximately \$608,000 as compared to approximately \$272,000 for the first three months ended March 31, 2002. The Company continues to experience positive demand for the Company's products.

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The Company experienced costs of goods sold of approximately \$675,000 and \$417,000 for the three months ended March 31, 2003 and 2002, respectively. The Company has recognized depreciation expense on production equipment of approximately \$164,000 and \$158,000, 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 during 2002 allows us to produce certain components which were previously outsourced to unrelated third parties.

For the three months ended March 31, 2003 and 2002, respectively, we have generated a negative gross profit of approximately \$(67,000), or (10.96%), and approximately \$(145,000), or (53.20%). 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.

The Company experienced nominal research and development expenses during the three months ended March 31, 2003 and 2002 related to the development of a new patent-pending projectile for use in ammunition specifically for the public safety and security marketplace, especially in the rapidly expanding U. S. Air Marshall program and other product improvements.

Other general and administrative expenses increased from approximately \$91,000 for the first three months of 2002 to approximately \$211,000 for the first three months of 2003 as a result of increased activity related to interest expense on the Company's Convertible Debenture and Long-term Debt and increased rent and operating expenses in the Company's IPE subsidiary.

### (4) Liquidity and Capital Resources

As of March 31, 2003, December 31, 2002, and March 31, 2002, respectively, the Company had working capital of approximately \$568,000, \$56,000, and \$793,000.

The Company has generated (used) cash in operating activities of approximately \$(408,000), \$(1,111,000) and \$(536,000) during the three months ended March 31, 2003, the year ended December 31, 2002 and the three months ended March 31, 2002. The most significant use of cash during the quarter ended March 31, 2003



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was related to the acquisition of materials for increased sales and the sale of merchandise on "industry standard" credit terms causing an increase in accounts receivable.

### (5) Convertible Debenture

On October 4, 2002, we signed a Securities Purchase Agreement with La Jolla Cove Investors, Inc. for the sale of a \$250,000 8% convertible debenture and a warrant to purchase up to 30,000,000 shares of our common stock. The debenture bears interest at 8% and matures two years from the date of issuance.

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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%.

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 are 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. We have filed a Form SB-2 with the U. S. Securities and Exchange Commission and are in the review phase awaiting the Registration Statement being deemed effective.

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

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

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

La Jolla may demand repayment of the Debenture of 125.0% of the face amount outstanding, plus all accrued and unpaid interest, in cash at any time prior to the date that underlying Registration Statement under the Securities Act of 1933 has not been declared effective by the U. S. Securities and Exchange Commission

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within 3 business days of such demand. If the repayment is accelerated, we are also obligated to issue to the Holder 25,000 shares of common stock and \$10,000 cash for each 30 day period, or portion thereof, during which the face amount, including interest thereon, remains unpaid with the cash payment to increase to \$15,000 for each 30 day period the balance remains unpaid after the initial 90 day period.

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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 19, 2003, the Debenture Holder elected to convert \$35,000 in outstanding Debenture principal to restricted, unregistered common stock. This election caused the Company to issue 616,608 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 350,000 shares of the Company's restricted, unregistered common stock for gross proceeds of \$350,000.

On March 13, 2003, La Jolla Cove Investors, Inc., the holder of the Company's convertible debenture, advanced the Company an additional \$200,000 for working capital purposes. At La Jolla Cove's sole discretion, the \$200,000 may be allocated in any proportion to a) an increase in the principal amount of the debenture and/or b) a prepayment for a future warrant exercise. As of March 31, 2003 and subsequent thereto, La Jolla has not made any election on the ultimate allocation of the \$200,000 working capital advance.

### (6) Research and Development

We plan on significantly increasing our spending on research and development activities during Calendar 2003. We believe that research and development activities will allow for the development and introduction of new products into

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the ammunition marketplace. Over the next 12 calendar months, we anticipate completing the design, development and introduction of our new patent-pending projectile for use in ammunition specifically for the public safety and security marketplace, especially in the rapidly expanding U. S. Air Marshall program. Management also believes that this projectile will have wide acceptance in the home security and sport hunting markets.

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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 3 - Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, within the 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's President, Chief Executive and Chief Financial Officer. Based upon that evaluation, the Company's President, Chief Executive and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

### Part II - Other Information

#### Item 1 - Legal Proceedings

None

#### Item 2 - Changes in Securities

On or about January 6, 2003, the Company sold 104,254 shares of restricted, unregistered common stock to Mobile Business Communications, Inc., an existing stockholder, for cash proceeds of \$24,078. This sale was made at a price of \$0.23 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. The Company relied upon Section 4(2) of the Securities Act of 1933 ('33 Act) because this transaction did not involve a public offering and was, therefore, exempt from the registration requirements of the '33 Act. No underwriters were used in connection with this transaction.

On or about January 16, 2003, the Company sold an aggregate 833,334 shares of restricted, unregistered common stock to Access Investments, Inc. and Kissimmul, Inc., both existing stockholders, for cash proceeds of \$300,000. This sale was 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 for operating working capital. The Company relied upon Section 4(2) of the Securities Act of 1933 ('33 Act) because this transaction did not involve a public offering and was, therefore, exempt from the registration requirements of the '33 Act. No underwriters were used in connection with this transaction.

On or about January 22, 2003, the Company issued an aggregate 6,343 shares of restricted, unregistered common stock to six (6) separate holders of the Company's Series A Preferred Stock in payment of \$2,600 in accrued dividends payable as of December 31, 2002. This transaction was made at a price of \$0.41 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 Company relied upon Section 4(2) of the Securities Act of 1933 ('33 Act) because this transaction did not involve a public offering and was, therefore, exempt from the registration requirements of the '33 Act. No underwriters were used in connection with this transaction.

On or about February 19, 2003, the Company sold 384,615 shares of restricted, unregistered common stock to D. P. Martin & Associates, Inc., an existing stockholder, for cash proceeds of \$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 partially payoff the outstanding balance of the Company's long-term note payable to a bank. The Company relied upon Section 4(2) of the Securities Act of 1933 ('33 Act) because this transaction did not involve a public offering and was, therefore, exempt from the registration requirements of the '33 Act. No underwriters were used in connection with this transaction.

On or about March 7, 2003, the Company received notice from three (3) holders of its Series A Preferred Stock whereby they converted an aggregate 9,000 shares of Series A Preferred Stock into 99,000 shares of restricted, unregistered common stock. The Company relied upon Section 4(2) of the Securities Act of 1933 ('33 Act) because this transaction did not involve a public offering and was, therefore, exempt from the registration requirements of the '33 Act. No underwriters were used in connection with this transaction.

On or about March 13, 2003, the Company sold 486,111 shares of restricted, unregistered common stock to Gala Enterprises, Ltd., an existing stockholder, for cash proceeds of \$175,000. This sale was 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 partially payoff the outstanding balance of the Company's long-term note payable to a bank. The Company relied upon Section 4(2) of the Securities Act of 1933 ('33 Act) because this transaction did not involve a public offering and was, therefore, exempt from the registration requirements of the '33 Act. No underwriters were used in connection with this transaction.

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On March 13, 2003, La Jolla Cove Investors, Inc., the holder of the Company's convertible debenture, advanced the Company an additional \$200,000 for working capital purposes. At La Jolla Cove's sole discretion, the \$200,000 may be allocated in any proportion to a) an increase in the principal amount of the debenture and/or b) a prepayment for a future warrant exercise. As of March 31, 2003 and subsequent thereto, La Jolla has not made any election on the ultimate allocation of the \$200,000 working capital advance.

On March 19, 2003, La Jolla Cove Investors, Inc., the holder of the Company's convertible debenture, elected to convert \$35,000 in outstanding Debenture principal to restricted, unregistered common stock. This election caused the Company to issue 616,608 shares of restricted, unregistered common stock to La Jolla Cove Investors, Inc. Additionally, pursuant to the contract terms, La Jolla Cove Investors, Inc. concurrently exercised a portion of the outstanding Warrant to purchase 350,000 shares of the Company's restricted, unregistered common stock for cash proceeds of \$350,000.

On or about March 20, 2003, the Company sold 486,111 shares of restricted, unregistered common stock to Gala Enterprises, Ltd., an existing stockholder, for cash proceeds of \$175,000. This sale was 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 completely retire the outstanding balance of the Company's long-term note payable to a bank. The Company relied upon Section 4(2) of the Securities Act of 1933 ('33 Act) because this transaction did not involve a public offering and was, therefore, exempt from the registration requirements of the '33 Act. No underwriters were used in connection with this transaction.

### Item 3 - Defaults on Senior Securities

None

### Item 4 - Submission of Matters to a Vote of Security Holders

None

### Item 5 - Other Information

On May 14, 2003, the Company's Registration Statement under the Securities Act of 1933 on Form SB-2 was deemed effective by the U. S. Securities and Exchange Commission. This document registered an aggregate 14,687,500 shares of our common stock which are issuable upon conversion of our 8.0% Convertible Debenture, with an outstanding balance of approximately \$215,000 at the effective date, and the exercise of the attached warrants by the selling stockholder, La Jolla Cove Investors, Inc. We also registered such additional shares of common stock as may be issued as a result of the anti-dilution provisions contained in such securities. The number of shares of common stock

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registered hereunder represented a good faith estimate by us of the number of shares of common stock issuable upon conversion of the debentures and upon exercise of the warrants. For purposes of estimating the number of shares of common stock to be included in the Registration statement, we calculated 200% of the number of shares of our common stock issuable upon conversion of the

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debentures. Should the conversion ratio result in our having insufficient shares, we will be required to file a new Registration Statement to cover the resale of such additional shares should that become necessary.

Item 6 - Exhibits and Reports on Form 8-K

Exhibits

99.1 Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

Reports on Form 8-K

None

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Ammunition, Inc.

Dated: May 22, 2003

/s/ Andres Fernandez

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Andres Fernandez  
President, Chief Executive Officer  
Chief Financial Officer and Director

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Certification

In connection with the Quarterly Report of American Ammunition, Inc. (Registrant) on Form 10-QSB for the quarter ended March 31, 2003, as filed with the Securities and Exchange Commission, on the date hereof, I, Andres Fernandez, Chief Executive and Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 USC 1350, as adopted pursuant to ss.302 of the Sarbanes-Oxley Act of 2002, that:

1. I have reviewed this Quarterly Report on Form 10-QSB of American Ammunition, Inc. for the quarter ended March 31, 2003.

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

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

4. The registrant's other certifying officers, if any, and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

a.) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;

b.) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and

c.) presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

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

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

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

/s/ Andres Fernandez  
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Dated: May 22, 2003

Andres Fernandez  
Chief Executive Officer and  
Chief Financial Officer