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AMERICAN AMMUNITION INC/FL
Form SB-2/A
June 02, 2005

As filed with the Securities and Exchange Commission on June 2, 2005 An Exhibit List can be found on page II-11.

Registration No. 333-122056

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

Amendment No. 3 to
FORM SB-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMERICAN AMMUNITION, INC.

(Name of small business issuer in its charter)

| | | |
|--|---|---|
| California | 3990 | 91-2021594 |
| ----- | | |
| State or other Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

3545 NW 71st Street
Miami, Florida 33147
305-835-7400

(Address and telephone number of principal executive
offices and principal place of business)

Andres F. Fernandez, Chief Executive Officer
AMERICAN AMMUNITION, INC.

3545 NW 71st Street
Miami, Florida 33147
305-835-7400

(Name, address and telephone number of agent for service)

Copies to:

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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:

From time to time after this Registration Statement becomes effective.

If any securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

| Title of each class of securities to be registered | Amount to be registered (1) | Proposed maximum offering price per share | Proposed maximum aggregate offering price | Amount of registration fee |
|---|-----------------------------|---|---|----------------------------|
| Common stock issuable upon conversion of debentures | 91,054,772 (2) | \$.08 (3) | \$ 7,284,381.79 | \$ 857.37 |
| Common Stock issuable upon exercise of warrants | 2,663,650 (4) | \$1.00 (5) | \$ 2,663,650.00 | \$ 313.51 |

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Total 93,718,422 \$1,170.88*

* Previously paid \$1,158.34.

- (1) Includes shares of our common stock, par value \$0.001 per share, which may be offered pursuant to this registration statement, which shares are issuable upon conversion of convertible debentures and the exercise of warrants held by the selling stockholder. In addition to the shares set forth in the table, the amount to be registered includes an indeterminate number of shares issuable upon exercise of the warrants, as such number may be adjusted as a result of stock splits, stock dividends and similar transactions in accordance with Rule 416. The number of shares of common stock registered hereunder represents 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 this registration statement, we calculated a good faith estimate of the number of shares of our common stock that we believe will be issuable upon conversion of the debentures and upon exercise of the warrants to account for market fluctuations, and antidilution and price protection adjustments, respectively. Should the conversion ratio result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary. In addition, should a decrease in the exercise price as a result of an issuance or sale of shares below the then current market price, result in our having insufficient shares, we will not rely upon Rule 416, but will file a new registration statement to cover the resale of such additional shares should that become necessary.
- (2) Includes a good faith estimate of the shares underlying convertible debentures to account for market fluctuations.

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- (3) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act of 1933, using the average of the high and low price as reported on the Over-The-Counter Bulletin Board on May 21, 2005, which was \$.08 per share.
- (4) Includes a good faith estimate of the shares underlying warrants exercisable at \$1.00 per share to account for antidilution and price protection adjustments.
- (5) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(g) under the Securities Act of 1933, using the exercise price of \$1.00.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become

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effective on such date as the commission, acting pursuant to said Section 8(a), may determine.

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PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED JUNE 2, 2005

AMERICAN AMMUNITION, INC.
93,718,422 SHARES OF

COMMON STOCK

This prospectus relates to the resale by the selling stockholder of up to 93,718,422 shares of our common stock, including up to 91,054,772 shares of common stock underlying convertible debentures and up to 2,663,650 issuable upon the exercise of common stock purchase warrants. The selling stockholder is required to convert the convertible debenture and exercise the common stock purchase warrant on a concurrent basis. The combined conversion of the convertible debenture and the exercise of the common stock purchase warrant concurrently will result in the issuance of shares of common stock at a 24% discount to the market. The selling stockholder may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The selling stockholder may be deemed underwriters of the shares of common stock, which they are offering. We will pay the expenses of registering these shares.

Our common stock is registered under Section 12(g) of the Securities Exchange Act of 1934 and is listed on the Over-The-Counter Bulletin Board under the symbol "AAMI". The last reported sales price per share of our common stock as reported by the Over-The-Counter Bulletin Board on May 31, 2005, was \$.08.

Investing in these securities involves significant risks. See "Risk Factors" beginning on page 5.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2005.

The information in this Prospectus is not complete and may be changed. This Prospectus is included in the Registration Statement that was filed by American

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Ammunition, Inc., with the Securities and Exchange Commission. The selling stockholders may not sell these securities until the registration statement becomes effective. This Prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the sale is not permitted.

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PROSPECTUS SUMMARY

The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the securities. Before making an investment decision, you should read the entire prospectus carefully, including the "risk factors" section, the financial statements and the notes to the financial statements.

AMERICAN AMMUNITION, INC.

We acquired American Ammunition Inc. in September 2001 and since such acquisition are engaged principally in the manufacture and sale of ammunition for wholesale sales. We are 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. We are an approved Department of Defense contractor.

We began in 1983 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 ammunition product line: 9 millimeter, .45 automatic, .380 automatic, .32 automatic, .40 Smith and Wesson, 38 Special, 30 carbine, 223 Remington, 38 Super, 32 Smith and Wesson Long, 44 Special and 44 Magnum. We have identified these products as having the largest share of the market for the next several years.

We have incurred losses and experienced negative operating cash flow since our formation. For our fiscal years ended December 31, 2004 and 2003, we had a net loss of \$3,318,073 and \$2,939,395, respectively. In addition, for the three months ended March 31, 2005, we incurred a net loss of \$788,084. We expect to continue to incur significant operating expenses as we maintain our current line of ammunitions and continue research and development toward improving projectile quality and performance. Our operating expenses have been and are expected to continue to outpace revenues and result in significant losses in the near term. We may never be able to reduce these losses, which will require us to seek additional debt or equity financing.

Our principal executive offices are located at 3545 NW 71st Street, Miami, Florida 33147 and our telephone number is (305) 835-7400. We are incorporated in

the State of California.

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The Offering

Common stock
offered by
selling
stockholder

Up to 93,718,422 shares, including up to 91,054,772 shares of common stock underlying convertible debentures in the amount of \$266,365 and up to 2,663,650 issuable upon the exercise of common stock purchase warrants at an exercise price of \$1.00 per share, based on current market prices and assuming full conversion of the convertible debentures and the full exercise of the warrants (includes a good faith estimate of the shares underlying convertible debentures to account for market fluctuations). This number represents 53.98% of our then current outstanding stock.

Common stock to
be outstanding
after the
offering

Up to 173,625,722 shares including 79,907,300 shares of common stock presently outstanding, 91,054,772 shares issuable upon conversion of the convertible debenture and 2,663,650 shares issuable upon conversion of our warrants which are exercisable concurrently with the convertible debenture

Use of proceeds

We will not receive any proceeds from the sale of the common stock

However, we will receive up to \$2,663,650 upon exercise of the warrants by the selling stockholder. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes. We received an aggregate of \$600,000 in connection with the issuance of the convertible debenture to the selling stockholder. We used the \$600,000 for the general working capital purposes and the payment of professional fees.

Over-The-Counter
Bulletin Board
Symbol

AAMI

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The above information regarding common stock to be outstanding after the offering is based on 79,907,300 shares of common stock outstanding as of May 31, 2005 and assumes the subsequent conversion of our issued convertible debentures and exercise of warrants by our selling stockholder.

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To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with La Jolla Cove Investors, Inc. ("La Jolla") on October 4, 2002 for the sale of (i) \$250,000 in convertible debentures and (ii) warrants to buy 2,500,000 shares of our common stock. On March 13, 2003 and May 6, 2003, La Jolla advanced an aggregate of \$350,000 to our company which such funding was allocated towards the principal balance of our convertible debentures and a warrant to purchase 3,500,000 shares of common stock. We currently have \$266,365 of our convertible debentures and 2,663,650 warrants still outstanding. This prospectus relates to the resale of the common stock underlying these convertible debentures and warrants.

The debentures bear interest at 8%, mature on June 30, 2008, and are convertible into our common stock, at the selling stockholder's option except for the four conversions immediately following the effective date of this registration statement, which must be submitted to us on a weekly basis. The convertible debentures are convertible into the number of our shares of common stock equal to the dollar amount of the debentures being converted multiplied by 11, less the product of the discounted market price multiplied by 10 times the dollar amount of the debentures being converted, which is divided by the discounted market price. The discounted market price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the volume weighted average prices of our common stock during the five trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. However, in the event that our market price is less than \$.30, we will have the option to prepay the debenture at 125% rather than have the debenture converted.

La Jolla has contractually committed to convert not less than 5.0% and not more than 10.0% of the debentures on a monthly basis. In addition, La Jolla is obligated to exercise the warrant concurrently with the submission of a conversion notice. Upon conversion of the convertible debenture, the selling stockholder must concurrently exercise the warrant into shares of our common stock equal to ten times the dollar amount of the debenture being converted divided by the exercise price, which is \$1.00. Currently, the warrant is exercisable into 2,663,650 shares of common stock at an exercise price of \$1.00 per share.

The aggregate effect of the concurrent conversion of the debentures at the applicable conversion price and the exercise of the warrants at \$1.00 per share will result in the issuance of shares of common stock to the selling stockholder at a 24% discount to the market. For example, if the selling stockholder converts \$10,000 of the debenture on May 31, 2005, we are required to issue 1,709,211 shares assuming a market price of \$.08 and a conversion price of \$.061. However, the selling stockholder is also required to convert the warrant

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into 100,000 shares of common stock or ten times the dollar amount of the debenture being converted at \$1.00 per share. The end result is that we will receive \$110,000 that has been previously funded through the debenture or that will be funded upon exercise of the warrant and we are required to issue 1,809,211 shares of common stock.

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In December 2004, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

- * the discount multiplier was reduced from eighty percent to seventy six percent;
- * within five business days after this registration statement being declared effective, La Jolla is required to submit a debenture conversion in the amount of \$10,000 and every ten business days thereafter La Jolla shall submit three additional debenture conversion in the amount of \$10,000 each;
- * within five business days after this registration statement being declared effective, La Jolla shall wire \$400,000 to us as a prepayment towards the exercise of its warrant (such prepayment shall be applied towards future mandatory exercises of La Jolla's warrant); and
- * immediately following the sale of all shares held by La Jolla in connection with the debenture conversions in the aggregate amount of \$40,000, La Jolla shall wire \$275,000 to us as a prepayment towards the exercise of its warrant and shall submit a debenture conversion in the amount of \$6,250 on the first business day of each month until the debenture is no longer outstanding.
- * the selling stockholder agreed to dismiss, without prejudice, the lawsuit entitled "La Jolla Cove Investors, Inc. v. American Ammunition, Inc." filed in San Diego Superior Court as case number GIC836693.
- * in December 2004, we deposited 1,500,000 shares of common stock with an escrow agent and La Jolla submitted a \$10,000 conversion of the debenture and provided us with \$100,000 as a prepayment for the warrant exercise. Upon completion of the sale by La Jolla of all shares received in connection with this exercise and conversion, La Jolla made a payment to our company equal to 76% of the net proceeds from the sale of the shares less \$100,000.

In May 2005, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

- * the maturity date of the debenture and the expiration date of the warrants was extended to June 30, 2008.
- * La Jolla provided us with \$150,000 in funds which was applied towards the \$400,000 that is to be wired to us within five business days of the registration statement being declared effective pursuant to the December 2004 addendum and we issued 4,000,000 shares of common stock in the name of La Jolla Cove which such shares are held by an escrow agent. If the

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registration statement is not declared effective by February 5, 2006, La Jolla may sell such shares pursuant to Rule 144. In the event that La Jolla sells such shares pursuant to Rule 144 and receives funds in excess of \$150,000, La Jolla shall refund to us the excess proceeds.

The selling stockholder has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock. See the "Selling Stockholders" and "Risk Factors" sections for a complete description of the convertible debentures.

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RISK FACTORS

This investment has a high degree of risk. Before you invest you should carefully consider the risks and uncertainties described below and the other information in this prospectus. If any of the following risks actually occur, our business, operating results and financial condition could be harmed and the value of our stock could go down. This means you could lose all or a part of your investment.

Risks Relating to Our Business:

We may never become profitable and continue as a going concern because we have had losses since our inception.

We may never become profitable and continue as a going concern because we have incurred losses and experienced negative operating cash flow since our formation. We have incurred losses and experienced negative operating cash flow since our formation. For our fiscal years ended December 31, 2004 and 2003, we had a net loss of \$3,318,073 and \$2,939,395, respectively. In addition, for the three months ended March 31, 2005, we incurred a net loss of \$788,084. We expect to continue to incur significant operating expenses as we maintain our current line of ammunitions and continue research and development toward improving projectile quality and performance. Our operating expenses have been and are expected to continue to outpace revenues and result in significant losses in the near term. We may never be able to reduce these losses, which will require us to seek additional debt or equity financing. If such financing is available you may experience significant additional dilution.

There may exist an uncertainty as to our continuation as a going concern.

Our audited financial statements for the fiscal year ended December 31, 2004 reflect an accumulated deficit of approximately \$19,989,875, since our inception, working capital of approximately \$872,000, and stockholders' equity of \$4,384,696. In addition, our financial statements for the three months ended March 31, 2005 reflect an accumulated deficit of approximately \$20,789,529 since our inception, working capital of approximately \$239,000, and stockholders' equity of \$3,585,042.

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Our auditor has not issued a going concern opinion on our financial statements; however, our ultimate survivability is dependent upon our being able to generate sufficient cash flows from operations to support its daily operations as well as provide sufficient resources to retire existing liabilities and obligations on a timely basis.

Short-term assets and investments income will be sufficient to meet our operating expenses and capital expenditures through 2005. If we continue to incur operating losses, we may not be able to fund continuing business operations, which could lead to the limitation or closure of some or all of our operations.

We may have to curtail our business if we cannot find adequate funding.

We currently have no legally binding commitments with any third parties to obtain any material amount of additional equity or debt financing outside of the financing with La Jolla. We need immediate funds and may not be able to obtain

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any additional financing in the amounts or at the times that we may require the financing or, if we do obtain any financing, that it would be on acceptable terms because of the following:

- * we have no assets to pledge as security for the loan; and
- * we are in poor financial condition - we maybe viewed as a high market risk

As a result, we may not have adequate capital to implement future expansions, maintain our current levels of operation or to pursue strategic acquisitions. Our failure to obtain sufficient additional financing could result in the delay or abandonment of some or all of our development, expansion and expenditures, which could harm our business and the value of our common stock.

Our competitive position may be harmed if we fail to respond to rapid changes in the market for small arms ammunitions.

Our competitive position may be harmed if we fail to respond to rapid changes in the market for small arms ammunitions. Our future success will depend significantly on our ability to develop and market new products that keep pace with technological developments and evolving industry standards for hand gun and rifle ammunition. Our delay or failure to develop or acquire technological improvements, adapt our products to technological changes or provide higher quality product lines that appeals to our customers may cause us to lose customers and may prevent us from generating revenue which could ultimately cause us to cease operations.

Our revenues may decrease from production delays due to fire or explosive incidents.

Our revenues may decrease from production delays due to fire or explosive incidents. Our ammunition products, involve the manufacture and/or handling of a variety of explosive and flammable materials. This manufacturing and/or handling may result in incidents that will temporarily shut down or otherwise disrupt our

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manufacturing, causing production delays and resulting in liability for workplace injuries and fatalities. We cannot assure you that we will not experience these types of incidents in the future or that these incidents will not result in production delays, which can lead to a reduction in revenues.

We may incur substantial costs in complying with environmental laws and may be subject to substantial liability resulting from the use of hazardous substances or required cleanup of contaminated sites.

Our operations and use of real property are subject to a number of federal, state and local environmental laws and regulations which, among other things, require us to obtain permits to operate and to install pollution control equipment and regulate the generation, storage, handling, transportation, treatment and disposal of hazardous and solid wastes. Our operations, as well as historical operations at our sites, also subject us to liability for the cleanup of releases of hazardous substances. Environmental laws and regulations change frequently, and it is difficult to predict whether and to what extent we may be subject to liability for compliance with environmental laws and regulations.

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Our business operations will be harmed if we are unable to obtain additional funding.

Our business operations will be harmed if we are unable to obtain additional funding outside of the La Jolla financing. We believe that our available short-term assets, investment income and financing arrangement with La Jolla will be sufficient to meet our operating expenses and capital expenditures through the end of fiscal year 2005. We do not know if additional financing will be available when needed, or if it is available, if it will be available on acceptable terms. Insufficient funds may prevent us from implementing our business strategy or may require us to delay, scale back or eliminate certain contracts for the provision of our technology and products.

Our competitors may misappropriate our intellectual property because we have only one trademark and two patents.

We attempt to protect our limited proprietary property through trademark, trade secret, nondisclosure and confidentiality measures. Such protections, however, may not preclude competitors from developing similar technologies. Any inability to adequately protect our proprietary technology could harm our ability to compete.

Our future success and ability to compete depends in part upon our proprietary technology and our trademark, which we attempt to protect with a combination of trademark and confidentiality procedures and contractual provisions. These legal protections afford only limited protection and are time-consuming and expensive to obtain and/or maintain. Further, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

Risks Relating to Our Current Financing Arrangement:

There Are a large number of shares underlying our convertible debentures and warrants that may be available for future sale and the sale of these shares may depress the market price of our common stock.

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As of May 31, 2005, we had 79,907,300 shares of common stock issued and outstanding and convertible debentures outstanding that may be converted into an estimated 45,527,386 shares of common stock at current market prices, and outstanding warrants to purchase 2,663,650 shares of common stock. In addition, the number of shares of common stock issuable upon conversion of the outstanding convertible debentures may increase if the market price of our stock declines. All of the shares, including all of the shares issuable upon conversion of the debentures and upon exercise of our warrants, may be sold without restriction. The sale of these shares may adversely affect the market price of our common stock.

The continuously adjustable conversion formula feature of our convertible debentures could require us to issue a substantially greater number of shares, which will cause dilution to our existing stockholders.

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Our obligation to issue shares upon conversion of our convertible debentures is essentially limitless. The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our convertible debentures in the amount of \$266,365 (excluding accrued interest), based on market prices 25%, 50% and 75% below the market price, as of May 31, 2005 of \$0.08.

| % Below Market ----- | Price Per Share ----- | Effective Conversion Price ----- | Number of Shares Issuable ----- | % of Outstanding Stock ----- |
|----------------------------|-----------------------------|---|--|---------------------------------------|
| 25% | \$.0600 | \$.0456 | 61,591,065 | 43.53% |
| 50% | \$.0400 | \$.0304 | 93,718,422 | 53.98% |
| 75% | \$.0200 | \$.0152 | 190,100,495 | 70.41% |

As illustrated, the number of shares of common stock issuable upon conversion of our convertible debentures will increase if the market price of our stock declines, which will cause dilution to our existing stockholders. In addition, as the selling stockholder converts its convertible debenture it is required to concurrently exercise its warrant which will result in the issuance of additional shares of common stock. The selling stockholder's warrant is exercisable into shares of our common stock equal to ten times the dollar amount of the debenture being converted divided by the exercise price, which is \$1.00.

The continuously adjustable conversion formula feature of our convertible debentures may encourage investors to make short sales in our common stock, which could have a depressive effect on the price of our common stock.

The convertible debentures are convertible into the number of our shares of common stock equal to the dollar amount of the debentures being converted multiplied by 11, less the product of the discounted market price multiplied by 10 times the dollar amount of the debentures being converted, which is divided by the discounted market price. The discounted market price for the convertible

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debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the lowest volume weighted average prices of our common stock during the five trading days prior to the conversion. In addition, as the selling stockholder converts its convertible debenture it is required to concurrently exercise its warrant which will result in the issuance of additional shares of common stock. The selling stockholder's warrant is exercisable into shares of our common stock equal to ten times the dollar amount of the debenture being converted divided by the exercise price, which is \$1.00. The significant downward pressure on the price of the common stock as the selling stockholder converts and sells material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The selling stockholder could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of debentures, warrants and options, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

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The issuance of shares upon conversion of the convertible debentures and exercise of outstanding warrants may cause immediate and substantial dilution to our existing stockholders.

The issuance of shares upon conversion of the convertible debentures and exercise of warrants may result in substantial dilution to the interests of other stockholders since the selling stockholders may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholders may not convert their convertible debentures and/or exercise their warrants if such conversion or exercise would cause them to own more than 4.9% of our outstanding common stock, this restriction does not prevent the selling stockholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the selling stockholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock, including investors in this offering.

In The Event That Our Stock Price Declines, The Shares Of Common Stock Allocated For Conversion Of The Convertible Debentures and Registered Pursuant To This Prospectus May Not Be Adequate And We May Be Required to File A Subsequent Registration Statement Covering Additional Shares. If The Shares We Have Allocated And Are Registering Herewith Are Not Adequate And We Are Required To File An Additional Registration Statement, We May Incur Substantial Costs In Connection Therewith.

Based on our current market price and the potential decrease in our market price as a result of the issuance of shares upon conversion of the convertible debentures, we have made a good faith estimate as to the amount of shares of common stock that we are required to register and allocate for conversion of the convertible debentures. We have allocated and registered 91,054,772 shares to cover the conversion of the convertible debentures. In the event that our stock price decreases, the shares of common stock we have allocated for conversion of the convertible debentures and are registering hereunder may not be adequate. If the shares we have allocated to the registration statement are not adequate and

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we are required to file an additional registration statement, we may incur substantial costs in connection with the preparation and filing of such registration statement.

If We Are Required for any Reason to Repay Our Outstanding Convertible Debentures, We Would Be Required to Deplete Our Working Capital, If Available, Or Raise Additional Funds. Our Failure to Repay the Convertible Debentures, If Required, Could Result in Legal Action Against Us, Which Could Require the Sale of Substantial Assets.

We entered into a Securities Purchase Agreement with La Jolla on October 4, 2002 for the sale of (i) \$250,000 in convertible debentures and (ii) warrants to buy 2,500,000 shares of our common stock. On March 13, 2003 and May 6, 2003, La Jolla advanced an aggregate of \$350,000 to our company which such funding was

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allocated towards the principal balance of our convertible debentures and a warrant to purchase 3,500,000 shares of common stock. As of May 31, 2005, \$266,365 of the debenture and warrants exercisable into 2,663,650 shares of common stock remained outstanding. The convertible debentures are due and payable, with 8% interest on June 30, 2008, unless sooner converted into shares of our common stock. In addition, any event of default could require the early repayment of the convertible debentures at a price equal to 125% of the amount due under the debentures. We anticipate that the full amount of the convertible debentures, together with accrued interest, will be converted into shares of our common stock, in accordance with the terms of the convertible debentures. If we are required to repay the convertible debentures, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the debentures when required, the debenture holders could commence legal action against us and foreclose on all of our assets to recover the amounts due. Any such action would require us to curtail or cease operations.

Risks Relating to Our Common Stock:

If We Fail to Remain Current on Our Reporting Requirements, We Could be Removed From the OTC Bulletin Board Which Would Limit the Ability of Broker-Dealers to Sell Our Securities and the Ability of Stockholders to Sell Their Securities in the Secondary Market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Our directors and executive officers beneficially own approximately 29.7% of our stock; their interests could conflict with yours; significant sales of stock held by them could have a negative effect on our stock price; stockholders may

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be unable to exercise control.

As of May 31, 2005, our executive officers and directors, which primarily includes the Fernandez family, beneficially own approximately 29.7% of our common stock. As a result, our executive officers and directors will have significant influence to:

- * elect or defeat the election of our directors;
- * amend or prevent amendment of our articles of incorporation or bylaws;
- * effect or prevent a merger, sale of assets or other corporate transaction; and
- * control the outcome of any other matter submitted to the stockholders for vote.

As a result of their ownership and positions, our directors and executive officers collectively are able to significantly influence all matters requiring

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stockholder approval, including the election of directors and approval of significant corporate transactions. In addition, sales of significant amounts of shares held by our directors and executive officers, or the prospect of these sales, could adversely affect the market price of our common stock. Management's stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

Our Common Stock is Subject to the "Penny Stock" Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15c-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- * that a broker or dealer approve a person's account for transactions in penny stocks; and
- * the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- * obtain financial information and investment experience objectives of the person; and
- * make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny

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stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- * sets forth the basis on which the broker or dealer made the suitability determination; and
- * that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations

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for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the selling stockholder. We will not receive any proceeds from the sale of shares of common stock in this offering. However, we will receive the sale price of any common stock we sell to the selling stockholder upon exercise of the warrants. We expect to use the proceeds received from the exercise of the warrants, if any, for general working capital purposes.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is quoted on the OTC Bulletin Board under the symbol "AAMI". For the periods indicated, the following table sets forth the high and low bid prices per share of common stock. These prices represent inter-dealer quotations without retail markup, markdown, or commission and may not necessarily represent actual transactions.

| Quarter Ended | High (\$) | Low (\$) |
|--------------------|-----------|----------|
| March 31, 2005 | .17 | .09 |
| December 31, 2004 | .24 | .15 |
| September 30, 2004 | .27 | .17 |
| June 30, 2004 | .42 | .17 |
| March 31, 2004 | .50 | .27 |
| December 31, 2003 | .42 | .22 |
| September 30, 2003 | .55 | .37 |
| June 30, 2003 | .85 | .42 |
| March 31, 2003 | .78 | .53 |
| December 31, 2002 | .47 | .38 |
| September 30, 2002 | .57 | .31 |

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| | | |
|----------------|-----|-----|
| June 30, 2002 | .65 | .36 |
| March 31, 2002 | .81 | .33 |

HOLDERS

As of May 31, 2005, we had 178 shareholders of record of our 79,907,300 outstanding shares of common stock. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of various security brokers, dealers, and registered clearing agencies. The transfer agent of our common stock is Atlas Stock Transfer Corporation, 5899 South State Street, Salt Lake City, Utah 84107.

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DIVIDENDS

We have never declared or paid any cash dividends on our common stock. We do not anticipate paying any cash dividends to stockholders in the foreseeable future. In addition, any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deem relevant.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the information in this Form SB-2 contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. You should read statements that contain these words carefully because they:

- * discuss our future expectations;
- * contain projections of our future results of operations or of our financial condition; and
- * state other "forward-looking" information.

We believe it is important to communicate our expectations. However, there may be events in the future that we are not able to accurately predict or over which we have no control. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors," "Business" and elsewhere in this prospectus. See "Risk Factors."

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.

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We are a holding company with two operating subsidiaries:

- * F&F Equipment, Inc. ("F&F"); and
- * Industrial Plating Enterprise Co.

F&F was incorporated on October 4, 1983 under the laws of the State of Florida. F&F was formed to engage principally in the import, export, retail and wholesale of firearms equipment, ammunition and other devices. F&F conducts its business operations under the assumed name of "American Ammunition."

In June 2002, we 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.

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During the third quarter of 2003, our 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, we entered into a strategic alliance with Israel Military Industries ("IMI"), an entity owned by the State of Israel, for the cross-production and sale of various small arms ammunition. We believe that this alliance may greatly expand our catalog of products and assist in utilizing existing production capacity.

In prior periods, we executed a private labeling agreement with Century International Arms, Inc. ("Century"). Under this agreement, we were to produce our 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 required no modifications to our production line and did not require the addition of supplemental personnel or equipment. We made an initial shipment under this agreement to Century during December 2003. In early-January 2004, we began to experience problems with Century regarding Century's compliance with their performance criteria under this agreement. During the first quarter of 2004, Century defaulted on certain agreed-upon payment schedules on merchandise sold during December 2003. In repayment of the outstanding trade debt, we accepted unscheduled product returns as payment of the trade debt. As a result of these issues, we recognized a charge to operations of approximately \$28,000 on our business activity with Century. The returned merchandise was repackaged and is resalable by our company to other customers. As of June 30, 2004, we cancelled this agreement and we are contemplating litigation against Century for breach of contractual obligations under this agreement.

Additionally, we have been awarded three separate contracts from various departments of the U. S. Government. Each contract is for an initial term of one year (commencing between April 24, 2003 and September 30, 2003) with four successive individual one-year extension options, of which the first extension period has been exercised. 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

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annual volume of approximately 5,000,000 rounds. Maximum volume may be increased at the discretion of the Contracting Officer and respective utilization requirements. We have received firm orders for 2,265,000 rounds of ammunition under this contract and have 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 separate products in our 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.

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Contract 3 U. S. Department of Homeland Security. This contract covers four separate products being introduced to our catalog through the strategic alliance with IMI and requires no modifications to our 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 products and 36,000,000 of the remaining two products.

We have received purchase orders against these contracts; however, due to delays in receiving the initial purchase orders and the unpredictability of subsequent reorder cycles, we are unable to fully anticipate or predict the future impact of these contracts. We remain in negotiation and to prepare bids on other contracts from these and other U. S. Governmental agencies.

During the first quarter of 2004, we commenced a direct solicitation program for our "dealer direct" sales program. As this endeavor has received a very positive initial response from the qualified retail resellers of our product, the announcement of this program had a significantly detrimental impact on our relationship with wholesale distributors and, accordingly, had a significant negative impact on first quarter 2004 sales. We continue to experience increases in customer demand, order size and reorder quantities in this program by smaller "single store" owner/operators of retail outlets selling our products. During November 2004, we qualified our 1,000th dealer under this program for direct sales and we anticipate that the overall Calendar 2004 sales volume through the "dealer direct" program may well equal or exceed the sales volumes generated by wholesale distributors in prior years.

Results of Operations

Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004

During the three months ended March 31, 2005, we experienced aggregate net revenues of approximately \$1,170,000, as compared to approximately \$282,000 during the comparable quarter of 2004. The first quarter 2005 sales compare comparably to the 4th quarter 2004 sales of approximately \$1,535,000.

During the first quarter of 2004, we commenced a direct solicitation program for our "dealer direct" sales program. As this endeavor has received a very positive initial response from the qualified retail resellers of our product, the

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announcement of this program had a significantly detrimental impact on our relationship with wholesale distributors and, accordingly, had a significant negative impact on first quarter 2004 sales.

We continue to experience high demand for small arms ammunition from both the retail channel market and domestic and foreign governments. We have identified certain production issues which has inhibited the full realization of existing product demands and has begun to take the necessary steps to add specific machinery to counteract these issues.

We experienced costs of goods sold of approximately \$1,536,580 for the three months ended March 31, 2005 as compared to approximately \$705,000 for the three months ended March 31, 2004.

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Through March 31, 2005, and subsequent thereto, we continue to experience negative trends off of our standard production costs for material and labor due to difficulties in training new employees, adding new products to our catalog and lower than expected orders during the first two quarters of 2004 due to uncontrollable delays in ordering by various U. S. Governmental entities. 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 \$190,000 and \$173,000, respectively, in the above cost of goods expense totals. These depreciation levels are anticipated to fluctuate nominally in future periods based upon either the full depreciation of older equipment and/or the addition of new equipment to expand capacity. For the three month periods ended March 31, 2005 and 2004, we generated a negative gross profit of approximately \$(366,000), or (31.3%), and approximately \$(424,000), or (150.5%). Based on orders received and products shipped during the first quarter of 2005 (through the filing date of this document) and our ongoing conversations with various customers, management continues to believe that the Company should be able to generate a positive gross profit in future periods..

We experienced nominal research and development expenses of approximately \$1,700 and \$-0-, respectively, during the respective three month periods ended March 31, 2005 and 2004, principally related to refinements in and the expansion of our product line.

During the first quarters of 2005 and 2004, we expended approximately \$81,000 and \$123,000, respectively, in advertising and marketing expenses, principally in developing and promoting our retail dealer direct program. We anticipate to continue our marketing efforts in this area in future periods; however, the volume and frequency of our expenditures may fluctuate as management allocates available capital to these efforts.

Other general and administrative expenses increased by approximately \$29,000 from approximately \$320,000 for the three months ended March 31, 2005 as compared to approximately \$291,000 for the three months ended March 31, 2004. These increases are not identifiable by one specific area; however, relate to general corporate expenses, office and administrative wages and salaries and other related office overhead.

Included in our results of operations for the first quarter of 2004 are certain non-cash expenditure charges to operations of approximately \$321,000 for

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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.

We recognized a net loss of approximately \$(786,000) and \$(1,188,000) for the respective three month periods ended March 31, 2005 and 2004, respectively, or \$(0.01) and \$(0.02) per share.

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Year ended December 31, 2004 compared to Year ended December 31, 2003

During the year ended December 31, 2004, we experienced aggregate net revenues of approximately \$3,247,000, with approximately \$1,535,000 being realized during the 4th quarter, as compared to approximately \$1,985,000 in total net revenues for the year ended December 31, 2003.

We experienced costs of goods sold of approximately \$4,621,000 for the year ended December 31, 2003 as compared to approximately \$3,232,000 for the year ended December 31, 2003.

During 2004 and 2003, we experienced negative trends off of our standard production costs for material and labor due to difficulties in training new employees, adding new products to our catalog and lower than expected orders during the first two quarters of 2004 due to uncontrollable delays in ordering by various U. S. Governmental entities. 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 \$729,000 and \$669,000, respectively, in the above cost of goods expense totals. These depreciation levels are anticipated to fluctuate nominally in future periods based upon either the full depreciation of older equipment and/or the addition of new equipment to expand capacity. For the year ended December 31, 2004 and 2003, respectively, we generated a negative gross profit of approximately \$(1,373,298), or (42.29%), and approximately \$(1,247,000), or (62.82%). Based on orders received and products shipped during the first quarter of 2005 (through the filing date of this document) and our ongoing conversations with various customers, we believe that we should be able to generate a positive gross profit in future periods..

We experienced nominal research and development expenses of approximately \$11,000 and \$4,000, respectively, during the years ended December 31, 2004 and 2003, principally related to the expansion of our product line.

Other general and administrative expenses increased by approximately \$440,000 from approximately \$1,127,000 for the year ended December 31, 2003 as compared to approximately \$1,567,000 for the year ended December 31, 2004. The most significant increases relate to advertising and marketing expenses (approximately \$324,000), office and administrative wages and salaries and overall office overhead (approximately \$116,000).

During 2004 and 2003, respectively, we experienced charges to operations of approximately \$382,000 and \$883,000 for compensation expense related to common stock issuances at less than "fair value". The calculation of these charges

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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 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 \$(3,318,000) and \$(2,968,000) for the respective years ended December 31, 2004 and 2003, respectively, or \$(0.05) and \$(0.05) per share.

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Year ended December 31, 2003 compared to 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.

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 anticipated that with the fulfillment of the various private labeling agreements and government contracts, continued retail consumer demand for our product line, lower production costs being experienced from internally generated plating activities and adequate liquidity, we would 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

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significant increases relate to advertising and marketing expenses, office and administrative wages and salaries and overall office overhead.

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 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.

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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.

Liquidity And Capital Resources

As of March 31, 2005, December 31, 2004 and March 31, 2004, respectively, we had working capital of approximately \$239,000, \$872,000 and \$1,533,000. Our working capital position continues to fluctuate based on collections on our trade accounts receivable and investments from the mandatory exercise of our outstanding warrant related to our convertible debenture. Further, we anticipate that we have sufficient inventory levels to support our retail dealer direct program and our existing and anticipated U. S. Government contracts.

We have used cash in operating activities of approximately \$(392,000) and \$(589,000) during the quarters ended March 31, 2005 and 2004, respectively.

The most significant use of cash in operations during the quarter ended March 31, 2004 was for the increase in on-hand inventory to support the anticipated demand on our retail dealer direct program and our existing and anticipated U. S. Government contracts.

We anticipate that our improved liquidity position will continue to improve as management is of the opinion that, with the current changes to our production capacity, we will be in a position to better support all existing orders and accept existing inquiries which have previously been denied due to the lack of production capacity and liquidity.

During the quarters ended March 31, 2005 and 2004, respectively, we added approximately \$36,000 and \$302,000 in new equipment. Based on communicated future demand for our products, we have instituted a program to expand our production capacity through the addition of additional equipment from the open market. The equipment ultimately to be added is fully dependent upon the Company's cash position, the availability of either new equity or debt capital and the ultimate realization of communicated future 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

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or, that such funding, if available, will be obtained on terms favorable to or affordable by us.

Capital Requirements

During the years ended December 31, 2004 and 2003, respectively, we added approximately \$717,000 and \$289,000 in new equipment. The equipment added in 2004 was related to the following:

- o the expansion of our production line;
- o the addition of computerized quality control inspection processes; and
- o the automation of our packaging line.

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Depending on future demand for our products, we may need to further increase our production capability and management is of the opinion that adequate equipment, either new or used, will be available to facilitate any future expansion.

Convertible Debenture

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with La Jolla Cove Investors, Inc. ("La Jolla") on October 4, 2002 for the sale of (i) \$250,000 in convertible debentures and (ii) warrants to buy 2,500,000 shares of our common stock. On March 13, 2003 and May 6, 2003, La Jolla advanced an aggregate of \$350,000 to our company which such funding was allocated towards the principal balance of our convertible debentures and we issued an additional warrant to purchase 3,500,000 shares of common stock. We currently have \$266,365 of our convertible debentures and 2,663,650 warrants still outstanding. This prospectus relates to the resale of the common stock underlying these convertible debentures and warrants.

The debentures bear interest at 8%, mature on June 30, 2008, and are convertible into our common stock, at the selling stockholder's option except for the four conversions immediately following the effective date of this registration statement, which must be submitted to us on a weekly basis. The convertible debentures are convertible into the number of our shares of common stock equal to the dollar amount of the debentures being converted multiplied by 11, less the product of the discounted market price multiplied by 10 times the dollar amount of the debentures being converted, which is divided by the discounted market price. The discounted market price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the volume weighted average prices of our common stock during the five trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. However, in the event that our market price is less than \$.30, we will have the option to prepay the debenture at 125% rather than have the debenture converted. For example, assuming conversion of \$266,365 of debentures on May 31, 2005, a discounted market price of \$0.076 per share, the number of shares issuable upon conversion would be:

$$(\$266,365 \times 11) - (\$.0608 \times (10 \times \$266,365)) = 2,768,065 / \$.0608 = 45,527,386$$

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La Jolla has contractually committed to convert not less than 5.0% and not more than 10.0% of the debentures on a monthly basis. In addition, La Jolla is obligated to exercise the warrant concurrently with the submission of a conversion notice. Upon conversion of the convertible debenture, the selling stockholder must concurrently exercise the warrant into shares of our common stock equal to ten times the dollar amount of the debenture being converted divided by the exercise price, which is \$1.00. Currently, the warrant is exercisable into 2,663,650 shares of common stock at an exercise price of \$1.00 per share.

The aggregate effect of the concurrent conversion of the debentures at the applicable conversion price and the exercise of the warrants at \$1.00 per share will result in the issuance of shares of common stock to the selling stockholder

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at a 24% discount to the market. For example, if the selling stockholder converts \$10,000 of the debenture on May 31, 2005, we are required to issue 1,709,211 shares assuming a market price of \$.08 and a conversion price of \$.061. However, the selling stockholder is also required to convert the warrant into 100,000 shares of common stock or ten times the dollar amount of the debenture being converted at \$1.00 per share. The end result is that we will receive \$110,000 a portion of which has been previously funded through the debenture or that will be funded upon exercise of the warrant and we are required to issue 1,809,211 shares of common stock.

In December 2004, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

- * the discount multiplier was reduced from eighty percent to seventy six percent;
- * within five business days after this registration statement being declared effective, La Jolla is required to submit a debenture conversion in the amount of \$10,000 and every ten business days thereafter La Jolla shall submit three additional debenture conversion in the amount of \$10,000 each;
- * within five business days after this registration statement being declared effective, La Jolla shall wire \$400,000 to us as a prepayment towards the exercise of its warrant (such prepayment shall be applied towards future mandatory exercises of La Jolla's warrant); and
- * immediately following the sale of all shares held by La Jolla in connection with the debenture conversions in the aggregate amount of \$40,000, La Jolla shall wire \$275,000 to us as a prepayment towards the exercise of its warrant and shall submit a debenture conversion in the amount of \$6,250 on the first business day of each month until the debenture is no longer outstanding.
- * the selling stockholder agreed to dismiss, without prejudice, the lawsuit entitled "La Jolla Cove Investors, Inc. v. American Ammunition, Inc." filed in San Diego Superior Court as case number GIC836693.

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- * in December 2004, we deposited 1,500,000 shares of common stock with an escrow agent and La Jolla submitted a \$10,000 conversion of the debenture and provided us with \$100,000 as a prepayment for the warrant exercise. Upon completion of the sale by La Jolla of all shares received in connection with this exercise and conversion, La Jolla made a payment to our company equal to 76% of the net proceeds from the sale of the shares less \$100,000.

In May 2005, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

- * the maturity date of the debenture and the expiration date of the warrants was extended to June 30, 2008.
- * La Jolla provided us with \$150,000 in funds which was applied towards the \$400,000 that is to be wired to us within five business days of

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the registration statement being declared effective pursuant to the December 2004 addendum and we issued 4,000,000 shares of common stock in the name of La Jolla Cove which such shares are held by an escrow agent. If the registration statement is not declared effective by February 5, 2006, La Jolla may sell such shares pursuant to Rule 144. In the event that La Jolla sells such shares pursuant to Rule 144 and receives funds in excess of \$150,000, La Jolla shall refund to us the excess proceeds.

The selling stockholder has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock.

Due to the contractually agreed mandatory conversion of the convertible debenture, we have reflected this transaction in our balance sheet as a "mezzanine" level debt obligation on our balance sheet, between "Total Liabilities" and "Stockholders' Equity". Upon the respective mandatory conversion, we will relieve the respective portion of the convertible debenture and 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, we 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, La Jolla elected to convert an aggregate \$208,635, through 24 separate transactions, in outstanding debenture principal into common stock. This election caused our company to issue 4,561,753 shares of common stock to la Jolla. Additionally, pursuant to the contract terms, La Jolla concurrently exercised a portion of the outstanding Warrant to

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purchase 2,086,350 shares of our common stock for gross proceeds of \$2,086,350.

On various dates between January 1, 2004 and December 31, 2004, La Jolla elected to convert an aggregate \$125,000, through 6 separate transactions, in outstanding debenture principal into shares of common stock. This election caused our company to issue 4,150,000 shares of common stock to La Jolla. Additionally, pursuant to the contract terms, the La Jolla concurrently exercised a portion of the outstanding Warrant to purchase 1,250,000 shares of our common stock for gross proceeds of \$1,250,000. As of December 31, 2004, an aggregate of 1,000,000 shares of our company's common stock have been issued by our company and are being held in escrow by our counsel pending receipt of the final \$150,000 from La Jolla.

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As of March 31, 2005, an aggregate of 1,000,000 shares of our common stock have been issued by our company and are being held in escrow by our counsel pending receipt of the final \$150,000 from the selling stockholder.

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.

BUSINESS

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 small-arms ammunition for wholesale and government markets. We are an established small arms munitions manufacturer with an existing distribution network. The small-arms ammunition market is principally dominated by three domestic and approximately ten international major manufacturers. We believe our operations are geared to provide the highest quality product in quantities sufficient to meet our developed wholesale governmental market demands.

We began as an assembler and re-loader of ammunition in several calibers. As our operations grew, our 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, in prior years, 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 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, 32 Smith and Wesson Long, 44 special and .44 Magnum. We have also added .44 Magnum, .308, .50 AE and .50 caliber manufactured

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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 to retail consumers, domestic governmental agencies and international governmental agencies for military use. Our international sales

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are, at this time, made solely to foreign governments, principally for military use. During calendar 2004 and 2003, our sales were approximately 78.06% and 93.77% in domestic markets and approximately 21.94% and 6.23% internationally. 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.

Our principal executive offices are located at 3545 NW 71st Street, Miami, Florida 33147 and our telephone number is (305) 835-7400.

Equipment and Production Line Capabilities

We own all the equipment necessary to take the raw material, consisting primarily of brass, 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.

We continue to evaluate 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.

During 2004 and 2003, we acquired equipment which allowed 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.

During 2004, we acquired laser gauging computer equipment for the purpose of improving and automating quality control processes. This equipment automatically

tests and ejects projectiles from the assembly line which do not meet the specified tolerances. We believe that this equipment will assist in the improvement of our products and cut labor costs associated with manual inspection of product.

Business Strategy

We are an autonomous manufacturer of ammunition, with the technology and equipment to take advantage of the growing small-arms ammunition market.

The barrier to entry into the ammunition market is extremely high, however, we are an established small arms munitions manufacturer, with an existing distribution network. We manufacture our ammunition utilizing purchased raw materials to fabricate the necessary components in our production facility.

In management's opinion, the consumer and governmental 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 our dealer direct program, established in the first quarter of 2004, and our historically strong relationships with various domestic and foreign governmental agencies.

Marketing and Sales Distribution

In first quarter 2004, we launched our Dealer Direct Program and hired Paul Goebel as its National Sales Manager. In doing so, we completely revamped the way we distribute and sell our products domestically.

In essence, we eliminated the "middle man" distributor by offering our products directly to and soliciting orders directly from the 66,000 licensed dealers in the United States. In doing this, we may offer our products to dealers cheaper than dealers would otherwise obtain them from distributors, while increasing our profit margins as well. It also eliminates a second freight charge from the distributor to the dealer, as product is shipped directly from our facility to the ultimate seller of our products.

Our marketing strategy consists of several new features to attract dealers directly to our company, rather than to a distributor. First, we are offering "net 60" day credit terms to smaller dealers, who would ordinarily be forced to pay for product up front. We have 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 our company in our account receivables as compared to payment in advance, we have exponentially diversified our receivables (and therefore our credit risk) from 13 main distributors to potentially thousands of individual dealers.

Secondly, we now offer free freight (shipping) to dealers on certain orders which exceed a specified dollar volume. Shipping of small arms ammunition has always been a large portion of the cost passed to consumers as the product is considered dense by shipping companies such as UPS, and requires extra care in shipping. We have determined that we can ship our products at a reduced rate in quantity and can offer 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, our increasing automation and dealer direct program have considerably sped up the time we take to provide a dealer with demanded product. Our 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 our company complaining that we took their distributors too long to provide them with additional product supply when demand dictated. We believe that our new distribution strategy complimented with recent automation has cut the time it takes a dealer to receive our products by more than half.

We only recently upgraded our website to include e-commerce capacity, wherein licensed dealers who are pre-registered with our company can order online direct from us. Sales in this manner have been slow to develop, primarily due to the documentation requirements for pre-qualification of dealers; however, management is hopeful that our dealers will begin to take advantage of the ease of use and time savings related to placing orders directly via electronic means. We anticipate further automation in the way in which our qualified dealers place product orders from our company. We plan to continue to aggressively pursue new customers through promotions, advertising and trade shows. We intend to solicit original equipment manufacturer subcontract work from the three major domestic manufacturers; seek additional means of commercial distribution; seek further Department of Defense and other governmental agency contracts and new relationships; contracts; solicit further export sales and, potentially, develop relationships with various mass merchandisers/chain stores.

We have been certified by the United States Small Business Administration as a "qualified HUBZone small business concern." Under this program, small businesses can qualify for special set-aside contracts, get up to a 10% edge in competitive contract bidding or even be the sole-source bidder in some cases. The program's name signifies the effort to promote businesses in "historically underutilized business zones," generally located in blighted areas and a primary 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 three major domestic manufacturers: Remington, ATK, and Winchester. We strive to capitalize on the fact that these three competitors have very large corporate infrastructures and, in management's opinion, have to pay much higher labor costs to their manufacturing plant personnel. We believe that our production cost structure and, accordingly, our pricing strategy permits our customers to purchase our product and sell it at a retail price that is lower than competitive distribution channels for our competitors' products.

Advertising & Promotion

We intend to gear our 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.

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

The joint venture has benefited our 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 our name with IMI's history has added value to our brand and reputation in the small arms ammunition industry. Second, IMI manufactures different calibers and products than us, thereby increasing the catalogue of items we may offer to our dealers. IMI produces commercial ammunition, similar to our company. However, we also specialize in the production of law enforcement and military grade ammunition, which we currently do not have the production capability to produce on our own. Lastly, on past and current cooperation initiatives, IMI has shipped projectiles and materials for future assembly companion a consignment basis, thereby saving us the time value of such costs were we to have produced such items or purchased such raw materials ourselves.

Triton

On February 10, 2004, we executed a non-binding letter of intent to acquire the assets of Triton Ammunition Corporation ("Triton"). This transaction closed on October 19, 2004, with the issuance of 1,111,112 shares of restricted, unregistered common stock valued at \$500,000.

The assets acquired consisted of various pieces of manufacturing machinery, raw materials and finished inventory and various intellectual property rights. Triton conveyed the sole usage patent right agreements and various related licenses for the Hi-Vel and Quik-Shok lines of ammunition. The patents we acquired were as follows:

- o Patent #4,836,110 which relates to bullets having sections separable upon impact and method fabrication.
- o Patent #4,882,822 which relates to the method of fabrication of a bullet having sections separable upon impact.

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- o Patent #4,947,755 which relates to bullets having sections separable upon impact.

The allocation of the purchase price was as follows: Manufacturing equipment - approximately \$134,000; Raw materials and finished inventory - approximately \$89,500; and Patents and a Covenant not-to-compete - approximately \$276,500. As the assigned patents, related licenses and the covenant-not-to-compete have a combined remaining life and/or initial term of approximately 5 years, the Company will amortize the approximate \$276,500 to operations over a 60-month period, commencing on the closing date of the acquisition transaction.

We believe that with the acquisition of certain Triton specialty ammunition and our cooperative relationship with IMI on certain ventures, we allow us to offer an increased product line to our dealers.

ECO-AMMO(TM)

We are now manufacturing and distributing ECO-AMMO(tm). This product utilizes 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. We have 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.

Frangible 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 projectile 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, we have additional applications for use in other environments with similar containment issues such as security at nuclear power plants, hazardous materials storage facilities, and for consumer 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 a confined space, while ensuring the integrity of the surround environment. 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. Our initial testing, using test sections of a commercial airliner fuselage, has revealed that 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

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tissue penetration. Further, our testing has been successful in 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.

Industrial Plating Enterprise Company

Industrial Plating Enterprise Company (IPE), a wholly owned subsidiary of our company, is a high volume "barrel plating" facility currently operating at below 50.0% of its designed capacity. IPE is meeting all of our projectile plating needs at this time. As our projectile plating requirement grows, IPE has the surplus capacity to 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 our company of which there are no guarantees.

Competition

The market for small arms ammunition is extremely 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.

Management undertook a study of the production process and our equipment utilization during December 2004 and the first quarter of 2005. As a result of this study, our management believes that it is feasible to increase our production capacity by 100% to 150% in the immediate future through the renovation and restructuring of our plant flow utilizing our existing equipment and increasing only labor, material and other incidental costs.

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. While we believe that no critical shortages of our key raw material components, such as brass, lead and powder. We are cognizant of recent press related to the availability of lead as no new mines have opened in many years due to environmental regulations. We have experienced limited, infrequent delays in receiving lead; however, we have always been able to meet

our production requirements from our normal sources. Current demand for our raw material components in the domestic and international markets, principally driven by international military conflicts, may work to our advantage in our

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contracts and relationships with various domestic and foreign governmental agencies. However, we cannot state with any certainty that any disruption of supply may or may not occur.

Research and Development

We believe that research and development is an important factor in our future growth. The small arms ammunition industry is closely linked to the latest technological advances. Therefore, we 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

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.

Our October 2004 acquisition of certain intellectual technology property from Triton Ammunition Corporation included the assignment of the following patents related to the design and manufacture of certain fragmentable projectiles: 4,836,110, dated June 6, 1989; 4,882,822, dated November 28, 1989; and 4,947,755, dated August 8, 1990.

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. 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.

We are not aware of any other license requirements or government regulation at a state or federal level specific to their business and believe that we are in full compliance with our 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

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enacted at some time in the future that would preclude us from continuing our operations. Should such legislation be enacted, and should 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 by 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 and environmentally controlled facility.

Employees

At May 31, 2005, we employed approximately 70 persons. None of our 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.

Description Of Property

We lease our corporate office and manufacturing facility from our controlling stockholder under a long-term operating lease agreement. The lease requires a monthly payment of approximately \$5,735, including applicable sales taxes. We are responsible for all utilities and maintenance expenses. The lease expires on December 1, 2009 and contains a clause that upon expiration, our company and the controlling shareholder shall renegotiate the annual rental amount.

Our 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 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. We are responsible for all utilities and maintenance expenses. The lease expires on February 28, 2007 and may be renewed for an additional five 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, 2004 and 2003.

In May 2004, we entered into a long-term lease agreement for a warehouse facility in close proximity to our primary office and manufacturing facility with an unrelated third-party. This lease is for a period of two (2) years and requires payments of approximately \$6,206 per month for the first 12 months and approximately \$6,393 for the second 12 months, plus applicable sales taxes. We are responsible for all utilities and maintenance expenses. This lease expires on May 31, 2006. Further, we are responsible for any incremental real estate taxes and property insurance in excess of the amounts incurred by the landlord for the calendar year immediately preceding the execution of the lease.

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

| Year ended December 31, ----- | Amount ----- |
|-------------------------------------|---------------------|
| 2005 | \$ 166,974 |
| 2006 | 117,244 |
| 2007 | 72,643 |
| 2008 | 68,815 |
| 2009 | 68,815 |
| | ----- |
| Totals | \$ 494,491 ===== |

For the respective years ended December 31, 2004 and 2003, we paid an aggregate of \$131,804 and \$87,826 for rent under these agreements. We believe that our facilities are adequate for our needs for the foreseeable future.

Legal Proceedings

We are not a party to any pending litigation at this time nor is any of our property subject to any pending legal proceedings.

MANAGEMENT DIRECTORS AND EXECUTIVE OFFICERS

The following information sets forth the names of our officers and directors, their present positions with us, and their biographical information.

| Name ----- | Age ----- | Office ----- |
|---------------------|--------------|---|
| 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 |
| ----- | ----- | ----- |

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. is the father of Andres and Maria Fernandez. There are no other family relationships between or among the executive officers and directors of our company.

Business Experience

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J. A. FERNANDEZ, SR., age 67, currently serves as the Chairman of the Board and Director or Sales. He has been employed by us since our inception in 1983. Mr. Fernandez is the founder of what began as a family business and is responsible for our sales activities. Mr. Fernandez has over 40 years experience in diverse industries including aerospace, advanced polymer manufacturing, munitions, mining and processing of gemstones and metal ores and has utilized such experience for the growth and development of the Company. He is fluent in Spanish.

ANDRES FERNANDEZ, age 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 our company for over a decade. Mr. Fernandez is responsible for day to day operations and has been a driving force behind our company and our 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 our company since 1988. He has been an integral part of our technological growth. His abilities have contributed to our 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

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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.

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

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, certain officers and persons holding 10% or more of our common stock to file reports regarding their ownership and regarding their acquisitions and dispositions of the Registrant's common stock with the Securities and Exchange Commission ("SEC"). Such persons are required by SEC regulations to furnish our company with copies of all Section 16(a) forms they file.

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the registrant under Rule 16a-3(d) during fiscal 2004, and certain written representations from executive officers and directors, we are unaware that any required reports that have not been timely filed.

Code of Ethics

We have not adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have not adopted such a code of ethics because all of management's efforts have been directed to building the business of the company; a later time, such a code of ethics may be adopted by the board of directors.

Committees of the Board of Directors

We presently do not have an audit committee, compensation committee, nominating committee, an executive committee of our board of directors, stock plan committee or any other committees. However, our board of directors will establish various committees during the current fiscal year.

Terms of Office

Our directors are appointed for a one year term to hold office until the next annual general meeting of the holders of our Common Stock or until removed from office in accordance with our by-laws. Our officers are appointed by our board of directors and hold office until removed by our board of directors.

EXECUTIVE COMPENSATION

The following summary compensation table sets forth the aggregate cash compensation paid or accrued by our company to each of our executive officers

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and key employees for services rendered to our company during the our fiscal year ended 2003, 2002, 2001 and 2000 and all plan and non-plan compensation awarded to, earned by or paid to certain designated executive officers.

SUMMARY COMPENSATION TABLE

Long Term Compensation

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| (a) Name and Principal Position (1) | (b) Year | Annual Compensation | | | (e) Other Annual Compen- sation (\$) | (f) Restricted Stock Award(s) (\$) | Awards | | Payouts | |
|---|-------------|-----------------------|----------------------|---|--|--|-----------------------------|---------------------------------------|---------|--|
| | | (c) Salary (\$) | (d) Bonus (\$) | (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 | \$0 | |
| | 2001 | \$ 50,859 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2002 | \$ 77,770 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2003 | \$104,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2004 | \$104,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Andres F. Fernandez, President and Chief Executive Officer | 2000 | \$ 88,438 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2001 | \$ 74,290 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2002 | \$103,508 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2003 | \$132,600 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2004 | \$132,600 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Emilio D. Jara, Vice- President Of Operations, Secretary and Director | 2000 | \$ 36,400 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2001 | \$ 42,500 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2002 | \$ 43,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2003 | \$ 52,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2004 | \$ 52,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Amelia Fernandez, Former Vice President And former Director | 2000 | \$ 59,202 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2001 | \$ 59,923 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2002 | \$ 64,598 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2003 | \$ 78,702 | \$50,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2004 | \$ 78,702 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Maria A. Fernandez, Director | 2000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2001 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2002 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2003 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | 2004 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |

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Compensation of Directors

We have no standard arrangements for compensating the directors of our company for their attendance at meetings of the Board of Directors.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We lease our corporate office and manufacturing facility from our controlling stockholder under a long-term operating lease agreement. The lease requires a monthly payment of approximately \$5,735, including applicable sales taxes. We

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are responsible for all utilities and maintenance expenses. The lease expires on December 1, 2009 and contains a clause that upon expiration, our company and the controlling shareholder shall renegotiate the annual rental amount.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of our common stock as of May 31, 2005:

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

| Name and Address of Beneficial Owner | Shares Beneficially Owned | |
|---|---------------------------|-----------|
| | Number | Percent** |
| Andres F. Fernandez, President, CEO and CFO | 8,485,365 | 10.6% |
| J. A. Fernandez, Sr., Chairman of the Board and Director of Sales | 14,905,905 | 18.7% |
| Amelia C. Fernandez | 4,281,900 | 5.4% |
| Maria A. Fernandez, Director | 260,000 | * |
| Emilio D. Jara, Director | 54,250 | * |
| Total securities held by officers and directors as a group (4 people): | 23,705,520 | 29.7% |

* Less than 1%

** Based on 79,907,300 shares outstanding as of May 31, 2005. 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 May 31, 2005 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

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the shares owned by Amelia Fernandez, who was an officer and director during 2003.

DESCRIPTION OF SECURITIES BEING REGISTERED

Our authorized capital stock consists of 300,000,000 shares of Common Stock, \$.001 par value and 20,000,000 shares of Preferred Stock, \$.001 par value.

The following is a description of the material terms of our common stock.

Common Stock

The holders of the issued and outstanding shares of common stock are entitled to receive dividends when, as and if declared by our Board of Directors out of any funds lawfully available therefore. The Board of Directors intends to retain future earnings to finance the development and expansion of our business and does not expect to declare any dividends in the foreseeable future. The holders of the common stock have the right, in the event of liquidation, to receive pro rata all assets remaining after payment of debts and expenses. The common stock does not have any preemptive rights and does not have cumulative voting rights. The issued and outstanding shares of common stock are fully paid and nonassessable.

Holders of shares of common stock are entitled to vote at all meetings of such shareholders for the election of directors and for other purposes. Such holders have one vote for each share of common stock held by them.

Transfer Agent

Atlas Stock Transfer Corporation, 5899 South State Street, Salt Lake City, Utah 84107 has been appointed the transfer agent of our common stock and preferred stock.

INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

The California Corporations Code provides for the indemnification of directors, officers, employees and agents under the circumstances as set forth in Section 317 thereof. Section 317 permits a corporation to indemnify its agents, typically directors and officers, for expenses incurred or settlements or judgments paid

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in connection with certain legal proceedings. Only those legal proceedings arising out of such persons' actions as agents of the corporation may be grounds for indemnification.

Whether indemnification may be paid in a particular case depends on whether the agent wins, loses or settles the suit and upon whether a third party or the corporation itself is the plaintiff. Section 317 provides for mandatory indemnification, no matter who the plaintiff is, when an agent is successful on the merits of a suit. In all other cases, indemnification is permissive and sometimes requires approval of the court in which the suit is or was pending.

If the agent loses or settles a suit with a plaintiff other than the Company or someone who did not threaten or bring suit on our behalf, the agent may be indemnified for expenses incurred and settlements or judgments paid. That indemnification may be authorized upon a finding that the agent acted in good faith and in a manner he or she reasonably believed to be in our best interests,

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and, in a criminal proceeding, only where the agent had no reasonable cause to believe his or her conduct was unlawful. If the agent loses or settles a suit with us or a plaintiff who threatened or brought suit on our behalf, the agent may be indemnified for expenses actually and reasonably incurred in connection with the defense or settlement of the action. Such indemnification may be authorized upon a finding that the agent acted in good faith and in a manner he or she believed to be in our best interests and the best interests of our shareholders. No indemnification is permitted where the agent breached his or her duty to us, however, unless the court in which the proceeding is or was pending determines that the agent is fairly and reasonably entitled to indemnity for certain expenses. No indemnification is permitted where a settlement is reached without court approval.

Where permissive indemnification provisions control, indemnification may be authorized by a majority vote of the disinterested directors, by an independent legal counsel's written opinion, by our shareholders (the person to be indemnified is excluded from voting his or her shares) or by the court in which the proceeding is or was pending.

Any provision in a California corporation's articles of incorporation, bylaws or shareholder or director resolution that indemnifies its officers or directors may prohibit permissive, but not mandatory, indemnification as described above. Such a provision must otherwise be consistent with Section 317. Nonetheless, a corporation has the power to purchase indemnity insurance for its agents even for situations in which it could not indemnify them.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable

PLAN OF DISTRIBUTION

The selling stockholders and any of their respective pledgees, donees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- * ordinary brokerage transactions and transactions in which the broker-dealer solicits the purchaser;
- * block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- * purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- * an exchange distribution in accordance with the rules of the applicable exchange;
- * privately-negotiated transactions;
- * broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- * through the writing of options on the shares
- * a combination of any such methods of sale; and

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* any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus. The selling stockholders shall have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The selling stockholders or their respective pledgees, donees, transferees or other successors in interest, may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or their customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their own risk. It is possible that a selling stockholder will attempt to sell shares of common stock in block transactions to market makers or other purchasers at a price per share which may be below the then market price. The selling stockholders cannot assure that all or any of the shares offered in this prospectus will be issued to, or sold by, the selling stockholders. The selling stockholders and any brokers, dealers or agents, upon effecting the sale of any of the shares offered in this prospectus, may be deemed to be "underwriters" as that term is defined under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the rules and regulations under such acts. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

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We are required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to the selling stockholders, but excluding brokerage commissions or underwriter discounts.

The selling stockholders, alternatively, may sell all or any part of the shares offered in this prospectus through an underwriter. No selling stockholder has entered into any agreement with a prospective underwriter and there is no assurance that any such agreement will be entered into.

The selling stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling stockholders defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The selling stockholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations under such act, including, without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling stockholders or any other such person. In the event that the selling stockholders are deemed affiliated purchasers or distribution participants within the meaning of Regulation M, then the selling stockholders will not be permitted to engage in short sales of common stock. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or

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exemptions. In regards to short sells, the selling stockholder is contractually restricted from engaging in short sells. In addition, if a such short sale is deemed to be a stabilizing activity, then the selling stockholder will not be permitted to engage in a short sale of our common stock. All of these limitations may affect the marketability of the shares.

We have agreed to indemnify the selling stockholders, or their transferees or assignees, against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the selling stockholders or their respective pledgees, donees, transferees or other successors in interest, may be required to make in respect of such liabilities.

If the selling stockholders notify us that they have a material arrangement with a broker-dealer for the resale of the common stock, then we would be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the selling stockholders and the broker-dealer.

PENNY STOCK

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

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- * that a broker or dealer approve a person's account for transactions in penny stocks; and
- * the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- * obtain financial information and investment experience objectives of the person; and
- * make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

- * sets forth the basis on which the broker or dealer made the suitability determination; and
- * that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases

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of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

SELLING STOCKHOLDERS

The table below sets forth information concerning the resale of the shares of common stock by the selling stockholders. We will not receive any proceeds from the resale of the common stock by the selling stockholders. We will receive proceeds from the exercise of the warrants. Assuming all the shares registered below are sold by the selling stockholders, none of the selling stockholders will continue to own any shares of our common stock.

The following table also sets forth the name of each person who is offering the resale of shares of common stock by this prospectus, the number of shares of common stock beneficially owned by each person, the number of shares of common stock that may be sold in this offering and the number of shares of common stock each person will own after the offering, assuming they sell all of the shares offered.

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| Name | Total Shares of Common Stock Issuable Upon Conversion of Debentures and/or Warrants | Total Percentage of Common Stock, Assuming Full Conversion | Shares of Common Stock Included in Prospectus (1) | Beneficial Ownership Before the Offering* | Percentage of Common Stock Owned Before Offering* |
|-----------------------------------|---|--|---|---|---|
| La Jolla Cove Investors, Inc. (2) | 48,191,036 (3) | 37.62% | Up to 93,718,422 shares of common stock | 4,117,201 | 4.99% |

* These columns represents the aggregate maximum number and percentage of shares that the selling stockholders can own at one time (and therefore, offer for resale at any one time) due to their 4.9% limitation.

The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholders has sole or shared voting power or investment power and also any shares, which the selling stockholders has the right to acquire within 60 days. The actual number of shares of common stock issuable upon the conversion of the convertible debentures is subject to adjustment depending on, among other factors, the future market price of the common stock, and could be materially less or more than the number estimated in the table.

- (1) Includes a good faith estimate of the shares issuable upon conversion of the convertible debentures and exercise of warrants, based on current market prices. Because the number of shares of common stock issuable upon conversion of the convertible debentures is dependent in part upon the market price of the common stock prior to a conversion, the actual number of shares of common stock that will be issued upon conversion will fluctuate daily and cannot be determined at this time. Under the terms of the convertible debentures, if the convertible debentures had actually been converted on May 31, 2005, the discounted market price would have been \$.061. The actual number of shares of common stock offered in this prospectus, and included in the registration statement of which this prospectus is a part, includes such additional number of shares of common stock as may be issued or issuable upon conversion of the convertible debentures and exercise of the related warrants by reason of any stock split, stock dividend or similar transaction involving the common stock, in

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accordance with Rule 416 under the Securities Act of 1933. However the selling stockholders have contractually agreed to restrict their ability to convert their convertible debentures or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock as determined in accordance with Section 13(d) of the Exchange Act. Accordingly, the number of shares of common stock set forth in the table for the selling stockholders exceeds the number of shares of common stock that the selling stockholders could own beneficially at any given time through their ownership of the convertible debentures and the warrants. In that regard, the beneficial ownership of the common stock by the selling stockholder set forth in the table is not determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

- (2) The selling stockholder is an unaffiliated third party. In accordance with rule 13d-3 under the Securities Exchange Act of 1934, Norman Litz may be deemed a control person of the shares owned by the selling stockholder.
- (3) Includes 91,054,772 shares of common stock underlying our \$266,365 convertible debenture and 2,663,650 shares of common stock underlying common stock purchase warrants issued to La Jolla Investors, Inc.
- (4) Assumes that all securities registered will be sold.

Terms of Convertible Debentures

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with La Jolla on October 4, 2002 for the sale of (i) \$250,000 in convertible debentures and (ii) warrants to buy 2,500,000 shares of our common stock. On March 13, 2003 and May 6, 2003, La Jolla advanced an aggregate of \$350,000 to our company which such funding was allocated towards the principal balance of our convertible debentures and a warrant to purchase

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3,500,000 shares of our common stock. We currently have \$266,365 of our convertible debentures and 2,663,650 warrants still outstanding. This prospectus relates to the resale of the common stock underlying these convertible debentures and warrants.

The debentures bear interest at 8%, mature on June 30, 2008, and are convertible into our common stock, at the selling stockholder's option except for the four conversions immediately following the effective date of this registration statement, which must be submitted to us on a weekly basis. The convertible debentures are convertible into the number of our shares of common stock equal to the dollar amount of the debentures being converted multiplied by 11, less the product of the discounted market price multiplied by 10 times the dollar

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amount of the debentures being converted, which is divided by the discounted market price. The discounted market price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the volume weighted average prices of our common stock during the five trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. However, in the event that our market price is less than \$.30, we will have the option to prepay the debenture at 125% rather than have the debenture converted.

La Jolla has contractually committed to convert not less than 5.0% and not more than 10.0% of the debentures on a monthly basis. In addition, the selling stockholder is obligated to exercise the warrant concurrently with the submission of a conversion notice by the selling stockholder. Upon conversion of the convertible debenture, the selling stockholder must concurrently exercise the warrant into shares of our common stock equal to ten times the dollar amount of the debenture being converted divided by the exercise price, which is \$1.00. Currently, the warrant is exercisable into 2,663,650 shares of common stock at an exercise price of \$1.00 per share.

The aggregate effect of the concurrent conversion of the debentures at the applicable conversion price and the exercise of the warrants at \$1.00 per share will result in the issuance of shares of common stock to the selling stockholder at a 24% discount to the market. For example, if the selling stockholder converts \$10,000 of the debenture on May 31, 2005, we are required to issue 1,709,211 shares assuming a market price of \$.08 and a conversion price of \$.061. However, the selling stockholder is also required to convert the warrant into 100,000 shares of common stock or ten times the dollar amount of the debenture being converted at \$1.00 per share. The end result is that we will receive \$110,000 that has been previously funded through the debenture or that will be funded upon exercise of the warrant and we are required to issue 1,809,211 shares of common stock.

In December 2004, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

* the discount multiplier was reduced from eighty percent to seventy six percent;

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- * within five business days after this registration statement being declared effective, La Jolla is required to submit a debenture conversion in the amount of \$10,000 and every ten business days thereafter La Jolla shall submit three additional debenture conversion in the amount of \$10,000 each;
- * within five business days after this registration statement being declared effective, La Jolla shall wire to us as a prepayment towards the exercise of its warrant (such prepayment shall be applied towards future mandatory exercises of La Jolla's warrant); and
- * immediately following the sale of all shares held by La Jolla in connection with the debenture conversions in the aggregate amount of

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\$40,000, La Jolla shall wire \$275,000 to us as a prepayment towards the exercise of its warrant and shall submit a debenture conversion in the amount of \$6,250 on the first business day of each month until the debenture is no longer outstanding.

- * the selling stockholder agreed to dismiss, without prejudice, the lawsuit entitled "La Jolla Cove Investors, Inc. v. American Ammunition, Inc." filed in San Diego Superior Court as case number GIC836693.
- * in December 2004, we deposited 1,500,000 shares of common stock with an escrow agent and La Jolla submitted a \$10,000 conversion of the debenture and provided us with \$100,000 as a prepayment for the warrant exercise. Upon completion of the sale by La Jolla of all shares received in connection with this exercise and conversion, La Jolla made a payment to our company equal to 76% of the net proceeds from the sale of the shares less \$100,000.

In May 2005, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

- * the maturity date of the debenture and the expiration date of the warrants was extended to June 30, 2008.
- * La Jolla provided us with \$150,000 in funds which was applied towards the \$400,000 that is to be wired to us within five business days of the registration statement being declared effective pursuant to the December 2004 addendum and we issued 4,000,000 shares of common stock in the name of La Jolla Cove which such shares are held by an escrow agent. If the registration statement is not declared effective by February 5, 2006, La Jolla may sell such shares pursuant to Rule 144. In the event that La Jolla sells such shares pursuant to Rule 144 and receives funds in excess of \$150,000, La Jolla shall refund to us the excess proceeds.

The selling stockholder has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock.

Sample Conversion Calculation

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The convertible debentures are convertible into the number of our shares of common stock equal to the dollar amount of the debentures being converted multiplied by 11, less the product of the discounted market price multiplied by ten times the dollar amount of the debentures being converted, which is divided by the discounted market price. The discounted market price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the volume weighted average prices of our common stock during the five trading days prior to the conversion. For example, assuming conversion of \$266,365 of debentures on May 31, 2005, a discounted market price of \$0.076 per share, the number of shares issuable upon conversion would be:

$$(\$266,365 \times 11) - (\$.0608 \times (10 \times \$266,365)) = 2,768,065 / \$.0608 = 45,527,386$$

The following is an example of the amount of shares of our common stock that are issuable, upon conversion of our convertible debenture in the amount of \$266,365, based on market prices 25%, 50% and 75% below the market price, as of May 31, 2005 of \$0.08.

| % Below Market ----- | Price Per Share ----- | Effective Conversion Price ----- | Number of Shares Issuable ----- | % of Outstanding Stock ----- |
|----------------------------|-----------------------------|---|--|---------------------------------------|
| 25% | \$.0600 | \$.0456 | 61,591,065 | 43.53% |
| 50% | \$.0400 | \$.0304 | 93,718,422 | 53.98% |
| 75% | \$.0200 | \$.0152 | 190,100,495 | 70.41% |

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LEGAL MATTERS

Sichenzia Ross Friedman Ference LLP, New York, New York will issue an opinion with respect to the validity of the shares of common stock being offered hereby.

EXPERTS

Our financial statements at December 31, 2004 and 2003 and for the years then ended, appearing in this prospectus and registration statement have been audited by S. W. Hatfield, CPA, independent auditors, as set forth on their report thereon appearing elsewhere in this prospectus, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

AVAILABLE INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act of 1933, as amended, relating to the shares of common stock being offered by this prospectus, and reference is made to such registration statement. This prospectus constitutes the prospectus of American Ammunition, Inc., filed as part of the registration statement, and it does not contain all information in the registration statement, as certain portions have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission.

We are subject to the informational requirements of the Securities Exchange Act

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of 1934 which requires us to file reports, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information may be inspected at public reference facilities of the SEC at Judiciary Plaza, 450 Fifth Street N.W., Washington D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549 at prescribed rates. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's Internet website at <http://www.sec.gov>.

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES

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Letterhead of S. W. Hatfield, CPA

Report of Independent Registered Public Accounting Firm

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, 2004 and 2003 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, 2004 and 2003, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2004 and 2003 and the results of their consolidated operations and consolidated cash flows for each of the two years ended December 31, 2004 and 2003, respectively, in conformity with accounting principles generally accepted in the United States of America.

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/s/ S.W. Hatfield

S. W. HATFIELD, CPA

Dallas, Texas
March 11, 2005

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003

| | December 31, 2004 | December 31, 2003 |
|---|--------------------------|--------------------------|
| | ----- | ----- |
| ASSETS | | |
| Current Assets | | |
| Cash on hand and in bank | \$ 805,465 | \$ 505,671 |
| Accounts receivable - trade, net of allowance for doubtful accounts of \$-0- and \$-0-, respectively | 639,444 | 520,835 |
| Inventory | 912,424 | 1,112,756 |
| Prepaid expenses | 58,847 | 40,388 |
| | ----- | ----- |
| Total Current Assets | 2,416,180 | 2,179,650 |
| | ----- | ----- |
| Property and Equipment - at cost or contributed value | | |
| Manufacturing equipment | 7,976,248 | 7,131,233 |
| Office furniture and fixtures | 69,889 | 62,893 |
| Leasehold improvements | 184,939 | 184,690 |
| | ----- | ----- |
| Accumulated depreciation | 8,231,076 (4,801,695) | 7,378,816 (4,066,390) |
| | ----- | ----- |
| Net Property and Equipment | 3,429,381 | 3,312,426 |
| | ----- | ----- |
| Other Assets | | |
| Patents, Trademarks and Noncompetition agreement, net of accumulated amortization of approximately \$9,190 | 266,500 | - |
| Deposits and other | 83,660 | 77,860 |

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| | | |
|--------------------|--------------|--------------|
| | ----- | ----- |
| Total Other Assets | 350,160 | 77,860 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 6,195,721 | \$ 5,569,936 |
| | ===== | ===== |

- Continued -

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
December 31, 2004 and 2003

| | December 31, 2004 | December 31, 2003 |
|--|----------------------|----------------------|
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Current maturities of leases payable | \$ - | \$ 7,841 |
| Customer deposits | 440,906 | 4,100 |
| Accounts payable - trade | 936,885 | 128,865 |
| Accrued salaries and wages | 135,970 | - |
| Accrued interest payable | 15,000 | - |
| Accrued dividends payable | 15,899 | 11,020 |
| | ----- | ----- |
| Total Liabilities | 1,544,660 | 151,826 |
| | ----- | ----- |
| Commitments and Contingencies | | |
| Mandatory Convertible Debenture | 266,365 | 391,365 |
| | ----- | ----- |
| Stockholders' Equity | | |
| Preferred stock - \$0.001 par value | | |
| 20,000,000 shares authorized. | | |
| 1,795,320 shares allocated to Series A | | |
| 91,700 shares allocated to Series B | | |
| 1,905,882 shares allocated to Series C | 2,010 | 104 |

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Common stock - \$0.001 par value.

300,000,000 shares authorized.

74,851,691 and 66,893,628 shares issued and outstanding

| | | |
|--|--------------|--------------|
| | 74,852 | 66,894 |
| Additional paid-in capital | 24,472,709 | 21,588,791 |
| Accumulated deficit | (19,989,875) | (16,629,044) |
| | ----- | ----- |
| Stock subscription receivable | 4,559,696 | 5,026,745 |
| | (175,000) | - |
| | ----- | ----- |
| Total Stockholders' Equity | 4,384,696 | 5,026,745 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 6,195,721 | \$ 5,569,936 |
| | ===== | ===== |

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
Years ended December 31, 2004 and 2003

| | Year ended December 31, 2004 | Year ended December 31, 2003 |
|--------------------------------------|------------------------------------|------------------------------------|
| | ----- | ----- |
| Revenues | \$ 3,247,368 | \$ 1,984,997 |
| | ----- | ----- |
| Cost of Sales | | |
| Materials | 2,383,198 | 1,355,098 |
| Direct Labor | 836,386 | 868,004 |
| Other direct costs and expenses | 671,787 | 340,346 |
| Depreciation | 729,295 | 668,574 |
| | ----- | ----- |
| Total Cost of Sales | 4,620,666 | 3,232,022 |
| | ----- | ----- |
| Gross Profit | (1,373,298) | (1,247,025) |
| | ----- | ----- |
| Operating Expenses | | |
| Research and development expenses | 11,457 | 4,038 |
| Marketing and promotion expenses | 440,248 | 115,767 |
| Salaries, wages and related expenses | 365,633 | 399,710 |
| Other operating expenses | 718,610 | 567,700 |
| Interest expense | 16,005 | 35,154 |
| Depreciation expense | 6,009 | 4,516 |

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| | | |
|--|----------------|----------------|
| Amortization of intangibles | 9,190 | - |
| Compensation expense related to common stock issuances at less than "fair value" | 381,902 | 882,291 |
| | ----- | ----- |
| Total Operating Expenses | 1,949,054 | 2,009,176 |
| | ----- | ----- |
| Loss from Operations | (3,322,352) | (3,256,201) |
| Other Income (Expense) | | |
| Other income (expense) | 4,279 | 63,382 |
| Gain on forgiveness of accounts payable | - | 339,202 |
| Gain on sale of equipment | - | 7,900 |
| Amortization of Beneficial Conversion Feature Discount on Preferred Stock | - | (93,678) |
| | ----- | ----- |
| Loss before Income Taxes | (3,318,073) | (2,939,395) |
| Provision for Income Taxes | - | - |
| | ----- | ----- |
| Net Loss | (3,318,073) | (2,939,395) |
| Other Comprehensive Income | - | - |
| | ----- | ----- |
| Comprehensive Loss | (3,318,073) | (2,939,395) |
| Preferred Stock Dividends | (42,758) | (28,931) |
| | ----- | ----- |
| Net Loss available to Common Shareholders | \$ (3,360,831) | \$ (2,968,326) |
| | ===== | ===== |
| Loss per weighted-average share of common stock outstanding, computed on net loss - basic and fully diluted | \$ (0.05) | \$ (0.05) |
| | ===== | ===== |
| Weighted-average number of common shares outstanding | 71,814,490 | 61,202,839 |
| | ===== | ===== |

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2004 and 2003

| | Mandatory Preferred Stock | | Convertible Common Stock | | Additional paid-in capital | Accu d |
|-----------------------------|------------------------------|--------|-----------------------------|----------|----------------------------------|-----------|
| | Shares | Amount | Shares | Amount | | |
| Balances at January 1, 2003 | 41,000 | \$ 41 | 55,328,166 | \$55,329 | \$16,728,123 | \$(13 |

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| | | | | | | |
|--|-----------|---------|------------|----------|--------------|--------|
| Issuance of preferred stock for cash | 91,700 | 92 | - | - | 458,408 | |
| Less costs of raising capital | - | - | - | - | (45,850) | |
| Issuance of common stock for Cash | - | - | 4,552,183 | 4,552 | 1,179,630 | |
| Conversion of debenture | - | - | 4,561,753 | 4,562 | 1,086,364 | |
| Exercise of warrant for cash | - | - | 2,086,350 | 2,086 | 2,084,264 | |
| Payment of preferred stock dividends | - | - | 46,176 | 46 | 20,464 | |
| Conversion of preferred stock | (29,000) | (29) | 319,000 | 319 | (290) | |
| Costs of acquiring convertible debenture | - | - | - | - | (16,000) | |
| Beneficial Conversion Discount | | | | | | |
| Feature on preferred stock | - | - | - | - | 93,678 | |
| Dividends declared on Preferred Stock | - | - | - | - | - | |
| Net loss for the year | - | - | - | - | - | (2) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balances at December 31, 2003 | 62,700 | 104 | 66,893,628 | 66,894 | 21,588,791 | (16) |
| Issuance of preferred stock for cash | 1,905,882 | 1,906 | - | - | 322,094 | |
| Issuance of common stock for Cash | - | - | 1,500,000 | 1,500 | 1,498,500 | |
| Less subscription receivable | - | - | - | - | - | |
| Conversion of debenture | - | - | 4,900,000 | 4,900 | 501,100 | |
| Less subscription receivable | - | - | - | - | - | |
| Payment of costs to acquire capital | - | - | 300,000 | 300 | 59,700 | |
| Less cost of capital | - | - | - | - | (36,000) | |
| Acquisition of assets | - | - | 1,111,112 | 1,111 | 498,889 | |
| Payment of preferred stock dividends | - | - | 146,952 | 147 | 39,635 | |
| Dividends declared on Preferred Stock | - | - | - | - | - | |
| Net loss for the year | - | - | - | - | - | (3) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balances at December 31, 2004 | 2,009,582 | \$2,010 | 74,851,692 | \$74,852 | \$24,472,709 | \$(19) |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Stock subscription receivable at December 31, 2004 | | | | | | |

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2004 and 2003

| | Year ended December 31, 2004 | Year ended December 31, 2003 |
|--------------------------------------|------------------------------------|------------------------------------|
| | ----- | ----- |
| Cash flows from operating activities | | |

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| | | |
|--|----------------|----------------|
| Net loss for the year | \$ (3,318,073) | \$ (2,939,395) |
| Adjustments to reconcile net loss to net cash provided by operating activities | | |
| Depreciation and amortization | 744,494 | 673,090 |
| Bad debt expense | 85,490 | 2,522 |
| Acquisition of inventory with common stock | 89,510 | - |
| 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" | 381,902 | 882,291 |
| (Increase) Decrease in | | |
| Accounts receivable | (204,099) | (492,069) |
| Inventory | 200,332 | (727,942) |
| Prepaid expenses, deposits and other | (24,258) | (20,997) |
| Increase (Decrease) in | | |
| Accounts payable and other accrued liabilities | 808,023 | 53,157 |
| Accrued payroll payable | 135,970 | (18,709) |
| Accrued interest payable | 15,000 | - |
| Customer deposits | 436,806 | (76,853) |
| Net cash provided by (used in) operating activities | (648,903) | (2,918,329) |
| Cash flows from investing activities | | |
| Cash received on sale of equipment | - | 7,900 |
| Purchase of property and equipment | (717,462) | (288,891) |
| Net cash used in investing activities | (717,462) | (280,991) |
| Cash flows from financing activities | | |
| Principal paid on long-term debt | - | (450,000) |
| Principal paid on long-term capital leases | (7,841) | (9,507) |
| Cash received on sale of Preferred Stock | 324,000 | 458,500 |
| Cash received on issuance of Mandatory Convertible Debenture | 1,350,000 | 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 | 1,666,159 | 3,547,675 |
| INCREASE (DECREASE) IN CASH | 299,794 | 348,355 |
| Cash at beginning of year | 505,671 | 157,316 |
| Cash at end of year | \$ 805,465 | \$ 505,671 |

- Continued -

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
Years ended December 31, 2004 and 2003

| | Year ended December 31, 2004 | Year ended December 31, 2003 |
|---|------------------------------------|------------------------------------|
| | ----- | ----- |
| Supplemental disclosure of interest and income taxes paid | | |
| Interest paid for the period | \$ 1,005 | \$ 26,170 |
| | ===== | ===== |
| Income taxes paid for the period | \$ - | \$ - |
| | ===== | ===== |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Conversion of debt into common stock | \$ 125,000 | \$ 208,635 |
| | ===== | ===== |
| Payment of accrued dividends on preferred stock with common stock | \$ 37,878 | \$ 30,511 |
| | ===== | ===== |
| Acquisition of equipment and intangibles with common stock | \$ 410,490 | \$ - |
| | ===== | ===== |

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A - Organization and Description of Business

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American Ammunition, Inc. (AAI or Company) was incorporated on February 1, 2000 in accordance with the Laws of the State of California. The Company functions as a holding company providing management oversight services to its wholly-owned operating subsidiaries; F&F Equipment, Inc. and Industrial Plating Enterprise Co.

F&F Equipment, Inc.(F&F) was incorporated on October 4, 1983 in accordance with the Laws of the State of Florida. F&F is engaged in the design, manufacture and international sales of small arms ammunition. F&F has conducted its business operations under the assumed name of "American Ammunition" since its inception.

Industrial Plating Enterprise Co. (IPE), which was incorporated and commenced 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 small arms 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. All activities of IPE since its inception have been dedicated to the needs and demands of F&F.

Note B - Preparation of Financial Statements

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.

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".

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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, certificates of deposit and other highly-liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents.

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

2. Accounts receivable and Revenue Recognition

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

The Company ships all product on an FOB-Plant, "as-is" 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 and the Company has no remaining performance obligations related to the sale. The Company sells all products with "no right of return" by the purchaser for any factor other than defects in the product's production.

On rare occasion, the Company may elect to accept product returns from customers on a case-by-case basis to offset unpaid accounts receivable. These situations are a "last case" scenario and are initiated by senior management through negotiations with the respective customer.

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.

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note C - Summary of Significant Accounting Policies - Continued

5. Income Taxes

The Company uses the asset and liability method of accounting for income taxes. At December 31, 2004 and 2003, the deferred tax asset and deferred tax liability accounts, as recorded when material to the financial statements, are entirely the result of temporary differences. Temporary differences represent differences in the recognition of assets and liabilities for tax and financial reporting purposes, primarily accumulated depreciation and amortization, allowance for doubtful accounts and vacation accruals.

As of December 31, 2004 and 2003, 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) available to common shareholders by the weighted-average number of common shares outstanding during the respective period presented in our accompanying financial statements.

Fully diluted earnings (loss) per share is computed similar to basic income (loss) per share except that the denominator is increased to include the number of 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, at either the beginning of the respective period presented or the date of issuance, whichever is later, and only if the common stock equivalents are considered dilutive based upon the Company's net income (loss) position at the calculation date.

As of December 31, 2004 and 2003, 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.

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.

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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 - Inventory

As of December 31, 2004 and 2003, inventory consisted of the following components:

| | December 31, 2004 | December 31, 2003 | |
|-----------------|----------------------|----------------------|--|
| | ----- | ----- | |
| Raw materials | \$ 522,585 | \$ 539,474 | |
| Work in process | 306,360 | 360,450 | |
| Finished goods | 83,479 | 212,832 | |
| | ----- | ----- | |
| Totals | \$ 912,424 | \$ 1,112,756 | |
| | ===== | ===== | |

Note F - Property and Equipment

Property and equipment consist of the following components:

| | December 31, 2004 | December 31, 2003 | Estimated useful life |
|-------------------------------|----------------------|----------------------|--------------------------|
| | ----- | ----- | |
| Manufacturing equipment | \$ 7,745,112 | \$ 7,131,233 | 3-10 years |
| Office furniture and fixtures | 69,889 | 62,893 | 3- 7 years |
| Leasehold improvements | 184,939 | 184,690 | 8-20 years |
| | ----- | ----- | |
| | 7,999,940 | 7,378,816 | |
| Accumulated depreciation | (4,762,074) | (4,066,390) | |
| | ----- | ----- | |
| Net property and equipment | \$ 3,237,866 | \$ 3,312,426 | |
| | ===== | ===== | |

Total depreciation expense charged to operations for the years ended December 31, 2004 and 2003 was approximately \$717,349 and \$673,090, respectively.

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note G - Capital Leases Payable

Capital leases payable consist of the following as of December 31, 2004 and 2003, respectively:

| | December 31, 2004 | December 31, 2003 |
|---|----------------------|----------------------|
| | ----- | ----- |
| 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 occurred between September 2004 and December 2004. | \$ - | \$ 7,841 |
| Less current maturities | - | (7,841) |
| | ----- | ----- |
| Long-term portion | \$ - | \$ - |
| | ===== | ===== |

Note H - Convertible Debenture

The Company entered into a Securities Purchase Agreement with La Jolla Cove Investors, Inc. ("La Jolla") on October 4, 2002 for the sale of (i) \$250,000 in convertible debentures and (ii) warrants to buy 30,000,000 shares of our common stock. On March 13, 2003 and May 6, 2003, La Jolla advanced an aggregate of \$350,000 to our company which such funding was allocated towards the principal balance of our convertible debentures.

As of December 31, 2004, the outstanding balance on the convertible debenture is approximately \$266,365 and we have approximately 2,663,650 warrants outstanding. A recap of the debenture activity is as follows:

| | Debenture (in dollars) | Warrant (in shares) |
|--|---------------------------|------------------------|
| | ----- | ----- |
| Initial amount | \$600,000 | 6,000,000 |
| 2003 redemptions | (208,635) | (2,086,350) |
| 2004 redemptions | (125,000) | (1,250,000) |
| | ----- | ----- |
| Balances outstanding at December 31, 2004 | \$266,365 | 2,633,650 |
| | ===== | ===== |

The debentures bear interest at 8%, mature on June 30, 2008, and are convertible into our common stock, at the selling stockholder's option. The convertible debentures are convertible into the number of our shares of common stock equal to the dollar amount of the debentures being converted multiplied by 11, less

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the product of the discounted market price multiplied by 10 times the dollar amount of the debentures being converted, which is divided by the discounted market price. The discounted market price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the volume weighted average prices of our common stock during the five trading days prior to the conversion.. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. However, in the event that our market price is less than \$.30, we will have the option to prepay the debenture at 125% rather than have the debenture converted. In addition, the selling stockholder is obligated to exercise the warrant concurrently with the submission of a conversion notice by the selling stockholder. As of December 31, 2004, the warrant is exercisable into 2,663,650 shares of common stock at an exercise price of \$1.00 per share.

In December 2004, we entered into an addendum to the convertible debenture and warrant whereby the Company agreed to the following:

- * the discount multiplier was reduced from eighty percent to seventy six percent;
- * within five business days after this registration statement being declared effective, La Jolla is required to submit a debenture conversion in the amount of \$10,000 and every ten business days thereafter La Jolla shall submit three additional debenture conversion in the amount of \$10,000 each;
- * within five business days after this registration statement being declared effective, La Jolla shall wire \$400,000 to us as a prepayment towards the exercise of its warrant; and
- * immediately following the sale of all shares held by La Jolla in connection with the debenture conversions in the aggregate amount of \$40,000, La Jolla shall wire \$275,000 to us as a prepayment towards the exercise of its warrant and shall submit a debenture conversion in the amount of \$6,250 on the first business day of each month until the debenture is no longer outstanding.

LaJolla has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does exceed 4.9% of the then issued and outstanding shares of common stock.

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.

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note H - Convertible Debenture - continued

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The debentures bear interest at 8%, mature on June 30, 2008, and are convertible into our common stock, at the selling stockholder's option. The convertible debentures are convertible into the number of our shares of common stock equal to the principal amount of the debentures being converted multiplied by 11, less the product of the conversion price multiplied by 10 times the dollar amount of the debenture. The conversion price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. However, in the event that our market price is less than \$.30, we will have the option to prepay the debenture at 125% rather than have the debenture converted. In addition, the selling stockholder is obligated to exercise the warrant concurrently with the submission of a conversion notice by the selling stockholder. As of December 31, 2004, the warrant is exercisable into 2,663,650 shares of common stock at an exercise price of \$1.00 per share.

In December 2004, we entered into an addendum to the convertible debenture and warrant whereby the Company agreed to the following:

- * the discount multiplier was reduced from eighty percent to seventy six percent;
- * within five business days after this registration statement being declared effective, La Jolla is required to submit a debenture conversion in the amount of \$10,000 and every ten business days thereafter La Jolla shall submit three additional debenture conversion in the amount of \$10,000 each;
- * within five business days after this registration statement being declared effective, La Jolla shall wire \$400,000 to us as a prepayment towards the exercise of its warrant; and
- * immediately following the sale of all shares held by La Jolla in connection with the debenture conversions in the aggregate amount of \$40,000, La Jolla shall wire \$275,000 to us as a prepayment towards the exercise of its warrant and shall submit a debenture conversion in the amount of \$6,250 on the first business day of each month until the debenture is no longer outstanding.

LaJolla has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does exceed 4.9% of the then issued and outstanding shares of common stock.

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

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Note H - Convertible Debenture - continued

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 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.

On various dates between January 1, 2004 and December 31, 2004, the Debenture Holder elected to convert an aggregate \$125,000, through 6 separate transactions, in outstanding Debenture principal into registered common stock. This election caused the Company to issue 4,150,000 shares of 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 1,250,000 shares of the Company's common stock for gross proceeds of \$1,250,000. As of December 31, 2004, an aggregate of 1,000,000 shares of the Company's common stock have been issued by the Company and are being held in escrow by the Company's counsel pending receipt of the final \$150,000 from the Debenture Holder.

Note I - Preferred Stock Transactions

Preferred stock consists of the following as of December 31, 2004 and 2003, respectively:

| | December 31, 2004 | | December 31, 2003 | |
|--|-------------------|------------|-------------------|------------|
| | # shares | value | # shares | value |
| Series A | | | | |
| Cumulative Convertible Preferred Stock | 12,000 | \$ 60,000 | 12,000 | \$ 60,000 |
| Series B | | | | |
| Cumulative Convertible Preferred Stock | 91,700 | 458,500 | 91,700 | 458,500 |
| Series C | | | | |
| Convertible Preferred Stock | 1,905,882 | 324,000 | - | - |
| | 2,009,582 | \$ 842,500 | 103,700 | \$ 518,500 |

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note I - Preferred Stock Transactions - Continued

SERIES A CONVERTIBLE PREFERRED STOCK

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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note I - Preferred Stock Transactions - Continued

SERIES A CONVERTIBLE PREFERRED 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.

SERIES B CONVERTIBLE PREFERRED 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.

SERIES C CONVERTIBLE PREFERRED STOCK

In November 2004, the Company sold 1,905,882 shares of Series C Convertible Preferred Stock to an existing shareholder and officer of the Company in a private transaction pursuant to Section (4)2 of the Securities Act of 1933 for gross proceeds of approximately \$324,000. No underwriter was used in conjunction with this transaction.

The Series C Convertible Preferred Stock provides for dividends at a rate of 4.0% per annum, to be declared and paid monthly in either cash or stock at the discretion of the Company.

Each share of Series C Preferred Stock is convertible at a rate of \$0.18 per share into 1,800,000 shares of the Company's common stock at any time at the option of the holder, subject to adjustments for customary anti-dilution events.

Note K - Common Stock Transactions

Calendar 2003 transactions

During the period from March 19, 2003 through December 31, 2003, the Company issued an aggregate 4,561,753 shares of common stock, in 24 separate transactions, in exchange for the redemption of approximately \$208,635 in outstanding debenture balance and approximately \$2,086,350 in cash from the exercise of the affiliated warrant. Where the closing price of the Company's

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Note K - Common Stock Transactions - Continued

Calendar 2003 transactions

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 \$882,291 during this time period.

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 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.

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.

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.

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Note K - Common Stock Transactions - Continued

Calendar 2004 transactions

During the period from February 13, 2004 through June 4, 2004, the Company issued an aggregate 4,150,000 shares of common stock, in 5 separate transactions, in exchange for the redemption of approximately \$125,000 in outstanding debenture balance and approximately \$1,250,000 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 \$356,000 during this time period.

Additionally, on June 29, 2004, the Company issued an additional 1,000,000 shares of common stock in advance of the exercise of a \$25,000 redemption on the outstanding debenture payable and a \$250,000 cash payment on the exercise of the affiliated warrant. As of December 31, 2004, the Company has received \$100,000 in cash on the warrant exercise and has not applied the debt reduction portion of this transaction.

In January 2004, the Company issued 38,038 shares of restricted, unregistered common stock in payment of approximately \$10,000 in accrued dividends payable on the Company's outstanding Series A and Series B Preferred Stock for the quarter ended December 31, 2003. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

In May 2004, the Company issued 25,260 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended March 31, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

On May 26, 2004, the Company issued 300,000 shares of restricted, unregistered common stock to two separate corporations in payment and full satisfaction of all amounts due for fees and/or commissions due in conjunction with the

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note K - Common Stock Transactions - Continued

Calendar 2004 transactions

Company's convertible debenture financing transaction. This transaction was valued at approximately \$36,000, which was less than the closing price on the

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date of the respective transaction resulted in a charge to operations of approximately \$24,000. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

In August 2004, the Company issued 29,746 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended June 30, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

On October 19, 2004, the Company issued 1,111,112 shares of restricted, unregistered common stock to acquire certain assets valued at an aggregate \$500,000. The assets consist principally of equipment (approximately \$134,000), inventory (approximately \$89,500) and patents and a covenant not-to-compete (approximately \$276,500).

In November 2004, the Company issued 53,908 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended June 30, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

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 \$5,735, including applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on December 1, 2009 and contains a clause that upon expiration, the Company and the controlling shareholder shall renegotiate the annual rental amount.

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,

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note L - Rental Commitments - Continued

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, 2004 and 2003.

In May 2004, the Company entered into a long-term lease agreement for a

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warehouse facility adjacent to the Company's primary office and manufacturing facility. This lease is for a period of two (2) years and requires payments of approximately \$6,206 per month for the first 12 months and approximately \$6,393 for the second 12 months, plus applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. This lease expires on May 31, 2006. Further, the Company is responsible for any incremental real estate taxes and property insurance in excess of the amounts incurred by the landlord for the calendar year immediately preceding the execution of the lease.

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

| Year ended December 31, | Amount |
|----------------------------|------------|
| 2005 | \$ 166,974 |
| 2006 | 117,244 |
| 2007 | 72,643 |
| 2008 | 68,815 |
| 2007 | 68,815 |
| Totals | \$ 494,491 |

For the respective years ended December 31, 2004, the Company paid an aggregate of \$131,804 and \$87,826 for rent under these agreements.

Note M - Income Taxes

The components of income tax (benefit) expense for the years ended December 31, 2004 and 2003, respectively, are as follows:

| | Year ended December 31, 2004 | Year ended December 31, 2003 |
|----------|------------------------------------|------------------------------------|
| Federal: | | |
| Current | \$ - | \$ - |
| Deferred | - | - |
| | - | - |
| State: | | |
| Current | - | - |
| Deferred | - | - |
| | - | - |
| Total | \$ - | \$ - |

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As of December 31, 2004, the Company has a net operating loss carryforward of approximately \$7,850,000 to offset future taxable income. Subject to current regulations, components of this carryforward will begin to expire in 2003. The amount and availability of the net operating loss carryforwards may be subject to limitations set forth by the Internal Revenue Code. Factors such as the number of shares ultimately issued within a three year look-back period; whether there is a deemed more than 50 percent change in control; the applicable long-term tax exempt bond rate; continuity of historical business; and subsequent income of the Company all enter into the annual computation of allowable annual utilization of the carryforwards.

The Company's income tax expense (benefit) for the years ended December 31, 2004 and 2003, respectively, differed from the statutory federal rate of 34 percent as follows:

| | Year ended December 31, 2004 | Year ended December 31, 2003 |
|---|------------------------------------|------------------------------------|
| | | |
| Statutory rate applied to loss before income taxes | \$ (1,128,000) | \$ (999,000) |
| Increase (decrease) in income taxes resulting from: | | |
| State income taxes | - | - |
| Other, including reserve for deferred tax asset | 1,128,000 | 999,000 |
| | | |
| Income tax expense | \$ - | \$ - |
| | ===== | ===== |

Temporary differences, consisting primarily of the net operating loss carryforward and 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, 2004 and 2003, respectively:

| | Year ended December 31, 2004 | Year ended December 31, 2003 |
|--------------------------------------|------------------------------------|------------------------------------|
| | | |
| Deferred tax assets - long-term | | |
| Net operating loss carryforwards | \$ 2,669,000 | \$ 2,900,000 |
| Deferred tax liabilities - long-term | | |
| Statutory depreciation differences | (690,000) | (250,000) |
| | | |
| Less valuation allowance | 1,979,000 (1,979,000) | 2,650,000 (2,650,000) |
| | | |
| Net Deferred Tax Asset | \$ - | \$ - |
| | ===== | ===== |

During the years ended December 31, 2004 and 2003, respectively, the valuation allowance increased (decreased) by approximately \$(671,000) and \$656,000.

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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, 2004 | | Year ended December 31, 2003 | |
|--------------|---------------------------------|------------|---------------------------------|------------|
| | Amount | % of total | Amount | % of total |
| Domestic | | | | |
| Commercial | | | | |
| Customer A | \$ - | - | \$ 524,210 | 24.96 |
| Customer B | - | - | 463,423 | 22.07 |
| Customer C | - | - | 188,546 | 8.98 |
| Others | 1,827,104 | 56.26 | 348,022 | 16.58 |
| | 1,827,104 | 56.26 | 1,524,201 | 72.59 |
| Governmental | | | | |
| Customer D | - | - | 421,290 | 20.06 |
| Customer E | 698,976 | 21.52 | - | - |
| Others | 8,905 | 0.28 | 23,663 | 1.12 |
| | 707,881 | 21.80 | 444,953 | 21.18 |
| Foreign | | | | |
| Governmental | | | | |
| Customer F | 684,340 | 21.07 | - | - |
| Others | 28,043 | 0.87 | 130,710 | 6.23 |
| | 712,383 | 21.94 | 130,710 | 6.23 |
| Totals | \$3,247,368 | 100.00 | \$2,099,864 | 100.00 |

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note O - Selected Financial Data (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2004 and 2003, respectively.

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| | Quarter ended March 31, | Quarter ended June 30, | Quarter ended September 30, | Quarter ended December 31, | Y D |
|--|----------------------------|---------------------------|--------------------------------|-------------------------------|--------|
| Calendar 2004 | | | | | |
| Revenues - net | \$ 281,507 | \$ 568,785 | \$ 861,988 | \$ 1,535,088 | \$ |
| Gross profit | \$ (423,626) | \$ (676,300) | \$ 377,181 | \$ (650,553) | \$ |
| Net earnings after provision for income taxes | \$ (1,188,358) | \$ (1,155,307) | \$ 9,552 | \$ (983,960) | \$ |
| Basic and fully diluted earnings per share | \$ (0.02) | \$ (0.02) | \$ 0.00 | \$ (0.01) | \$ |
| Weighted average number of shares issued and outstanding | 67,769,150 | 71,148,043 | 73,673,416 | 74,616,136 | |
| 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 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 | |

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American Ammunition, Inc. and Subsidiaries
 Consolidated Balance Sheets
 March 31, 2005 and 2004

(Unaudited)

| | March 31, 2005 | M |
|--|--------------------------|-----|
| | ----- | --- |
| ASSETS | | |
| Current Assets | | |
| Cash on hand and in bank | \$ 377,922 | \$ |
| Accounts receivable - trade, net of allowance for doubtful accounts of \$-0- and \$-0-, respectively | 289,559 | |
| Inventory | 857,552 | |
| Prepaid expenses | 59,497 | |
| | ----- | --- |
| Total Current Assets | 1,584,530 | |
| | ----- | --- |
| Property and Equipment - at cost | | |
| Manufacturing equipment | 8,006,483 | |
| Office furniture and fixtures | 69,889 | |
| Leasehold improvements | 190,277 | |
| | ----- | --- |
| Accumulated depreciation | 8,266,649 (4,990,261) | (|
| | ----- | --- |
| Net Property and Equipment | 3,276,388 | |
| | ----- | --- |
| Other Assets | | |
| Patents, Trademarks and Noncompetition agreement, net of accumulated amortization of approximately \$22,974 | 252,716 | |
| Deposits and other | 83,660 | |
| | ----- | --- |
| Total other assets | 336,376 | |
| | ----- | --- |
| TOTAL ASSETS | \$ 5,197,294 | \$ |
| | ===== | === |

- 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. and Subsidiaries
 Consolidated Balance Sheets - Continued
 March 31, 2005 and 2004

(Unaudited)

| | March 31, 2005 | M |
|--|-------------------|-------|
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Current maturities of leases payable | \$ - | \$ |
| Customer deposits | 440,906 | |
| Accounts payable - trade | 693,980 | |
| Accrued salaries and wages payable | 166,492 | |
| Accrued interest expense | 15,000 | |
| Accrued dividends payable | 29,509 | |
| | ----- | ----- |
| Total Current Liabilities | 1,345,887 | |
| Long-Term Liabilities | - | |
| | ----- | ----- |
| Total Liabilities | 1,345,887 | |
| | ----- | ----- |
| Commitments and Contingencies | | |
| Convertible Debenture | 266,365 | |
| | ----- | ----- |
| Stockholders' Equity | | |
| Preferred stock - \$0.001 par value | | |
| 20,000,000 shares authorized. | | |
| 1,795,320 shares allocated to Series A | | |
| 91,700 shares allocated to Series B | | |
| 1,905,882 shares allocated to Series C | 2,010 | |
| Common stock - \$0.001 par value. | | |
| 300,000,000 shares authorized. | | |
| 74,851,691 and 69,331,666 shares | | |
| issued and outstanding, respectively | 74,852 | |
| Additional paid-in capital | 24,472,709 | 2 |
| Accumulated deficit | (20,789,529) | (1 |
| | ----- | ----- |
| Stock subscription receivable | 3,760,042 | |
| | (175,000) | |
| | ----- | ----- |
| Total Stockholders' Equity | 3,585,042 | |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 5,197,294 | \$ |
| | ===== | ===== |

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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. and Subsidiaries Consolidated Statements of Operations and Comprehensive Loss Three months ended March 31, 2005 and 2004

(Unaudited)

| | Three months ended March 31, 2005 | T M |
|--|---|--------|
| | ----- | ----- |
| Revenues - net of returns and allowances | \$ 1,170,317 | \$ |
| | ----- | ----- |
| Cost of Sales | | |
| Materials, Direct Labor and other direct costs | 1,349,331 | |
| Depreciation | 187,249 | |
| | ----- | |
| Total Cost of Sales | 1,536,580 | |
| | ----- | |
| Gross Profit | (366,263) | |
| | ----- | |
| Operating Expenses | | |
| Research and development expenses | 1,732 | |
| Marketing and selling expenses | 81,106 | |
| Other operating expenses | 319,561 | |
| Bad debt expense | - | |
| Interest expense | 6,520 | |
| Depreciation expense | 1,317 | |
| Amortization expense | 13,785 | |
| Compensation expense related to issuances of common stock at less than "fair value" | - | |
| | ----- | |
| Total Operating Expenses | 424,021 | |
| | ----- | |
| Loss from Operations | (790,284) | |
| | ----- | |
| Other Income (Expense) | 4,240 | |
| | ----- | |
| Loss before Income Taxes | (786,044) | |
| | ----- | |
| Provision for Income Taxes | - | |
| | ----- | |
| Net Loss | (786,044) | |

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| | |
|---|-----------------|
| Other Comprehensive Income | - |
| | ----- |
| Comprehensive Loss | \$ (786,044) \$ |
| | ===== |
| Loss per weighted-average share of common stock outstanding, computed on net loss - basic and fully diluted | \$ (0.01) \$ |
| | ===== |
| Weighted-average number of common shares outstanding | 74,851,691 |
| | ===== |

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. and Subsidiaries
Consolidated Statements of Cash Flows
Three months ended March 31, 2005 and 2004

(Unaudited)

| | Three months ended March 31, 2005 |
|---|---|
| | ----- |
| Cash flows from operating activities | |
| Net loss for the period | \$ (786,045) \$ |
| Adjustments to reconcile net loss to net cash provided by operating activities | |
| Depreciation and amortization | 202,351 |
| Bad debt expense | - |
| Compensation expense related to issuance of common stock at less than "fair value" | - |
| (Increase) Decrease in | |
| Accounts receivable | 349,885 |
| Inventory | 54,872 |
| Prepaid expenses, deposits and other | (651) |
| Increase (Decrease) in | |
| Accounts payable - trade | (242,906) |
| Other accrued expenses | 30,522 |
| | ----- |

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| | | |
|--|------------|-------|
| Net cash (used in) operating activities | (391,972) | |
| | ----- | |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (35,571) | |
| | ----- | |
| Net cash (used in) investing activities | (35,571) | |
| | ----- | |
| Cash flows from financing activities | | |
| Principal paid on long-term capital leases | - | |
| Cash received from sale of common stock and warrant exercise | - | |
| | ----- | |
| Net cash provided by financing activities | - | |
| | ----- | |
| Increase (Decrease) in Cash | (427,543) | |
| Cash at beginning of period | 805,465 | |
| | ----- | |
| Cash at end of period | \$ 377,922 | \$ |
| | ===== | ===== |
| Supplemental disclosure of interest and income taxes paid | | |
| Interest paid for the period | \$ 6,520 | \$ |
| | ===== | ===== |
| Income taxes paid for the period | \$ - | \$ |
| | ===== | ===== |
| Supplemental disclosure of non-cash investing and financing activities | | |
| Conversion of convertible debenture into common stock | \$ - | \$ |
| | ===== | ===== |

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. and Subsidiaries
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 accordance with the Laws of the State of California. The Company functions as a holding company providing management oversight services to it's wholly-owned operating subsidiaries; F&F Equipment, Inc. and Industrial Plating Enterprise Co.

F&F Equipment, Inc.(F&F) was incorporated on October 4, 1983 in accordance with

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the Laws of the State of Florida. F&F is engaged in the design, manufacture and international sales of small arms ammunition. F&F has conducted its business operations under the assumed name of "American Ammunition" since its inception.

Industrial Plating Enterprise Co. (IPE), which was incorporated and commenced 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 small arms 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. All activities of IPE since its inception have been dedicated to the needs and demands of F&F.

Note B - Preparation of Financial Statements

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.

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".

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American Ammunition Inc. and Subsidiaries
Notes to Consolidated Financial Statements - Continued

Note C - Summary of Significant Accounting Policies

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1. Cash and cash equivalents

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

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

2. Accounts receivable and Revenue Recognition

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

The Company ships all product on an FOB-Plant, "as-is" 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 and the Company has no remaining performance obligations related to the sale. The Company sells all products with "no right of return" by the purchaser for any factor other than defects in the product's production.

On rare occasion, the Company may elect to accept product returns from customers on a case-by-case basis to offset unpaid accounts receivable. These situations are a "last case" scenario and are initiated by senior management through negotiations with the respective customer.

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 March 31, 2005 and 2004, 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.

American Ammunition Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

Note C - Summary of Significant Accounting Policies - Continued

5. Income Taxes - continued

As of March 31, 2005 and 2004, 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 at the end of 2005.

6. Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted-average number of common shares outstanding during the respective period presented in our accompanying financial statements.

Fully diluted earnings (loss) per share is computed similar to basic income (loss) per share except that the denominator is increased to include the number of 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, at either the beginning of the respective period presented or the date of issuance, whichever is later, and only if the common stock equivalents are considered dilutive based upon the Company's net income (loss) position at the calculation date.

As of March 31, 2005 and 2004, 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.

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

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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 single financial institutions subject to insurance coverage issued by the Federal Deposit Insurance Corporation (FDIC). Under FDIC rules, the Company and its subsidiaries are entitled to aggregate coverage of \$100,000 per account type per separate legal entity per financial institution.

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American Ammunition Inc. and Subsidiaries
Notes to Consolidated Financial Statements - Continued

Note E - Concentrations of Credit Risk - Continued

During the period ended March 31, 2005 and the periods subsequent thereto, respectively, the various operating companies maintained deposits in this financial institution with credit risk exposures in excess of statutory FDIC coverage. The Company incurred no losses during 2003 and 2004, and subsequent thereto, as a result of any of these unsecured situations.

Note F - Inventory

As of March 31, 2005 and 2004, inventory consisted of the following components:

| | March 31, 2005 | March 31, 2004 |
|-----------------|-------------------|-------------------|
| | ----- | ----- |
| Raw materials | \$ 596,548 | \$ 428,611 |
| Work in process | 177,862 | 419,236 |
| Finished goods | 83,142 | 497,739 |
| | ----- | ----- |
| Totals | \$ 857,552 | \$1,345,586 |
| | ===== | ===== |

Note G - Property and Equipment

Property and equipment consist of the following components:

| | March 31, 2005 | March 31, 2004 | Estimated useful life |
|--|-------------------|-------------------|--------------------------|
| | ----- | ----- | |
| | | | |

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| | | | |
|-------------------------------|--------------|--------------|------------|
| Manufacturing equipment | \$ 8,006,483 | \$ 7,416,352 | 3-10 years |
| Office furniture and fixtures | 69,889 | 77,381 | 3- 7 years |
| Leasehold improvements | 190,277 | 187,397 | 8-20 years |
| | ----- | ----- | |
| | 8,266,649 | 7,681,130 | |
| Accumulated depreciation | (4,990,261) | (4,241,372) | |
| | ----- | ----- | |
| Net property and equipment | \$ 3,276,388 | \$ 3,439,758 | |
| | ===== | ===== | |

Total depreciation expense charged to operations for the three months ended March 31, 2005 and 2004 was approximately \$188,566 and \$171,982, respectively.

(Remainder of this page left blank intentionally)

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American Ammunition, Inc. and Subsidiaries
Notes to Consolidated Financial Statements - Continued

Note H- Capital Leases Payable

Capital leases payable consist of the following as of March 31, 2005 and 2004, respectively:

| | March 31, 2004 | March 31, 2003 |
|--|-------------------|-------------------|
| | ----- | ----- |
| 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. Final maturities occur between September 2004 and December 2004. Collateralized the underlying leased manufacturing equipment. | \$ - | \$ 4,905 |
| Less current maturities | - | (4,905) |
| | ----- | ----- |

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Long-term portion \$ -
===== \$ -
=====

Note I - Convertible Debenture

The Company entered into a Securities Purchase Agreement with La Jolla Cove Investors, Inc. ("La Jolla") on October 4, 2002 for the sale of (i) \$250,000 in convertible debentures and (ii) warrants to buy 30,000,000 shares of our common stock. On March 13, 2003 and May 6, 2003, La Jolla advanced an aggregate of \$350,000 to our company which such funding was allocated towards the principal balance of our convertible debentures.

As of March 31, 2005, the outstanding balance on the convertible debenture is approximately \$266,365 and we have approximately 2,663,650 warrants outstanding. A recap of the debenture activity is as follows:

| | Debenture (in dollars) | Warrant (in shares) |
|---|---------------------------|------------------------|
| | ----- | ----- |
| Initial amount | \$ 600,000 | 6,000,000 |
| 2003 redemptions | (208,635) | (2,086,350) |
| 2004 redemptions | (125,000) | (1,250,000) |
| | ----- | ----- |
| Balances outstanding at March 31, 2005 | \$ 266,365 ===== | 2,633,650 ===== |

The debentures bear interest at 8%, mature on June 30, 2006, and are convertible into our common stock, at the selling stockholder's option. The convertible debentures are convertible into the number of our shares of common stock equal to the principal amount of the debentures being converted multiplied by 11, less the product of the conversion price multiplied by 10 times the dollar amount of the debenture. The conversion price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the five lowest volume weighted average prices during the twenty (20) trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. However, in the event that our market price is less than \$.30, we will have the option to prepay the debenture at 125% rather than have the debenture converted. In addition, the selling stockholder is obligated to exercise the warrant concurrently with the submission of a conversion notice by the selling stockholder. As of March 31, 2005, the warrant is exercisable into 2,663,650 shares of common stock at an exercise price of \$1.00 per share.

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American Ammunition, Inc. and Subsidiaries
Notes to Consolidated Financial Statements - Continued

Note I - Convertible Debenture - Continued

In December 2004, the Company entered into an addendum to the convertible

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debenture and warrant whereby the Company agreed to the following:

- * the discount multiplier was reduced from eighty percent to seventy six percent;
- * within five business days after this registration statement being declared effective, La Jolla is required to submit a debenture conversion in the amount of \$10,000 and every ten business days thereafter La Jolla shall submit three additional debenture conversion in the amount of \$10,000 each;
- * within five business days after this registration statement being declared effective, La Jolla shall wire \$400,000 to us as a prepayment towards the exercise of its warrant; and
- * immediately following the sale of all shares held by La Jolla in connection with the debenture conversions in the aggregate amount of \$40,000, La Jolla shall wire \$275,000 to us as a prepayment towards the exercise of its warrant and shall submit a debenture conversion in the amount of \$6,250 on the first business day of each month until the debenture is no longer outstanding.

LaJolla has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does exceed 4.9% of the then issued and outstanding shares of common stock.

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 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.

On various dates between January 1, 2004 and December 31, 2004, the Debenture Holder elected to convert an aggregate \$125,000, through 6 separate transactions, in outstanding Debenture principal into registered common stock. This election caused the Company to issue 4,150,000 shares of 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 1,250,000 shares of the Company's common stock for gross proceeds of \$1,250,000. As of December 31, 2004, an aggregate of 1,000,000 shares of the Company's common stock have been issued by the Company and are being held in escrow by the Company's counsel pending receipt of the final \$150,000 from the Debenture Holder.

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American Ammunition, Inc. and Subsidiaries
Notes to Consolidated Financial Statements - Continued

Note J - Preferred Stock Transactions

Preferred stock consists of the following as of March 31, 2005 and 2004, respectively:

| | March 31, 2005 | | March 31, 2004 | |
|-----------------------------|----------------|------------|----------------|------------|
| | # shares | value | # shares | value |
| Series A Cumulative | | | | |
| Convertible Preferred Stock | 12,000 | \$ 60,000 | 12,000 | \$ 60,000 |
| Series B Cumulative | | | | |
| Convertible Preferred Stock | 91,700 | 458,500 | 91,700 | 458,500 |
| Series C Convertible | | | | |
| Preferred Stock | 1,905,882 | 324,000 | - | - |
| | ----- | ----- | ----- | ----- |
| | 2,009,582 | \$ 842,500 | 103,700 | \$ 518,500 |
| | ===== | ===== | ===== | ===== |

Series A Convertible Preferred Stock

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

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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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American Ammunition, Inc. and Subsidiaries Notes to Consolidated Financial Statements - Continued

Note J - Preferred Stock Transactions - Continued

Series B Convertible Preferred 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.

Series C Convertible Preferred Stock

In November 2004, the Company sold 1,905,882 shares of Series C Convertible Preferred Stock to an existing shareholder and officer of the Company in a private transaction pursuant to Section (4)2 of the Securities Act of 1933 for gross proceeds of approximately \$324,000. No underwriter was used in conjunction with this transaction.

The Series C Convertible Preferred Stock provides for dividends at a rate of 4.0% per annum, to be declared and paid monthly in either cash or stock at the discretion of the Company.

Each share of Series C Preferred Stock is convertible at a rate of \$0.18 per share into 1,800,000 shares of the Company's common stock at any time at the option of the holder, subject to adjustments for customary anti-dilution events.

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Note K - Common Stock Transactions

Calendar 2003 transactions

During the period from March 19, 2003 through December 31, 2003, the Company issued an aggregate 4,561,753 shares of common stock, in 24 separate transactions, in exchange for the redemption of approximately \$208,635 in outstanding debenture balance and approximately \$2,086,350 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 \$882,291 during this time period.

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.

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American Ammunition, Inc. and Subsidiaries
Notes to Consolidated Financial Statements - Continued

Note K - Common Stock Transactions - Continued

Calendar 2003 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 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.

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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.

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.

Calendar 2004 transactions

During the period from February 13, 2004 through June 4, 2004, the Company issued an aggregate 4,150,000 shares of common stock, in 5 separate transactions, in exchange for the redemption of approximately \$125,000 in outstanding debenture balance and approximately \$1,250,000 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 \$356,000 during this time period.

Additionally, on June 29, 2004, the Company issued an additional 1,000,000 shares of common stock in advance of the exercise of a \$25,000 redemption on the outstanding debenture payable and a \$250,000 cash payment on the exercise of the affiliated warrant. As of December 31, 2004, the Company has received \$100,000 in cash on the warrant exercise and has not applied the debt reduction portion of this transaction.

In January 2004, the Company issued 38,038 shares of restricted, unregistered common stock in payment of approximately \$10,000 in accrued dividends payable on the Company's outstanding Series A and Series B Preferred Stock for the quarter ended December 31, 2003. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

In May 2004, the Company issued 25,260 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended March 31, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

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Note K - Common Stock Transactions - Continued

Calendar 2004 transactions - Continued

On May 26, 2004, the Company issued 300,000 shares of restricted, unregistered common stock to two separate corporations in payment and full satisfaction of all amounts due for fees and/or commissions due in conjunction with the Company's convertible debenture financing transaction. This transaction was valued at approximately \$36,000, which was less than the closing price on the date of the respective transaction resulted in a charge to operations of approximately \$24,000. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

In August 2004, the Company issued 29,746 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended June 30, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

On October 19, 2004, the Company issued 1,111,112 shares of restricted, unregistered common stock to acquire certain assets valued at an aggregate \$500,000. The assets consist principally of equipment (approximately \$134,000), inventory (approximately \$89,500) and patents and a covenant not-to-compete (approximately \$276,500).

In November 2004, the Company issued 53,908 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended June 30, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

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 \$5,735, including applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on December 1, 2009 and contains a clause that upon expiration, the Company and the controlling shareholder shall renegotiate the annual rental amount.

The Company's subsidiary, IPE, leases it's 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, 2004 and 2003.

In May 2004, the Company entered into a long-term lease agreement for a warehouse facility adjacent to the Company's primary office and manufacturing facility. This lease is for a period of two (2) years and requires payments of approximately \$6,206 per month for the first 12 months and approximately \$6,393 for the second 12 months, plus applicable sales taxes. The Company is

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responsible for all utilities and maintenance expenses. This lease expires on May 31, 2006. Further, the Company is responsible for any incremental real estate taxes and property insurance in excess of the amounts incurred by the landlord for the calendar year immediately preceding the execution of the lease.

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American Ammunition, Inc. and Subsidiaries
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 |
|----------------------------|------------|
| ----- | ----- |
| 2005 | \$ 166,974 |
| 2006 | 117,244 |
| 2007 | 72,643 |
| 2008 | 68,815 |
| 2007 | 68,815 |
| | ----- |
| Totals | \$ 494,491 |
| | ===== |

For the respective years ended December 31, 2004, the Company paid an aggregate of \$131,804 and \$87,826 for rent under these agreements.

Note M - Income Taxes

The components of income tax (benefit) expense for the respective three month periods ended March 31, 2005 and 2004 are as follows:

| | Three months ended March 31, 2005 | Three months ended March 31, 2004 |
|----------|---|---|
| | ----- | ----- |
| Federal: | | |
| Current | \$ - | \$ - |
| Deferred | - | - |
| | ----- | ----- |
| | - | - |
| | ----- | ----- |
| State: | | |
| Current | - | - |
| Deferred | - | - |
| | ----- | ----- |
| | - | - |
| | ----- | ----- |
| Total | \$ - | \$ - |
| | ===== | ===== |

As of December 31, 2004, the Company has a net operating loss carryforward of

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approximately \$8,100,000 to offset future taxable income. Subject to current regulations, components of this carryforward began to expire at the end of Calendar 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, 2005 and 2004, respectively, differed from the statutory federal rate of 34 percent as follows:

| | Three months ended March 31, 2005 | Three months ended March 31, 2004 |
|--|---|---|
| | ----- | ----- |
| Statutory rate applied to loss before income taxes | \$ (267,000) | \$ (295,000) |
| Increase (decrease) in income taxes resulting from: | | |
| State income taxes | - | - |
| Other, including reserve for deferred tax asset | 267,000 | 295,000 |
| | ----- | ----- |
| Income tax expense | \$ - | \$ - |
| | ===== | ===== |

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American Ammunition, Inc. and Subsidiaries

Notes to Consolidated Financial Statements - Continued

Note O - Income Taxes - Continued

Temporary differences, consisting primarily of the net operating loss carryforward and 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, 2004 and 2003, respectively:

| | December 31, 2004 | December 31, 2003 |
|--------------------------------------|----------------------|----------------------|
| | ----- | ----- |
| Deferred tax assets - long-term | | |
| Net operating loss carryforwards | \$ 2,669,000 | \$ 2,900,000 |
| Deferred tax liabilities - long-term | | |
| Statutory depreciation differences | (690,000) | (250,000) |
| | ----- | ----- |

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| | | |
|--------------------------|-------------|-------------|
| | 1,979,000 | 2,650,000 |
| Less valuation allowance | (1,979,000) | (2,650,000) |
| | ----- | ----- |
| Net Deferred Tax Asset | \$ - | \$ - |
| | ===== | ===== |

During the years ended December 31, 2004 and 2003, respectively, the valuation allowance increased (decreased) by approximately \$(671,000) and \$656,000.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Under California law, a corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any proceeding (other than an action by or in the right of the corporation to procure a judgment in its favor) by reason of the fact that the person is or was an agent of the corporation, against expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with the proceeding if that person acted in good faith and in a manner the person reasonably believed to be in the best interests of the corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of the person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of the corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

Further under California law, corporation shall have power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was an agent of the corporation, against expenses actually and reasonably incurred by that person in connection with the defense or settlement of the action if the person acted in good faith, in a manner the person believed to be in the best interests of the corporation and its shareholders.

However, no indemnification shall be made for any of the following:

(1) In respect of any claim, issue or matter as to which the person shall have been adjudged to be liable to the corporation in the performance of that

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person's duty to the corporation and its shareholders, unless and only to the extent that the court in which the proceeding is or was pending shall determine upon application that, in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for expenses and then only to the extent that the court shall determine;

(2) Of amounts paid in settling or otherwise disposing of a pending action without court approval; or

(3) Of expenses incurred in defending a pending action which is settled or otherwise disposed of without court approval.

To the extent that an agent of a corporation has been successful on the merits in defense of any proceeding referred to above or in defense of any claim, issue, or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

However, any indemnification shall be made by the corporation only if authorized in the specific case, upon a determination that indemnification of the agent is

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proper in the circumstances because the agent has met the applicable standard of conduct set out in the statute by any of the following:

(1) A majority vote of a quorum consisting of directors who are not parties to such proceeding;

(2) If such a quorum of directors is not obtainable, by independent legal counsel in a written opinion;

(3) Approval of the shareholders (Section 153), with the shares owned by the person to be indemnified not being entitled to vote thereon; or

(4) The court in which the proceeding is or was pending upon application made by the corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not the application by the agent, attorney or other person is opposed by the corporation.

Expenses incurred in defending any proceeding may be advanced by the corporation prior to the final disposition of the proceeding upon receipt of an undertaking by or on behalf of the agent to repay that amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this section. The provisions of subdivision (a) of Section 315 do not apply to advances made pursuant to this subdivision.

The indemnification authorized by this section is not exclusive of any additional rights to indemnification for breach of duty to the corporation and its shareholders while acting in the capacity of a director or officer of the corporation to the extent the additional rights to indemnification are authorized in an article provision adopted pursuant to paragraph (11) of subdivision (a) of Section 204. The indemnification provided by this section for acts, omissions, or transactions while acting in the capacity of, or while serving as, a director or officer of the corporation but not involving breach of duty to the corporation and its shareholders is not exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, to the

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extent the additional rights to indemnification are authorized in the articles of the corporation. An article provision authorizing indemnification "in excess of that otherwise permitted by Section 317" or "to the fullest extent permissible under California law" or the substantial equivalent thereof shall be construed to be both a provision for additional indemnification for breach of duty to the corporation and its shareholders as referred to in, and with the limitations required by, paragraph (11) of subdivision (a) of Section 204 and a provision for additional indemnification as referred to in the second sentence of this subdivision. The rights to indemnity hereunder shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person. Nothing contained in this section shall affect any right to indemnification to which persons other than the directors and officers may be entitled by contract or otherwise.

No indemnification or advance shall be made under this section in any circumstance where it appears:

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(1) That it would be inconsistent with a provision of the articles, bylaws, a resolution of the shareholders, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification.

(2) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

A corporation shall have power to purchase and maintain insurance on behalf of any agent of the corporation against any liability asserted against or incurred by the agent in that capacity or arising out of the agent's status as such whether or not the corporation would have the power to indemnify the agent against that liability under this section. The fact that a corporation owns all or a portion of the shares of the company issuing a policy of insurance shall not render this subdivision inapplicable if either of the following conditions are satisfied:

(1) if the articles authorize indemnification in excess of that authorized in this section and the insurance provided by this subdivision is limited as indemnification is required to be limited by paragraph (11) of subdivision (a) of Section 204; or

(2) (A) the company issuing the insurance policy is organized, licensed, and operated in a manner that complies with the insurance laws and regulations applicable to its jurisdiction of organization,

(B) the company issuing the policy provides procedures for processing claims that do not permit that company to be subject to the direct control of the corporation that purchased that policy, and

(C) the policy issued provides for some manner of risk sharing between the issuer and purchaser of the policy, on one hand, and some unaffiliated person or persons, on the other, such as by providing for more than one unaffiliated owner of the company issuing the policy or by providing that a portion of the coverage furnished will be obtained from some unaffiliated insurer or reinsurer.

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This section does not apply to any proceeding against any trustee, investment manager, or other fiduciary of an employee benefit plan in that person's capacity as such, even though the person may also be an agent as defined in subdivision (a) of the employer corporation. A corporation shall have power to indemnify such a trustee, investment manager, or other fiduciary to the extent permitted by subdivision (f) of Section 207.

The Company's Articles of Incorporation and Bylaws require the Company to indemnify its directors to the fullest extent permitted by California law. The specific provisions of the Articles of Incorporation of the Registrant with respect to the indemnification of directors and officers are as follows:

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"FOURTH: The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law."

The specific provisions of the Bylaws of the Registrant with respect to the indemnification of directors and officers are as follows:

ARTICLE XI INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Corporation shall indemnify each of its directors and officers who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and with respect to any criminal action or proceeding had no reasonable cause to believe his conduct was unlawful.

Except as provided hereinbelow, any such indemnification shall be made by the Corporation only as authorized in the specific case upon determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth above. Such determination shall be made: (a) by the Board of Directors by a majority vote of a quorum of directors; or (b) by the shareholders.

Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action or proceeding if authorized by the Board of Directors and upon receipt of an undertaking by or on behalf of the director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation.

To the extent that a director or officer has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to above, or in defense of any claim issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith without any further determination that he has met the applicable standard of conduct set forth above."

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Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act" or "Securities Act") may be permitted to directors, officers or persons controlling American Ammunition pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

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ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth an itemization of all estimated expenses, all of which we will pay, in connection with the issuance and distribution of the securities being registered:

| NATURE OF EXPENSE | AMOUNT |
|------------------------------|---------------|
| SEC Registration fee | \$ 1,158.34 |
| Accounting fees and expenses | 10,000.00* |
| Legal fees and expenses | 35,000.00* |
| Miscellaneous | 5,000.00 |
| | ----- |
| TOTAL | \$ 51,158.34* |
| | ===== |

* Estimated.

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

Within the past three years, the Company sold securities without registration under the Securities Act of 1933, as amended (the "Act") as follows:

| SECURITIES SOLD | NAMES OF INVESTORS | CONSIDERATION RECEIVED | EXEMPTION FROM REGISTRATION |
|---|---|------------------------|---|
| ----- | ----- | ----- | ----- |
| 1,810,000 shares of Common Stock | Three (3) individuals (1) | \$ 1,810 | Section 4(2) of t |
| 140,000 shares of Common Stock | Two (2) individuals (2) | \$ 140 | Section 4(2) of t |
| 124,400 (pre-acquisition) 916,000 (post acquisition) Common stock | See footnote (3) | \$ 125 \$ 916 | Section 4(2) of t Section 4(2) of t |
| 21,000,000 Shares of Common Stock | Nineteen (19) individuals pursuant to Share Exchange (4) | \$ 3,998,650 | Section 4(2) of t and Regulation D, 506 |
| 222,600 Shares of \$5.00 Series A Convertible Preferred | Seven (7) individuals (5) | \$ 1,113,000 | Section 4(2) of t and Regulation D, 506 |

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| | | | |
|---|---------------------------|-----------|-------------------|
| 2,000 Shares of \$5.00 Series A Convertible Preferred | One (1) individual (6) | \$ 10,000 | Section 4(2) of t |
|---|---------------------------|-----------|-------------------|

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| | | | |
|---|---------------------------|--------------|--|
| 1,510,720 Shares of \$5.00 Series A Convertible Preferred | One (1) individual (7) | \$ 7,553,600 | Section 4(2) of t Regulation D, Rul |
|---|---------------------------|--------------|--|

| | | | |
|---|------------------------|------------|--|
| 10% Senior Convertible Promissory Note for \$135,000 | One (1) company (8) | \$ 135,000 | Section 4(2) of t Regulation D, Rul |
|---|------------------------|------------|--|

| | | | |
|----------------------------------|------------------------|-----------|--|
| Option to Purchase 10% Senior | One (1) company (8) | \$ 15,000 | Section 4(2) of t Regulation D, Rul |
|----------------------------------|------------------------|-----------|--|

Convertible Promissory
Notes for up to \$3,354,000

- (1) On February 1, 2000, a total of 805,000 shares of Common Stock were issued to Artem Gotov in exchange for services valued at \$805 and as founders shares, 805,000 shares of Common Stock were issued to Agata Gotov, the sister of Artem Gotov in exchange for services valued at \$805 and as founder shares, and 200,000 shares of Common Stock were issued to Kenneth G. Eade in exchange for legal services valued at \$200. Each of Mr. Gotov, Ms. Gotov and Mr. Eade, as the husband of Ms. Gotov, may be deemed a promoter of the Company. The Company claimed an exemption under the Securities Act of 1933, pursuant to Section 4(2) of the Act. Mr. Gotov and Ms. Gotov were both Officers and Directors of the Company, while Mr. Eade is a sophisticated and accredited investor.
- (2) In June 2001, a total of 70,000 shares of Common Stock were issued to Jeffrey Volpe in exchange for clerical services rendered valued at \$70 and 70,000 shares of Common Stock were issued to Richard Tearle in exchange for Internet web services valued at \$70.. The Company claimed an exemption under the Securities Act of 1933, pursuant to Section 4(2) of the Act. Both Mr. Volpe and Mr. Tearle had access to all corporate information and both were sophisticated investors.
- (3) In 2001, a total of 284,600 shares (pre-acquisition) and 916,000 shares (pre-forward split and post acquisition) to various consultants in exchange for services rendered to the Company. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the

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securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

- (4) In September 2001 the Company issued 21,000,000 shares of its Common Stock to nineteen (19) shareholders of F.&F. Equipment, Inc. d/b/a American Ammunition, ("AA") pursuant to a Share Exchange Agreement. The shares were valued at \$3,998,650. The transaction resulted in AA becoming a wholly owned subsidiary of the Company in a transaction that was treated as a reverse merger for accounting purposes. Of such shares, the current officers and directors of the Company were issued a total of 15,750,000 shares and 1,050,000 were issued to Donald F. Mintmire, sole owner of the firm of Mintmire & Associates. This offering and sale was deemed to be

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exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

- (5) In September and October 2001 the Company issued 222,600 shares of \$5.00 Series A Convertible Preferred Stock valued at \$1,113,000 through an ongoing private placement. For such offering, the Company relied on Section 4(2) of the Act and Regulation D, Rule 506 promulgated thereunder. All such sales were to accredited investors. Of such shares, the Robert I. Escobio Family Trust acquired 2,000 shares. Mr. Escobio is a Director of the Company.
- (6) In September 2001, a creditor, Key Packaging Company, agreed to converted \$10,000 of debt due from the Company into 2,000 shares of \$5.00 Series A Convertible Preferred stock. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.
- (7) In September 2001, a principal shareholder, Andres Fernandez, converted \$7,553,600 of unsecured debt due to him by the Company into 1,510,720 shares of \$5.00 Series A Convertible Preferred Stock. Mr. Fernandez is an Officer and Director of the Company and is an accredited investor. The Company relied on Section 4(2) of the Act and Regulation D, Rule 506 promulgated thereunder.
- (8) On November 5, 2001, the Company entered into an agreement with the Placement Agreements in connection with the offering of the Notes. In conjunction with such agreement, the Company received a payment in the amount of \$15,000.00 from Argo for the Option, which provided Argo with the right to purchase up to \$3,500,000.00 of the Notes to be offered by the Company and simultaneously, Argo purchased \$135,000.00 of such Notes. This offering and sale was deemed to be exempt under Rule 506 of Regulation D

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and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933. These notes have been redeemed and are not currently outstanding.

On February 27, 2002, the Company issued an aggregate 277,777 shares of restricted, unregistered common stock, at \$0.45 per share, to Forus Investments, Inc., an existing shareholder, in satisfaction of a \$100,000 short-term working capital loan payable and \$25,000 in agreed-upon interest payable to a shareholder, thereby satisfying all outstanding short-term debt in full. The valuation of this transaction was based on the discounted "fair value" of the Company's common stock based upon the quoted closing price on the date of the transaction. This offering and sale was deemed to be exempt under Rule 506 of

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Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On March 25, 2002, the Company sold 611,110 shares of restricted, unregistered common stock, at \$0.36 per share, to Kissimmul, Inc., a Toronto, Ontario, Canada corporation, for gross proceeds of approximately \$220,000. The valuation of this transaction was based on the discounted "fair value" of the Company's common stock based upon the quoted closing price on the date of the transaction. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act.

No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On March 28, 2002, the Company sold 777,775 shares of restricted, unregistered common stock, at \$0.36 per share, to Tomina Associates, Ltd., a Vancouver, B.C., Canada corporation, for gross proceeds of approximately \$280,000. The valuation of this transaction was based on the discounted "fair value" of the Company's common stock based upon the quoted closing price on the date of the transaction. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On March 5, 2002, the Company issued 32,000 shares of restricted, unregistered common stock to Len Hale, 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. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the

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Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On March 5, 2002, the Company issued 41,665 shares of restricted, unregistered common stock to D. P. Martin & Associates, an unrelated party for shareholder and other public relation services. This transaction was valued at approximately \$15,000, or \$0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. This offering and sale

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was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

In April and May 2002, the Company issued an aggregate 432,721 shares of restricted, unregistered common stock to Ammunition Accessories, Inc., Saunders Lead Co. and Airco Plating Co., three unrelated trade 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. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On June 21, 2002, the Company issued 347,223 shares of restricted, unregistered common stock to Access Investments, Inc., an existing shareholder, to reimburse said shareholder for the payment of legal fees associated with the bank related litigation concluded in June 2001 and related consulting services. 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. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On June 26, 2002, the Company sold 277,778 shares of restricted, unregistered common stock to Gala Investments, an unrelated 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. This offering and sale was deemed to be exempt under

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Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On July 25, 2002, the Company sold 384,615 shares of restricted, unregistered common stock to Gala Enterprises, Ltd., an existing shareholder, for cash proceeds of approximately \$100,000. This sale was made at a price of \$0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds were used to reduce the

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Company's outstanding balance on a long-term note payable to a bank. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On August 14, 2002, the Company sold 384,615 shares of restricted, unregistered common stock to Gala Enterprises, Ltd., an existing shareholder, for cash proceeds of \$100,000. This sale was made at a price of \$0.26 per share, which was below the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The differential between the discounted "fair value" (approximately \$0.29 per share) and the selling price resulted in a charge to operations of approximately \$11,346 for compensation expense related to common stock issuances at less than "fair value". The proceeds were used to reduce the Company's outstanding balance on a long-term note payable to a bank. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On August 21, 2002, the Company sold 20,506 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately \$6,152. This sale was made at a price of \$0.30 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds were used to retire trade accounts payable to a New Mexico law firm for legal services rendered to the Company. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On September 20, 2002, the Company sold 277,778 shares of restricted, unregistered common stock to Access Investments, Inc., an existing shareholder,

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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 were used to reduce the Company's outstanding balance on a long-term note payable to a bank. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a

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limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

On September 26, 2002, the Company sold 277,778 shares of restricted, unregistered common stock to Access Investments, Inc., an existing shareholder, for cash proceeds of approximately \$100,000. This sale was made at a price of \$0.26 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of the respective transaction. The proceeds were used to provide working capital liquidity for future periods. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

To obtain funding for our ongoing operations, we entered into a Securities Purchase Agreement with La Jolla Cove Investors, Inc. ("La Jolla") on October 4, 2002 for the sale of (i) \$250,000 in convertible debentures and (ii) warrants to buy 2,500,000 shares of our common stock. On March 13, 2003 and May 6, 2003, La Jolla advanced an aggregate of \$350,000 to our company which such funding was allocated towards the principal balance of our convertible debentures and a warrant to purchase 3,500,000 shares of common stock. We currently have \$266,365 of our convertible debentures and 2,663,650 warrants still outstanding. This prospectus relates to the resale of the common stock underlying these convertible debentures and warrants.

The debentures bear interest at 8%, mature on June 30, 2008, and are convertible into our common stock, at the selling stockholder's option except for the four conversions immediately following the effective date of this registration statement, which must be submitted to us on a weekly basis.. The convertible debentures are convertible into the number of our shares of common stock equal to the dollar amount of the debentures being converted multiplied by 11, less the product of the discounted market price multiplied by 10 times the dollar amount of the debenture being converted, which is divided by the discounted market price. The discounted market price for the convertible debentures is the lesser of (i) \$1.00 or (ii) seventy six percent of the average of the volume weighted average prices of our common stock during the five trading days prior to the conversion. Accordingly, there is in fact no limit on the number of shares into which the debenture may be converted. However, in the event that our market price is less than \$.30, we will have the option to prepay the debenture at 125% rather than have the debenture converted. In addition, the selling

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stockholder is obligated to exercise the warrant concurrently with the submission of a conversion notice by the selling stockholder. Upon conversion of the convertible debenture, the selling stockholder must concurrently exercise the warrant into shares of our common stock equal to ten times the dollar amount of the debenture being converted divided by the exercise price, which is \$1.00. Currently, the warrant is exercisable into 2,663,650 shares of common stock at an exercise price of \$1.00 per share.

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The aggregate effect of the concurrent conversion of the debentures at the applicable conversion price and the exercise of the warrants at \$1.00 per share will result in the issuance of shares of common stock to the selling stockholder at a 24% discount to the market. For example, if the selling stockholder converts \$10,000 of the debenture on May 31, 2005, we are required to issue 1,709,211 shares assuming a market price of \$.08 and a conversion price of \$.061. However, the selling stockholder is also required to convert the warrant into 100,000 shares of common stock or ten times the dollar amount of the debenture being converted at \$1.00 per share. The end result is that we will receive \$110,000 that has been previously funded through the debenture or that will be funded upon exercise of the warrant and we are required to issue 1,809,211 shares of common stock.

In December 2004, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

- * the discount multiplier was reduced from eighty percent to seventy six percent;
- * within five business days after this registration statement being declared effective, La Jolla is required to submit a debenture conversion in the amount of \$10,000 and every ten business days thereafter La Jolla shall submit three additional debenture conversion in the amount of \$10,000 each;
- * within five business days after this registration statement being declared effective, La Jolla shall wire \$400,000 to us as a prepayment towards the exercise of its warrant (such prepayment shall be applied towards future mandatory exercises of La Jolla's warrant); and
- * immediately following the sale of all shares held by La Jolla in connection with the debenture conversions in the aggregate amount of \$40,000, La Jolla shall wire \$275,000 to us as a prepayment towards the exercise of its warrant and shall submit a debenture conversion in the amount of \$6,250 on the first business day of each month until the debenture is no longer outstanding.
- * the selling stockholder agreed to dismiss, without prejudice, the lawsuit entitled "La Jolla Cove Investors, Inc. v. American Ammunition, Inc." filed in San Diego Superior Court as case number GIC836693.
- * in December 2004, we deposited 1,500,000 shares of common stock with an escrow agent and La Jolla submitted a \$10,000 conversion of the

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debenture and provided us with \$100,000 as a prepayment for the warrant exercise. Upon completion of the sale by La Jolla of all shares received in connection with this exercise and conversion, La Jolla made a payment to our company equal to 76% of the net proceeds from the sale of the shares less \$100,000.

In May 2005, we entered into an addendum to the convertible debenture and warrant whereby we agreed to the following:

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- * the maturity date of the debenture and the expiration date of the warrants was extended to June 30, 2008.
- * La Jolla provided us with \$150,000 in funds which was applied towards the \$400,000 that is to be wired to us within five business days of the registration statement being declared effective pursuant to the December 2004 addendum and we issued 4,000,000 shares of common stock in the name of La Jolla Cove which such shares are held by an escrow agent. If the registration statement is not declared effective by February 5, 2006, La Jolla may sell such shares pursuant to Rule 144. In the event that La Jolla sells such shares pursuant to Rule 144 and receives funds in excess of \$150,000, La Jolla shall refund to us the excess proceeds.

The selling stockholder has contractually agreed to restrict its ability to convert or exercise its warrants and receive shares of our common stock such that the number of shares of common stock held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the then issued and outstanding shares of common stock.

In December 2002, we 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 discounted market price, multiplied by ten times the dollar amount of the debenture being converted, divided by the discounted market price. The Company issued 2,500,000 warrants that were exercisable concurrently with the debenture at \$1.00 per share. 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.

In November 2002, the Company sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately

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\$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

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transaction. The proceeds of this transaction were used to pay down an equivalent portion of the Company's long-term note payable to a bank.

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

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

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

This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

Except as expressly set forth above, the individuals and entities to whom we issued securities as indicated in this section of the registration statement are unaffiliated with us.

During January 2003, we issued to existing preferred shareholders an aggregate of 6,343 shares of restricted, unregistered common stock in accrued dividends payable on our outstanding Series A Preferred Stock for the quarter ended December 31, 2002. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

In February 2003, we sold an aggregate 104,234 shares of restricted, unregistered common stock to an existing shareholder in a separate transaction valued at an aggregate of approximately \$27,100. These sales were made at a

price of \$0.26 per share. The proceeds of this transaction were used to directly retire a trade account payable to a specific vendor. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by

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American Ammunition in accordance with the requirements of the Securities Act of 1933.

In February 2003, we sold 384,615 shares of restricted, unregistered common stock to an existing shareholder for cash proceeds of approximately \$100,000. This sale was made at a price of \$0.26 per share. The proceeds of this transaction were used to pay down an equivalent portion of our long-term note payable to a bank. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

In March 2003, we issued 99,000 shares of restricted, unregistered common stock upon the exercise of 9,000 shares of outstanding Series A Preferred Stock upon the exercise of the conversion option by the holder of the Series A Preferred Stock. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

In March 2003, we sold 972,222 shares of restricted, unregistered common stock to two (2) existing shareholders for cash proceeds of approximately \$350,000. This sale was made at a price of \$0.36 per share. The proceeds of this transaction were used to pay down an equivalent portion of our long-term note payable to a bank. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

In April 2003, in two separate transactions, we sold an aggregate 833,334 shares of restricted, unregistered common stock to two (2) existing shareholders for aggregate proceeds of \$300,000. Each sale was made at a price of \$0.36 per share. These proceeds are to be used to supplement operational working capital. This offering and sale was deemed to be exempt under Rule 506 of Regulation D and Section 4(2) of the Securities Act. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and transfer was restricted by American Ammunition in accordance with the requirements of the Securities Act of 1933.

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 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.

In January 2004, the Company issued 38,038 shares of restricted, unregistered common stock in payment of approximately \$10,000 in accrued dividends payable on the Company's outstanding Series A and Series B Preferred Stock for the quarter ended December 31, 2003. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

In May 2004, the Company issued 25,260 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended March 31, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

On May 26, 2004, the Company issued 300,000 shares of restricted, unregistered common stock to two separate corporations in payment and full satisfaction of all amounts due for fees and/or commissions due in conjunction with the Company's convertible debenture financing transaction. This transaction was valued at approximately \$36,000, which approximated the "fair value" of the underlying securities given in payment and the related charges for the services provided. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

In August 2004, the Company issued 29,746 shares of restricted, unregistered common stock in payment of approximately \$9,170 in accrued dividends payable on the Company's outstanding Series B Preferred Stock for the quarter ended June 30, 2004. The Company relied upon Section 4(2) of the Securities Act of 1933, as amended, for an exemption from registration of these shares and no underwriter was used in this transaction.

* All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of our company or executive officers of our company, and transfer was restricted by Radix in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

ITEM 27. EXHIBITS.

The following exhibits are included as part of this Form SB-2. References to "the Company" in this Exhibit List mean American Ammunition, Inc., a California

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corporation.

| Exhibit # | Exhibit Name |
|-----------|--|
| 2.1 | Share Exchange Agreement Between FBI Fresh Burgers International and F&F Equipment, Inc., dated September 29, 2001 (Incorporated by referenced to our Form 8-K filed with the SEC on October 4, 2001). |
| 3.1 | Articles of Incorporation (Incorporated by reference to our registration statement on Form SB-2 filed with the SEC on September 20, 2000, File No. 333-4660). |
| 3.2 | Certificate of Amendment of Articles of Incorporation (Incorporated by referenced to our Form 8-K filed with the SEC on October 4, 2001). |
| 3.4 | Certificate of Amendment of Articles of Incorporation (Incorporated by reference to our registration statement on Form SB-2 filed with the SEC on September 20, 2000, File No. 333-4660). |
| 3.5 | Amended and Restated Bylaws (Incorporated by reference to our Form 10QSB for the quarter ended September 30, 2001). |
| 4.1* | Common Stock Purchase Warrant with La Jolla Cove Investors, Inc., dated October 4, 2002. |
| 4.2* | Convertible Debenture with La Jolla Cove Investors, Inc., dated October 4, 2002. |
| 4.3* | Addendum with La Jolla Cove Investors, Inc., dated October 4, 2002. |
| 4.4* | Letter Agreement with La Jolla Cove Investors, dated October 4, 2002. |
| 4.5* | Registration Rights Agreement with La Jolla Cove Investors, dated October 4, 2002. |
| 4.6* | Letter Agreement with La Jolla Cove, dated December 2002. |
| 4.7** | Letter Agreement with La Jolla Cove, dated December 2004. |
| 4.8 | Letter Agreement with La Jolla Cove, dated May 2005. |
| 5.1 | Sichenzia Ross Friedman Ference LLP Opinion and Consent. |
| 9.1 | Ellet Brothers, Inc. Purchase Order (incorporated by reference to our Form SB-2 filed May 13, 2003) |
| 23.1 | Consent of Smith & Company (filed herewith) |

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23.2 Consent of legal counsel (see Exhibit 5.1)

* Incorporated by reference to the Form SB-2 filed January 6, 2003.

** Incorporated by reference to the Form SB-2 filed January 14, 2005 file no. 333-122056.

ITEM 28. UNDERTAKINGS.

The undersigned registrant hereby undertakes to:

(1) File, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of the securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement, and

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For purposes of determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this

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registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time it was declared effective.

(5) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorizes this registration statement to be signed on its behalf by the undersigned, in the City of Miami, State of Florida, on June 1, 2005.

AMERICAN AMMUNITION, INC.

By: /s/ Andres F. Fernandez

Andres F. Fernandez, President and CEO

In accordance with the requirements of the Securities Act of 1933, this

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registration statement was signed by the following persons in the capacities and on the dates stated.

Signature Title Date

| Signature | Title | Date |
|---|---|--------------|
| ----- | ----- | ----- |
| /s/ J.A. Fernandez, Sr. ----- J.A. Fernandez, Sr. | Chairman of the Board and Director of Sales | June 1, 2005 |
| /s/ Andres F. Fernandez ----- Andres F. Fernandez | President, Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer | June 1, 2005 |
| /s/ Emilio D. Jara ----- Emilio D. Jara | Vice-President of Operations, Secretary and Director | June 1, 2005 |
| /s/ Maria A. Fernandez ----- Maria A. Fernandez | Director | June 1, 2005 |