

DEFENSE INDUSTRIES INTERNATIONAL INC
Form 10QSB/A
May 18, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

- Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2004
- Transition report under Section 13 or 15(d) of the Exchange Act for the transition period from ___to ___

Commission file number: 1-9009

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(Exact Name of Small Business Issuer as Specified in Its Charter)

NEVADA 84-1421483
(State of Incorporation) (I.R.S. Employer Identification No.)

INDUSTRIAL ZONE EREZ, P.O. BOX 779, ASHKELON 78101, ISRAEL
(Address of Principal Executive Offices)

(011) 972-7-689-1611
(Issuer's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 6, 2004 the Issuer had 25,350,000 shares of Common Stock, \$.0001 par value per share, outstanding.

Transitional Small Business Disclosure Format (check one):

Yes No

EXPLANATORY NOTE

Defense Industries International, Inc. is filing this Amendment No. 1 on Form 10-QSB/A to its Quarterly Report on Form 10-QSB for the quarter ended March 31, 2004, which was filed on May 17, 2004, to amend the following Items:

- (i) Item 1 of Part 1, "Financial Statements", to correct two inadvertent

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clerical errors made in the original Form 10-QSB with respect to the (a) Condensed Consolidated Balance Sheets as of March 31, 2004 (Unaudited) and December 31, 2003: Total liabilities as of December 31, 2003 should be \$4,415,407; and (b) Condensed Consolidated Statements of Income and Comprehensive Income for the Three Months Ended March 31, 2004 and 2003 (Unaudited): INCOME FROM OPERATIONS for the Three Months Ended March 31, 2004 should be \$538,623; and

- (ii) Item 6, "Exhibits and Reports on Form 8-K", to refurnish the certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

PART I - FINANCIAL INFORMATION

ITEM 1.

DEFENSE INDUSTRIES INTERNATIONAL, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31, 2004 (Unaudited)	December 31, 2003
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$1,096,023	\$ 784,026
Trade accounts receivable, net	2,184,878	1,912,747
Trade accounts receivable - related parties, net	329,404	322,373
Inventory	1,962,507	2,115,825
Investment in marketable securities	692,564	704,046
Deferred taxes	41,066	45,353
Other assets	459,372	422,489
	-----	-----
Total Current Assets	6,765,814	6,306,859
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	1,697,162	1,662,902
	-----	-----
OTHER ASSETS		
Deposits for the severance of employer-employee relations	431,908	437,963
Deferred taxes, long-term	233,154	232,713
Intangible assets	37,268	41,105
	-----	-----
Total Other Assets	702,330	711,781
	-----	-----
TOTAL ASSETS	\$9,165,306	\$8,681,542
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2004 (Unaudited)	December 31, 2003
	-----	-----
CURRENT LIABILITIES		
Trade accounts payable	\$ 886,952	\$ 730,562
Short-term debt	433,742	719,642
Current portion of long-term debt	426,103	489,524
Other liabilities	1,161,675	603,514
	-----	-----
Total Current Liabilities	2,908,472	2,543,242
	-----	-----
LONG-TERM LIABILITIES		
Long-term portion of debt	632,080	728,678
Provisions for the severance of employer-employee relations	290,010	290,573
Minority interest	837,866	852,914
	-----	-----
Total Long-Term Liabilities	1,759,956	1,872,165
	-----	-----
TOTAL LIABILITIES	4,668,428	4,415,407
	-----	-----
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, 25,350,000 issued and outstanding	2,535	2,535
Additional paid-in capital	1,711,450	1,711,450
Retained earnings	3,117,005	2,767,781
Accumulated other comprehensive loss	(334,112)	(215,631)
	-----	-----
Total Shareholders' Equity	4,496,878	4,266,135
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 9,165,306	\$ 8,681,542
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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DEFENSE INDUSTRIES INTERNATIONAL, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND
 COMPREHENSIVE INCOME
 FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
 (UNAUDITED)

	Three Months Ended March 31,	
	2004	2003
NET REVENUES	\$ 3,746,079	\$ 3,168,144
Cost of sales	2,779,840	2,273,812
Gross profit	966,239	894,332
OPERATING EXPENSES		
Selling	120,919	188,676
General and administrative	306,697	323,348
TOTAL OPERATING EXPENSES	427,616	512,024
INCOME FROM OPERATIONS	538,623	382,308
OTHER INCOME (EXPENSE)		
Financial (expense), net	(24,482)	(70,753)
Other income - net	27,198	-
TOTAL OTHER INCOME (EXPENSE)	2,716	(70,753)
INCOME BEFORE INCOME TAXES	541,339	311,555
Less: Income tax expense	194,338	129,247
INCOME BEFORE MINORITY INTEREST	347,001	182,308
Minority interest loss (income)	2,223	(8,196)
NET INCOME	349,224	174,112
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation gain (loss), net of minority interest translation gain (loss)	(118,481)	37,858
Unrealized gain (loss) on available-for-sale securities	-	(3,202)
Other comprehensive income (loss) before tax	(118,481)	34,656
Income tax (expense) benefit related to items of other comprehensive income	42,653	(12,476)

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TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(75,828)	22,180
	-----	-----
COMPREHENSIVE INCOME	\$ 273,396	\$ 196,292
	=====	=====
Net income per ordinary share - basic and diluted	\$ 0.01	\$ 0.01
	=====	=====
Weighted average of number of shares outstanding during the period - basic and diluted	25,350,000	25,350,000
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)

	For the Three Months Ended March 31,	
	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 349,224	\$ 174,112
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,317	71,904
Provision for doubtful accounts	3,388	--
Net realized and unrealized gain on marketable securities	24,455	--
Stock issued for services	--	43,000
Minority interest in (loss) income of subsidiary	(2,223)	8,196
Changes in operating assets and liabilities:		
Decrease (increase) in deposits for employee severance	6,055	(12,883)
Deferred taxes	3,846	1,104
(Increase) in trade accounts receivable	(282,551)	(539,338)
(Increase) in other assets	(36,883)	(175,344)
Decrease (increase) in inventory	153,318	(92,126)
Increase in trade accounts payable	156,392	27,395
Increase in other liabilities	558,161	476,698
Decrease (increase) in provision for employee severance of employer-employee relations	(563)	37,360
	-----	-----
Net Cash Provided By Operating Activities	1,003,936	20,078
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(118,404)	(43,132)
Purchase of marketable securities	(36,571)	(146,011)

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Proceeds from sale of marketable securities	48,999	134,156
	-----	-----
Net Cash Used In Investing Activities	(105,976)	(53,987)
	-----	-----

See accompanying notes to condensed consolidated financial statements.

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DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)

	For the Three Months Ended March 31,	
	2004	2003
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt, net	(285,900)	298,332
Payments on long-term debt	(160,019)	(91,698)
	-----	-----
Net Cash (Used In) Provided By Financing Activities	(445,919)	206,634
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(140,044)	22,366
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	311,997	195,091
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	784,026	831,820
	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 1,096,023	\$ 1,026,911
	=====	=====
INTEREST PAID	\$ 26,225	\$ 58,584
	=====	=====
TAXES PAID	\$ 49,489	\$ 41,968
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

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(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 include the accounts of Defense Industries International, Inc. 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 (collectively, the "Company"). The minority interest represents the minority shareholders' proportionate share of Achidatex.

All intercompany accounts and transactions have been eliminated in consolidation.

(C) USE OF ESTIMATES

The preparation of condensed consolidated 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 condensed consolidated 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 number of common shares outstanding during the period. Diluted net income per common share is computed based on the weighted average number of common shares and common stock equivalents outstanding during the period. There were no common stock equivalents outstanding during the periods presented. Accordingly, a reconciliation between basic and diluted earnings per share is not presented.

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(E) INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements as of and for the three months ended March 31, 2004 and 2003 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 consolidated results of operations for the three months ended March 31, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet information as of December 31, 2003 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.

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NOTE 2 INVENTORY

Inventory consisted of the following:

	March 31, 2004	December 31, 2003
	-----	-----
Raw materials	\$1,200,362	\$1,175,453
Work in process	551,776	796,100
Finished goods	210,369	144,272
	-----	-----
	\$1,962,507	\$2,115,825
	=====	=====

NOTE 3 SEGMENT INFORMATION AND CONCENTRATIONS

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.

(A) SALES AND INCOME FROM OPERATIONS:

	Civilian Local	Military Local	Military Export	Consolidated
	-----	-----	-----	-----
March 31, 2004				
Net Sales	\$ 257,087	\$ 442,017	\$3,046,975	\$3,746,079
Income from operations	40,669	99,178	398,776	538,623
March 31, 2003				
Net Sales	\$ 421,532	\$ 998,747	\$1,747,865	\$3,168,144
Income from operations	73,316	97,562	211,430	382,308

(B) SINGLE CUSTOMERS EXCEEDING 10% OF SALES:

Sales	2004	2003
	-----	-----
Customer A (Military Local)	\$ -	\$ 324,432
Customer B (Military Export)	\$1,731,656	\$ 618,902

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

- 99.1 Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 99.3 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.4 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DEFENSE INDUSTRIES INTERNATIONAL, INC.
(Registrant)

/S/ Joseph Postbinder

Name: Joseph Postbinder
Chief Executive Officer

/S/ Tsippy Moldovan

Name: Tsippy Moldovan
Chief Financial Officer

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EXHIBIT 99.1

CERTIFICATION PURSUANT TO SECTION 302(A)
OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph Postbinder, certify that:

- 1. I have reviewed this quarterly report on Form 10-QSB/A of Defense Industries International, Inc.;

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2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 15(e) and 15d- 15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 18, 2004

/s/ Joseph Postbinder

Joseph Postbinder
Chief Executive Officer

EXHIBIT 99.2

CERTIFICATION PURSUANT TO SECTION 302(A)

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OF THE SARBANES-OXLEY ACT OF 2002 I,

I, Tsippy Moldovan, certify that:

1. I have reviewed this quarterly report on Form 10-QSB/A of Defense Industries International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 15(e) and 15d- 15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 18, 2004

/S/ Tsippy Moldovan

Tsippy Moldovan

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Chief Financial Officer

EXHIBIT 99.3

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Defense Industries International, Inc. (the "Company") on Form 10-QSB/A for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph Postbinder, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Joseph Postbinder

Joseph Postbinder
Chief Executive Officer
May 18, 2004

EXHIBIT 99.4

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Defense Industries International, Inc. (the "Company") on Form 10-QSB/A for the period ending March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tsippy Moldovan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Tsippy Moldova

Tsippy Moldovan
Chief Financial Officer

May 18, 2004