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AMERICAN AMMUNITION INC/FL
Form 10KSB/A
October 22, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-KSB/A

(Mark one)

Annual Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the fiscal year ended December 31, 2006

Transition Report Under Section 13 or 15(d) of The Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 0-32379

American Ammunition, Inc.

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

Nevada

91-2021594

(State of incorporation)

(IRS Employer ID Number)

3545 NW 71st Street, Miami, FL 33147

(Address of principal executive offices)

(305) 835-7400

(Issuer's telephone number)

Securities registered under Section 12 (b) of the Exchange Act - None

Securities registered under Section 12(g) of the Exchange Act: - Common Stock - \$0.001 par value

Check whether the issuer has (1) filed all reports required to be files by

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Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes No

The issuer's revenues for the fiscal year ended December 31, 2006 were \$2,241,399

The aggregate market value of voting common equity held by non-affiliates as of September 17, 2007 was approximately \$670,116.32.

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: As of September 17, 2007:, the Transfer Agent's records indicate that there are 28,372,922 shares outstanding. Of these shares, a total of 21,803,335 shares were subject to an escrow agreement referenced in later filings.

Transitional Small Business Disclosure Format : Yes No

RESTATEMENT ISSUES

The December 31, 2006 and 2005 financial statements have been restated to account for the derivative liability that was incurred in connection with the common stock conversion features and the warrants issued with certain notes payable (see Notes I and J to the accompanying consolidated financial statements).

The Company accounts for debt with embedded conversion features and warrant issues in accordance with EITF 98-5: "Accounting for convertible securities with beneficial conversion features or contingency adjustable conversion" and EITF No. 00-27: "Application of issue No 98-5 to certain convertible instruments". Conversion features determined to be beneficial to the holder are valued at fair

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value and recorded to additional paid in capital. The Company determines the fair value to be ascribed to the detachable warrants issued with the convertible debentures utilizing the Black-Scholes method. Any discount derived from determining the fair value to the debenture conversion features and warrants is amortized to financing cost over the life of the debenture. The unamortized discount, if any, upon the conversion of the debentures is expensed to financing cost on a pro rata basis.

Debt issues with the variable conversion features are considered to be embedded derivatives and are accountable in accordance with FASB 133; "Accounting for Derivative Instruments and Hedging Activities". The fair value of the embedded derivative is recorded to derivative liability. This liability is required to be marked each reporting period. The resulting discount on the debt is amortized to interest expense over the life of the related debt.

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

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

American Ammunition, Inc.
Annual Report on Form 10-KSB/A
Year ended December 31, 2006

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PART I

ITEM 1 - Description of Business

American Ammunition, Inc. (the "Company") was incorporated on February 1, 2000 in accordance with the Laws of the State of California as FirstTelevision.com. In 2001, we consummated a reverse acquisition transaction with American Ammunition Inc., a then-privately held Florida corporation. Upon completion of the reverse acquisition transaction with American Ammunition, Inc., we have been engaged in the manufacture and sale of small-arms ammunition for the wholesale and governmental markets.

Effective January 1, 2006, we changed our state of incorporation from California to Nevada by means of a merger with and into a Nevada corporation formed on December 28, 2005 solely for the purpose of effecting the reincorporation. The Certificate of Incorporation and Bylaws of the Nevada corporation are the Certificate of Incorporation and Bylaws of the surviving Nevada corporation. There were no changes to the Company's capital structure as a result of this action.

On or about January 9, 2006, we completed a previously approved 1 for 20 reverse split of our then issued and outstanding common stock. This action took our issued and outstanding shares from 92,576,839 to 4,629,831. All share and per share amounts reflect this action as of the first day of the first period presented in our financial statements or discussed in our narrative(s).

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We are an established small arms munition manufacturer with an existing distribution network. The small-arms ammunition market is principally dominated by three domestic and approximately ten international major manufacturers. Our operations are geared to provide the highest quality product in quantities significant to meet our developed wholesale and 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 in prior years to focus on increasing our market share. Our current product line consists of various calibers with varying projectiles as follows: 9 millimeter, .45 automatic, .380 automatic, .32 automatic, .40 Smith and Wesson, 38 Special, .357 Magnum, 30 carbine, 223 Remington, 38 Super, .44 Special, 32 Smith and Wesson Long, 44 special, 44 Magnum, .45 Colt and 6.8 SPC. We have identified these products as having the largest share of the market for the next several years. We sell our products to both retail consumers and governmental agencies domestically and principally to governmental agencies internationally for military use.

During Calendar 2005, 2004 and 2003, our sales were approximately 79.42%, 78.06% and 93.77% in domestic markets and approximately 20.58%, 21.94% and 6.23% internationally, respectively.

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 very tight tolerances 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 maintain 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.

In prior years, we acquired equipment which will 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

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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.

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 own production facility. In management's opinion, the consumer and governmental ammunition market has grown each year and it appears that supply is not keeping up with demand, thus allowing for companies like American Ammunition to make a significant impact in sales through our dealer direct program, established in the first quarter of 2004, and our historically strong relationships with various domestic and foreign governmental agencies.

We continue to seek the necessary working capital to allow us to enlarge our operations to take advantage of our technological capacities, equipment and the existing marketplace.

Marketing and Sales Distribution

In first quarter 2004, we launched our Dealer Direct Program. In doing so, we completely revamped the way we distribute and sell our products domestically. This program allowed us to eliminate 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 key features to attract dealers directly to our company, rather than to a distributor. First, we are offering "net 60" day credit terms to smaller dealers, who would ordinarily be forced to pay for product up front. We have developed a screening process for qualifying these smaller dealers on an individual basis. Although offering net 60 credit terms to dealers results in increased risk to our company in our account receivables as compared to payment in advance, we have exponentially diversified our receivables (and therefore our credit risk) from 13 main distributors to potentially thousands of individual dealers. Secondly, we now offer free freight (shipping) to dealers on certain orders which exceed a specified dollar volume. Shipping of small arms ammunition has always been a large portion of the cost passed to consumers as the product is considered "dense" by shipping companies,

such as UPS, and requires extra care in shipping. We have determined that we can ship our products at a reduced rate in quantity and can offer free shipping as an incentive on qualified orders. As previously explained, a second freight charge has also been avoided by eliminating the distributor from the transaction. Additionally, our increasing automation and dealer direct program have considerably sped up the time we take to provide a dealer with demanded product. Our management has become aware of an unfulfilled need of dealers to be

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provided with almost instant gratification when demand at retail establishments increases. Many dealers have communicated with our company complaining that we took their distributors too long to provide them with additional product supply when demand dictated. We believe that our new distribution strategy complimented with recent automation has cut the time it takes a dealer to receive our products by more than half. We only recently upgraded our website to include e-commerce capacity, wherein licensed dealers who are pre-registered with our company can order online direct from us. Sales in this manner have been slow to develop, primarily due to the documentation requirements for pre-qualification of dealers; however, management is hopeful that our dealers will begin to take advantage of the ease of use and time savings related to placing orders directly via electronic means. We anticipate further automation in the way in which our qualified dealers place product orders from our company. We plan to continue to aggressively pursue new customers through promotions, advertising and trade shows. We intend to solicit original equipment manufacturer subcontract work from the three major domestic manufacturers; seek additional means of commercial distribution; seek further Department of Defense and other governmental agency contracts and new relationships; solicit further export sales and, potentially, develop relationships with various mass merchandisers/chain stores.

Pricing and Value

We have been able to price our products competitively at a price lower than any of the three major domestic manufacturers: Remington, ATK, and Winchester. We strive to capitalize on the fact that these three competitors have very large corporate infrastructures and, in management's opinion, have to pay much higher labor costs to their manufacturing plant personnel. We believe that our production cost structure and, accordingly, our pricing strategy permits our customers to purchase our product and sell it at a retail price that is lower than competitive distribution channels for our competitors' products.

Advertising & Promotion

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

Status of Publicly Announced Products and Services Israeli Military Industries Ltd

We have developed a relationship with Israeli Military Industries Ltd. ("IMI"), whereby we work together on individual projects. To date, we have primarily focused their cooperation on federal contracts and on our dealer direct program. In such contracts, projectiles manufactured by IMI have been assembled by our company under IMI's strict quality control requirements. The joint venture has benefited our company in several ways. First and foremost, IMI has a distinct following as a result of offering very high quality products of the course of many years. Associating our name with IMI's history has added value to our brand and reputation in the small arms ammunition industry. Second, IMI manufactures different calibers and products than us, thereby increasing the

catalogue of items we may offer to our dealers. IMI produces commercial

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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 on 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. During 2005, we saw a downturn in this relationship and we are focusing more on internally developed and manufactured products. During 2006, the relationship continued to take a downturn and we terminated the relationship. We are now focusing totally on more internally developed and manufactured products.

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

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

ECO-AMMOTM

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(TM) 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 surrounding 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 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 the 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 management has attempted to add additional metal and coating processes to diversify its services to the parent company as well as offering its services to other industries, to generate additional revenue. To date, the company has been unable to accomplish this objective. Also the market has changed and third parties are offering the same or similar services and products to the company at a cost competitive with the cost to the company manufacturing such products. Considering increase costs of the company, and competitive pricing of third parties in the market, the company is evaluating whether to continue the IPE operation or whether to acquire such services and products from competitive third parties. The company anticipates a final evaluation and decision on or before June 30, 2007.

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 continues to believe that we can our production capacity through the renovation and restructuring of our plant flow utilizing our existing equipment and increasing only labor, material and other incidental

costs.

Sources and Availability of Raw Materials

We manufacture our ammunition by creating most of the components ourselves. The materials needed to produce our ammunition products are widely available from numerous third parties. While we believe that no critical shortages of our key raw material components, such as brass, lead and powder. We are cognizant of recent press related to the availability of lead as no new mines have opened in many years due to environmental regulations. We have experienced limited, infrequent delays in receiving lead; however, we have always been able to meet our production requirements from our normal sources. Current demand for our raw material components in the domestic and international markets, principally driven by international military conflicts, may work to our advantage in our contracts and relationships with various domestic and foreign governmental agencies. However, we cannot state with any certainty that any disruption of supply may or may not occur.

Research and Development

We believe that research and development is an important factor in our future growth. The small arms ammunition industry is closely linked to the latest technological advances. Therefore, we must continually invest in the technology to provide the best quality product to the public and to effectively compete with other companies in the industry. No assurance can be made that the Company will have sufficient funds to purchase technological advances as they become available.

Patents, Copyrights and Trademarks

We intend to protect our original intellectual property with patents, copyrights and/or trademarks as appropriate. Our head stamp "A-MERC " was registered as a trademark on May 10,1994.

We were assigned a serial number (60/325,046) from the U.S. Patent and Trademark Office for our provisional patent application filed on September 26, 2001 for a bullet that will not pierce an aircraft fuselage but will penetrate human soft tissue.

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

Governmental Regulation

In accordance with the provisions of Title 1, Gun Control Act of 1968, we are required to be licensed to import firearms and manufacture ammunition for firearms. Such licensing is subject to limitations in Chapter 44, Title 18, United States Code. In the event such licenses are not renewed for any reason, we would have to cease our operations. In accordance with these requirements, we carry two licenses issued by the Department of Treasury, Bureau of Alcohol, Tobacco and Firearms: * License No. 1-59-025-06-39D 69152 for "06 - Manufacturer

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of Ammunition for Firearms", which license expires on April 1, 20079; and * License No. 1-59-025-08-39D-69454 for "08-Importer of Firearm other than Destructive Devices", which license expires on April 1, 20079. 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

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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 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

At December 31, 2006, we employ approximately 45 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 and believe that an ample supply of qualified labor exists in our geographic area to facilitate any required growth.

Risk Factors

An investment in our common stock 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, 2006, 2005, 2004 and 2003, we had a net loss of approximate\$8,561,975), (5,941,669),\$(3,361,000) and \$(2,968,000), respectively. We may continue to incur significant operating

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expenses as we maintain our current line of small-arms ammunition and continue research and development toward improving projectile quality and performance. We cannot estimate exactly when our operating expenses will not 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 years ended December 31, 2006, 2005, 2004 and 2003 reflect an accumulated deficit from our inception of approximately \$(34,737,352), \$(26,113,212), \$(19,989,875) and \$(16,629,044); working capital of approximately \$866,460, \$(432,660), \$872,000 and \$2,028,000, and stockholders' equity of approximately \$(4,939,197), \$(845,264), \$4,385,000 and \$4,508,000. Our auditor issued a going concern opinion on our financial statements for the year ended December 31, 2006. Our ultimate survivability is dependent upon our being able to generate sufficient cash flows from operations

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to support its daily operations as well as provide sufficient resources to retire existing liabilities and obligations on a timely basis. We anticipate that our available cash and future commitments for equity placements will be sufficient to meet our operating expenses and capital expenditures through 2007. If we continue to incur operating losses, we may not be able to fund continuing business operations, which could lead to the limitation or closure of some or all of our operations.

WE MAY HAVE TO CURTAIL OUR BUSINESS IF WE CANNOT FIND ADEQUATE FUNDING: We currently have no legally binding commitments with any third parties to obtain any material amount of additional equity or debt financing. We need funds and may not be able to obtain 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 where we maybe viewed as a high market risk

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

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

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.

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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 historical operations at our sites, also subject us to liability for the cleanup of releases of hazardous substances. Environmental laws and regulations change frequently, and it is difficult to predict whether and to what extent we may be subject to liability for compliance with environmental laws and regulations.

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

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

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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 37.4% 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 December 31, 2006, our executive officers and directors, which primarily includes the Fernandez family, beneficially own approximately 0.048% of our common stock. As a result, our executive officers and directors will have significant influence to:

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

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

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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.

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

ITEM 2 - 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 State 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, the 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 (5) years and requires graduated monthly payments, changing on the lease anniversary date, ranging from approximately \$1,751 to \$1,914, plus the applicable sales taxes. The Company is responsible for all utilities and maintenance expenses. The lease expires on June 30, 2007 and may be renewed for an additional five (5) year term at a rental rate of approximately \$1,971, plus applicable sales taxes for the first renewal year and 3.0% increase on each succeeding anniversary date. Total rent expense under this lease was

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approximately \$23,057 and \$22,176, respectively, for each of the years ended December 31, 2006 and 2005.

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 expired and terminated on June 30, 2006, relieving the Company of any further obligation under this agreement. We were also 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 -----
2007	72,643
2008	72,643
2009	68,815
2010	68,815
Totals	----- \$ 137,630 =====

For the respective years ended December 31, 2006 and 2005, the Company paid an aggregate of \$125,862 and \$158,947, respectively, for rent under these agreements.

ITEM 3 - Legal Proceedings

The Company was a nominal defendant, stakeholder, \and affected party in a civil action styled "Independent Banker's Bank v. Eduardo A. Godoy, et. al.", Case Number 2003 CA 002466, currently pending in the Circuit Court of the Fifteenth Judicial Circuit In And For Palm Beach County, Florida. The action was filed by a creditor of shareholders of the Company, and as Issuer of shares to other Defendants in the action the Company is named as a stakeholder and affected party in the action. No monetary claim was asserted in this action against the Company. The Company and its counsel were of the opinion that no such monetary claims should be made, and if made, were without merit and defensible. The claims were voluntarily dismissed at the end of 2006.

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From time to time, the Company may be subject to various legal proceedings which are incidental to the ordinary conduct of its business. The Company does not consider any such proceedings to date, either individually or in the aggregate, to be material to its business or likely to result in a material adverse effect on its future operating results, financial condition, or cash flows.

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

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On June 27, 2005, pursuant to a Written Consent of Shareholder(s) Pursuant to California General Corporation Law, shareholders holding approximately 69,111,256 shares (or approximately 61%) of the then issued and outstanding shares approved the merger of an entity to be formed under Nevada Law with American Ammunition, Inc. (a California corporation) for the sole purpose of effecting the reincorporation and change in corporate domicile. Effective January 1, 2006, the transaction was effected and the Company was redomiciled in the State of Nevada.

PART II

ITEM 5 - Market for Company's Common Stock and Related Stockholder Matters Market for Trading

Our common stock of the Company currently is quoted on the NASDAQ Over the Counter Bulletin Board since October 23, 2001. Our current symbol, as changed for the January 2006 reverse stock split, is "AAMU". Prior to January 2006, our common stock traded under symbol "AAMI". Our common stock, in prior years, was approved for trading under the symbol "FBIB"; however, no trades were conducted using this symbol.

The ask/high and bid/low information for each quarter since October 23, 2001 are as follows:

Quarter	Ask/High	Bid/Low
1/1/2002 - 3/31/2002	0.81	0.33
4/1/2002 - 6/30/2002	0.65	0.36
7/1/2002 - 9/30/2002	0.57	0.31
10/1/2002 - 12/31/2002	0.47	0.38
1/1/2003 - 3/31/2003	0.78	0.53
4/1/2003 - 6/30/2003	0.85	0.42
7/1/2003 - 9/30/2003	0.55	0.37
10/1/2003 - 12/31/2003	0.42	0.22
1/1/2004 - 3/31/2004	0.50	0.27
4/1/2004 - 6/30/2004	0.42	0.17
7/1/2004 - 9/30/2004	0.27	0.17
10/1/2004 - 12/31/2004	0.24	0.15
1/1/2005 - 3/31/2005	0.17	0.09
4/1/2005 - 6/30/2005	0.14	0.07
7/1/2005 - 9/30/2005	0.14	0.08
10/1/2005 - 12/31/2005	0.15	0.30
1/1/2006 - 3/31/2006	1.18	0.30
4/1/06 - 6/30/06	0.40	0.28
7/1/06 - 9/30/06	0.80	0.25
10/1/06 - 12/31/06	0.65	0.36

Please note that over-the-counter market quotations have been provided herein. The quotations reflect inter-dealer prices, without retail markup,

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mark-down or commission and may not represent actual transactions.

As of December 31, 2006, we had approximately 240 shareholders of record, exclusive of our stockholders with their holdings in street name.

Common Stock

The holders of the issued and outstanding shares of common stock are entitled to receive dividends when, as and if declared by our Board of Directors out of any funds lawfully available therefore. The Board of Directors intends to retain future earnings to finance the development and expansion of our business and does not expect to declare any dividends in the foreseeable future. The holders of the common stock have the right, in the event of liquidation, to receive pro rata all assets remaining after payment of debts and expenses. The common stock does not have any preemptive rights and does not have cumulative voting rights. The issued and outstanding shares of common stock are fully paid and nonassessable. Holders of shares of common stock are entitled to vote at all meetings of such shareholders for the election of directors and for other purposes. Such holders have one vote for each share of common stock held by them.

Transfer Agent

Our independent stock transfer agent for our common and preferred stock is Atlas Stock Transfer Corporation. Their mailing address and telephone number is 5899 South State Street, Salt Lake City, Utah 84107; (801) 266-7151.

Reports to Stockholders

The Company plans to furnish its stockholders with an annual report for each fiscal year ending December 31 containing financial statements audited by its registered independent public accounting firm. In the event the Company enters into a business combination with another Company, it is the present intention of management to continue furnishing annual reports to stockholders. Additionally, the Company may, in its sole discretion, issue unaudited quarterly or other interim reports to its stockholders when it deems appropriate. The Company intends to maintain compliance with the periodic reporting requirements of the Securities Exchange Act of 1934.

Dividend policy

No dividends have been paid to date and the Company's Board of Directors does not anticipate paying dividends in the foreseeable future. It is the current policy to retain all earnings, if any, to support future growth and expansion.

ITEM 6 - Management's Discussion and Analysis or Plan of Operation

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

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

Restatement issues

The December 31, 2006 and 2005 financial statements have been restated to account for the derivative liability that was incurred in connection with the common stock conversion features and the warrants issued with certain notes payable (see Notes I and J to the accompanying consolidated financial statements).

The Company accounts for debt with embedded conversion features and warrant issues in accordance with EITF 98-5: "Accounting for convertible securities with beneficial conversion features or contingency adjustable conversion" and EITF No. 00-27: "Application of issue No 98-5 to certain convertible instruments". Conversion features determined to be beneficial to the holder are valued at fair value and recorded to additional paid in capital. The Company determines the fair value to be ascribed to the detachable warrants issued with the convertible debentures utilizing the Black-Scholes method. Any discount derived from determining the fair value to the debenture conversion features and warrants is amortized to financing cost over the life of the debenture. The unamortized discount, if any, upon the conversion of the debentures is expensed to financing cost on a pro rata basis.

Debt issues with the variable conversion features are considered to be embedded derivatives and are accountable in accordance with FASB 133; "Accounting for Derivative Instruments and Hedging Activities". The fair value of the embedded derivative is recorded to derivative liability. This liability is required to be marked each reporting period. The resulting discount on the debt is amortized to interest expense over the life of the related debt.

General

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

F&F Equipment, Inc. (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 & wholesale of firearms equipment, ammunition & other devices and for the purpose of transacting any and/or all lawful business." F&F conducts its business operations under the assumed name of "American Ammunition."

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

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Results of Operations

Year ended December 31, 2006 compared to Year ended December 31, 2005

During the year ended December 31, 2006, we experienced aggregate net revenues of approximately \$2,241,000, with approximately \$556,000 being realized during the 4th quarter, as compared to approximately \$3,244,000 in total net revenues for the year ended December 31, 2005.

We experienced costs of goods sold of approximately \$3,489,000 for the year ended December 31, 2006 as compared to approximately \$4,592,000 for the year ended December 31, 2005.

During 2006 and 2005, 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 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 \$31,000 and \$770,000, respectively, in the above cost of goods expense totals. These depreciation levels are anticipated to fluctuate nominally in future periods based upon either the full depreciation of older equipment and/or the addition of new equipment to expand capacity.

In accordance with Statement of Financial Accounting Standards No. 144, due to our lack of profitability and positive gross margins and the uncertainty of the receipt of budgeted orders during future periods, management recognized an adjustment in the 4th quarter of the year ended December 31, 2005 to fully impair the undepreciated balance on all of our property and equipment. This action resulted in a one-time non-cash charge to operations of approximately \$2,778,000.

For the year ended December 31, 2006 and 2005, respectively, we generated a negative gross profit of approximately \$(1,247,000), or (55.65%), and approximately \$(1,349,000), or (55.65%). While we have a backlog of orders and future order commitments from governmental agencies, we anticipate that we should be able to generate a positive gross profit in future periods; however, there are no guarantees or any certainty that this will occur.

We experienced nominal research and development expenses of approximately \$-0- and \$2,000, respectively, during the years ended December 31, 2006 and 2005, principally related to the expansion of our product line.

Other general and administrative expenses decreased by approximately \$127,000 from approximately \$1,138,000 for the year ended December 31, 2005 as

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compared to approximately \$1,265,000 for the year ended December 31, 2005. The most significant increases relate to salaries and wages and interest expense on working capital loans.

During 2006 and 2005, respectively, we experienced charges to operations of approximately \$5,192,000 and \$257,000 for consulting expense related to common stock issuances at less than "fair value". The calculation of these charges result from our issuing common stock for either cash or services at valuations below the closing quoted market price of our common stock (as discounted, as applicable) and either the cash received or the value of the services provided to us by third parties.

We recognized a net loss of approximately \$(8,561,000) and \$(6,067,000) for the respective years ended December 31, 2006 and 2005, respectively, or \$(1.01) and \$(1.56) per share.

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Liquidity

As of December 31, 2006 and 2005, respectively, we had working capital of approximately \$866,000 and \$433,000. We have used cash in operating activities of approximately \$(1,715,000) and \$(1,801,000) during the years ended December 31, 2006 and 2005, respectively.

Capital Requirements

During the years ended December 31, 2006 and 2005, respectively, we added approximately \$31,000 and \$124,000 in new equipment. The equipment added in 2006 was related to our expansion of our rifle cartridges product 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

As of September 30, 2006, the outstanding balance on the La Jolla convertible debenture has been retired. A recap of the debenture activity is as follows:

	Debenture (in dollars)	Warrant (in shares)
	-----	-----
Initial amount	\$ 600,000	6,000,000
2003 redemptions	(208,635)	(2,086,350)
2004 redemptions	(125,000)	(1,250,000)
2005 redemptions	(40,000)	(400,000)
2006 retirement	(226,365)	(2,263,650)
	-----	-----
Balances outstanding at September 30, 2006	\$ -	-
	=====	=====

In addition to retiring the debenture, the Company repaid \$200,000 in prepaid warrant exercises and approximately \$158,635 in negotiated prepayment and penalty fees for an aggregate payment of \$585,000.

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Additionally, the Company recognized a charge to operations, including the aforementioned \$158,635 cash payment, of approximately \$354,450 for the issuance of 56,003 shares of common stock to La Jolla and the forgiveness of \$175,000 in monies due from La Jolla for common stock issued on warrant exercises in prior periods.

On September 13, 2006, in accordance with the terms of a September 6, 2006 financing agreement between the Company and La Terraza Trading and Asset Management, Ltd ("the Investor") (hereafter referred to as the "Financing Agreement"), the Company received \$2,150,000 from the Investor for the Company's use and benefit, the funds of which were distributed on or about the same day, as follows:

1. \$585,000 was paid to La Jolla Cove Investors, Inc. ("La Jolla") to acquire for the Investor a full and complete assignment of any and all of La Jolla's right, title and interest in any and all of the Company's indebtedness to La Jolla, specifically including La Jolla's rights under the active SB-2 Registration Statement for the issuance and registration of securities on the SB-2 thereunder; the Company's consent to the foregoing was subject to its right to prepay any and all indebtedness thereunder in the Company's common stock, without penalty, at any time before or after default.
2. \$275,000 to be used by the Company to redeem and satisfy in full the Series E Preferred Stock funded by third party investors on or about July 12, 2006, including a prepayment redemption penalty of \$25,000.

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3. \$215,000 payable as fees to Capital Investment Services, Inc. ("CIS") for locating, negotiating and closing the Investor funding.
4. \$100,000 to repay in full, without interest, an unsecured bridge loan from the Investor to the Company dated and funded on August 25, 2006.
5. \$275,000 for the Company's working capital.
6. \$700,000 to be retained in escrow and disbursed to the Company for payment in reduction of the assigned La Jolla debenture and required warrant exercise, until the debenture and warrant obligations are satisfied in full in accordance with the terms of the assigned La Jolla documents.

The financing transaction requires the Company to deposit in escrow with Capital Investment Services, Inc. ("CIS"), the escrow agent in the transaction, a total of 11,470,000 shares of its common stock for later delivery (to be held as unissued and not outstanding) to guarantee availability of stock as required for the reduction of the debenture and satisfaction of warrant obligations. The Escrow Agreement between the Company and CIS requires CIS, as the Escrow Agent, to release such shares for delivery in accordance with the terms of the Company's pending SB-2 Registration Statement currently on file with the Securities and Exchange Commission and in accordance with the terms and conditions of the Financing Agreement dated September 2006 between the Company and the Investor, and only after reasonable notification to the Company prior to delivery of any such certificates. Further, disbursement and distribution of the shares may only be made in accordance with the terms of the applicable SB-2 registration - specifically, that the Investor and/or the selling stockholder agreed to restrict its ability to convert or exercise its warrants and receive shares of the Company's common stock such that the number of shares held by them and their affiliates after such conversion or exercise does not exceed 4.9% of the Company's then issued and outstanding shares of common stock. The Financing Agreement also calls for an additional 5,000,000 shares of the Company's

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restricted common stock to be deposited in a separate escrow to be used for any other expenses and compensation to third parties that may be agreed upon between the Investor and the Company for future services to advance the Company's overall business. In addition, the Company granted the Investor 600,000 warrants exercisable at the lesser of \$0.1875 per share or the average closing price per share for the common stock during the twelve (12) month period prior to the date of exercise, such warrants exercisable at any time on or before five (5) years from and after July 24, 2006. All shares required to be deposited into escrow were in fact deposited in escrow on September 26, 2006, as required.

The Investor provided additional funding in the amount of \$1,000,000 to the Company on December 21, 2006 for an additional 5,333,335 shares. The sum of \$100,000 was paid as fees to CIS for locating, negotiating and closing the additional funding. All other terms and conditions of the escrow agreement and related financing agreement, including incorporation of the terms of the SB-2 requirements, remain the same.

ITEM 7 - Index to Financial Statements

The required financial statements begin on page F-1 of this document.

ITEM 8 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None

ITEM 8A - Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term

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is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), for the quarter ended December 31, 2005. As of the end of the period covered by this report, management, including the chief executive officer and chief financial officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon and as of the date of that evaluation, our CEO and CFO concluded that the disclosure controls and procedures were effective

(b) Changes in Internal Controls

There were no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls over financial reporting that occurred during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART III

ITEM 9 - Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The directors and executive officers serving the Company are as follows:

Name	Age	Position Held and Tenure
J. A. Fernandez, Sr.	68	Chairman of the Board and Director of Sales
Andres F. Fernandez	40	President and Chief Executive Officer
Emilio D. Jara	40	Vice-President of Operations, Secretary and Director
Maria A. Fernandez	45	Director

All directors hold office until the next annual meeting of the Company's shareholders and until their successors have been elected and qualify. Officers serve at the pleasure of the Board of Directors. The officers and directors will devote such time and effort to the business and affairs of the Company as may be necessary to perform their responsibilities as executive officers and/or directors of the Company.

Family Relationships

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

Business Experience

J. A. Fernandez, Sr. 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 F&F Equipment, which 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 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. He studied physics and calculus at St. Thomas University, FL and at the University of Miami, FL. He is a licensed pilot, having graduated from the American Institute of Aeronautics, FL, and received his certificate as a private pilot (fixed wing) as well as private helicopter (rotary) in 1989. In 1989, Mr. Fernandez graduated from the Institute of Public Service (Pan Am), GA as a tactical rappel instructor. In 1990, he graduated from Omni Explosives, TN with a specialty in tactical explosives. Mr. Fernandez was certified by the Florida Department of Law Enforcement Academy in special operations/entry techniques in 1990. He has served as a tactical advisor to U.S. Treasury Department, Bureau of Alcohol, Tobacco and Firearms, U.S. Customs Service and the Florida Department of Law Enforcement. He has received numerous commendations and letters of appreciation. He also served on the Board of

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Veterans Affairs (Hialeah, FL) from 1990 to 1991. He is fluent in Spanish.

Emilio Jara currently serves as Vice President of Operations, Corporate 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 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, a Louisville, KY law firm, since May 1998. Prior to that date, she was a partner at Taustine Post Sotsky Berman Fineman & Kohn. She concentrates her legal practice in the areas of estate planning, probate and administration. She also practices in the areas of Medicaid and disability planning, corporate and individual taxation and corporate law, with an emphasis in closely held corporations. She is a graduate of the University of Miami, FL (Bachelor of Business Administration and Master of Professional Accounting) and the Brandeis School of Law at the University of Louisville, KY. Ms. Fernandez is licensed to practice in Kentucky and Florida. She has lectured in the areas of estate planning and probate, Medicaid planning and elder law. She is a member of the Louisville, Florida, Kentucky and American Bar Associations and is fluent in Spanish. Ms. Fernandez is the past President of the Women Lawyers Association of Jefferson County, Kentucky and current Board Member of the Louisville Bar Association. A Graduate of the Kentucky Women's Leadership Network, she is active in various civic organizations and is on the board of several non-profit corporations.

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 us under Rule 16a-3(d) during fiscal 2003, 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 adopted a code of ethics which has been filed as an exhibit to this report.

Committees of the Board of Directors

We presently have not established an audit committee, compensation committee, nominating committee, an executive committee of our board of

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directors, stock plan committee or any other committees. Our Board of Directors, as defined in Sarbanes-Oxley Act of 2002, is the defacto composition of any and all committees.

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.

Conflicts of Interest

We know of no identified or disclosed conflicts of interest among our officers or directors and the affairs of the Company.

Indemnification for Securities Act Liabilities

The Company's By-Laws provide for the indemnification of its, directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on behalf of the Company. The Company will also bear the expenses of such litigation for any of its directors, officers, employees, or agents, upon such persons promise to repay the Company therefore if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by the Company, which it may be unable to recoup.

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ITEM 10 - Executive Compensation

The following summary compensation table sets forth the aggregate cash compensation paid or accrued in excess of \$100,000 by the Company to each of the Company's executive officers for services rendered to the Company during the Company's fiscal years ended December 31, 2005, 2004 and 2003 and all plan and non-plan compensation awarded to, earned by or paid to certain designated executive officers.

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Name/Title	Year	Annual Compensation		Long-Term Compensation Awards		LTI Payout
		Salary/Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying Options/SARs	
J. A. Fernandez, Sr. Chairman and Vice President of Sales	2005	\$104,000	\$-0-	\$-0-	\$-0-	\$-0-
	2004	\$104,000	\$-0-	\$-0-	\$-0-	\$-0-
	2003	\$104,000	\$-0-	\$-0-	\$-0-	\$-0-
Andres F. Fernandez President and Chief Executive Officer	2005	\$132,600	\$-0-	\$-0-	\$-0-	\$-0-
	2004	\$132,600	\$-0-	\$-0-	\$-0-	\$-0-
	2003	\$132,600	\$-0-	\$-0-	\$-0-	\$-0-

Compensation of Directors

We have no existing arrangements for compensating our directors for their attendance at meetings of the Board of Directors. Depending upon market forces and regulatory mandates, we may find it necessary to implement a formal compensation plan in future periods to obtain and retain qualified members of our Board of Directors.

ITEM 11 - Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of the date of this Registration Statement, the number of shares of Common Stock owned of record and beneficially by executive officers, directors and persons who hold 5% or more of the outstanding Common Stock of the Company. Also included are the shares held by all executive officers and directors as a group.

Name and address	% of Class Beneficially Owned	Number of Shares
Andres F. Fernandez	0.009%	277,932
J. A. Fernandez, Sr.	0.021%	605,439
Amelia C. Fernandez	0.008%	214,095
Maria A. Fernandez	0.001%	13,000
Emilio D. Jara	0.000%	2,713
Capital Investment Services Irrevocable Trust Escrow	76.8%	21,803,335
National Business Investors	8.4%	1,268,181
Total securities held by officers and directors as a group (4 people)	0.039	1,113,179

* Less than 1%

The contact address for each of our officers and directors is 3545 NW 71st Street, Miami, FL 33147.

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Beneficial Ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable or convertible, or exercisable or convertible within 60 days of December 31, 2006 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. is the father of Andres and Maria Fernandez. The table above does not include the 19,225 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.

Ownership of securities has been restated to reflect ownership pursuant to the terms of the escrow and financing agreements entered in to by AAMU and La Terraza in September 2006 and December 2006.

ITEM 12 - 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 State 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, the Company and the controlling shareholder shall renegotiate the annual rental amount.

ITEM 13 - Exhibits and Reports on Form 8-K

(a) The following sets forth those exhibits filed pursuant to Item 601 of Regulation S-K:

Exhibit	Descriptions
-----	-----
31.1	Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

(b) The following sets forth the Company's reports on Form 8-K that have been filed during the quarter for which this report is filed:

None.

ITEM 14 - Principal Accountant Fees and Services

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

	Year ended December 31, 2006	Year ended December 31, 2005
	-----	-----
1. Audit fees	\$ 56,869	\$ 49,724
2. Audit-related fees	-	-
3. Tax fees	3,881	4,972
4. All other fees	-	-
	-----	-----
Totals	\$ 60,570	\$ 57,636
	=====	=====

We have considered whether the provision of such non-audit services is compatible with S. W. Hatfield, CPA maintaining its independence and determined that these services do not compromise their independence. Financial Information System Design and Implementation: S. W. Hatfield, CPA did not charge the Company any fees for financial information system design and implementation fees.

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

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

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Financial statements follow beginning on Page F-1

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Report of Registered Independent Certified Public Accounting Firm	F-2
Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2006 and 2005	F-3
Consolidated Statement of Operations and Comprehensive Loss for the years ended December 31, 2006 and 2005	F-5
Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2006 and 2005	F-6
Consolidated Statement of Cash Flows for the years ended December 31, 2006 and 2005	F-8
Notes to Consolidated Financial Statements	F-9

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Letterhead of S. W. Hatfield, CPA

Report of Registered Independent Certified Public Accounting Firm

Board of Directors and Stockholders
American Ammunition, Inc.

We have audited the accompanying consolidated balance sheets of American Ammunition, Inc. (a Nevada corporation) and Subsidiaries (Florida corporations) as of December 31, 2006 and 2005 and the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity and cash flows for each of the two years ended December 31, 2006 and 2005, respectively. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

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opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Ammunition, Inc. and Subsidiaries as of December 31, 2006 and 2005 and the results of their consolidated operations and consolidated cash flows for each of the two years ended December 31, 2006 and 2005, respectively, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note C to the consolidated financial statements, the Company experiences negative gross profit margins, losses from operations and negative cash flows from operations. Further, liquidity in prior periods was provided by equity securities sales related to the redemption of a convertible debenture and mandatory exercise of attached warrants. During 2006, the Company, in a new securities transaction, retired the outstanding balance on the convertible debenture and cancelled the remaining attached warrants. As a result of this transaction, the Company's "safety net" for future liquidity no longer exists. These circumstances create substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not contain any adjustments that might result from the outcome of these uncertainties.

We initially issued a Report of Independent Certified Public Accountants (Report) on the above listed financial statements on April 10, 2007. Subsequent to the date of that Report, Management determined that the Company's accounting for certain notes payable to shareholders and other affiliated parties with embedded conversion features and warrant issues. Conversion features determined to be beneficial to the holder are valued at fair value and recorded to additional paid in capital and debt issues with the variable conversion features are considered to be embedded derivatives and are accountable in accordance with FASB 133; "Accounting for Derivative Instruments and Hedging Activities". Accordingly, these matters created a situation requiring the restatement of the Company's financial statements as of and for the year ended December 31, 2006 and 2005. The results of these findings resulted in an additional charges of approximately \$462,000 and \$125,000 to operations.

Accordingly, no further reliance should be placed on our Report dated April 10, 2007.

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

Dallas, Texas
April 10, 2007

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The December 31, 2006 and 2005 financial statements have been restated to account for the derivative liability that was incurred in connection with the common stock conversion features and the warrants issued with certain notes payable.

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005

	(Restated) December 31, 2006	(R
	-----	-----
ASSETS		
Current Assets		
Cash on hand and in bank	\$ 1,209,116	\$
Accounts receivable - trade, net of allowance for doubtful accounts of \$-0- and \$12,463, respectively	396,638	
Inventory	510,104	
Prepaid interest	182,037	
Prepaid expenses	59,059	

Total Current Assets	2,356,954	

Property and Equipment - at cost or contributed value		
Manufacturing equipment	7,945,125	
Office furniture and fixtures	71,437	
Leasehold improvements	184,939	

	8,199,501	
Accumulated depreciation	(5,575,782)	
Impairment of recoverability of carrying value	(2,623,719)	

Net Property and Equipment	-	

Other Assets		
Patents, Trademarks and Noncompetition agreement, net of accumulated amortization of approximately \$119,466 and \$64,328, respectively	156,224	
Loan costs and fees, net of accumulated amortization of approximately \$65,250 and \$11,309, respectively	-	
Deposits and other	83,660	

Total Other Assets	239,884	

TOTAL ASSETS	\$ 2,596,838	\$
	=====	=====

- Continued -

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED
December 31, 2006 and 2005

	(Restated)	(R
	December 31,	
	2006	

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable to shareholders	\$ -	\$
Working capital advance	-	
Customer deposits	189,840	
Accounts payable - trade	735,261	
Accrued salaries and wages	414,164	
Federal excise taxes payable	45,806	
Accrued interest payable	34,787	
Accrued dividends payable	70,636	

Total Current Liabilities	1,490,494	
Long-Term Liabilities		
Notes payable to shareholders	1,075,000	
Federal excise taxes payable	273,000	
Convertible debenture	-	
Derivative liabilities from note conversion feature	4,697,541	

Total Long-Term Liabilities	6,045,541	

Total Liabilities	7,536,035	

Commitments and Contingencies		
Stockholders' Equity		
Preferred stock - \$0.001 par value		
20,000,000 shares authorized.		
1,795,320 shares allocated to Series A		
91,700 shares allocated to Series B		
1,905,882 shares allocated to Series C		
100,000 shares allocated to Series E	2,004	
Common stock - \$0.001 par value.		
300,000,000 shares authorized.		
23,007,902 and 4,173,378 shares issued and outstanding	23,008	
Additional paid-in capital	33,701,314	
Accumulated other comprehensive income (expense)	(3,928,171)	
Accumulated deficit	(34,737,352)	

	(4,939,197)	
Stock subscription receivable	-	

Total Stockholders' Equity	(4,939,197)	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,596,838	\$
	=====	

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
Years ended December 31, 2006 and 2005

	(Restated) Year ended December 31, 2006

Revenues	\$ 2,241,399
Cost of Sales	
Materials	1,680,755
Direct Labor	894,381
Other direct costs and expenses	412,650
Federal Excise taxes	469,930
Depreciation	31,024

Total Cost of Sales	3,488,740

Gross Profit	(1,247,341)

Operating Expenses	
Research and development expenses	-
Marketing and promotion expenses	109,976
Salaries, wages and related expenses	529,512
Other operating expenses	608,095
Bad debt expense	12,089
Interest expense	615,642
Depreciation expense	-
Amortization of intangibles	55,138
Consulting expense related to common stock issuances at less than "fair value"	5,191,533

Total Operating Expenses	7,121,985

Loss from Operations	(8,369,326)
Other Income (Expense)	
Other income (expense)	186,801
Prepayment penalty on Series E redemption	(25,000)
Settlement fees on debenture restructuring and retirement	(354,450)
Impairment charge against carrying value of property and equipment	-

Loss before Income Taxes	(8,561,975)
Provision for Income Taxes	-

Net Loss	(8,561,975)
Other Comprehensive Income	
Change in derivative related to note conversion	(3,970,721)

Comprehensive Loss	\$ (12,532,696)
	=====

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Preferred Stock Dividends	(62,165)
Net Loss available to Common Shareholders	\$ (8,624,140)
Loss per weighted-average share of common stock outstanding, computed on net loss - basic and fully diluted	\$ (1.01)
Weighted-average number of common shares outstanding	8,524,241

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2006 and 2005

	Mandatory Convertible Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balances at January 1, 2005	2,009,582	\$ 2,010	3,743,516	\$ 3,743
Conversion of Preferred Stock into Common Stock	(19,420)	(19)	66,810	67
Issuance of common stock forCash	-	-	293,603	294
Compensation expense for value of common stock sold at less than "fair value"	-	-	-	-
Less cost of capital	-	-	-	-
Loan fees and costs	-	-	37,500	38
Employee bonus	-	-	8,334	8
Payment of preferred stock dividends	-	-	23,615	24
Dividends declared on Preferred Stock	-	-	-	-
Change in derivative related to note conversion	-	-	-	-
Net loss for the year	-	-	-	-
Balances at December 31, 2005-Restated	1,990,162	1,990	4,172,983	4,173
Conversion of preferred stock into common stock	(36,680)	(37)	831,412	831
Issuance of preferred stock for cash	100,000	100	-	-
Cash redemption of preferred stock	(50,000)	(50)	-	-
Issuance of common stock for Cash for retirement of convertible debenture, working capital advances and settlement of stock subscription receivable	-	-	16,859,338	16,859
Employee bonus	-	-	41,666	42
Payment of preferred stock dividends	-	-	50,135	50

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Payment of accrued interest payable and reimbursement of expenses paid by shareholder	-	-	1,051,973	1,052
Cost of capital for preferred and common stock sales	-	-	-	-
Consulting expense for value of common stock issued at less than "fair value"	-	-	-	-
Dividends declared on preferred stock	-	-	-	-
Change in derivative related to note conversion	-	-	-	-
Net loss for the year	-	-	-	-
-----	-----	-----	-----	-----
Balances at December 31, 2006-Restated	2,004,562 \$	2,004	23,007,902 \$	23,008
	=====	=====	=====	=====

- Continued -

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2006 and 2005
(Continued)

Accumulated other comprehensive income	Accumulated deficit	Total
-----	-----	-----
\$ -	\$ (19,989,875)	\$ 4,559,698
-	-	-
-	-	436,607
-	-	257,213
-	-	(10,000)
-	-	65,250
-	-	17,333
-	-	44,424
-	(56,253)	(56,253)
42,550	-	42,550
-	(6,067,084)	(6,067,084)
-----	-----	-----
42,550	(26,113,212)	(845,264)
-	-	-
-	-	500,000
-	-	(250,000)
-	-	3,178,561
-	-	17,500

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-	-	19,177
-	-	84,158
-	-	(415,000)
-	-	5,191,531
-	(62,165)	(62,165)
(3,970,721)	-	(3,970,721)
-	(8,561,975)	(8,561,975)
<u>\$ (3,928,171)</u>	<u>\$ (34,757,352)</u>	<u>\$ (4,939,197)</u>

Stock subscription receivable at December 31, 2006 and 2005, respectively was \$-0- and \$175,000.

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006 and 2005

	(Restated) Year ended December 31, 2006 -----
Cash flows from operating activities	
Net loss for the year	\$ (8,561,975) \$
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation and amortization	602,021
Bad debt expense	12,089
Payment of expenses with common stock	412,732
Consulting expense related to common stock issuances at less than "fair value"	5,191,533
(Increase) Decrease in	
Accounts receivable	162,700
Inventory	49,986
Prepaid expenses, deposits and other	(2,270)
Increase (Decrease) in	
Accounts payable and other accrued liabilities	207,448
Accrued payroll payable	168,235
Accrued interest payable	84,441
Customer deposits	(42,850)

Net cash provided by (used in) operating activities	(1,715,910) -----

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Cash flows from investing activities		
Purchase of property and equipment		(31,024)

Net cash used in investing activities		(31,024)

Cash flows from financing activities		
Proceeds from loans from stockholders		100,000
Cash paid to retire convertible debenture		(585,000)
Cash received on working capital advances		2,200,000
Cash received on sale of preferred stock		500,000
Cash paid to retire preferred stock		(275,000)
Cash received on issuance of mandatory convertible debenture		-
Cash received on sale of common stock		1,000,000
Cash paid to acquire capital		(415,000)

Net cash provided by financing activities		2,525,000

INCREASE (DECREASE) IN CASH		788,066
Cash at beginning of year		431,050

Cash at end of year		\$ 1,209,116
		=====
Supplemental disclosure of interest and income taxes paid		
Interest paid for the period		\$ 34,227
		=====
Income taxes paid for the period		\$ -
		=====
Supplemental disclosure of non-cash investing and financing activities		
Conversion of working capital advances into common stock		\$ 2,200,000
		=====
Payment of accrued dividends on preferred stock with common stock		\$ 19,177
		=====

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

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

Note A - Organization and Description of Business

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

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

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operations under the assumed name of "American Ammunition" since its inception.

Industrial Plating Enterprise Co. (IPE), which was incorporated and commenced production on June 14, 2002. IPE is a fully licensed and approved state of the art electrochemical metallization facility for processing the Company's line of small arms projectiles as well as other products and services while employing environmentally sound water conservation and proven waste treatment techniques. The facility meets or exceeds all current environmental requirements and enjoys the "conditionally exempt small quantity generator" status for State and Federal regulations. All activities of IPE since its inception have been dedicated to the needs and demands of F&F.

On January 9, 2006, by written consent in lieu of meeting, a majority of the Company's stockholders approved a recommendation by the Company's Board of Directors to effect a one share for twenty shares reverse stock split of our common stock, par value \$.001 per share, with fractional shares rounded up to the nearest whole share. The reverse split became effective on that date. As a result of the reverse split, the total number of issued and outstanding shares of the Company's common stock decreased from 92,576,839 to 4,629,381 shares, after giving effect to rounding for fractional shares. The effect of this action is reflected in the Company's financial statements as of the first day of the first period presented.

Note B - Preparation of Financial Statements

The Company and its subsidiaries follow the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and have adopted a year-end of December 31 for all entities.

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

Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of

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AMERICAN AMMUNITION, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED December 31, 2006 and 2005

Note B - Preparation of Financial Statements - Continued

internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented

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

The accompanying consolidated financial statements contain the accounts of American Ammunition, Inc. and its wholl