



# Edgar Filing: AMERICAN AMMUNITION INC /CA - Form 10QSB

American Ammunition, Inc.

Form 10-QSB for the Quarter ended March 31, 2002

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Item 1 - Part 1 - Financial Statements

AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)  
CONSOLIDATED BALANCE SHEETS  
March 31, 2002 and 2001  
(Unaudited)

	March 31, 2002	March 31, 2001
	-----	
ASSETS		
Current Assets		
Cash on hand and in bank	\$ 466,934	\$ -
Accounts receivable - trade, net of factored accounts of approximately \$-0- and \$-0- and allowance for		

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doubtful accounts of \$-0- and \$-0-, respectively	198,927	67,115
Inventory	619,449	388,286
Prepaid expenses	15,560	-
	-----	-----
Total Current Assets	1,300,870	455,401
	-----	-----
Property and Equipment - at cost or contributed value		
Manufacturing equipment	6,560,626	6,375,421
Office furniture and fixtures	50,856	48,802
Leasehold improvements	183,052	181,814
	-----	-----
	6,794,534	6,606,037
Accumulated depreciation	(2,897,980)	(2,257,840)
	-----	-----
Net Property and Equipment	3,896,554	4,348,197
	-----	-----
Other Assets		
Loan costs, net of accumulated amortization of approximately \$-0- and \$25,940, respectively	-	43,394
Deposits and other	77,710	59,712
	-----	-----
Total Other Assets	77,710	103,106
	-----	-----
TOTAL ASSETS	\$5,275,134	\$4,906,704
	=====	=====

- Continued -

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

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)  
CONSOLIDATED BALANCE SHEETS - CONTINUED  
March 31, 2002 and 2001  
(Unaudited)

March 31,	March 31,
2002	2001
-----	-----

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Cash overdraft	\$ -	\$ 245,243
Notes payable to a bank	-	1,143,381
Current maturities of leases payable	8,365	20,349
Accounts payable - trade	462,255	469,124
Accrued excise taxes payable	37,501	50,935
Accrued interest payable	-	3,388,185
Customer deposits	-	204,556
Note payable to stockholder	-	4,007,327
	-----	-----
Total Current Liabilities	508,121	9,529,100
Long-Term Liabilities		
Note payable to a bank	950,000	-
Capital leases payable	15,340	79,875
	-----	-----
Total Liabilities	1,473,461	9,608,975
	-----	-----
Commitments and Contingencies		
Mandatory Convertible Preferred Stock		
45,600 shares issued and outstanding	228,000	-
	-----	-----
Stockholders' Equity		
Preferred stock - \$0.001 par value		
20,000,000 shares authorized.		
1,795,320 shares allocated to Series A	-	-
Common stock - \$0.001 par value.		
300,000,000 shares authorized.		
51,642,276 and 26,850,000		
shares issued and outstanding	51,642	26,850
Additional paid-in capital	15,324,105	4,974,150
Accumulated deficit	(11,802,074)	(9,703,271)
	-----	-----
Total Stockholders' Equity	3,573,673	(4,702,271)
	-----	-----
TOTAL LIABILITIES AND		
STOCKHOLDERS' EQUITY	\$5,275,134	\$4,906,704
	=====	=====

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

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Three months ended March 31, 2002 and 2001  
(Unaudited)

	Three months ended March 31, 2002	Three months ended March 31, 2001
	-----	-----
Revenues	\$272,493	\$223,804
	-----	-----
Cost of Sales		
Materials, Direct Labor and other direct costs	259,767	205,747
Depreciation	157,697	157,231
	-----	-----
Total Cost of Sales	417,464	362,978
	-----	-----
Gross Profit	(144,971)	(139,174)
	-----	-----
Operating Expenses		
Research and development expenses	2,048	5,090
Marketing and promotion expenses	550	1,432
Other operating expenses	42,145	117,533
Interest expense	43,974	83,381
Depreciation expense	2,566	2,728
	-----	-----
Total Operating Expenses	91,283	210,164
	-----	-----
Loss from Operations	(236,254)	(349,338)
Other Income (Expense)	-	-
	-----	-----
Loss before Income Taxes	(236,254)	(349,338)
Provision for Income Taxes	-	-
	-----	-----
Net Loss	(236,254)	(349,338)
Other Comprehensive Income	-	-
	-----	-----
Comprehensive Loss	\$ (236,254)	\$ (349,338)
	=====	=====
Loss per weighted-average share of common stock outstanding, computed on net loss - basic and fully diluted	\$ (0.01)	\$ (0.01)
	=====	=====
Weighted-average number of common shares outstanding	50,165,120	26,850,000
	=====	=====

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

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AMERICAN AMMUNITION, INC.  
 (formerly FBI Fresh Burgers International)  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Three months ended March 31, 2002 and 2001

(Unaudited)

	Three months ended March 31, 2002	Three months ended March 31, 2001
	-----	-----
Cash flows from operating activities		
Net loss for the year	\$ (236,254)	\$ (349,338)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	160,263	162,121
Common stock issued for fees and services	24,000	-
(Increase) Decrease in		
Accounts receivable	(198,927)	(6,700)
Inventory	(304,708)	(54,876)
Prepaid expenses, deposits and other	(9,502)	-
Increase (Decrease) in		
Accounts payable - trade	353	(215,550)
Interest payable	-	80,147
Excise taxes payable	28,860	23,555
Customer deposits	-	204,556
	-----	-----
Net cash provided by (used in) operating activities	(535,915)	(156,085)
	-----	-----
Cash flows from investing activities		
Purchase of property and equipment	(91,562)	(8,722)
	-----	-----
Net cash used in investing activities	(91,562)	(8,722)
	-----	-----
Cash flows from financing activities		
Increase in cash overdraft	-	172,009
Principal paid on long-term capital leases	(2,008)	(8,060)
Cash received on sale of common stock	500,000	-
	-----	-----
Net cash provided by financing activities	497,992	163,949
	-----	-----
INCREASE (DECREASE) IN CASH	(129,485)	(858)
Cash at beginning of year	596,419	858
	-----	-----
Cash at end of year	\$466,934	\$ -
	=====	=====
Supplemental disclosure of interest and income taxes paid		
Interest paid for the period	\$ 1,072	\$ 19,974

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Income taxes paid for the period	=====	=====
	\$ -	\$ -
	=====	=====
Supplemental disclosure of non-cash investing and financing activities		
Conversion of debt and accrued interest payable to a shareholder into common stock	\$125,000	\$ -
	=====	=====

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

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A - Organization and Description of Business

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

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

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

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

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

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first period presented.

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

The Company and its subsidiary have a year-end of December 31 and use the accrual method of accounting.

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

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

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note B - Summary of Significant Accounting Policies

1. Cash and cash equivalents

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

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

2. Accounts receivable

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



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### 3. Inventory

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

### 4. Property, plant and equipment

-----

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

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

### 5. Loan costs

Amounts paid for origination fees related to loans payable are amortized over the scheduled maturity of the corresponding debt.

### 6. Income Taxes

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

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

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

### 7. Earnings (loss) per share

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Basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted-average number of shares of common stock and common stock equivalents (primarily outstanding options and warrants). Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method. The calculation of fully diluted earnings (loss) per share assumes the dilutive effect of the exercise of outstanding options and warrants at either the beginning of the respective period presented or the date of issuance, whichever is later. As of March 31, 2002 and 2001, and subsequent

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thereto, the Company had no warrants and/or options outstanding.

### 8. Advertising costs

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

### Note C - Fair Value of Financial Instruments

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

### Note D - Inventory

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

	March 31, 2002	March 31, 2001	
	-----	-----	
Raw materials	\$166,759	\$109,104	
Work in process	387,866	246,983	
Finished goods	64,824	32,199	
	-----	-----	
Totals	\$619,449 =====	\$388,286 =====	

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

### Note E - Property and Equipment

Property and equipment consist of the following components:

	March 31, 2002	March 31, 2001	Estimated useful life
	-----	-----	
Manufacturing equipment	\$6,560,626	\$6,375,421	10 years
Office furniture and fixtures	50,856	48,802	7 years

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Leasehold improvements	183,052	181,814	20 years
	-----	-----	
	6,794,534	6,606,037	
Accumulated depreciation	(2,897,980)	(2,257,840)	
	-----	-----	
Net property and equipment	\$3,896,554	\$4,348,197	
	=====	=====	

Total depreciation expense charged to operations for the three months ended March 31, 2002 and 2001, respectively, was approximately \$160,263 and \$159,959, respectively.

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

	March 31, 2002	March 31, 2001
	-----	-----
Manufacturing and processing equipment	\$153,400	\$153,400
Less accumulated depreciation	(43,014)	(27,674)
	-----	-----
	\$110,386	\$125,726
	=====	=====

Note F - Notes payable to a Bank

Notes payable to a Bank consist of the following at March 31, 2002 and 2001, respectively:

	March 31, 2002	March 31, 2001
	-----	-----
\$200,000 line of credit payable to a bank. Interest at the Bank's prime rate plus 1.50% or 2.00%, respectively. (11.00% at December 31, 2000). Interest payable monthly. Advances and accrued, but unpaid, interest mature on the 60th day following funding. Agreement is renegotiable annually on the anniversary date in November of each calendar year. Collateralized by all accounts receivable, inventory and fixed assets of the Company and the personal guaranty of the Company's President.	\$ -	\$ 200,000

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Note F - Notes payable to a Bank - Continued

Notes payable to a Bank consist of the following at March 31, 2002 and 2001, respectively:

	March 31, 2002	March 31, 2001
	-----	-----
\$250,000 installment note payable to a bank. Interest at the Wall Street Journal published prime rate plus 2.0% (11.00% at December 31, 2000). Payable in monthly installments of approximately \$2,083, plus accrued interest. Final payment due in December 2009. Collateralized by all accounts receivable, inventory and fixed assets of the Company, the personal guaranty of the Company's President and a mortgage on the Company's corporate offices and manufacturing facility owned by the Company's stockholder.	-	235,4
\$738,090 (originally \$1,000,000) installment note payable to a bank. Interest at the Wall Street Journal published prime rate plus 2.50% (11.0% at December 31, 2000). Payable in monthly installments of approximately \$7,530, plus accrued interest. Final payment due in March 2008. Collateralized by all accounts receivable, inventory and fixed assets of the Company and the personal guaranty of the Company's President..	-	707,9
	-----	-----
Total notes payable to a bank	\$ -	\$1,143,3
	=====	=====

As of March 31, 2001, the Company was operating under a bank approved moratorium on the payment of principal and interest on all of the above listed notes payable. During 2001, the Company and its President commenced litigation against the lending institution and, on June 29, 2001, the Company and the Bank executed a Settlement and Compromise Agreement whereby all loans and debts of the Company to the Bank were settled and cancelled for a one-time cash payment of \$550,000. Accordingly, due to the circumstances surrounding the final settlement and retirement of these loans, they were classified as "current" on March 31, 2001 in the accompanying consolidated balance sheets. The source of funds for the \$550,000 settlement came from a new \$950,000 note payable to another financial institution.

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

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note G - Capital Leases Payable

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

	March 31, 2002	March 31, 2001
	-----	-----
Three and six capital leases, respectively, payable to various equipment financing companies. Interest, at December 31, 2001, ranging between 11.37% and 14.05%. Payable in aggregate monthly installments of approximately \$935, including accrued interest, as of March 31, 2002. Final maturities occur between September 2004 and December 2004. Collateralized the underlying leased manufacturing equipment.	\$ 23,705	\$ 100,220
Less current maturities	(8,365)	(20,340)
	-----	-----
Long-term portion	\$15,340	\$ 79,880
	=====	=====

Future maturities of capital leases payable are as follows:

Year ending December 31	Amount
-----	-----
2002	\$8,365
2003	9,507
2004	5,833
	-----
Totals	\$23,705
	=====

Note H - Loan payable to Stockholder

	March 31, 2002	March 31, 2001
	-----	-----
\$4,007,327 note payable to the Company's stockholder.		

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Interest at 8.0%. Principal and accrued interest payable at maturity. Maturity at December 31 annually and automatically renews for an equivalent annual period unless called by the Stockholder at least 90 days prior to maturity. Unsecured. Converted to preferred stock during 2001.

\$ - \$4,007,327  
=====

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note I - Long-Term Debt Payable to a Bank

On June 28, 2001, in anticipation of the settlement of litigation with a financial institution, the Company executed a new \$950,000 note payable to another financial institution. This new note bears interest at the Wall Street Journal published prime rate plus 2.0%. The new note has payment terms as follows: For the first year (through June 28, 2002), interest only, payable monthly. Thereafter, starting on July 28, 2002, equal monthly payments of principal and interest shall be due until June 28, 2007 which payments shall represent the amount necessary to fully amortize the remaining principal balance of the note. The monthly payments shall be recalculated at the time of any change in the applicable interest rate. The note is secured by virtually all of the Company's real and personal property. A portion of the proceeds from the financing were used to pay the \$550,000 required in the Settlement and Compromise Agreement.

Note J - Preferred Stock Transactions

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

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

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

In February 2002, certain holders of the Series A Preferred Stock notified

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the Company of their intent to exercise the conversion features on 1,749,720 issued and outstanding shares of Series A Preferred Stock into 19,246,920 shares of common stock. Due to the timing of the conversion in relation to the Company's year-end and the first available date for such conversion, the effect of the conversion exercise is reflected in the accompanying financial statements as if the conversion had occurred on December 31, 2001.

In conjunction with the issuance of certain shares of the Series A Preferred Stock, certain shares were issued with an equivalent per share value of common stock below the ending quoted market price of the Company's common stock on the issue date. This difference created a Beneficial Conversion Feature Discount of approximately \$1,207,993. This discount was then amortized over the unexpired time period between the date of issue of the eligible shares and the initial eligible conversion date. Approximately \$392,114 was amortized to operations and the unamortized balance was reclassified to additional paid-in capital on December 31, 2001 as a result of the February 2002 conversion exercise.

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### AMERICAN AMMUNITION, INC. (formerly FBI Fresh Burgers International)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

##### Note K - Common Stock Transactions

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

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

In February 2000, the Company issued 5,430,000 post-forward split shares (1,810,000 pre-forward split shares) of restricted, unregistered common stock to its founders for administrative services and services related to the development and implementation of the Company's business plan, in effect at the time. These transactions were cumulatively valued at approximately \$1,810, which approximates the "fair value" of the services provided. These amounts are charged to operations in the accompanying pre-acquisition consolidated financial statements.

In June 2000, the Company issued 420,000 post-forward split shares (140,000 pre-forward split shares) of restricted, unregistered common stock to two unrelated individuals for services related to the implementation of the Company's business plan, in effect at the time. These transactions were

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cumulatively valued at approximately \$140, which approximates the "fair value" of the services provided. These amounts are charged to operations in the accompanying pre-acquisition consolidated financial statements.

In March and May 2001, the Company issued an aggregate 496,200 post-reverse split shares (165,400 pre-forward split shares) of common stock, pursuant to a Registration Statement on Form SB-2, to various individuals providing investment, financial and acquisition consulting services to the Company. These transactions were cumulatively valued at approximately \$165,400, which approximates the "fair value" of the services provided. These amounts are charged to operations in the accompanying pre-acquisition consolidated financial statements.

In September 2001, the Company issued 2,625,000 post-reverse split shares (875,000 pre-forward split shares) of common stock, pursuant to a Registration Statement on Form SB-2, to six individuals providing investment and financial consulting services to the Company. These transactions were cumulatively valued at approximately \$875,000, which approximates the "fair value" of the services provided. These amounts are charged to operations in the accompanying pre-acquisition consolidated financial statements.

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

In December 2001, the Company issued 222,222 shares of post-forward split shares of restricted, unregistered common stock to an unrelated entity in exchange for the cancellation of \$100,000 of short-term debt. On February 27, 2002, the Company issued an additional 277,777 shares of restricted, unregistered common stock in payment for \$100,000 in short-term debt payable and \$25,000 in agreed-upon interest payable to a shareholder, thereby satisfying all outstanding short-term debt in full.

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

#### Note K - Common Stock Transactions - Continued

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

In March 2002, in two separate transactions, the Company sold an aggregate 1,388,885 shares of restricted, unregistered common stock to two separate investors for aggregate proceeds of approximately \$500,000. Each sale was made at a price of \$0.36 per share, which approximates the discounted "fair value" of the Company's common stock based on the quoted closing price of the Company's common stock on the date of each respective transaction.



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### Note L - Related Party Transactions

The Company leases its corporate office and manufacturing facility from its controlling stockholder under a long-term operating lease agreement. The lease requires a monthly payment of approximately \$5,410, inclusive of applicable sales taxes. Further, the Company is responsible for all utilities and maintenance expenses. The lease expires on October 31, 2003 and contains a clause that the lease may be renewed for an additional ten year period upon written notification to the lessor no later than 120 days prior to the scheduled expiration date at a rental rate based upon the fair value for similar space in a similar location.

### Note M - Income Taxes

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

	Three months ended March 31, 2002	Three months ended March 31, 2001
	-----	-----
Federal:		
Current	\$ -	\$ -
Deferred	-	-
	-----	-----
	-	-
	-----	-----
State:		
Current	-	-
Deferred	-	-
	-----	-----
	-	-
	-----	-----
Total	\$ -	\$ -
	=====	=====

As of March 31, 2002, the Company has a net operating loss carryforward of approximately \$2,600,000 to offset future taxable income. Subject to current regulations, components of this carryforward will begin to expire in 2003. The amount and availability of the net operating loss carryforwards may be subject to limitations set forth by the Internal Revenue Code. Factors such as the number of shares ultimately issued within a three year look-back period; whether there is a deemed more than 50 percent change in control; the applicable long-term tax exempt bond rate; continuity of historical business; and subsequent income of the Company all enter into the annual computation of allowable annual utilization of the carryforwards.

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

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### Note M - Income Taxes - Continued

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

	Three months ended March 31, 2002	Three months ended March 31, 2001
Statutory rate applied to loss before income taxes	\$(80,325)	\$(120,000)
Increase (decrease) in income taxes resulting from:		
State income taxes	-	-
Other, including reserve for deferred tax asset	80,325	120,000
	-	-
Income tax expense	\$ -	\$ -
	=====	=====

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

	Three months ended March 31, 2002	Three months ended March 31, 2001
Deferred tax assets - long-term		
Net operating loss carryforwards	\$ 884,000	\$ -
Less valuation allowance	(884,000)	-
	-	-
Net Deferred Tax Asset	\$ -	\$ -
	=====	=====

During the three months ended March 31, 2002 and 2001, respectively, the valuation allowance increased (decreased) by approximately \$884,000 and \$-0-.

### Note N - Contingencies

In May 1998, the Company entered into a \$500,000 accounts receivable factoring facility with its then financial institution. The facility provided for the purchase of various trade accounts receivable by the bank from the Company at 80.0% of the face value of the underlying invoice. The Company paid a discount fee of 1.5% for invoices settled between 1 and 30 days of invoice date, 3.0% for invoices settled between 31 and 60 days of invoice date and an additional 1.5% for each additional 30 days thereafter. All accounts receivable invoices were factored with full recourse to the Company and the Company bears all credit risk associated with the factored invoices. At March 31, 2001, the Company was at risk for approximately \$-0- of factored invoices. The Company experienced no losses related to the

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factoring agreement. This Agreement was terminated in conjunction with the execution of the Settlement and Compromise Agreement on June 29, 2001.

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AMERICAN AMMUNITION, INC.  
(formerly FBI Fresh Burgers International)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

#### Note O - Significant Customers

During the years ended December 31, 2001 and 2000, respectively, the Company had a single customer responsible for approximately 51% and 32% of total sales. There were no other customers responsible for more than 10.0% of total net sales during 2001 and 2000, respectively. These trends were also in place at March 31, 2002 and 2001, respectively, and are anticipated to continue for the foreseeable future.

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#### Part I - Item 2

##### MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

###### (1) Caution Regarding Forward-Looking Information

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

Such factors include, among others, the following: international, national and local general economic and market conditions; demographic changes; the ability of the Company to sustain, manage or forecast its growth; the ability of the Company to successfully make and integrate acquisitions; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers

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or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

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

### (2) Summary

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

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

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

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

On October 9, 2001, the Company effected a three (3) for one (1) forward stock split. This action caused the then

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issued and outstanding shares to increase from 2,990,400 to 8,971,200 on the action date. The effect of this action is reflected in the accompanying financial statements as of the first day of the first period presented.

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

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The Company and its subsidiary have a year-end of December 31 and uses the accrual method of accounting.

All discussions in this section pertain to the historical operations of F&F Equipment, Inc. as the accounting successor to the September

### (3) Results of Operations

Three months ended March 31, 2002 compared to Three months ended March 31, 2001

During the first quarter of 2001, the Company filed a lawsuit against its financial institution extending the Company various working capital credit. As a result of this litigation, the Company became unable to access credit lines for working capital, offer selling terms comparable to its competitors and, accordingly, experienced a significant reduction in sales from prior years. This litigation was settled during June 2001 and the Company negotiated a new working capital note with a different financial institution which provided liquidity for the remainder of 2001.

During the three months ended March 31, 2002, the Company experienced revenues of approximately \$272,000 as compared to approximately \$224,000 for the first three months ended March 31, 2001. The Company continues to experience positive demand for the Company's products. During the quarter ended March 31, 2002, management elected to focus its efforts, capital resources and energies in streamlining production methods, securing key sources of raw material and exploring the addition of equipment to allow the Company to produce certain components of its manufacturing process which are currently being outsourced to unrelated third parties. Management anticipates several events occurring in future quarters including increased levels of expenditures for marketing, increased product demand as a result of increased market exposure and the introduction of new products under development.

The Company experienced costs of goods sold of approximately \$417,000 and \$363,000 for the three months ended March 31, 2002 and 2001, respectively. The Company experiences variable costs in the area of material consumption and direct labor. The Company has recognized depreciation expense on production equipment of approximately \$158,000 and \$157,000, respectively, in the above cost of goods expense totals. These depreciation levels are anticipated to remain fairly constant for future periods unless the Company is successful in its plans to expand production or add equipment to produce certain components which are being outsourced to unrelated third parties.

Due to the lack of liquidity, the Company has been unable to reach its break-even point. This situation has generated a negative gross profit of approximately \$(145,000), or (53.20%) and approximately \$(139,000), or (62.19%) for the three months ended March 31, 2002 and 2001, respectively. The Company anticipates that with adequate liquidity, it will be able to generate a positive gross profit during Calendar 2002.

The Company experiences relatively consistent expenditure levels for executive and administrative compensation, interest expense and depreciation expense. The Company renegotiated its working capital note payable in June 2001. This note bears interest at the Wall Street Journal published prime rate plus 2.0%. The new note has payment terms as follows: For the first year (through June 28, 2002), interest only, payable monthly. Thereafter, starting on July 28, 2002, equal monthly payments of principal and interest shall be due until June 28, 2007 which payments shall represent the amount necessary to fully amortize the remaining principal balance of the note. The monthly payments shall be recalculated at the time of any change in the applicable interest rate. The note is secured by virtually all of the Company's real and personal property. A portion of the proceeds from the financing were used to pay the

\$550,000 required in the Settlement and Compromise Agreement. Accordingly, the Company anticipates relatively stable interest expense, or declining levels, in future periods depending on expansion and additional equipment financing requirements. The Company does not anticipate the addition of significant additions to office and administrative personnel.

The Company experienced nominal research and development expenses during the three months ended March 31, 2002 and 2001 related to the development of a new patent-pending projectile for use in ammunition specifically for the public safety and security marketplace, especially in the rapidly expanding U. S. Air Marshall program and other product improvements.

Due to the lack of liquidity in 2001 and prior years, the Company has not developed an extensive marketing effort. Accordingly, expenditures in this area have been nominal. Due to improved liquidity during the last 1/2 of 2001 and for future periods, the Company anticipates, as internally generated funds are available, to increase its marketing efforts to boost sales.

Other general and administrative expenses decreased significantly from approximately \$210,000 for the first three months of 2001 to approximately \$91,000 for the first three months of 2002. The most significant reductions came in the areas of legal and professional fees and other general and administrative fees.

The Company recognized a net loss of approximately \$(236,000) and \$(349,000) for the respective three month periods ended March 31, 2002 and 2001, respectively, or \$(0.01) and \$(0.01) per share.

#### (4) Liquidity and Capital Resources

As of March 31, 2002, December 31, 2001, and March 31, 2001, respectively, the Company had working capital of approximately \$793,000, \$341,000, and \$(9,074,000). The Company's working capital position improved significantly in Calendar 2001 with the settlement of litigation involving its outstanding debt to its-then financial institution and the concurrent restructuring of working capital debt into a long-term instrument.

The Company has generated (used) cash in operating activities of approximately \$(536,000), \$(1,100,000) and \$(156,000) during the three months ended March 31, 2002, the year ended December 31, 2001 and the three months ended March 31, 2001. The most significant use of cash during the quarter ended March 31, 2002 was the buildup of inventory and the cost of sales related to the sale of merchandise on "industry standard" credit terms causing an increase in accounts receivable.

The Company anticipates that its improved liquidity position beginning in the last half of Calendar 2001 will allow for improved sales and, accordingly, improved liquidity in future periods.

The Company has plans to increase its production capability in the immediate future by 50% to 100%. Accordingly, this expansion will require additional capital which is anticipated to be raised in various combinations of capital leases, bank debt and/or equity offerings. At this time, the Company has no definitive budgets or timetables for such expansion and this expansion, if any, will be dependent upon market demand for the Company's products. Management is

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of the opinion that sufficient demand will be present, as supported by new product development and increased product marketing efforts, to justify this expansion. However, there can be no assurance that the Company will be able to obtain additional funding or, that such funding, if available, will be obtained on terms favorable to or affordable by the Company.

### (5) Product Research and Development

The Company believes that research and development activities will allow for the development and introduction of new products into the ammunition marketplace. Over the next 12 calendar months, the Company anticipates completing the design, development and introduction of its new patent-pending projectile for use in ammunition specifically for the public safety and security marketplace, especially in the rapidly expanding U. S. Air Marshall

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program. Management also believes that this projectile will have wide acceptance in the home security and sport hunting markets.

Further, additional ammunition calibers and/or projectiles may be developed by the Company 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.

## Part II - Other Information

### Item 1 - Legal Proceedings

None

### Item 2 - Changes in Securities

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

On March 25, 2002, the Company sold 611,110 shares of restricted, unregistered common stock, at \$0.36 per share, to Kissimmul, Inc., a Toronto, Ontario, Canada corporation, for gross proceeds of approximately \$220,000. The valuation of this transaction was based on the discounted "fair value" of the Company's common stock based upon the quoted closing price on the date of the transaction. The Company relied upon Section 4(2) of The Securities Act of 1933, as amended, for an exemption from registration on these shares.

On March 28, 2002, the Company sold 777,775 shares of restricted, unregistered common stock, at \$0.36 per share, to Tomina Associates, Ltd., a Vancouver, B. C., Canada corporation, for gross proceeds of approximately \$280,000. The valuation of this transaction was based on the discounted "fair value" of the Company's common stock based upon the quoted closing price on the date of the transaction. The Company relied upon Section 4(2) of The Securities Act of 1933,

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as amended, for an exemption from registration on these shares.

Item 3 - Defaults on Senior Securities

None

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

None

Item 5 - Other Information

None

Item 6 - Exhibits and Reports on Form 8-K

Exhibits - None

Reports on Form 8-K - None

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SIGNATURES

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

American Ammunition, Inc.

April 16 , 2002  
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/s/ Andres Fernandez  
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Andres Fernandez  
President and Director

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