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AMERICAN AMMUNITION INC/FL
Form SB-2/A
May 05, 2005

As filed with the Securities and Exchange Commission on May 5, 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. 2 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 (Primary Standard Industrial (I.R.S. Employer
or Organization) Classification Code Number) 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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New York, New York 10018
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APPROXIMATE DATE OF PROPOSED SALE TO THE PUBLIC:

From time to time after this Registration Statement becomes effective.

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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: [X]

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

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| | | | | |
|--|----------------|------------|-----------------|-------------|
| debentures | 71,778,358 (2) | \$.10 (3) | \$ 7,177,835.79 | \$ 844.83 |
| Common Stock issuable upon exercise of warrants | 2,663,650 (4) | \$1.00 (5) | \$ 2,663,650.00 | \$ 313.51 |
| Total | 74,442,008 | | | \$1,158.34* |

*Previously paid \$1,120.99.

- (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.

3

- (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 April 26, 2005, which was \$.10 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.

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

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4

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED MAY 5, 2005

AMERICAN AMMUNITION, INC.
74,442,008 SHARES OF
COMMON STOCK

This prospectus relates to the resale by the selling stockholder of up to 74,442,008 shares of our common stock, including up to 71,778,358 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 4, 2005, was \$.08.

Investing in these securities involves significant risks. See "Risk Factors"

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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 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.

5

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

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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. 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.

6

The Offering

Common stock
offered by
selling
stockholder

Up to 74,442,008 shares, including up to 71,778,358 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 49.51% of our then current outstanding stock.

Common stock to
be outstanding
after the
offering

Up to 150,349,308 shares including 75,907,300 shares of common stock presently outstanding, 71,778,358 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

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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

The above information regarding common stock to be outstanding after the offering is based on 75,907,300 shares of common stock outstanding as of April 26, 2005 and assumes the subsequent conversion of our issued convertible debentures and exercise of warrants by our selling stockholder.

7

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, 2006, 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

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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 April 26, 2005, we are required to issue 1,347,368 shares assuming a market price of \$.10 and a conversion price of \$.076. 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 1,447,368 shares of common stock.

8

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.

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.

9

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. 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.

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.

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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

10

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 - w 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 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

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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.

11

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.

As of April 26, 2005, we had 75,907,300 shares of common stock issued and outstanding and convertible debentures outstanding that may be converted into an estimated 35,889,179 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.

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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.

12

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 April 26, 2005 of \$0.10.

| % Below Market ----- | Price Per Share ----- | Effective Conversion Price ----- | Number of Shares Issuable ----- | % of Outstanding Stock ----- |
|----------------------------|-----------------------------|---|--|---------------------------------------|
| 25% | \$.0750 | \$.0570 | 48,740,122 | 39.10% |
| 50% | \$.0500 | \$.0380 | 74,442,008 | 49.51% |
| 75% | \$.0250 | \$.0190 | 151,547,666 | 66.63% |

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 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

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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.

13

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 71,778,358 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 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.

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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

14

allocated towards the principal balance of our convertible debentures and a warrant to purchase 3,500,000 shares of common stock. As of April 26, 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, 2006, 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 31.3% 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 be unable to exercise control.

As of April 26, 2005, our executive officers and directors, which primarily includes the Fernandez family, beneficially own approximately 31.3% 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

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- * 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

15

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 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.

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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

16

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, 2004 | .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 |
| June 30, 2002 | .65 | .36 |
| March 31, 2002 | .81 | .33 |

HOLDERS

As of April 26, 2005, we had 178 shareholders of record of our 75,907,300 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.

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.

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.

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 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

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

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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 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.

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

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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 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.

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 December 31, 2004 and 2003, respectively, we had working capital of approximately \$872,000 and \$2,000,000. Our working capital position improved

significantly at December 31, 2003 due to the volume of shipments during the 4th quarter to our customers and increases in inventory to support the pending U. S. Government contracts. At December 31, 2004, our working capital declined due to liabilities for customer deposits received at year-end for orders which had not been produced and shipped; but, were completed during the quarter ended March 31, 2005 and increased trade account payable levels for 4th quarter 2004 production on orders which were shipped under our "net 60" terms programs

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related to our dealer direct sales efforts.

We have used cash in operating activities of approximately \$(649,000) and (\$2,918,000) during the years ended December 31, 2004 and 2003, respectively.

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.

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, 2006, 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

23

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 April 26, 2005, a discounted market price of \$0.076 per share, the number of shares issuable upon conversion would be:

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$$(\$266,365 \times 11) - (\$.076 \times (10 \times \$266,365)) = 2,727,578 / \$.076 = 35,889,179$$

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 April 26, 2005, we are required to issue 1,347,368 shares assuming a market price of \$.10 and a conversion price of \$.076. 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 1,447,368 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;

24

- * 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

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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.

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 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 December 31, 2004, 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

26

Magnum. We have also added .44 Magnum, .308, .50 AE and .50 caliber manufactured 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 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.

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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

27

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.

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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.

28

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

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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.

29

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.

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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.

30

- 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

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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

31

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

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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

32

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 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

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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 enacted at some time in the future that would preclude us from continuing our operations. Should such legislation be enacted, and should the we be precluded from continuing our operations, it would have a materially adverse effect upon our business and future.

Cost and Effects of Compliance with Environmental Laws

As a manufacturer, we are subject to general local, state and federal regulations governing environmental concerns. We believe that we have always been and continue to be in compliance with all such laws. Special precautions have been taken us to ensure that adequate ventilation exists for the portion of our operations that utilize lead and/or brass. Additionally, our gunpowder supply is humidity and temperature controlled in a secure and environmentally controlled facility.

Employees

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At April 26, 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 is 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.

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 ===== |

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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.

35

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

J. A. FERNANDEZ, SR., age 67, currently serves as the Chairman of the Board and Director of 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

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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

36

Business Administration and Master of Professional Accounting) and the Brandeis School of Law at the University of Louisville, KY. Ms. Fernandez is licensed to practice in Kentucky and Florida. She has lectured in the areas of estate planning and probate, Medicaid planning and elder law. She is a member of the Louisville, Florida, Kentucky and American Bar Associations and is fluent in Spanish. Ms. Fernandez is the past President of the Women Lawyers Association of Jefferson County, Kentucky and current Board Member of the Louisville Bar Association. A Graduate of the Kentucky Women's Leadership Network, she is active in various civic organizations and is on the board of several non-profit corporations.

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

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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

37

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

| (a) Name and Principal Position (1) | (b) Year | Annual Compensation | | | Long Term Compensation Awards | | Payouts | |
|--|-------------|-----------------------|----------------------|--|--|---|-----------------------------|---------------------------------------|
| | | (c) Salary (\$) | (d) Bonus (\$) | (e) Other Annual Compen- sation (\$) | (f) Restricted Stock Award(s) (\$) | (g) Securities Underlying Options/ SARs (f) | (h) LTIP Pay- outs | (i) All Other Compe satio |
| J.A. | 2000 | \$ 59,202 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Fernandez, Sr., | 2001 | \$ 50,859 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Chairman, | 2002 | \$ 77,770 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Director of | 2003 | \$104,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Sales | 2004 | \$104,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Andres F. | 2000 | \$ 88,438 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

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| | | | | | | | | | |
|------------------------------|------|-----------|----------|-----|-----|-----|-----|-----|-----|
| Fernandez, | 2001 | \$ 74,290 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| President and | 2002 | \$103,508 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Chief Executive | 2003 | \$132,600 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Officer | 2004 | \$132,600 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Emilio D. | 2000 | \$ 36,400 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Jara, Vice- | 2001 | \$ 42,500 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| President | 2002 | \$ 43,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Of | 2003 | \$ 52,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Operations, | 2004 | \$ 52,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Secretary and Director | | | | | | | | | |
| Amelia | 2000 | \$ 59,202 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Fernandez, | 2001 | \$ 59,923 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Former Vice | 2002 | \$ 64,598 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| President | 2003 | \$ 78,702 | \$50,000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| And former | 2004 | \$ 78,702 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Director | | | | | | | | | |
| Maria A. | 2000 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Fernandez, | 2001 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Director | 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 |

38

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 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 April 26, 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.

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| Name and Address of Beneficial Owner | Shares Beneficially Owned | |
|---|---------------------------|-----------|
| | Number | Percent** |
| Andres F. Fernandez, President, CEO and CFO | 8,485,365 | 11.2% |
| J. A. Fernandez, Sr., Chairman of the Board and Director of Sales | 14,905,905 | 19.7% |
| Amelia C. Fernandez | 4,281,900 | 5.7% |
| 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 | 31.3% |

* Less than 1%

** Based on 75,907,300 shares outstanding as of April 26, 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

39

warrants currently exercisable or convertible, or exercisable or convertible within 60 days of April 26, 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 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

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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

40

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, 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

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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.

41

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
- * 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

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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.

42

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 broke