DEFENSE INDUSTRIES INTERNATIONAL INC
Form 10QSB
November 14, 2002

U.S. SECURITIES EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

( ) TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: September 30,2002 Commission File Number: 000-30105

DEFENSE INDUSTRIES INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

NEVADA	84-1421481
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

Industrial Zone Erez
P.O. Box 779
Ashkelon, Israel 78101

(Address of Principal Executive Offices) (Zip Code)

011-972-8-689-1611

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to filing requirements for the past 90 days.

Yes X No___

The number of shares of Common Stock, no par value per share, outstanding as of June 30, 2002 is 25,400,000.

Transitional Small Business Disclosure Format (check one): Yes __ No X

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2002

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES

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DEFENSE INDUSTRIES INTERNATIONAL, INC.
FORMERLY EXPORT EREZ LTD. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2002

ASSETS

	September 30, 2002 (Unaudited)	December 31, 2001
(As Restated)		
CURRENT ASSETS		
Cash and cash equivalents	$ 611,060	$ 781,996
Trade accounts receivable, net	2,190,106	2,461,671
Trade accounts receivable - related parties, net	103,723	181,059
Shareholder note receivable	400,000	-
Other assets	389,131	274,840
Inventories	1,483,840	1,956,072
Deferred taxes	101,925	97,761

Total Current Assets	5,279,785	5,753,399
PROPERTY, PLANT AND EQUIPMENT, NET	1,800,513	1,951,147
OTHER ASSETS		
Investment in marketable securities	480,764	616,105
Deposits for the severance of employer-employee relations	371,180	472,421
Deferred taxes, long-term	35,902	400,689
Intangible assets	48,786	61,452
Total Other Assets	936,632	1,550,667
TOTAL ASSETS	$ 8,016,930	$ 9,255,213

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

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2002 (Unaudited)	December 31, 2001
(As Restated)		
CURRENT LIABILITIES		
Short-term bank credit	$ 693,698	$ 894,981
Trade accounts payable	1,227,336	1,551,470
Current portion of long-term debt	340,710	371,344
Other liabilities	453,355	1,011,062
Total Current Liabilities	2,715,099	3,828,857
LONG-TERM LIABILITIES		
Long-term loans	570,298	1,295,440
Long-term loan - related party	-	47,432
Provision for the severance of employer-employee relations	399,399	431,522
Minority interest	708,055	572,106
Total Long-Term Liabilities	1,677,752	2,346,500
Total liabilities	4,392,851	6,175,357

COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, $.0001 par value, 50,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $.0001 par value, 250,000,000 shares authorized, 25,400,000 and 21,000,000 issued and outstanding, respectively	2,540	2,100
Additional paid-in capital	2,066,945	1,145,385
Retained earnings	3,161,365	2,396,616
Accumulated other comprehensive loss	(770,771)	(464,245)
Deferred consulting fees	(836,000)	-
Total Shareholders' Equity	3,624,079	3,079,856
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 8,016,930	$ 9,255,213

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

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND
COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	For the Three Months Ended September 30, 2002	For the Three Months Ended September 30, 2001	For the Nine Months Ended September 30, 2002	For the Nine Months Ended September 30, 2001
REVENUES	$ 2,586,107	$ 3,599,774	$ 7,899,742	$ 5,639,032
Cost of sales and processing	1,778,018	2,438,100	5,045,126	3,812,089
Gross profit	808,089	1,161,674	2,854,616	1,826,943
OPERATING EXPENSES				
Selling	106,593	122,385	429,276	224,282
General and administrative	349,113	452,228	948,278	716,796
TOTAL OPERATING EXPENSES	455,706	574,613	1,377,554	941,078
INCOME FROM OPERATIONS	352,383	587,061	1,477,062	885,865

OTHER INCOME (EXPENSE)				
Interest, dividends and gain (loss) on sales of securities, net	(32,988)	(26,509)	(99,283)	(56,555)
Other income - net	1,077	4,878	13,997	53,906
TOTAL OTHER INCOME (EXPENSE)	(31,911)	(21,631)	(85,286)	(2,649)
INCOME BEFORE INCOME TAXES	320,472	565,430	1,391,776	883,216
Income tax expense	64,679	268,619	472,760	366,362
INCOME BEFORE MINORITY INTEREST	255,793	296,811	919,016	516,854
Minority interest	112,927	36,474	154,267	43,787
NET INCOME	$ 142,866	$ 260,337	$ 764,749	$ 473,067
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation gain (loss), net of minority interest translation loss	(40,498)	(98,235)	(203,626)	(156,377)
Unrealized gain (loss) on available-for-sale securities	(36,682)	(72,453)	(89,572)	(166,435)
Other comprehensive income (loss) before tax	(77,180)	(170,688)	(293,198)	(322,812)
Income tax (expense) benefit related to items of other comprehensive income	27,785	61,447	105,551	116,212
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(49,395)	(109,241)	(187,647)	(206,600)
COMPREHENSIVE INCOME (LOSS)	$ 93,471	$ 151,096	$ 577,102	$ 266,467
Net income per share - basic and diluted	$ 0.01	$ 0.01	$ 0.03	$ 0.02
Weighted average number of shares outstanding during the period - basic and diluted	25,400,000	21,000,000	24,017,582	20,353,841

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

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002
(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Deferred Consultin Fees
Balance, January 1, 2002 (as previously reported)	21,000,000	$ 2,100	$ 1,145,385	$ 2,468,669	$ -
Prior period adjustment - error in depreciation expense	-	-	-	(72,053)	-
Balance, January 1, 2002 (as restated)	21,000,000	2,100	1,145,385	2,396,616	-
Common stock transferred in recapitalization	4,000,000	400	(400)	-	-
Common stock issued for services	400,000	40	921,960	-	(836,000
Foreign currency translation loss	-	-	-	-	-
Unrealized loss on available for sale securities	-	-	-	-	-
Net income 2002	-	-	-	764,749	-
BALANCE, SEPTEMBER 30, 2002	25,400,000	$ 2,540	$ 2,066,945	$ 3,161,365	$ (836,000

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

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For The Nine Months	For The Nine Months

		Ended September 30, 2002		Ended September 30, 2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income	$	764,749	$	473,067
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		211,740		122,009
Stock issued for services		86,000		-
Minority interest in income of subsidiary		154,267		43,786
Gain from sale of fixed assets		-		(24,902)
Changes in operating assets and liabilities:				
Decrease (increase) in deposits for employee severance		101,241		31,090
Decrease (increase) in deferred taxes		360,623		206,643
Decrease (increase) in trade accounts receivable		348,900		(140,338)
Decrease (increase) in other assets		(114,290)		(195,261)
Decrease (increase) in inventory		472,232		371,778
Increase (decrease) in trade accounts payable		(324,135)		(573,716)
Increase (decrease) in other liabilities		(557,707)		153,553
Increase (decrease) in provision for employee severance		(32,123)		(11,862)
Net Cash Provided By Operating Activities		1,471,497		455,847
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment		(111,381)		(80,033)
Proceeds from sale of property and equipment		3,171		27,221
Investment in marketable securities		(27,753)		(27,699)
Cash acquired in acquisition of Achidatex		-		39,147
Funds advanced on behalf of shareholder		(400,000)		-
Advances related to acquisition, net		-		56,820
Loan to subsidiary		-		(480,000)
Net Cash Used in Investing Activities		(535,963)		(464,544)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Short-term bank credit, net		(201,282)		13,116
Payments on long term debt		(755,776)		(16,527)
Loan payable - related party		(47,432)		-
Net Cash Used In Financing Activities		(1,004,490)		(3,411)
Effect of exchange rate changes on cash		(101,980)		(60,186)
Net decrease in cash and cash equivalents		(170,936)		(72,294)
Cash and cash equivalents - beginning of period		781,996		663,295
CASH AND CASH EQUIVALENTS - END OF PERIOD	$	611,060	$	591,001
INTEREST PAID	$	103,691	$	45,886
TAXES PAID	$	94,008	$	67,419

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

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are presented in United States dollars under accounting principles generally accepted in the United States of America.

(B) PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements for 2002 include the accounts of Defense Industries International, Inc. (formerly Pawnbrokers Exchange, Inc. (see below)) and its wholly owned subsidiaries, Export Erez, USA, Inc., Export Erez, Ltd., Mayotex, Ltd. and Dragonwear Trading Ltd. and its 76% owned subsidiary Achidatex Nazareth Elite (1977) Ltd. (collectively, the "Company"). The minority interest represents the minority shareholders' proportionate share of Achidatex.

The condensed consolidated financial statements for 2001 include the accounts of Export Erez, USA, Inc. and its wholly owned subsidiaries, Export Erez, Ltd., Mayotex, Ltd. and Dragonwear Trading Ltd. for the periods ended September 30, 2001 and its 76% owned subsidiary Achidatex Nazareth Elite (1977) Ltd. from June 18, 2001, the date of acquisition (See Note 5).

On July 8, 2002, the Company changed its corporate domicile from the State of Utah to the State of Nevada (the "re-incorporation"). In order to accomplish the re-incorporation, the Company merged with and into its wholly owned inactive subsidiary, Defense Industries International, Inc., a Nevada corporation organized on July 1, 2002. As a result of the re-incorporation, the Company's name was effectively changed from Pawnbrokers Exchange, Inc. to Defense Industries International, Inc. Each share of Pawnbrokers capital stock issued and outstanding on the effective date was converted into and exchanged for one share of Defense Industries capital stock. Defense Industries is authorized to issue 250,000,000 shares of $.0001 par value common stock and 50,000,000 shares of $.0001 par value preferred stock. As a result, the Company's common stock changed from no par value to a par value of $.0001. Accordingly, the December 31, 2001 condensed consolidated balance sheet and the condensed consolidated statement of changes in stockholders' equity have been retroactively restated to effectuate the change.

All intercompany accounts and transactions have been eliminated in consolidation.

(C) USE OF ESTIMATES

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 effect the reported amounts of assets and liabilities and disclose the nature of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(D) PER SHARE DATA

Basic net income per common share is computed based on the weighted average common shares outstanding during the year. Diluted net income per common share is computed based on the weighted average common shares and common stock equivalents outstanding during the year. The computation of weighted average common shares outstanding gives retroactive effect to the recapitalization discussed in Note 4. There were no common stock equivalents outstanding because the exercise price of the common stock equivalents exceeded the average market price of the stock. Accordingly, a reconciliation between basic and diluted earnings per share is not presented.

(E) INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements as of September 30, 2002 and for the three and nine months ended September 30, 2002 and 2001 are unaudited. In the opinion of management, such condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. The condensed consolidated results of operations for the three and nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet information as of December 31, 2001 was derived from the audited consolidated financial statements included in the Company's annual report Form 10-KSB. The interim condensed consolidated financial statements should be read in conjunction with that report.

(F) PRIOR PERIOD ADJUSTMENT

The accompanying condensed consolidated balance sheet as of December 31, 2001 has been restated to correct an error for the understatement of depreciation expense during 2001. The effect of the restatement was to decrease net income for 2001 by $72,053. Retained earnings and property, plant and equipment, net in the December 31, 2001 consolidated balance sheet and retained earnings in the condensed consolidated statement of changes in shareholders' equity have been restated for the effects of the prior period adjustment.

(G) NEW ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. Earlier application is encouraged. The Company does not believe the adoption of this standard will have a material impact the financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Restructuring Costs." SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. Under SFAS 146, the Company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. SFAS 146 will require the Company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. Under SFAS 146, a company cannot restate its previously issued financial statements and the new statement grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues Task Force Issue 94-3. The Company does not believe the adoption of this standard will have a material impact the financial statements.

(H) RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 INVENTORY

Inventory consisted of the following:

	September 30, 2002	December 31, 2001
Raw materials	$ 1,032,394	$ 1,166,086
Work in process	286,953	491,237
Finished goods	164,493	298,749

	$ 1,483,840	$ 1,956,072
	==============	=============

NOTE 3 SHAREHOLDER NOTE RECEIVABLE

On January 15, 2002, the Company loaned $400,000 to the Company's controlling shareholder. The note is for a term of eleven months maturing December 15, 2002, bears interest of 8% and requires quarterly prepaid interest payments only. Interest paid on the note for the nine months ended September 30, 2002 amounted to $10,000. The remaining interest payable and princpal will be paid at maturity.

NOTE 4 SHAREHOLDERS' EQUITY

(A) RECAPITALIZATION

On March 25, 2002, Pawnbrokers Exchange, Inc. ("PEI"), a reporting public company with no assets, liabilities or operations at that time, consummated a share exchange agreement (the "Agreement") with Export Erez USA, Inc., ("Export USA") a company incorporated in Delaware whereby all of the shareholders in Export USA had their shares converted into 21,000,000 shares or 84% of the common stock of PEI.

Under generally accepted accounting principles, a company whose stockholders receive over fifty percent of the stock of the surviving entity in a business combination is considered the acquirer for accounting purposes. Accordingly, the transaction was accounted for as an acquisition of PEI and a recapitalization of Export USA. The condensed consolidated financial statements subsequent to the acquisition include the following: (1) the balance sheet consists of the net assets of PEI at historical costs (zero at the acquisition date) and the net assets of Export USA and subsidiaries at historical cost. (2) the statement of operations consists of the operations of Export USA and subsidiaries for the period presented and the operations of PEI from the recapitalization date.

(B) ISSUANCES OF COMMON STOCK

On April 8, 2002, the Company entered into a one-year agreement with a consultant whereby the Company issued 100,000 shares of common stock in return for future consulting services. The 100,000 shares were valued at $172,000, the fair market value of the common stock on the grant date based on the prevailing market price. Consulting expense of $86,000 was recognized as of September 30, 2002 and $86,000 is reflected as a deferred consulting expense component of equity.

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DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

On April 30, 2002, the Company entered into a one-year agreement with a consultant whereby the Company issued 300,000 shares of common stock in return for future consulting services. The 300,000 shares were valued at $750,000 the fair market value of the common stock on the grant date based on the prevailing market price. The contract is in dispute and no services have been performed to date. Counsel for the Company is confident that the Company will prevail and receive its 300,000 shares back. Therefore, no consulting expense was recognized as of September 30, 2002 and $750,000 is reflected as a deferred consulting expense component of equity.

NOTE 5 BUSINESS COMBINATION

Effective June 18, 2001, the Company acquired 76% of the total common stock of Achidatex Nazareth Elite (1977) Ltd. ("Achidatex"). Accordingly, the results of operations of Achidatex are included in the condensed consolidated financial statements for the nine months ended September 30, 2002.

For comparative purposes, following are the summarized unaudited pro forma condensed consolidated results of operations for the nine months ended September 30, 2001, assuming the acquisition had taken place at the beginning of 2001. The unaudited pro forma results are not necessarily indicative of future earnings or earnings that would have been reported had the acquisition been completed when assumed.

Net revenues	$ 8,678,481
Income before income taxes	$ 1,245,722
Income tax expense (benefit)	$ (333,068)
Minority interest, net of tax	$ 298,651
Net income	$ 1,280,139
Net income per share	$ 0.06

NOTE 6 SEGMENT INFORMATION

The Company has two strategic business units: the civilian market and the military market. The military market is further broken down between local and export sales in order to better analyze trends in sales and profit margins. The Company does not allocate assets between segments because several assets are used in more than one segment and any allocation would be impractical.

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(FORMERLY PAWNBROKERS EXCHANGE, INC.) AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Civilian Local	Military Local	Military Export	Consolidated
September 30, 2002				
Net Sales	$ 2,699,092	$ 3,272,312	$ 1,928,338	$ 7,899,742
Income from operations	660,149	514,804	302,109	1,477,062
September 30, 2001				
Net Sales	$ 2,264,649	$ 2,514,289	$ 860,094	$ 5,639,032
Income from operations	397,332	379,422	109,111	885,865

NOTE 7 SUBSEQUENT EVENT

On October 24, 2002, the Company entered into a consulting agreement with KPMG Corporate Finance, LLC ("KPMG") whereby KPMG shall act as the Company's exclusive financial advisor and private placement agent. KPMG is entitled to an engagement fee of $25,000 upon execution of the agreement and an additional $25,000 for a retainer fee upon completion of the Memorandum to be used in any private placement. KPMG will attempt to raise up to $10,000,000 in a private placement of the Company's securities in return for a success fee of 7.0% of the proceeds raised. KPMG will assist the Company in identifying possible acquisitions including and up to final negotiations in return for (1) 75% of KPMG's normal hourly fees and (2) 2.0% of the aggregate consideration paid by the Company including any liabilities assumed.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2002 contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, including statements that include the words "believes", "expects", "anticipates", or similar expressions. These forward-looking statements may include, among others, statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-QSB for the quarterly period ended September 30, 2002 involve known and unknown risks, uncertainties and other factors that could the cause actual results, performance or achievements of the Company to differ materially from those expressed in or implied by the forward-looking statements contained herein.

The strategic objective of Defense Industries International, Inc. is to be the leading global provider of personal military and civilian protective equipment and supplies. We intend to realize our strategic objective through the following:

-Pursue Strategic Acquisitions: We intend to selectively pursue acquisitions that enhance our product lines and geographic presence in an effort to consolidate our highly fragmented industry and to create a more diverse and global reach for our company in our marketplace.

-Focus on Internal Growth: We intend to focus on internal expansion of our existing businesses, thereby placing our company in a position to offer an even more comprehensive portfolio of products to satisfy all of our customers' protective equipment needs.

-Capitalize On Increased Demand For Company Products. As a result of the terrorist attacks on September 11, 2001, and other recent world events, an increased emphasis on safety and protection now exists worldwide. This has translated into increased spending on personal military and civilian protective equipment and supplies. We expect a continued increase in volume for our current major government programs and expect to participate in other existing and future government programs that require our products. We also expect a continued increase in sales to the growing civilian market for our products.

-Expand Marketing Efforts: In the wake of the terrorist attacks of September 11, 2001, and other recent world events, a greater global recognition regarding the need for our products has materialized. We intend to capitalize on this increased interest in our products by broadening our marketing efforts in an attempt to create better global brand and recognition awareness of our company and our products.

-Expand Distribution Network and Product Offerings: We intend to widen our distribution network through strategic acquisitions and the development of new products. We believe that a broader product line will enable us to strengthen our relationship with existing customers and attract new customers at the same time.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

SALES AND GROSS PROFIT MARGIN

Sales in the three months ended September 30, 2002 were $2,586,107, as compared to $3,599,774 for the same three months in 2001. We attribute this decrease to a temporary reorganization of the local Defense Ministry which has resulted in a delay in certain orders being made by the local Defense Ministry during the three months ended September 30, 2002, and the elimination of certain unprofitable operations that were acquired by the company in connection with its acquisition of Achidatex Ltd. We expect that this reorganization will be completed in the first quarter of 2003 and the delay on the orders will be removed. Export sales in the three months ended September 30, 2002 increased to $1,132,705 or 93.4% from $585,558. We attribute the increase in export sales to the successful implementation of our growth plan. Specifically, we believe that the increase in export sales is the result of the successful implementation of

our marketing efforts to create a better global brand and worldwide recognition awareness of our company and our products. The breakdown of sales for the three months ended September 30, 2002 is as follows:

	2002 ($)	2001($)
Sales to the local market-civilian	$687,434	$1,304,029
Sales to the local market-military	765,968	1,710,187
Export sales-military	1,132,705	585,558
Totals	$2,586,107	$3,599,774

Gross profit for the three months ended September 30, 2002 was $808,089, as compared to $1,161,674 for the same three months in 2001. We attribute this decrease in gross profit to the temporary reorganization of the local Defense Ministry described above. We expect to realize the delayed local military orders during the first quarter of 2003.

The cost of production in the three months ended September 30, 2002 was $1,778,018, as compared to $2,438,100 for the same three months in 2001. This change in cost of production is explained partly by the temporary reorganization of the local Defense Ministry described above.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs in the three months ended September 30, 2002 were $349,113 compared to $452,228 for the same three months in 2001. This change is explained by cutting unnecessary cost.

INCOME TAX EXPENSES

Income tax expense for the three months ended September 30, 2002 was $64,679 or 20.2% of income before income taxes, as compared to $268,619 or 47.5% of income before income taxes for the three months ended September 30, 2001. As a result of rate of inflation in Israel in the last three months the Israeli Government has reduced the tax rate or adjusted the tax rate to reflect the increase in inflation. This, therefore, has caused there to be a decrease in the effective tax rate for the three and nine months ended September 30, 2002.

FINANCIAL INCOME / (EXPENSES,) NET

Financial income (expense), net in the three months ended September 30, 2002 were $(32,988) compared to $(26,509) for the same three months in 2001.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

SALES AND GROSS PROFIT MARGIN

Sales in the nine months ended September 30, 2002 increased to $7,899,742 or 40% from $5,639,032 for the same nine months in 2001. Sales to the local market in the nine months ended September 30, 2002 increased to $5,971,404 or 25% from $4,778,938 for the same nine months in 2001. We attribute this increase in sales to the local market to the acquisition of Achidatex, Ltd. Export sales in the nine months ended September 30, 2002 increased to $1,928,338 or 124% from $860,094. We attribute the increase in export sales to the successful implementation of our growth plan. Specifically, we believe that the increase in export sales is the result of the successful implementation of our marketing efforts to create a better global brand and worldwide recognition awareness of our company and our products. Sales for the nine months ended September 30, 2001 include revenues attributable to the operations of Achidatex Ltd. from June 18, 2001 (the effective date of the acquisition of Achidatex Ltd. by the Company) to September 30, 2001, while sales for the nine months ended September 30, 2002 include revenues attributable to the operations of Achidatex Ltd. from January 1, 2002 to September 30, 2002. The breakdown of sales for the nine months ended September 30, 2002 is as follows:

	2002 ($)	2001 ($)
Sales to the local market-civilian	2,699,092	2,264,649
Sales to the local market-military	3,272,312	2,514,289
Export sales-military	1,928,338	860,094
Totals	$7,899,742	$5,639,032

Gross profit for the nine months ended September 30, 2002 increased to $2,854,616 or 56% from $1,826,946 for the same nine months in 2001. This increase in gross profit is explained partly by the acquisition of Achidatex Ltd. and increased demand for our products. The gross margin for the nine months ended September 30, 2002 improved to 36.1% as compared to 32.4% for the same three months in 2001

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The cost of production in the nine months ended September 30, 2002 was $5,045,126 compared to $3,812,084 for the same nine months in 2001. This change in cost of production is explained by the acquisition of Achidatex.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs in the nine months ended September 30, 2002 were $948,278 compared to $716,792 for the same nine months in 2001. This change is explained by the acquisition of Achidatex Ltd.

Unfulfilled open orders at September 30, 2002 totaled $2,500,000 and are scheduled for filling within the next four months. A temporary reorganization of the local Defense Ministry which has resulted in a delay in certain orders being made by the local Defense Ministry during the three months ended September 30, 2002, and the elimination of certain unprofitable operations that were acquired by the company in connection with its acquisition of Achidatex Ltd. We expect that this reorganization will be completed in the first quarter of 2003 and the delay on the orders will be removed.

INCOME TAX EXPENSES

Income tax expense for the nine months ended September 30, 2002 was $472,760 or 34% of income before income taxes, as compared to $366,362 or 41.5% of income before income taxes for the nine months ended September 30, 2001.

FINANCIAL INCOME / (EXPENSES,) NET

Financial income (expense), net in the nine months ended September 30, 2002 were $(99,283) compared to $(56,555) for the same nine months in 2001.

LIQUIDITY AND CAPITAL RESOURCES

Our current activities are financed by short and long term bank loans balanced by short term deposits. The decision regarding the amount of the short term loans was derived from considerations of the yield on the deposit which is generally in foreign currency (receipts from overseas sales), compared to the cost of short term loans. We have positive working capital (current assets less current liabilities). Long term loans derived from acquisition of Achidatex Ltd. their due spread over five years.

During this year and the year following, we anticipate increasing our research and development of certain items, primarily, ballistic helmets, stab-resistant fabric, ceramic ballistic plates, ballistic wall covering and one-way protective windows. We anticipate total research and development expenses for 2002 and 2003 to be approximately $60,000 and $750,000 respectively. We anticipate that in the year 2004 research and development expenses will drop to approximately $350,000. The development of these products will be with staff engineers. With respect to ballistic helmets, we anticipate that these products will be approximately in 20% production by the end of this year, increasing to full production by the year 2005. We anticipate that in order to fund the research and development for these products, we may effect an offering of our equity securities. If we are unable to effect an offering of our securities, we may fund our research and development through our operating funds. In such event, the timing of our anticipated research and development and subsequent production schedule would be slowed.

In conjunction with the acquisition of 76% of the outstanding common stock of Achidatex effective June 18, 2001, the Company recorded long-term deferred tax assets of approximately $666,000 relating to the expected utilization of the net operating loss ("NOL") carryforwards of Achidatex aggregating approximately $1,851,000. As of September 30, 2002 and December 31, 2001, the balance of deferred tax assets with respect to the NOL carryforwards of Achidatex was approximately $17,000 and $362,000, respectively.

As a result of Achidatex having operated profitably since its acquisition by the Company in June 2001, the Company has recognized a reduction in its reported income of $112,927 and $36,474 for the three months ended September 30, 2002 and 2001, respectively, and $154,267 and $43,787 for the nine months ended September 30, 2002 and 2001, respectively, to account for the 24% minority interest liability. Although the Company has recorded a reduction in reported

income as a result of the recognition of the 24% minority interest liability of Achidatex, the utilization of the NOL carryforwards of Achidatex has increased the Company's consolidated cash flows by approximately $223,000 and $237,000 for the three months ended September 30, 2002 and 2001, respectively, and by approximately $345,000 and $237,000 for the nine months ended September 30, 2002 and 2001, respectively, since utilization of the NOL carryforwards reduces cash expended by the Company for income taxes. The Company has access to the cash generated by Achidatex.

The Company expects that the NOL carryforwards of Achidatex will be fully exhausted no later than March 2003. Accordingly, subsequent to such date, the Company expects that the reduction in its reported income to account for the minority interest liability will decrease, as will the Company's consolidated cash flows, reflecting the absence of NOL carryforwards available to reduce cash expended for income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS AND CRITICAL ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are presented in United States dollars under accounting principles generally accepted in the United States of America.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements for 2002 include the accounts of Defense Industries International, Inc. (formerly Pawnbrokers Exchange, Inc. (see below)) and its wholly owned subsidiaries, Export Erez, USA, Inc., Export Erez, Ltd., Mayotex, Ltd. and Dragonwear Trading Ltd. and its 76% owned subsidiary Achidatex Nazareth Elite (1977) Ltd. (collectively, the "Company"). The minority interest represents the minority shareholders' proportionate share of Achidatex.

The condensed consolidated financial statements for 2001 include the accounts of Export Erez, USA, Inc. and its wholly owned subsidiaries, Export Erez, Ltd., Mayotex, Ltd. and Dragonwear Trading Ltd. for the periods ended September 30, 2001 and its 76% owned subsidiary Achidatex Nazareth Elite

(1977) Ltd. from June 18, 2001, the date of acquisition (See Note 5).

On July 8, 2002, the Company changed its corporate domicile from the State of Utah to the State of Nevada (the "re-incorporation"). In order to accomplish the re-incorporation, the Company merged with and into its wholly owned inactive subsidiary, Defense Industries International, Inc., a Nevada corporation organized on July 1, 2002. As a result of the re-incorporation, the Company's name was effectively changed from Pawnbrokers Exchange, Inc. to Defense Industries International, Inc. Each share of Pawnbrokers capital stock issued and outstanding on the effective date was converted into and exchanged for one share of Defense Industries capital stock. Defense Industries is authorized to issue 250,000,000 shares of $.0001 par value common stock and 50,000,000 shares of $.0001 par value preferred stock. As a result, the Company's common stock changed from no par value to a par value of $.0001. Accordingly, the December 31, 2001 condensed consolidated balance sheet and the condensed consolidated statement of changes in stockholders' equity have been retroactively restated to effectuate the change.

All intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES

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 effect the reported amounts of assets and liabilities and disclose the nature of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

PER SHARE DATA

Basic net income per common share is computed based on the weighted average common shares outstanding during the year. Diluted net income per common share is computed based on the weighted average common shares and common stock equivalents outstanding during the year. The computation of weighted average common shares outstanding gives retroactive effect to the recapitalization discussed in Note 4. There were no common stock equivalents outstanding because the exercise price of the common stock equivalents exceeded the average market price of the stock. Accordingly, a reconciliation between basic and diluted earnings per share is not presented.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements as of September 30, 2002 and for the three and nine months ended September 30, 2002 and 2001 are unaudited. In the opinion of management, such condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. The condensed consolidated results of operations for the three and nine months ended September 30, 2002 and 2001 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet information as of December 31, 2001 was derived from the audited consolidated financial statements included in the Company's annual report Form 10-KSB. The interim condensed consolidated financial statements should be read in conjunction with that report.

PRIOR PERIOD ADJUSTMENT

The accompanying condensed consolidated balance sheet as of December 31, 2001 has been restated to correct an error for the understatement of depreciation expense during 2001. The effect of the restatement was to decrease net income for 2001 by $72,053. Retained earnings and property, plant and equipment, net in the December 31, 2001 consolidated balance sheet and retained earnings in the condensed consolidated statement of changes in shareholders' equity have been restated for the effects of the prior period adjustment.

NEW ACCOUNTING PRONOUNCEMENTS

In April 2002, the FASB issued SFAS 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. Earlier application is encouraged. The Company does not believe the adoption of this standard will have a material impact the financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Restructuring Costs." SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. Under SFAS 146, the Company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. SFAS 146 will require the Company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. Under SFAS 146, a company cannot restate its previously issued financial statements and the new statement grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues Task Force Issue 94-3. The Company does not believe the adoption of this standard will have a material impact the financial statements.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the current period presentation.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act of 1934 is accumulated and communicated to management, including the Chief Executive Officer/Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Within the 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer/Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer/Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

(b) Changes in Internal Controls

There were no changes in the Company's internal controls or in other factors that could have significantly affected those controls subsequent to the date of the Company's most recent evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Certification Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

None.

SIGNATURES

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

Dated: November 14, 2002

DEFENSE INDUSTRIES INTERNATIONAL, INC.

By: /s/ JOSEPH FOSTBINDER

Name: Joseph Fostbinder
Title: President