

DEFENSE INDUSTRIES INTERNATIONAL INC
Form 10QSB
November 15, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

- Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2005
- 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

(State of Incorporation)

84-1421483

(I.R.S. Employer Identification No.)

8 Brussels St. Sderot, 80100, Israel

(Address of Principal Executive Offices)

(011) 972-8-689-1611

(Issuer's Telephone Number, Including Area Code)

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

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 14, 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 No

APPLICABLE ONLY TO CORPORATE ISSUERS

DEFENSE INDUSTRIES INTERNATIONAL, INC. AND SUBSIDIARIES

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Item 1.

PART I FINANCIAL INFORMATION

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

ASSETS

| | September 30, 2005 | December 31, 2004 |
|---|-----------------------|----------------------|
| | (Unaudited) | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 656,927 | \$ 505,013 |
| Accounts receivable, net of allowance for doubtful accounts of \$132,200 and \$105,927, respectively | 2,265,375 | 2,495,861 |
| Accounts receivable - related parties, net | 509,336 | 374,458 |
| Inventories | 2,544,483 | 2,809,019 |
| Investments in marketable securities - held for trading | 729,316 | 808,102 |
| Deferred taxes | 56,790 | 43,049 |
| Other current assets | 448,870 | 402,325 |
| | <u>7,211,097</u> | <u>7,437,827</u> |
| PROPERTY, PLANT AND EQUIPMENT, NET | <u>1,973,114</u> | <u>1,761,842</u> |
| OTHER ASSETS | | |
| Deposits for the severance of employer-employee relations | 417,070 | 483,334 |
| Deferred taxes, long-term | 47,447 | 60,326 |
| Intangible assets, net | 22,020 | 31,337 |
| Goodwill | 80,900 | - |
| | <u>567,437</u> | <u>574,997</u> |
| TOTAL ASSETS | <u>\$ 9,751,648</u> | <u>\$ 9,774,666</u> |

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

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

LIABILITIES AND SHAREHOLDERS' EQUITY

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| | September 30, 2005 | December 31, 2004 |
|--|-----------------------|----------------------|
| | (Unaudited) | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 872,888 | \$ 1,026,162 |
| Accrued expenses | 224,278 | 490,236 |
| Short-term debt | 531,738 | 652,913 |
| Current portion of long-term debt | 839,808 | 407,227 |
| Common stock to be issued | 40,000 | - |
| Other current liabilities | 411,395 | 516,723 |
| | <hr/> | <hr/> |
| Total Current Liabilities | 2,920,107 | 3,093,261 |
| | <hr/> | <hr/> |
| LONG-TERM LIABILITIES | | |
| Long-term portion of debt | 923,897 | 731,442 |
| Provision for the severance of employer-employee relations | 283,059 | 336,101 |
| Common stock to be issued | 120,000 | - |
| Minority interest | 912,645 | 902,771 |
| | <hr/> | <hr/> |
| Total long-term Liabilities | 2,239,601 | 1,970,314 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES | 5,159,708 | 5,063,575 |
| | <hr/> | <hr/> |
| 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, 25,386,463 and 25,350,000 issued and outstanding, respectively | 2,538 | 2,535 |
| Additional paid-in capital | 1,751,447 | 1,711,450 |
| Deferred private placement costs | (130,000) | - |
| Retained earnings | 3,381,759 | 3,148,950 |
| Accumulated other comprehensive loss | (413,804) | (151,844) |
| | <hr/> | <hr/> |
| Total Shareholders' Equity | 4,591,940 | 4,711,091 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 9,751,648 | \$ 9,774,666 |
| | <hr/> | <hr/> |

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

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| | For the Three Months Ended September 30, 2005 | For the Three Months Ended September 30, 2004 | For the Nine Months Ended September 30, 2005 | For the Nine Months Ended September 30, 2004 |
|--|--|--|---|---|
| NET REVENUES | \$ 1,992,642 | \$ 3,181,111 | \$ 9,584,813 | \$ 9,753,915 |
| COST OF SALES | 1,461,237 | 2,027,699 | 7,223,841 | 6,779,737 |
| GROSS PROFIT | 531,405 | 1,153,412 | 2,360,972 | 2,974,178 |
| OPERATING EXPENSES | | | | |
| Selling | 224,941 | 222,231 | 603,751 | 613,587 |
| General and administrative | 431,620 | 367,941 | 1,389,667 | 1,051,530 |
| TOTAL OPERATING EXPENSES | 656,561 | 590,172 | 1,993,418 | 1,665,117 |
| INCOME (LOSS) FROM OPERATIONS | (125,156) | 563,240 | 367,554 | 1,309,061 |
| OTHER INCOME (EXPENSE) | | | | |
| Financial income (expense), net | (11,286) | (47,787) | (46,723) | (110,582) |
| Other income (expense), net | 39,763 | (39,947) | 104,475 | 18,960 |
| Total other income (expense) | 28,477 | (87,734) | 57,752 | (91,622) |
| INCOME (LOSS) BEFORE INCOME TAXES | (96,679) | 475,506 | 425,306 | 1,217,439 |
| Income tax (expense) benefit | 28,569 | (212,583) | (153,460) | (496,284) |
| INCOME (LOSS) BEFORE MINORITY INTEREST | (68,110) | 262,923 | 271,846 | 721,155 |
| Minority interest (income) loss | 12,568 | (13,515) | (39,037) | (39,413) |
| NET INCOME (LOSS) | \$ (55,542) | \$ 249,408 | \$ 232,809 | \$ 681,742 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Foreign currency translation gain (loss), net of minority interest portion | (8,145) | 6,275 | (242,712) | (82,618) |
| Other comprehensive income (loss) before tax | (8,145) | 6,275 | (242,712) | (82,618) |
| Income tax (expense) benefit related to items of other comprehensive income (loss) | 2,994 | (2,196) | 89,066 | 28,916 |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | (5,151) | 4,079 | (153,646) | (53,702) |
| COMPREHENSIVE INCOME (LOSS) | \$ (60,693) | \$ 253,487 | \$ 79,163 | \$ 628,040 |
| Net income (loss) per share - basic and diluted | \$ --- | \$ 0.01 | \$ 0.01 | \$ 0.03 |

| | For the Three Months Ended September 30, 2005 | For the Three Months Ended September 30, 2004 | For the Nine Months Ended September 30, 2005 | For the Nine Months Ended September 30, 2004 |
|--|--|--|---|---|
| Weighted average number of shares outstanding - basic and diluted | 25,386,463 | 25,350,000 | 25,370,970 | 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
(UNAUDITED)**

| | For the Nine Months Ended September 30, 2005 | For the Nine Months Ended September 30, 2004 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 232,809 | \$ 681,742 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 261,571 | 211,125 |
| Gain from sale of property, plant and equipment | (21,591) | (1,109) |
| Provision for doubtful accounts | 26,273 | 13,470 |
| Net realized and unrealized gain on marketable securities | (82,884) | (17,950) |
| Minority interest in income of subsidiary | 39,037 | 39,413 |
| Change in operating assets and liabilities, net of effects of acquisition: | | |
| Decrease (increase) in accounts receivable | 301,559 | (1,085,278) |
| Decrease (increase) in inventories | 443,842 | (208,707) |
| (Increase) decrease in deferred taxes | (862) | 184,487 |
| Decrease (increase) in other current assets | 85,185 | (42,393) |
| Decrease in deposits for employee severance | 66,264 | 6,373 |
| (Decrease) increase in accounts payable | (184,247) | 24,241 |
| (Decrease) increase in accrued liabilities | (265,958) | 227,364 |
| (Decrease) increase in other current liabilities | (265,374) | 183,906 |
| (Decrease) increase in provision for the severance of employer-employee relations | (53,042) | 9,068 |
| Net Cash Provided By Operating Activities | 582,582 | 225,752 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (517,761) | |