

DEFENSE INDUSTRIES INTERNATIONAL INC  
Form 10-Q/A  
May 16, 2008

---

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**  
**Amendment No. 1**

- Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2008 or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 0-30105

**DEFENSE INDUSTRIES INTERNATIONAL, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**84-1421483**  
(I.R.S. Employer  
Identification No.)

**8 Brisel Street**  
**Industrial Zone Sderot,**  
**Israel, 87711**  
(Address of Principal Executive Offices)

**(011) 972-8-689-1611**  
(Registrant's Telephone Number, Including Area Code)

**N/A**  
(Former Name, Former Address and Former Fiscal Year,  
if Changed Since Last Report)

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

Yes  No

Indicate by check mark whether the registrant is large accelerated filer, an accelerated filer, or a non-accelerated filer. See of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

# Edgar Filing: DEFENSE INDUSTRIES INTERNATIONAL INC - Form 10-Q/A

Non-accelerated filer   
(Do not check if smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 14, 2008 the issuer had 28,991,111 shares of Common Stock, par value \$0.0001, outstanding.

---

## EXPLANATORY NOTE

This Amendment No. 1 is being filed to correct typographical errors in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2008. The errors relate to net income (loss ) per share from continuing operations basic and diluted and to net income per share basic and diluted.

---

## **DEFENSE INDUSTRIES INTERNATIONAL, INC. AND SUBSIDIARIES**

### INDEX

	<u>Page</u>	
PART I - FINANCIAL INFORMATION:		
<u>Item 1.</u>	<u>Condensed Consolidated Balance Sheets as of March 31, 2008 (Unaudited) and December 31, 2007</u>	1
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three Months Ended March 31, 2008 and March 31, 2007 (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2008 and March 31, 2007 (Unaudited)</u>	4
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
<u>Item 4T.</u>	<u>Controls and Procedures</u>	19
PART II - OTHER INFORMATION:		
<u>Item 1.</u>	<u>Legal Proceedings</u>	20
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
<u>Item 6.</u>	<u>Exhibits and Reports on Form 8-K</u>	20
<u>SIGNATURES</u>		21

**DEFENSE INDUSTRIES INTERNATIONAL, INC.  
AND SUBSIDIARY COMPANIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2008 (UNAUDITED) AND DECEMBER 31, 2007**

**ASSETS**

	March 31, 2008	December 31, 2007
	(Unaudited)	
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,937,288	\$ 1,120,054
Bank deposit	985,336	--
Accounts receivable, net of allowance for doubtful accounts of \$235,546 and \$208,464, respectively	2,928,145	3,603,528
Accounts receivable - related parties	14,097	1,113
Inventories	4,797,715	3,698,878
Trading securities	2,347,054	2,951,604
Deferred taxes	158,072	165,902
Other current assets	2,496,855	219,330
	17,664,562	11,760,409
<b>Total Current Assets</b>		
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	2,557,195	2,454,549
<b>OTHER ASSETS</b>		
Funds in respect of employee rights upon retirement	805,783	751,609
Deferred taxes	35,500	36,365
	841,283	787,974
<b>Total Other Assets</b>		
<b>TOTAL ASSETS</b>	\$ 21,063,040	\$ 15,002,932

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

**DEFENSE INDUSTRIES INTERNATIONAL, INC.  
AND SUBSIDIARY COMPANIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2008 (UNAUDITED) AND DECEMBER 31, 2007**

## LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2008	December 31, 2007
	(Unaudited)	
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,233,433	\$ 1,670,029
Accounts payable - related parties	110,655	50,448
Short-term debt	1,146,275	1,264,793
Common stock to be issued	40,000	40,000
Other current liabilities	2,371,222	2,085,535
	<hr/>	<hr/>
Total Current Liabilities	5,901,585	5,110,805
	<hr/>	<hr/>
<b>LONG-TERM LIABILITIES</b>		
Long-term portion of debt	590,459	618,676
Liability for employee rights upon retirement	861,406	734,652
Common stock to be issued	--	40,000
	<hr/>	<hr/>
Total Long-Term Liabilities	1,451,865	1,393,328
	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>7,353,450</b>	<b>6,504,133</b>
	<hr/>	<hr/>
Minority interest	1,171,444	1,077,708
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$0.0001 par value, 50,000,000 shares authorized, none issued and outstanding	--	--
Common stock, \$0.0001 par value, 250,000,000 shares authorized, 28,991,111 and 28,867,272 respectively, issued and outstanding	2,899	2,886
Additional paid-in capital	2,804,315	2,764,328
Retained earnings	8,617,733	4,165,069
Accumulated other comprehensive gain	1,113,199	488,808
	<hr/>	<hr/>
Total Shareholders' Equity	12,538,146	7,421,091
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 21,063,040</b>	<b>\$ 15,002,932</b>
	<hr/>	<hr/>

DEFENSE INDUSTRIES INTERNATIONAL, INC.  
AND SUBSIDIARY COMPANIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

Edgar Filing: DEFENSE INDUSTRIES INTERNATIONAL INC - Form 10-Q/A

	For the Three Months Ended March 31,	
	2008	2007
NET REVENUES	\$ 3,125,302	\$ 3,914,572
COST OF SALES	2,382,158	2,626,405
GROSS PROFIT	743,144	1,288,167
OPERATING EXPENSES		
Selling	157,144	239,765
General and administrative	538,325	413,893
Total Operating Expenses	695,469	653,658
INCOME FROM OPERATIONS	47,675	634,509
OTHER (EXPENSES) INCOME		
Financial expenses, net	(115,258)	(84,272)
Other (expenses) income, net	(40,480)	42,004
Total Other (Expenses) Income	(155,738)	(42,268)
INCOME (LOSS) BEFORE INCOME TAXES	(108,063)	592,241
Income tax expenses	(79,694)	(165,221)
NET INCOME (LOSS) BEFORE EXTRAORDINARY INCOME	(187,757)	427,020
Extraordinary income, net of tax (Note 6)	4,681,838	--
Income before minority interest	4,494,081	427,020
Minority interest income	(41,417)	(23,110)
NET INCOME	\$ 4,452,664	\$ 403,910
Net income (loss) per share from continuing operations - basic and diluted	(0.01)	0.01
Net extraordinary income per share - basic and diluted	0.16	-
Net income per share - basic and diluted	\$ 0.15	\$ 0.01
Weighted average number of shares outstanding - basic and diluted	28,886,324	28,793,108

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

**DEFENSE INDUSTRIES INTERNATIONAL, INC.  
AND SUBSIDIARY COMPANIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

	For the Three Months Ended March 31,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 4,452,664	\$ 403,910
Less - extraordinary income, net of tax	(4,681,838)	-
	<u>(229,174)</u>	<u>403,910</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Items not effecting cash:		
Depreciation and amortization	140,634	119,048
Gain from sale of property, plant and equipment	(9,702)	(14,419)
Provision for doubtful accounts	13,566	16,436
Deferred taxes	24,857	(5,982)
Net unrealized loss (gain) on trading securities	50,207	(27,454)
Minority interest in income of subsidiary	41,417	23,110
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	930,868	(537,735)
(Increase) decrease in other assets	(225,260)	511,629
Increase in inventories	(792,069)	(1,431,923)
Decrease (increase) in trading securities	780,448	(8,257)
Decrease (increase) in related parties accounts	39,601	(114,666)
Decrease (increase) in funds in respect of employee rights upon retirement	7,649	(17,899)
Increase in accounts payable	437,736	1,578,980
Increase (decrease) in other liabilities	116,924	(89,475)
Increase (decrease) in liability for employee rights upon retirement	64,821	(2,736)
	<u>1,392,523</u>	<u>402,567</u>
Net cash provided by Operating Activities	1,392,523	402,567
Extraordinary cash flows	2,691,838	-
	<u>4,084,361</u>	<u>402,567</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in term bank deposit	(965,233)	-
Purchases of property, plant and equipment	(104,071)	(94,779)
Proceeds from sale of property, plant and equipment	21,582	26,168
	<u>(1,047,722)</u>	<u>(68,611)</u>
Net cash used in Investing Activities	(1,047,722)	(68,611)

For the Three Months  
Ended March 31,

<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short-term debt, net	(189,949)	(27,609)
Proceeds from long-term debt	46,871	-
Repayment of long-term debt	(135,986)	(218,937)
<b>Net cash used in Financing Activities</b>	<b>(279,064)</b>	<b>(246,546)</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH</b>	<b>59,659</b>	<b>(21,284)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,817,234</b>	<b>66,126</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>1,120,054</b>	<b>1,670,912</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$ 3,937,288</b>	<b>\$ 1,737,038</b>
<b>INTEREST PAID</b>	<b>\$ 26,210</b>	<b>\$ 66,887</b>
<b>TAXES PAID</b>	<b>\$ 174,901</b>	<b>\$ 79,794</b>

**SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:**

Pursuant to the agreement signed on February 28, 2005 to acquire the business of Rizzo Inc. (doing business as Owen Mills Company), On March 18, 2008 the Company issued 123,839 shares of common stock having a fair value of \$40,000 at the date of issuance to the former shareholders of Rizzo Inc.

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

**DEFENSE INDUSTRIES INTERNATIONAL, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT  
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

**NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

- A. The accompanying unaudited interim consolidated financial statements as of March 31, 2008 and for the three month period then ended (the Interim Financial Statements ) were prepared in a condensed form in accordance with the instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, cash flows and all the data and notes which are required when preparing annual financial statements, in conformity with generally accepted accounting principles accepted in the United States.

- B.** The accounting principles used in the presentation of the Interim Financial Statements are consistent with those principles used in the presentation of the latest annual financial statements. All significant accounting policies have been applied consistently with the year ended December 31, 2007.
- C.** The preparation of the Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. In the opinion of management, all adjustments considered necessary for fair presentation of the Interim Financial Statements have been included. The results of operations for the three months period ended March 31, 2008, are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. The Interim Financial Statements should be read in conjunction with the Company's annual financial statements as of December 31, 2007 and for the year then ended and the accompanying notes thereto.
- D. Principles of Consolidation**

The Interim 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, Rizzo, Inc. (Owen Mills) and its 76% owned subsidiary Achidatex Nazareth Elite (1997) Ltd. for all periods presented (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

---

---

**DEFENSE INDUSTRIES INTERNATIONAL, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT  
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

**E. Earnings per common share**

Basic net income per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted net income per share of common stock is computed based on the weighted average number of shares of common stock and common stock equivalents outstanding during the period. For the three months ended March 31, 2008 and 2007 common stock equivalents to purchase 202,500 shares of common stock were not included in diluted loss per share because their effect is anti-dilutive.

**F. Fair value**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157), which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements.

SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs, as follows:

- |         |  |
|---------|--|
| Level 1 | Quoted prices in active markets for identical assets or liabilities;   |
| Level 2 | Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or |
| Level 3 | Unobservable inputs, such as discounted cash flow models or valuations.  |

Our trading securities are measured at fair value based on quoted market prices in active markets for identical assets (Level 1). The effect of the first-time adoption of this statement had no material impact on the Company's financial position and results of operations.



In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement became applicable to the Company as of the year beginning January 1, 2008, and the Company did not elect to apply SFAS 159 to its financial assets and liabilities. Therefore the adoption of SFAS 159 has had no impact on the Company's financial position and results of operations.

---

---

**DEFENSE INDUSTRIES INTERNATIONAL, INC.  
AND SUBSIDIARY COMPANIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENT  
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (UNAUDITED)**

**G. Accounting for registration payment arrangements**

The Company adopted as of January 1, 2007, FSP EITF 00-19-2, Accounting for Registration Payment Arrangements ( FSP ), which addresses an issuer's accounting for registration payment arrangements. This FSP specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies . This FSP further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles (GAAP) without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement.

As a result of our adoption of the FSP, the interim financial statements as of March 31, 2007 and for the three months period then ended, includes a cumulative-effect adjustment to the opening balance of retained earnings, liabilities and equity as follows:

**As of March 31,**