DEFENSE INDUSTRIES INTERNATIONAL INC
Form 10QSB
November 12, 2003

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

FORM 10-QSB

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2003

[_] 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 [X] No [_]

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 13, 2003 the Issuer had 25,350,000 shares of Common Stock, 0.0001 value per share, outstanding.

Transitional Small Business Disclosure Format (check one):

Yes [_] No [X]

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

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PART I - FINANCIAL INFORMATION

ITEM 1.

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

ASSETS	September 30, 2003 (Unaudited)	December 31, 2002
CURRENT ASSETS		
Cash and cash equivalents	$ 474,528	$ 831,820
Trade accounts receivable, net	2,133,809	1,965,918
Trade accounts receivable - related parties, net	236,080	209,165
Inventories	2,494,909	1,734,966
Note receivable - officer	-	380,986
Deferred taxes	164,534	153,294

Other assets	304,565	186,868
Total Current Assets	5,808,425	5,463,017
PROPERTY, PLANT AND EQUIPMENT, NET	1,739,612	1,847,642
OTHER ASSETS		
Investment in Israeli and U.S. marketable securities	594,422	479,595
Deposits for the severance of employer-employee relations	462,928	414,350
Deferred taxes	171,703	171,703
Intangible assets	43,064	47,475
Total Other Assets	1,272,117	1,113,123
TOTAL ASSETS	$8,820,154	$8,423,782

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

PART I - FINANCIAL INFORMATION

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

CONDENSED CONSOLIDATED BALANCE SHEETS (CONT.)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 2003 (Unaudited)	December 31,
CURRENT LIABILITIES		
Short-term line of credit	$ 678,333	$ 425,998
Trade accounts payable	1,088,972	982,802
Current portion of long-term debt	423,768	435,152
Other liabilities	662,800	748,188
Total Current Liabilities	2,853,873	2,592,140
LONG-TERM LIABILITIES		
Long-term portion of debt	505,627	762,732
Provision for the severance of employer-employee relations	376,583	397,936
Minority interest	847,014	817,888
Total Long-Term Liabilities	1,729,224	1,978,556
TOTAL LIABILITIES	4,583,097	4,570,696

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 and 25,100,000 issued and outstanding, respectively	2,535	2,510
Common stock to be issued (250,000 shares)	-	25
Additional paid-in capital	1,711,450	1,711,450
Retained earnings	2,782,614	2,640,010
Accumulated other comprehensive loss	(259,542)	(457,909)
Deferred consulting expense	-	(43,000)
Total Shareholders' Equity	4,237,057	3,853,086
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 8,820,154	$ 8,423,782

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 (LOSS) AND COMPREHENSIVE INCOME
(UNAUDITED)

	For the Three Months Ended September 30, 2003	For the Three Months Ended September 30, 2002
REVENUES	$ 1,960,300	$ 2,586,107
Cost of sales and processing	1,464,340	1,778,018
Gross profit	495,960	808,089
OPERATING EXPENSES		
Selling	210,417	106,593
General and administrative	335,160	349,113
TOTAL OPERATING EXPENSES	545,577	455,706
INCOME (LOSS) FROM OPERATIONS	(49,617)	352,383
OTHER INCOME (EXPENSE)		
Financial income (expense), net	(42,699)	(32,988)
Other income, net	71,275	1,077
TOTAL OTHER INCOME (EXPENSE)	28,576	(31,911)

INCOME (LOSS) BEFORE INCOME TAXES	(21,041)	320,472
Income tax (expense) benefit	59,827	(64,679)
INCOME BEFORE MINORITY INTEREST	38,786	255,793
Minority interest (income) loss	2,102	(112,927)
NET INCOME	$ 40,888	$ 142,866
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency translation gain (loss), net of minority interest translation gain or loss	83,692	(40,498)
Unrealized gain (loss) on available-for-sale securities	(109,730)	(36,682)
Other comprehensive income (loss) before tax	(26,038)	(77,180)
Income tax (expense) benefit related to items of other comprehensive income	9,374	27,785
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(16,664)	(49,395)
COMPREHENSIVE INCOME	$ 24,224	$ 93,471
Net income per share - basic and diluted	-	$0.01
Weighted average number of shares outstanding during the period - basic and diluted	25,350,000	25,400,000

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 Ended September 30, 2003	For Th Months Septem 20
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 142,604	$ 764,
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	222,187	211,
Provision for doubtful accounts	7,064	

Gain from sale of marketable securities	(97,290)	
Deferred consulting expense recognized from stock issued for services	43,000	86,
Minority interest in income of subsidiary	5,082	154,
Changes in operating assets and liabilities:		
(Increase) decrease in trade accounts receivable	(201,870)	348,
(Increase) decrease in inventory	(759,943)	472,
(Increase) decrease in deferred taxes	(11,240)	360,
(Increase) in other assets	(117,697)	(114,
(Increase) decrease in deposits for employee severances	(48,578)	101,
Increase (decrease) in trade accounts payable	106,170	(324,
(Decrease) in other liabilities	(85,388)	(557,
(Decrease) in provision for employee severance	(21,353)	(32,
Net Cash (Used In) Provided By Operating Activities	(817,252)	1,471,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(66,128)	(111,
Proceeds from sale of property, plant and equipment	-	3,
Proceeds from sale of marketable securities	781,685	
Investment in marketable securities	(759,366)	(27,
Funds advanced on behalf of officer	-	(400,
Proceeds received from repayment of officer note receivable	380,986	
Net Cash Provided By (Used In) Investing Activities	337,177	(535,

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

	For The Nine Months Ended September 30, 2003	For The Months Septemb 200
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term line of credit, net	252,335	(201,
Payments on long term debt	(268,489)	(755,
Loan payable - related party	-	(47,
Net Cash (Used In) Financing Activities	(16,154)	(1,004,
Effect of exchange rate changes on cash	138,937	(101,

NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(357,292)	(170,
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	831,820	781,
CASH AND CASH EQUIVALENTS - END OF PERIOD	$474,528	$611,
INTEREST PAID	$147,308	$103,
TAXES PAID	$112,895	$ 94,

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

Effective March 25, 2002 PEI began doing business as Defense Industries International, Inc. On July 8, 2002, PEI changed its corporate domicile from the State of Utah to the State of Nevada (the "re-incorporation"). In order to accomplish the re-incorporation, PEI merged with and into its wholly owned subsidiary, Defense Industries International, Inc., a Nevada corporation organized on July 1, 2002. As a result of the re-incorporation, PEI's name was changed to Defense Industries International, Inc. Each share of PEI's capital stock issued and outstanding on the effective date was converted into and exchanged for one share of Defense Industries International, Inc. capital stock. Defense Industries International, Inc. 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, common stock changed from no par value to a par value of $.0001.

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 common shares outstanding during the period. Diluted net income per common share is computed based on the weighted average common shares and common stock equivalents outstanding during the period. 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and 2002 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 and nine months ended September 30, 2003 and 2002 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet information as of December 31, 2002 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) RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, The FASB issued Interpretation No. 46, "CONSOLIDATION OF VARIABLE INTEREST ENTITIES", an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements". Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated support from other parties, which is provided through other interest that will absorb some or all of the expected losses of the entity; (ii) the equity investors lack one or more of the following essential characteristics of a controlling financial interest: the direct or indirect ability to make decisions about the entities activities through voting rights or similar rights; or the obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities; the right to receive the expected residual returns of the entity if they occur, which is the compensation for the risk of absorbing the expected losses.

Interpretation No. 46 also requires expanded disclosures by the primary beneficiary (as defined) of a variable interest entity and by an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary. Interpretation No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

In June 2003, the FASB issued an Exposure Draft for proposed SFAS entitled "QUALIFYING SPECIAL PURPOSE ENTITIES ("QSPE") AND ISOLATION OF TRANSFERRED ASSETS", an amendment of SFAS No. 140 ("The Exposure Draft"). The Exposure Draft is a proposal that is subject to change and as such, is not yet authoritative. If the proposal is enacted in its current form, it will amend and clarify SFAS 140. The Exposure Draft would prohibit an entity from being a QSPE if it enters into an agreement that obliged a transferor of financial assets, its affiliates, or its agents to deliver additional cash or other assets to fulfill the special-purposes entity's obligation to beneficial interest holders.

The Company believes that the adoption of the recent pronouncement will not have a material effect on the condensed consolidated financial statements.

NOTE 2 INVENTORY

Inventory consisted of the following:

	September 30, 2003	December 31, 2002
Raw materials	$1,658,709	$ 927,821

Work in process	217,649	584,487
Finished goods	618,551	222,658
	$2,494,909	$1,734,966

NOTE 3 NOTE RECEIVABLE - OFFICER

On January 15, 2002, the Company loaned $400,000 to its controlling shareholder. The note was for a term of eleven months maturing December 15, 2002, bearing interest of 8% and required quarterly prepaid interest payments only. As of September 30, 2003, the note and accrued interest of $33,095 were repaid.

NOTE 4 SHAREHOLDERS' EQUITY

(A) RECAPITALIZATION

On March 25, 2002, 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 the Company 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 the Company at historical costs (zero at the acquisition date) and the net assets of Export USA at historical cost. (2) the statement of operations consists of the operations of Export USA for the period presented and the operations of the Company from the recapitalization date.

(B) ISSUANCES OF COMMON STOCK

On July 30, 2002, the Company entered into a one-year agreement with a consultant whereby the consultant would assist the Company with investor relations. In return, the Company agreed to issue an aggregate of 700,000 shares (payable in quarterly installments of 175,000 shares each) of common stock valued at $1,561,000, the fair market value of the common stock on the effective date of the agreement based on the prevailing market price. In December 2002, the agreement was canceled. In 2003, 150,000 shares (shown as to be issued as of December 31, 2002) were issued and no other shares are due to the consultant. Accordingly, $133,800 was recognized as consulting expense for the nine months ended September 30, 2002.

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 $43,000 and $86,000 was recognized for the nine months ended September 30, 2003 and 2002, respectively.

On November 29, 2001, the Company entered into a one-year agreement with a consultant whereby the consultant would assist the Company to acquire public listing on a stock exchange, to raise capital and to settle disputes the Company made against other companies. In return, the Company agreed to issue 10,000 shares of the Company's common stock monthly and to reimburse the consultant for out-of-pocket expenses. For settling the disputes, the consultant was also entitled to additional equity compensation. The agreement with the consultant was itself disputed during 2002 and a settlement was signed on May 1, 2003. Under the terms of the settlement, the Company agreed to issue 100,000 shares (shown as to be issued as of December 31, 2002) valued at $60,000 (based on the fair market value of the services provided since the Company's stock had not yet begun trading at the time the agreement was executed) and to pay $51,069 for reimbursement of out-of-pocket expenses.

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

NOTE 5 NEW JOINT VENTURE

On May 20, 2003, the Company entered into a joint venture with a South American company to supply bulletproof vests to a local police authority. Under the terms of the agreement, the parties will collaborate on the development, manufacture and supply of products for an initial period of fifteen months. During the quarter ended September 30, 2003, the Company received an order for approximately $540,000, which is expected to be delivered in the fourth quarter.

NOTE 6 COMMITMENTS AND CONTINGENCIES

On July 22, 2003, the Company assigned its licensing agreement with a firearms manufacturer to another corporation. The Company will still be able to provide certain products to the assignee to be sold and marketed under the firearms manufacturer's name. Under the assignment, the Company is relieved of certain contingent liabilities associated with the agreement including minimum royalties, the cost of securing and maintaining product liability insurance, and allotting a substantial marketing budget.

NOTE 7 SEGMENT INFORMATION

The Company has two strategic business units: the civilian market and the military market. The military market is further separated 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.

	Civilian Local	Military Local	Military Expo
Nine Months Ended SEPTEMBER 30, 2003			
Net Sales	$1,923,639	$2,155,768	$3,001,295
Income from operations	73,140	89,664	153,270
Nine Months Ended SEPTEMBER 30, 2002			
Net Sales	$2,699,092	$3,272,312	$1,928,338
Income from operations	660,149	514,804	302,109

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

THE FOLLOWING IS MANAGEMENT'S DISCUSSION AND ANALYSIS OF CERTAIN SIGNIFICANT FACTORS WHICH HAVE AFFECTED OUR FINANCIAL POSITION AND OPERATING RESULTS DURING THE PERIODS INCLUDED IN THE ACCOMPANYING CONDENSED CONSOLIDATED FINANCIAL STATEMENTS. THE DISCUSSION AND ANALYSIS WHICH FOLLOWS MAY CONTAIN TREND ANALYSIS AND OTHER FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 WHICH REFLECT OUR CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND FINANCIAL RESULTS. THESE INCLUDE STATEMENTS REGARDING OUR EARNINGS, PROJECTED GROWTH AND FORECASTS, AND SIMILAR MATTERS THAT ARE NOT HISTORICAL FACTS. WE REMIND SHAREHOLDERS THAT FORWARD-LOOKING STATEMENTS ARE MERELY PREDICTIONS AND THEREFORE ARE INHERENTLY SUBJECT TO UNCERTAINTIES AND OTHER FACTORS THAT COULD CAUSE THE FUTURE RESULTS TO DIFFER MATERIALLY FROM THOSE DESCRIBED IN THE FORWARD-LOOKING STATEMENTS.

CRITICAL ACCOUNTING POLICIES

We have identified the following policies as critical to the understanding of our financial statements. The preparation of our condensed consolidated financial statements 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 condensed consolidated financial statements and the reported amounts of sales and expenses during the reporting periods. An area where significant judgments are made is inventory valuation and actual results could differ materially from these estimates. Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

REVENUES AND REVENUE RECOGNITION. Revenues from sales of products are recognized under the completed contract method upon shipment to customers. The contracts are short term, generally under two months. We provide a warranty on goods ranging from three to four years. Our policy is to consider the establishment of a reserve for warranty expenses. Based upon historical experience of no warranty claims, we have not established a reserve at December 31, 2002 and September 30, 2003.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS. The functional currency of Export Erez, Ltd., Mayotex Ltd., and Achidatex Nazareth Elite is the New Israeli Shekel, or NIS. The functional currency of Dragonwear Trading Ltd. is the Cyprus

Pound, or CYP. The financial statements of Dragonwear are translated into NIS. The financial statements for all of these entities are then translated into United States dollars from NIS at quarter-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. Foreign currency transaction gains or losses from transactions denominated in currencies other than NIS are recognized in net income in the period the gain or loss occurs.

COMPREHENSIVE INCOME (LOSS). Foreign currency translation gains and losses resulting from the translation of the condensed consolidated financial statements of our company and its subsidiaries expressed in NIS to United States dollars are reported as Other Comprehensive Income (Loss) in the Statement of Income and as Accumulated Other Comprehensive Income (Loss) in the Statement of Shareholders' Equity. The unrealized gains and losses, net of tax, resulting from the valuation of available-for-sale securities at their fair market value at period end are reported as Other Comprehensive Income (Loss) in the Statement of Income and as Accumulated Other Comprehensive Income (Loss) in the Statement of Shareholders' Equity. A permanent decrease in the value of marketable securities is reported as a loss in the Statements of Income.

INVENTORIES. Inventories are valued at the lower of cost or market value using the first-in first-out method. The cost includes expenses of freight-in transportation. The specific identification method is used for finished goods since all orders are custom orders for customers. Inventories write-offs and write-down provisions are provided to cover risks arising from slow-moving items or technological obsolescence.

PROPERTY AND EQUIPMENT. Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of three to twenty-five years. These long-lived assets are generally evaluated on an individual basis in making a determination as to whether such assets are impaired. Periodically, we review our long-lived assets for impairment based on estimated future non discounted cash flows attributed to the assets. In the event such cash flows are not expected to be sufficient to recover the recorded value of the assets, the assets are written down to their estimated fair values.

INCOME TAXES. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

OVERVIEW

We are a manufacturer and global provider of personal military and civilian protective equipment and supplies. Our products are used by military, law enforcement, border patrol enforcement, and other special security forces, corporations, non-governmental organizations and individuals throughout the world.

Our main products include body armor, bomb disposal suits and bullet proof vests and jackets, ballistic wall covering, helmets, bullet proof ceramic and polyethylene panels, V.I.P. car armoring and one-way protective windows, personal military equipment, battle pouch units and combat harness units, dry storage units, liquid logistics, tents and vehicle covers, winter suits, sleeping bags and backpacks.

Our strategic objective is to be a 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 us in our marketplace.

- FOCUS ON INTERNAL GROWTH. We intend to focus on the internal expansion of our existing businesses, thereby placing us in a position to offer a more comprehensive portfolio of products to satisfy all of our customers' protective equipment needs.

- CAPITALIZE ON INCREASED DEMAND FOR OUR 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 intend to participate in other existing and future government programs that require 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 awareness and global brand recognition of us 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 both strengthen our relationships with existing customers and attract new customers.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2002 RESULTS OF OPERATIONS

SALES AND GROSS PROFIT MARGIN. Sales for the three months ended September 30, 2003 declined to $1,960,300 from $2,586,107 for the same period in 2002. This decrease is attributable to recession in the Israeli market as well as decreases in the Israeli military budgets. The decrease in export sales from $1,132,705 for the three months ended September 30, 2002 to $583,214 in the 2003 period is due to timing of the completion of orders in the 2003 period compared to the prior period in 2002. Export sales for the nine months ended September 30, 2003 have increased by 56% to $3,001,295 compared to $1,928,338 for the same period in 2002. We expect that our export sales will continue to increase in the future because of our marketing efforts to create a better awareness and global brand recognition of our company as well as for our products. We do not expect that our sales in Israel will increase until the government implements a new economic plan and not before the beginning of 2004.

The breakdown of our sales for the three months ended September 30, 2003 and 2002 is as follows:

	2003	2002
Sales to the local civilian market	$717,952	$687,433
Sales to the local military market	659,134	765,969
Export military sales	583,214	1,132,705
	$1,960,300	$2,586,107

Our gross profit for the three months ended September 30, 2003 was $495,960 compared to $808,089 for the same period in 2002. This decrease in gross profit is attributable to the decrease in total sales as well as to the drastic change of approximately 18% in the ratio between the Euro (the currency we use for purchasing the majority of our raw materials) and the US dollar (the currency we receive for the majority of our sales), the contraction of the local market and the product mix of our sales that was sold during the period. We believe that our overseas sales will continue to grow, but that the level of profit from future export sales will be higher as a result of a change in the composition of the products to be exported. As a result, our gross profit margin for the three months ended September 30, 2003 was 25.3% compared to 31.2% for the same period in 2002.

Our cost of sales for the three months ended September 30, 2003 was $1,464,340 compared to $ 1,778,018 for the same the same period in 2002. This decrease is primarily attributable to the decrease in sales.

GENERAL AND ADMINISTRATIVE EXPENSES AND SELLING EXPENSES. General and administrative costs for three months ended September 30, 2003 remained relatively constant at $335,160 compared to $349,113 for the same period in 2002. Selling expenses for the three months ended September 30, 2003 were $210,417 compared to $106,593 for the same period in 2002. This increase is primarily attributable to increased costs associated with our export sales.

INCOME TAX EXPENSES. Income tax benefit for the three months ended September 30, 2003 was $59,827 as compared to income tax expenses of $64,679 for the comparable period in 2002, reflecting the decline in net income.

TOTAL OTHER INCOME (EXPENSE). Total other income, net for the three months ended September 30, 2003 was $28,576 as compared to an expense of $31,911 for the same period in 2002. This income is attributable to the realization of profit from the sale of marketable securities.

MINORITY INTEREST. For the three months ended September 30, 2003 we recognized and recorded the minority interest share in our loss of $2,102 compared to their share in our income of $112,927 for the same period in 2002.

NET INCOME. As a result of the foregoing our net income for the three months ended September 30, 2003 was $40,888 compared to net income of $142,866 for the 2002 period.

TOTAL OTHER COMPREHENSIVE LOSS. For the three months ended September 30, 2003 we reported total other comprehensive loss of $16,664, net of tax, compared to a loss of $49,395, net of tax, in the 2002 period. In the 2003 period we had foreign currency translation gains of $83,692 arising from the decline of the dollar against the NIS, compared to a loss of $40,498 in the 2002 period. We also had $109,730 of unrealized loss on securities held that are available for sale, as compared to a loss of $36,682 in the 2002 period. This other comprehensive income in 2003 was offset in part by the tax benefit of $9,374. In 2002 we had other comprehensive tax benefit of $27,785.

NINE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2002 RESULTS OF OPERATIONS

SALES AND GROSS PROFIT MARGIN. Sales for the nine months ended September 30, 2003 decreased to $7,080,702 from $7,899,742 for the same period in 2002. This decrease resulted from the recession in the Israeli market as well as the decreases in the Israeli military budgets. The increase in export sales from $1,928,338 for the nine months ended September 30, 2002 to $3,001,295 in the 2003 period was due to the successful implementation of our growth plan.

The breakdown of our sales for the nine months ended September 30, 2003 and 2002 is as follows:

	2003	2002
Sales to the local civilian market	1,923,639	$ 2,699,092
Sales to the local military market	2,155,768	3,272,312
Export military sales	3,001,295	1,928,338
	$ 7,080,702	$ 7,899,742

Gross profit for the nine months ended September 30, 2003 decreased to $1,937,976 from $2,854,616 for the same period in 2002. This decrease is attributable to the decrease in total sales, and to the increase in overseas sales, which are characterized by lower margins compared to local sales, as well as to the drastic change of approximately 18% in the ratio between the Euro (the currency we use for purchasing the majority of our raw materials) and the US dollar (the currency we receive for the majority of our sales), the contraction of the local market and the product mix of our sales that was sold during the period. As a result, our gross profit margin for the nine months ended September 30, 2003 was 27.4% compared to 36.1% for the same period in 2002.

The cost of sales for the nine months ended September 30, 2003 was $5,142,726 compared to $5,045,126 for the same the same period in 2002. This increase is primarily attributable to increased overseas sales, which generally consist of products that are more expensive to produce as well as to the drastic change of approximately 18% in the ratio between the Euro (the currency we use for purchasing the majority of our raw materials) and the US dollar (the currency we receive for the majority of our sales), the contraction of the local market and the product mix of our sales that was sold during the period.

GENERAL AND ADMINISTRATIVE EXPENSES AND SELLING EXPENSES. General and administrative costs for nine months ended September 30, 2003 increased to $1,029,214 from $948,278 for the same period in 2002. This increase is due to increased professional expenditures, such as legal fees advertising, consultants and market analysts. Selling expenses for the nine months ended September 30, 2003 were $592,688 compared to $429,276 for the same period in 2002. The increase in selling expenses is attributable to the Company's effort's to penetrate the global marketplace and expand the awareness and market recognition of our company and products.

INCOME TAX EXPENSES. Income tax expense for the nine months ended September 30, 2003 was $65,086 as compared to $472,760 for the comparable period in 2002. The reduction in income taxes is a result of the decrease in net income.

TOTAL OTHER EXPENSE. Total other expense, net for the nine months ended September 30, 2003 was $103,302 as compared to $85,286 for the same period in 2002. This increase is attributable to increased financial expenses, arising from higher interest rates in the 2003 period.

MINORITY INTEREST. For the nine months ended September 30, 2003 we recognized and recorded minority interest income of $5,082 compared to $154,267 for the same period in 2002.

NET INCOME. As a result of the foregoing, our net income for the nine months ended September 30, 2003 was $142,604 compared to $764,749 for the 2002 period.

TOTAL OTHER COMPREHENSIVE INCOME (LOSS). For the nine months ended September 30, 2003 we reported total other comprehensive income of $126,955, net of tax, compared to a total other comprehensive loss of $187,647, net of tax in the 2002 period. In the 2003 period we had foreign currency translation gains of $193,239 compared to a loss of $203,626 in the comparable 2002 period. This resulted from the decrease in the NIS against the dollar in the 2002 period and the increase of the NIS against the dollar in the 2003 period. In the 2003 period we also had $5,128 of unrealized gain on securities available for sale as compared to a loss of $89,572 in the 2002 period. As a result of the gains in the 2003 period we recorded $71,412 in tax expenses as compared to a tax benefit of $105,551 in 2002.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, The FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities", an interpretation of Accounting Research Bulletin ("ARB") No. 51, "Consolidated Financial Statements". Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities, which have one or both of the following characteristics: (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated support from other parties, which is provided through other interest that will absorb some or all of the expected losses of the entity; (ii) the equity investors lack one or more of the following essential characteristics of a controlling financial interest: the direct or indirect ability to make decisions about the entities activities through voting rights or similar rights; or the obligation to absorb the expected losses of the entity if they occur, which makes it possible for the entity to finance its activities; the right to receive the expected residual returns of the entity if they occur, which is the compensation for the risk of absorbing the expected losses.

Interpretation No. 46 also requires expanded disclosures by the primary beneficiary (as defined) of a variable interest entity and by an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary. Interpretation No. 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

In June 2003, the FASB issued an Exposure Draft for proposed SFAS entitled "Qualifying Special Purpose Entities ("QSPE") and Isolation of transferred Assets", an amendment of SFAS No. 140 ("The Exposure Draft"). The Exposure Draft is a proposal that is subject to change and as such, is not yet authoritative. If the proposal is enacted in its current form, it will amend and clarify SFAS 140. The Exposure Draft would prohibit an entity from being a QSPE if it enters into an agreement that obliged a transferor of financial assets, its affiliates, or its agents to deliver additional cash or other assets to fulfill the special-purposes entity's obligation to beneficial interest holders.

The Company believes that the adoption of the recent pronouncement will not have a material effect on the condensed consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2003, we had $474,528 in cash and cash equivalents and our working capital was $2,954,552. Our current activities are financed by short and long term bank loans offset by short term deposits. Our decision to incur additional short term debt this year was based on our consideration of the prevailing yields on our deposits compared to the cost of short term loans. Our long term loans arose from acquisition of Achidatex and are payable over five years.

Net cash used in operating activities was $817,252 for the nine months September 30, 2003. Out of this amount, $201,870 was attributable to increase in trade accounts receivable, $117,697 was attributable to increase in other assets, $759,943 was attributable to increase in inventory and $85,388 was attributable to decrease in other liabilities. This was offset by an increase in trade accounts payable of $106,170.

The increase in accounts receivable at September 30, 2003 compared to year end was the result of the increase in overseas sales in the third quarter of 2003 as well as the fact that the Israeli Ministry of Defense has extended payment terms for an additional 30 days. The increase in inventory for the nine months ended September 30, 2003 was primarily due to our anticipation of upcoming orders.

Net cash provided by investing activities was $337,177 for the nine months ended September 30, 2003. During the nine months ended September 30, 2003, we used $66,128 for the purchases of property and equipment and $759,366 for investment in marketable securities. This was offset by $781,685 from the proceeds of the sale of the marketable securities and the $380,986 repayment of a note receivable and accrued interest by an officer.

We anticipate increasing our research and development expenditures in 2003 and 2004, primarily with respect to ballistic helmets, stab-resistant fabric, ceramic ballistic plates, ballistic wall covering and one-way protective windows. We anticipate total research and development expenses for 2003 and 2004 will be approximately $150,000 and $750,000, respectively. The development of these products will be by staff engineers. We expect that production of these products will start by the end of 2003, increasing to full production by the year 2006. We anticipate that in order to fund the research and development for these products, we may seek to raise capital by means of an offering of our equity securities. If we are unable to effect an offering of our securities, we may fund our research and development expenditures through our operating funds. In such event, the timing of our anticipated research and development and subsequent production schedule would be delayed.

We believe that we have sufficient funds to fund our operations during the remainder of 2003.

MARKET RISK

At September 30, 2003 and December 31, 2002, we held cash and cash equivalents in the aggregate amount of $474,528 and $831,820, respectively, most of these amounts were deposited with Israeli banks. Under Israeli law, the Bank of Israel insures all bank deposits without limits on the amount. Therefore, we do not anticipate losses in respect to these items.

The majority of our sales are made to government institutions and private industry in Israel. Consequently, we believe that our exposure to credit risks relating to trade receivables is limited. Overseas sales are usually covered by a letter of credit and are performed through major financial institutions; therefore the exposure risk is limited. We perform ongoing credit evaluations of our customers and generally do not require collateral. An appropriate allowance for doubtful accounts is included in trade accounts receivable.

ITEM 3. CONTROLS AND PROCEDURES

Based on their evaluations, as of the end of the period covered by this quarterly report on Form 10-QSB, our principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")) are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. There have been no changes in the Company's internal control over financial reporting during the third fiscal quarter of 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION
DEFENSE INDUSTRIES INTERNATIONAL, INC. AND SUBSIDIARIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

None.

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

31.1 Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 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.

32.2 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.

(B) Reports on Form 8-K:

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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 31.1

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 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 13a-15(e) and 15d-15(e) for the registrant and we 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) 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

c) 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 (or 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 company's internal control over financial reporting

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 registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financing 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: November __, 2003

/S/ JOSEPH POSTBINDER

Joseph Postbinder
Chief Financial Officer

EXHIBIT 31.2

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

I, Tsippy Moldoven, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 13a-15(e) and 15d-15(e) for the registrant and we 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) 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

c) 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 (or 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 company's internal control over financial reporting

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 registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financing 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: November __, 2003

/S/ TSIPPY MOLDOVEN

Tsippy Moldoven
Chief Financial Officer

EXHIBIT 32.1

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 for the period ending September 3o, 2003 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
November __, 2003

EXHIBIT 32.2

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 for the period ending September 30, 2003 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 MOLDOVAN

Tsippy Moldovan
Chief Financial Officer
November __, 2003