DEFENSE INDUSTRIES INTERNATIONAL INC
Form 10QSB/A
November 02, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB /A

Amendment No. 1

x Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2005

o 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.)

8 Brussels St. Sderot, 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 o

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 23, 2005 the Issuer had 25,386,463 shares of Common Stock, $.0001 par value per share, outstanding.

Transitional Small Business Disclosure Format (check one):

Yes o No x

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-QSB/A hereby amends Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 3. Controls and Procedures of Defense Industry International Inc. s Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2005, which was filed on May 23, 2005. This Amendment No. 1 is being filed for the purpose of providing additional details to our disclosures in the original report pursuant to comments we received from the Staff of the U.S. Securities and Exchange Commission in connection with its review of our Form 10-KSB for the year ended December 31, 2004 and our Forms 10-QSB for the quarterly periods ended March 31, 2005 and June 30, 2005. This Amendment No. 1 is not intended to revise other information presented in our Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 2005 as originally filed and all such other information in the original filing, which remains unchanged.

This Amendment No. 1 on Form 10-QSB/A does not reflect events occurring after the filing of the original Form 10-QSB and does not modify or update the disclosure therein in any way other than as required to reflect the amendments discussed above. As a result, this Amendment No. 1 to the Quarterly Report on Form 10-QSB continues to speak as of May 23, 2005.

For the convenience of the reader the entire document is being refiled.

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DEFENSE INDUSTRIES INTERNATIONAL, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

PART I FINANCIAL INFORMATION

Item 1.

ASSETS

	March 31, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS		
Cash and cash equivalents	$ 528,578	$ 505,013
Accounts receivable, net of allowance for doubtful accounts of $117,821 and $105,927, respectively	3,907,328	2,495,861
Accounts receivable - related parties, net	443,834	374,458
Inventories	3,178,061	2,809,019
Investments in marketable securities	851,032	808,102
Deferred taxes	38,762	43,049
Other current assets	658,315	402,325
Total Current Assets	9,605,910	7,437,827
PROPERTY, PLANT AND EQUIPMENT, NET	2,000,252	1,761,842
OTHER ASSETS		
Deposits for the severance of employer-employee relations	485,863	483,334
Deferred taxes, long-term	70,718	60,326
Intangible assets, net	28,376	31,337
Goodwill	80,900	-

	March 31, 2005 (Unaudited)	December 31, 2004
Total Other Assets	665,857	574,997
TOTAL ASSETS	$ 12,272,019	$ 9,774,666

DEFENSE INDUSTRIES INTERNATIONAL, INC.

AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2005 (Unaudited)	December 31, 2004
CURRENT LIABILITIES		
Accounts payable	$ 1,154,688	$ 1,026,162
Accrued expenses	1,746,710	490,236
Short-term debt	1,440,266	652,913
Current portion of long-term debt	422,287	407,227
Common stock to be issued	80,000	-
Other current liabilities	486,333	516,723
Total Current Liabilities	5,330,284	3,093,261
LONG-TERM LIABILITIES		
Long-term portion of debt	810,213	731,442
Provision for the severance of employer-employee relations	351,119	336,101
Common stock to be issued	120,000	-
Minority interest	915,130	902,771
Total long-term Liabilities	2,196,462	1,970,314
TOTAL LIABILITIES	7,526,746	5,063,575
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	3,232,186	3,148,950
Accumulated other comprehensive loss	(200,898)	(151,844)

	March 31, 2005 (Unaudited)	December 31, 2004
Total Shareholders' Equity	4,745,273	4,711,091
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,272,019	$ 9,774,666

The accompanying notes are an integral part of the 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, 2005
AND 2004
(UNAUDITED)

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
NET REVENUES	$ 3,684,480	$ 3,746,079
COST OF SALES	3,029,383	2,779,840
GROSS PROFIT	655,097	966,239
OPERATING EXPENSES		
Selling	144,081	120,919
General and administrative	397,096	306,697
TOTAL OPERATING EXPENSES	541,177	427,616
INCOME FROM OPERATIONS	113,920	538,623
OTHER INCOME (EXPENSE)		
Financial expense, net	(44,169)	(24,482)
Other income, net	80,226	27,198
Total Other Income, net	36,057	2,716
INCOME BEFORE INCOME TAXES	149,977	541,339
Less: income tax expense	49,014	194,338
INCOME BEFORE MINORITY INTEREST	100,963	347,001
Minority interest (income) loss	(17,725)	2,223

	For the Three Months Ended March 31, 2005		For the Three Months Ended March 31, 2004
NET INCOME		83,238	349,224
OTHER COMPREHENSIVE INCOME			
Foreign currency translation loss, net of minority interest portion		(41,284)	(118,481)
Other comprehensive income before tax		(41,284)	(118,481)
Income tax benefit related to items of other comprehensive income		16,679	42,653
TOTAL OTHER COMPREHENSIVE (LOSS), NET OF TAX		(24,605)	(75,828)
COMPREHENSIVE INCOME	$	58,633	$ 273,396
Net income per share - basic and diluted	$	0.00	$ 0.01
Weighted average number of shares outstanding - basic and diluted		25,350,000	25,350,000

The accompanying notes are an integral part of the 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, 2005 AND 2004
(UNAUDITED)

	For The Three Months Ended March 31, 2005	For The Three Months Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 83,238	$ 349,224
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	44,376	71,317
Gain from sale of property, plant and equipment	(17,725)	---
Provision for doubtful accounts	4,779	3,388
Net realized and unrealized (gain) loss on marketable securities	(59,281)	24,455
Minority interest in income (loss) of subsidiary	17,725	(2,223)
Changes in operating assets and liabilities, net of effects of acquisition:		
(Increase) decrease in deposits for employee severance	(2,529)	6,055
(Increase) decrease in deferred taxes	(6,105)	3,846

	For The Three Months Ended March 31, 2005	For The Three Months Ended March 31, 2004
Increase in accounts receivable	(1,253,398)	(282,551)
Increase in other current assets	(252,125)	(36,883)
(Increase) decrease in inventories	(189,736)	153,318
Increase in accounts payable	97,553	156,392
Increase in accrued expenses	1,256,474	718,070
Decrease in other current liabilities	(190,436)	(159,909)
Increase (decrease) in provision for the severance of employer-employee relations	15,018	(563)
Net Cash (Used in) Provided By Operating Activities	(452,172)	1,003,936
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(186,128)	(118,404)
Proceeds from sale of property, plant and equipment	17,794	---
Proceeds from sale of marketable securities	111,743	48,999
Cash acquired in acquisition of Owen Mills Company	20,415	---
Purchases of marketable securities	(105,242)	(36,571)
Net Cash Used in Investing Activities	(141,418)	(105,976)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term debt, net	787,353	(285,900)
Payments on long-term debt	(158,425)	(160,019)
Net Cash Provided By (Used In) Financing Activities	628,928	(445,919)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH	(11,773)	(140,044)
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,565	311,997
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	505,013	784,026
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 528,578	$ 1,096,023
INTEREST PAID	$ 28,449	$ 26,225
TAXES PAID	$ 54,752	$ 49,489

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

DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

On February 28, 2005, the Company acquired all the outstanding shares of Owen Mills Company for an aggregate of $372,401, consisting of a note payable of $172,401 and $200,000 in common stock of the Company, both of which are to be paid over five years. (See Note 2 for assets and liabilities acquired).

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DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(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. Dragonwear Trading Ltd. and its 76% owned subsidiary Achidatex Nazareth Elite for all periods presented and Rizzo, Inc. (doing business as Owen Mills Company) since February 28, 2005 (the acquisition date) (collectively, the Company). The minority interest represents the minority shareholders proportionate share of Achidatex and Owen Mills Company.

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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DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

(E) Interim Consolidated Financial Statements

The condensed consolidated financial statements as of and for the three months ended March 31, 2005 and 2004 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, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year. The consolidated balance sheet information as of December 31, 2004 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) Goodwill and Other Intangible Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, the Company allocates the purchase price of its acquisitions to the tangible assets, liabilities and intangible assets acquired based on their estimated fair values. The excess purchase price over those fair values is recorded as goodwill. The fair value assigned to intangible assets acquired is either based on valuations prepared by independent third party appraisal firms using estimates and assumptions provided by management or negotiated at arms-length between the Company and the seller of the acquired assets. In accordance with SFAS No. 142, goodwill and purchased intangibles with indefinite lives are not amortized, but will be reviewed periodically for impairment. Purchased intangibles with finite lives will be amortized on a straight-line basis over their respective useful lives.

NOTE 2 BUSINESS COMBINATION

Effective February 28, 2005, the Company acquired all of the outstanding shares of Rizzo Inc. (doing business as Owen Mills Company), a Los Angeles-based manufacturing and service company specializing in military and industrial sewing of marine and ballistic fabric products. Under the terms of the agreement, the Company purchased all of the outstanding stock of Owen Mills Company in consideration for a $200,000 note payable and shares of the Company s common stock having a value of $200,000, based on the average closing price per share of the Company s common stock for the ten trading days preceding the issuance of such shares. The Company shall pay the $400,000 of consideration as follows: (i) $3,333.33 each month commencing on March 31, 2005 and thereafter on the last business day of each successive month until the Company has paid the former shareholder of Owen Mills Company a total of $200,000; the present value of the payments is $172,401 (ii) $40,000 in the form of shares of common stock of the Company payable within fifteen (15) business days from the date of the Agreement; and (iii) $40,000 in the form of the Company s common stock paid to the former shareholder of Owen Mills Company on each of the last business days of February 2006, February 2007, February 2008, and of February 2009. The Company acquired assets totaling $576,190 (consisting of cash of $20,415, accounts receivable, net of $232,224, inventory of $179,306, property, plant and equipment, net of $140,380, and other current assets of $3,865) and assumed liabilities of $284,689 (consisting of accounts payable of $30,973, other current liabilities of $160,046, and long-term debt of $93,670), which resulted in the recording of $80,900 in goodwill.

The acquisition of Owen Mills Company was accounted for as a purchase under SFAS No. 141, Business Combinations. Accordingly, the operating results of Owen Mills Company have been included in the consolidated statements of income after the acquisition date of February 28, 2005. The following table reflects the unaudited pro forma combined results of operations for the three months ended March 31, 2005 and 2004, assuming the acquisition had occurred at the beginning of 2004.

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
Revenue	$ 3,844,061	$ 4,017,093

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004
Net income	$ 80,681	$ 353,652
Net income per share - basic and diluted	$ 0.00	$ 0.01

NOTE 3 INVENTORIES

Inventories consisted of the following:

	March 31, 2005	December 31, 2004
Raw materials	$ 1,772,702	$ 1,639,456
Work in process	1,149,010	837,836
Finished goods	256,349	331,727
	$ 3,178,061	$ 2,809,019

DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

NOTE 4 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, 2005				
Net Sales	$ 459,020	$ 581,467	$ 2,643,993	$ 3,684,480
Income from operations	10,297	34,786	68,837	113,920
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

(B) Single Customers Exceeding 10% of Sales:

	For the Three Months Ended March 31, 2005	For the Three Months Ended March 31, 2004

Sales				
Customer A (Military Export)	$	-	$	1,731,656
Customer B (Military Export)	$	795,168		-
Customer C (Military Export)	$	540,428		-
Customer D (Military Export)	$	515,392		-

DEFENSE INDUSTRIES INTERNATIONAL, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(UNAUDITED)

NOTE 5 COMMITMENTS AND CONTINGENCIES

During 2004, the Israeli Government decided to evacuate the Erez Industrial Zone in the Gaza Strip where part of operations were located. The Company owns facilities, leases other facilities and maintains equipment and inventory within this area. In 2005, the Company moved its light cut and sew operation from the Industrial Zone Erez to Sderot as well as some of its webbing equipment to Nazareth. The Israeli Government s initial decision to evacuate the Gaza Strip was backed by resolutions to compensate the Israeli Gaza Strip settlers as well as business and property owners in the Gaza Strip and in the Erez Industrial Zone. While the Israeli Government has not yet decided on the date of the evacuation, there is no doubt that it will evacuate the area, or that it will come to an agreement with the business and property owners for their compensation. The compensation is mentioned in the Evacuation Law resolution that was adopted by the Israeli Parliament, however, the amount of the compensation will be negotiable.

The Company believes that, at a minimum, it will be compensated for the actual expenses incurred in connection with the potential relocation.

NOTE 6 SUBSEQUENT EVENTS

On April 27, 2005, the Company issued 36,463 common shares having a fair value of $40,000 to the former shareholder of Owen Mills Company according to the business combination agreement signed on February 28, 2005. Also see Note 2.

Item 2. Management's Discussion and Analysis o f Financial Condition and Results of Operations

This information should be read in conjunction with the condensed consolidated financial statements and notes included in Item 1 of Part I of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2004 contained in our 2004 Annual Report on Form 10-KSB. 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 condensed consolidated financial statements. The preparation of our 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. Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States.

Revenues and Revenue Recognition. Revenues from sales of products are recognized upon shipment to customers. 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 March 31, 2005 and March 31, 2004. If we change any of our assumptions with regard to our recognition of revenues, or if there is a change with respect to warranties expenses our financial position and results of operations may change materially.

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. Any change in exchange rates may have a material impact on our financial position and results of operations.

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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. Any change in our assumptions with respect to the need to write-off write-down the value of our inventories may have material affect on our financial position or results of operations.

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. The use of different assumptions with respect to the expected cash flows from our assets and other economic variables, primarily the discount rate, may lead to different conclusions regarding the recoverability of our assets carrying values and to the potential need to recordan impairment loss for our long lived assets.

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, bullet proof vests and jackets, ballistic wall coverings, bullet proof ceramic and polyethylene panels, V.I.P. car armoring and lightweight armor kits for vehicles, personal military equipment, dry storage systems, liquid logistic products, tents and other camping and travel gear.

From time to time we have provided bulletproof vests developed by us to laboratories in the United States for testing, and following the tests, the products were deemed to have met the American National Institute of Justice (NIJ) standards. The American NIJ standards are the accepted standards worldwide for bulletproof vests and compliance with these standards has enabled us to enter into the North American market as well as other new markets for our bulletproof vests. Similarly, we have submitted our ballistic ceramic plates for testing by German laboratories and following the tests, the products were deemed to have met the German qualification standard. Obtaining this standard has enabled us to enter the German and other European markets for these products.

Our strategy is to capitalize on our significant research and development capabilities and the strength of our brand identity and achieve greater economies of scale. Due to ever-present international tensions we believe that the demand for our products will continue to grow. We expect to address this growth by offering a comprehensive array of high quality branded security products to meet the needs of our customers around the world. We intend to enhance our leadership position in the industry through additional strategic acquisitions and by creating a broad portfolio of products and services to satisfy all of our customers increasingly complex security products needs. The following elements define our growth strategy.

Capitalize on Exposure to Military Problems. We believe that the events of September 11, 2001, the subsequent War on Terrorism, the continuing conflict in Iraq, the increasing likelihood of military conflicts abroad, and recent events where lives have been saved due to the performance of armor systems, are all likely to result in additional interest in our products.

Expand Distribution, Networks and Product Offerings. We expect to continue to leverage our distribution network by expanding our range of branded law enforcement equipment through the acquisition of niche defensive security products manufacturers and by investing in the development of new and enhanced products which complement our existing offerings. We believe that a broader product line will strengthen our relationships with distributors and enhance our brand appeal with military, law enforcement and other end users.

Pursue Strategic Acquisitions. In addition to our recent acquisition of Owen Mills, we intend to continue selectively pursue strategic acquisitions that complement and/or expand our product offerings, provide access to new geographic markets, and provide additional distribution channels and new customer relations.

Material Trends

Local Military Market. The Israeli Military defense budget has been subject to reductions since the second half of 2003. As a result, the demand for our products declined in the second half of 2003 and stabilized at a lower level in 2004 and in the first three months of 2005. In 2004 and in the first three months of 2005, sales to the Israeli Ministry of Defense were $2,094,590 and $581,467, accounting for 17.4% and 15.8% of our sales.

Export Military Market. Our customers in this market are military and law enforcement organizations, mostly in South America, North America and Europe. Their budgets are fluctuating and as a result we cannot identify definite trends in these markets. In 2004 and in the first three months of 2005, we had sales of $2,792,702 and $212,900 in South America, sales of $4,036,584 and $229,681 in North America, and sales of $776,305 and $1,961,357 in Europe.

Since 2003, we have increased our export efforts and sales as a consequence of the worldwide environment resulting from the events of September 11, 2001, the subsequent War on Terrorism and the continuing conflict in Iraq. We are continuing our efforts to strengthen our position in our existing export markets in the U.S., South America, Asia and Europe, and to extend our presence to new export markets in South America and Europe. We believe that those markets are growing and that any future success in such markets is mainly dependant on our ability to be competitive in our pricing and the quality of our products.

As a result of the above, we expect instability in that our export military business will be under pressure in the next year, and that we will experience growth in the next two to three years.

Local Civilian Market. Our product range to the civilian market is diversified. In 2004 our local market business grew, due to the improvement of the economic situation in Israel. We expect modest increase in this market in 2005 and in the future.

Gross Profit Margins. Our pricing policy, although slightly different from one product to the other, is based on our existing overall gross margin. We do not expect a material change in our gross profit margins in the foreseeable in future.

Backlog. We had approximately $3.1 million of unfilled customer orders at March 31, 2005, out of which approximately $1.6 million was attributable to orders from military customers in South America, North America, Europe and Africa, approximately $380,000 was attributable to the local civilian market, approximately $220,000 was attributable to the U.S. civilian market and approximately $900,000 was attributable to the Israeli Military of Defense.

Operations in the Erez Industrial Zone

During 2004, the Israeli Government decided to evacuate the Erez Industrial Zone in the Gaza Strip where part of our operations were located. The Israeli Government s decision to evacuate the Gaza Strip was supported by certain resolutions as well as the Evacuation Law that was adopted by the Israeli Parliament to compensate the Israeli Gaza Strip settlers as well as business and property owners in the Gaza Strip and in the Erez Industrial Zone, however, the amount of the compensation has not been finalized.

We owned facilities, leased other facilities and maintained equipment and inventory within this area. During the last half of 2004, we prepared for the eventual evacuation by merging existing production facilities. We moved one of our light cut and sew operations from the Erez Industrial Zone to Sderot and some of our webbing equipment to Nazareth. Due to our belief that we will be reimbursed for all the costs related to the evacuation of the Erez Industrial Zone, no impairment or accrued liabilities have been recorded at March 31, 2005.

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Three Months Ended March 31, 2005 Compared with Three Months Ended March 31, 2004

Results of Operations

Net Revenues and Gross Profit Margin. Net revenues for the three months ended March 31, 2005 decreased to $3,684,480 from $3,746,079 in the same period in 2004, a decrease of 1.6%. The decrease is attributable to a decrease in export sales. We attribute this decrease in export sales to the fact that a major export customer in 2004 did not contribute to the export sales during the three months ended March 31, 2005. This decrease was partially offset by the continued successful implementation of our growth plan with our focus on the international markets and increased sales to the local markets.

On February 28, 2005, we acquired all of the outstanding shares of Owen Mills, a company that specializes in military and industrial sewing of marine and ballistic fabric products. For the first three months of 2005, Owen Mills had revenues of $241,695.

The following table sets forth the breakdown of sales by segment for the three months ended March 31, 2005 and 2004.

	Three months ended March 31,	
	2005	2004
Sales to the local civilian market	$ 459,020	$ 257,087
Sales to the local military market	581,467	442,017
Export military sales	2,643,993	3,046,975
Total	$ 3,684,480	$ 3,746,079

The following table sets forth, for the three months ended March 31, 2005, the revenues and net income of each of our subsidiaries as a percentage of our total revenues and net income.

	For the three months ended March 31, 2005		
	Achidatex	Export Erez	Owen Mills
Revenues	44.1%	53.7%	2.2%
Net Income	58.0%	42.0%	*

**Owen Mills recorded a loss of $9,325.

The dominance of export sales is expected to continue into the second quarter of 2005. This expectation is based, among other things, on the fact that we have broadened our export customers base.

We anticipate that our revenues for the remainder of 2005 will exceed our sales results in the same period in 2004.

Gross profit for the three months ended March 31, 2005 was $655,097 compared to $966,239 for the same period in 2004. This decrease in gross profit is principally attributable to the change in the mix of products sold, which products were characterized by low profit margins, and the temporary lower operating efficiency resulting from the partial relocation of certain manufacturing lines from Erez Industrial Zone to Sderot. As a result, our gross profit margin for the three months ended March 31, 2005 was 17.8% compared to 25.8% for the same period in 2004. We anticipate an increase in our gross profit margin in the second quarter of 2005. Also affecting our gross profits in the three months ended March 31, 2005 was the approximate 5.9% increase in the ratio between the Euro (which is the currency used for the majority of our raw material purchases) and the US Dollar (which is the principal currency for our sales). We believe that the second quarter of 2005 will be characterized by an increased demand worldwide for raw materials, that may result in significant extensions in the regular delivery schedules and an increase in raw material prices which will likely effect our cost of production.

Selling Expenses. Selling expenses for the three months ended March 31, 2005 increased to $144,081 from $120,919 for the same the same period in 2004. The increase in our selling expenses was attributable to higher commission payments on sales to a major export customer.

General and Administrative Expenses. General and administrative expenses for three months ended March 31, 2005 increased to $397,096 from $306,697 for the same period in 2004. This increase is mainly a result of our activity to expand our presence in the United States and costs associated with the partial relocation of certain manufacturing lines from Erez Industrial Zone to Sderot. We do not anticipate any material change in our general and administrative expenses in the second quarter of 2005.

Income Tax Expense. Our income tax expense for the three months ended March 31, 2005 was $49,014 as compared to a tax expense of $194,338 for the comparable period in 2004, reflecting the lower level of earnings in the first quarter of 2005. Our effective tax rate was 32.7 % in the 2005 period, compared to 35.9% in the 2004 period.

Financial Expenses. We had financial expenses, net of $44,169 for the three months ended March 31, 2005 as compared to $24,482 for the same period in 2004. This increase is attributed mainly to the increase in the rate of exchange between the U.S. Dollar ($) and the New Israeli Shekel (NIS).

Other Income, Net. We had other income, net for the three months ended March 31, 2005 of $80,226 as compared to other income of $27,198 for the same period in 2004. The increase in other income, net is attributable to income from our marketable securities.

Liquidity and Capital Resources

As of March 31, 2005, we had $528,578 in cash and cash equivalents, $851,032 in marketable securities and working capital of $4,275,626 as compared to $505,013 in cash and cash equivalents, $808,102 in marketable securities and $4,344,566 in working capital at December 31, 2004. The decrease in working capital is mainly due to our acquisition of Owen Mills Company and the purchase of fixed assets.

Net cash used in operating activities was $452,172 for the three months ended March 31, 2005 as compared to $1.0 million provided from operating activities for the same period in 2004. This was primarily attributable to net income of $83,238 in this period, a $1,256,434 increase in accrued expenses, a $189,736 increase in inventory, a decrease in other current assets of $252,125, depreciation of $44,376 and an increase in minority interest of $17,725, which was offset by a $1,253,398 decrease in accounts receivable.

Our revenues for the three months ended March 31, 2005, decreased by approximately $60,000 compared to the same period in 2004, resulting in an increase in our accounts receivable that was partially offset by a decrease in inventory and in other current assets. In the first three months of 2005 we invested $384,393 in fixed assets (mainly in new molding equipment) and entered into $709,211 of short and long term loans.

Net cash used in investing activities was $141,418 for the three months ended March 31, 2005 as compared to $105,976 in the three months ended March 31, 2004. During the three months ended March 31, 2005, $168,334 (net of sales of fixed assets) was used to purchase fixed assets, while $6,501 (net of purchases of marketable securities) was provided from sales of our marketable securities, and $20,415 was obtained in connection with our acquisition of Owen Mills.

Net cash provided from financing activities was $186,128 for the three months ended March 31, 2005 as compared to $118,404 in the three months ended March 31, 2004. During the three months ended March 31, 2005, we increased our short-term debt by $787,353 and we repaid $158,423 (net of proceeds from new long term debt) of long term debt.

All of our large contracts are supported by letters of credit. As a result, we believe that we have limited exposure to doubtful accounts receivables. We have historically achieved net profits on an annual basis, but our quarterly profits are not consistent on a quarter to quarter basis. Nevertheless, we have striven to balance our accounts payable and account receivable. Subject to an unexpected growth in inventories as a result of a future growth in sales or a significant change in raw material prices, we intend to use our cash flow from operations for the acquisition of companies or equipment.

During 2005, we decided to reduce our projected spending for research and development. We anticipate that our research and development expenses for the remainder of 2005 and for 2006 will reflect annualized spending of approximately $70,000 per year.

We believe that we have sufficient working capital and borrowing capability to sustain our current level of operations for the next twelve months.

Foreign Currency Exchange Risk

We develop products in Israel and sell them in South America, Asia and several European countries. As a result, our financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets.

Our foreign currency exposure with respect to our sales is mitigated, and we expect it will continue to be mitigated, through salaries, materials and support operations, in which part of these costs are denominated in NIS.

During 2004, the NIS appreciated in value in relation to the dollar by approximately 2.35% against the U.S. dollar. In the first quarter of 2005 the NIS appreciated in value in relation to the dollar by approximately 1.28 % against the U.S. dollar. Among the factors contributing to the appreciation in NIS value in relation to the dollar is the low interest rate for US investments compared to the higher interest rate for Israeli investments. The deflation in Israel was approximately 0.6% for the three months ended March 31, 2005 compared to an annual deflation of 1.2% in 2004.

Since most of our sales are quoted in U.S. dollars, and a portion of our expenses are incurred in NIS, our results may be adversely affected by a change in the rate of inflation in Israel or if such change in the rate of inflation is not offset, or is offset on a lagging basis, by a corresponding devaluation of the NIS against the U.S. dollar and other foreign currencies. We will also be adversely affected if the U.S. dollar continues to depreciate against the Euro, the currency used for many of our purchases of raw material.

We did not enter into any foreign exchange contracts in 2004 or the first three months of 2005.

Contractual Obligations

The following table summarizes our contractual obligations and commercial commitments as of March 31, 2005.

Contractual Obligations	**Payments due by Period**				
	Total	**less than 1 year**	**2 -3 years**	**4 -5 years**	**more than 5 years**
Long-term debt obligations	1,232,500	422,287	602,972	207,241	-
Capital (finance) lease obligations	-	-	-	-	-
Operating lease obligations	736,100	255,600	468,000	12,500	-
Purchase obligations	-	-	-	-	-
Other long-term liabilities reflected on the Company's					

Contractual Obligations	Payments due by Period				
balance sheet under U.S. GAAP	-	-	-	-	-
Total	1,968,600	677,887	1,070,972	219,741	-

Cautionary Statement Regarding Forward-Looking Information and Risk Factors

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as anticipate, expect, intend, plan, believe, seek, outlook and estimate as well as similar words and phrases signify forward-looking statements. Our forward-looking statements are not guarantees of future results and conditions and important factors, risks and uncertainties may cause our actual results to differ materially from those expressed in our forward-looking statements. These uncertainties and other factors include, but are not limited to, the following:

Our significant international operations subject us to financial and regulatory risks.

Currency exchange rate fluctuations in the world markets in which we conduct business could have a material adverse effect on our business, results of operations and financial condition.

Sales of our products are subject to governmental procurement procedures and practices; termination, reduction or modification of contracts with our customers, and especially with the government of Israel, or a substantial decrease in our customers budgets may adversely affect on us.

The loss of one or more of our key customers would result in a loss of a significant amount of our revenues.

Our markets are highly competitive. Inability to compete effectively will adversely affect us.

Limited sources for some of our raw materials may significantly curtail our manufacturing operations.

Our resources may be insufficient to manage the demands imposed by any future growth.

Item 3. Controls and Procedures

Our management, including our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this quarterly report on Form 10-QSB. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by our company in reports that we file or submit under the U.S. Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information was made known to them by others within the company, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

In connection with the evaluation of the Company s internal controls as of the end of the period covered by this quarterly report, our chief executive officer and chief financial officer have determined that there were no changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially effect, the Company s internal controls over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II OTHER INFORMATION

DEFENSE INDUSTRIES INTERNATIONAL, INC. AND SUBSIDIARIES

Item 1. Legal Proceedings

We are not a party to any pending or to the best of our knowledge, any threatening legal proceedings. None of our directors, officers or affiliates, or owner of record of more than five percent (5%) of our shares, or any affiliate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us in reference to a pending litigation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 28, 2005 we entered into an agreement of purchase and sale of stock with Owen Mills Company, a Los Angeles based manufacturing and service company specializing in military and industrial sewing of marine and ballistic fabric products. Under the terms of the agreement, we purchased all of Owen Mills Company s outstanding stock in consideration for $200,000 in cash and shares of our common stock having a value of $200,000, based on the average closing price per share of our shares of common stock for the ten trading days preceding the issuance of such shares. The issuance of shares was made pursuant to an exemption from registration under section 4(2) of the Securities Act of 1933.

Item 3. Default Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Shareholders

None.

Item 6. Exhibits

(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.

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)

BY: /S/ Joseph Postbinder

Joseph Postbinder
Executive Officer

BY: /S/ Tsippy Moldovan

Tsippy Moldovan
Chief Accounting and Financial Officer

Date: November 2 , 2005