

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
CASE NO.

FILED BY _____

2007 OCT 25 AM 10:59

CLARENCE HANCOCK
CLERK U.S. DIST. CT.
S.D. OF FL. - MIAMI

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

DAVID H. BROOKS,

Defendant.

07-61526

CIV-ALTONAGA
MAGISTRATE JUDGE
TURNOFF

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

Plaintiff Securities and Exchange Commission ("Commission") alleges as follows:

I. INTRODUCTION

1. DHB Industries, Inc., a/k/a Point Blank Solutions, Inc. ("DHB"), is a major supplier of body armor to the U.S. military and law enforcement agencies. From at least 2003 through 2005, Defendant David H. Brooks, DHB's founder, former Chief Executive Officer and Chairman of the Board, engaged in a pervasive accounting fraud, systematically looted company coffers, and took advantage of DHB's artificially inflated stock price to dump millions of his shares on the market for proceeds of approximately \$186 million. This conduct resulted in DHB filing materially false and misleading periodic reports and proxy statements from at least 2003 through 2005, which presented a substantially more robust picture of DHB's actual results and profitability.

2. Brooks, with the assistance of the company's former Chief Financial Officer, Dawn Schlegel, and DHB's former Chief Operating Officer, Sandra Hatfield, used DHB's lack of internal accounting and financial reporting controls to manipulate the company's gross profit margins and net income by overstating DHB's inventory values and falsifying journal entries.

3. In addition, Brooks funneled millions of dollars out of DHB through fraudulent transactions with a related entity he controlled, and used DHB funds to pay for millions of dollars of personal expenses, including luxury cars, jewelry, horse racing, extravagant vacations, and \$122,000 worth of iPods given as favors to guests at a multi-million bat mitzvah party for his daughter in late 2005.

4. Continuing to abuse his position at DHB for outlandish personal gain, in late 2004, Brooks sold the majority of his DHB stock for approximately \$186 million as the company's share price reached its all-time high. Brooks sold his shares while possessing material, non-public information concerning the pervasive fraud at DHB.

5. Through his conduct, Brooks violated Section 17(a) of the Securities Act of 1933 ("Securities Act"), Sections 10(b), 13(b)(5), and 14(a) of the Securities Exchange Act of 1934 ("Exchange Act") and Rules 10b-5, 13a-14, 13b2-1, 13b2-2, and 14a-9 thereunder. He also aided and abetted DHB's violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13 thereunder. Due to the extended and serious nature of Brooks' violations, as well as the scienter he demonstrated through his willful and wanton disregard for the federal securities laws, Brooks has made it clear he will continue to violate the law unless the Court enjoins him from further violations.

II. JURISDICTION AND VENUE

6. This Court has jurisdiction over this action pursuant to Sections 21(d), 21(e), 21A(a)(1), and 27 of the Exchange Act, 15 U.S.C. §§78u(d), 78u(e), 78u-1(a), and 78aa.

7. The Court has personal jurisdiction over Brooks and venue is proper in the Southern District of Florida because many of the acts and transactions constituting the violations alleged in this Complaint occurred in the Southern District of Florida. In addition, Brooks has a

residence in the Southern District of Florida.

8. In connection with the conduct alleged in this Complaint, Brooks, directly or indirectly, singly or in concert with others, made use of the means or instrumentalities of interstate commerce, or the mails, or the facilities of a national securities exchange.

III. DEFENDANT

9. Brooks, 52, who has a Bachelor's of Science degree in Accounting from New York University, founded DHB in 1992 and served as the company's CEO and Chairman of the Board until he was ousted from his position in July 2006, after discovery of the widespread financial and accounting fraud. In 1992, the Commission obtained a permanent injunction and \$405,000 civil penalty against Brooks and barred him from association with any broker or dealer for five years, as a result of civil and administrative enforcement proceedings related to his role in an insider trading scheme.

IV. RELEVANT ENTITIES

10. DHB is a publicly traded company currently incorporated in Delaware, with its headquarters and primary manufacturing facilities in Broward County, Florida. DHB's common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act, 15 U.S.C. § 781(b), and was listed on the American Stock Exchange until July 7, 2006, when it was de-listed for non-compliance with AMEX listing standards. DHB's stock currently is quoted on the pink sheets. On October 2, 2007, the company changed its name to Point Blank Solutions, Inc.

11. Point Blank Body Armor, Inc. ("Point Blank") is the primary subsidiary through which DHB manufactures and sells its body armor products. It is located in Broward County, Florida.

12. Tactical Armor Products (“TAP”), for which Brooks’ wife ostensibly is the CEO, but which Brooks actually controls, has two primary business segments: the assembly of hard armor plates for insertion into DHB’s vests with sewing services identical to the services DHB performed in-house, and horse training, one of Brooks’ hobbies. At the time relevant to this action, Brooks ran TAP with Hatfield, and DHB was TAP’s only customer.

V. BACKGROUND

13. DHB is organized as a holding company and manufactures and sells its body armor products through two subsidiaries, Point Blank and Protective Apparel Corporation of America. DHB’s primary product is the Interceptor vest, a bullet-resistant vest all branches of the U.S. military currently wear.

14. Following the September 11th terrorist attacks and the subsequent rise in military expenditures, DHB experienced a substantial increase in its business, becoming one of the largest suppliers of body armor to the military and various law enforcement agencies.

A. Prior Commission Injunctive Action and Restatement

15. On August 17, 2006, the Commission filed a civil action against former CFO Schlegel and former COO Hatfield. *Securities and Exchange Commission v. Dawn M. Schlegel and Sandra Hatfield*, (U.S. District Court for the Southern District of Florida, Civil Action No. 06-61251-CIV-SEITZ/McAliley). The action was based on Schlegel and Hatfield’s violations of the antifraud provisions of the securities laws, and their having aided and abetted DHB’s violations of the reporting, books and records and internal control provisions. In addition, the United States Attorney’s Office for the Eastern District of New York simultaneously announced the filing of criminal charges against Schlegel and Hatfield. The Commission’s action against Schlegel and Hatfield was subsequently stayed, pending the outcome of the criminal

proceedings.

16. The following day, DHB issued a Form 8-K announcing the public should no longer rely on the company's previously issued interim and annual financial statements for 2003 and 2004.

17. The company, with the assistance of a team of outside forensic accountants and new management, has spent the last year reconstructing its financial information and accounting records and restating its financial statements due to the years of fraud that flourished under Brooks. On October 1, 2007, DHB filed a comprehensive Form 10-K ("2006 Comprehensive 10-K"), which included restated financial statements for 2003, 2004, and 2005, and admitted DHB's actual gross profit margins and net income for those years were materially lower than the company had previously disclosed.

B. Brooks' Dictatorial Reign Over DHB

18. Brooks exercised absolute control over every aspect of DHB's business, using the company's weak corporate governance and almost nonexistent internal controls to facilitate and hide the financial fraud he directed through Schlegel and Hatfield. Because Brooks knew any real examination of DHB's books and records would uncover the fraudulent scheme, he ruled the company through intimidation and abuse of those who questioned him and rewarded loyalty with extravagant bonuses and perks.

1. Brooks' Domineering Control of DHB

19. Brooks controlled DHB through a small inner circle of managers, led by Hatfield and Schlegel, who were willing to yield to his demands. Brooks required Schlegel and Hatfield to provide information about even the minutest details of the financial, accounting, and operational aspects of the company, often demanding hourly updates.

20. Brooks and Hatfield regularly spoke as much as three to four hours per day, and often discussed DHB business late into the night.

21. When a long-time DHB employee briefly assumed Hatfield's position as COO in April 2006, Brooks insisted the employee update him at least four or five times a day about the business affairs of the company. Even though the employee gave Brooks those regular updates, Brooks was not satisfied with this frequency of communication and asked the new COO to step down within weeks of his appointment.

22. Brooks insisted on participating in every decision at DHB. For example, Brooks demanded that he personally review and approve all DHB payments. He approved a list of daily disbursements, and would not permit DHB to mail a check until he had approved the payment or signed the check himself. Brooks additionally insisted on reviewing and approving payroll reports, including overtime. Brooks was involved even in ministerial decisions, requiring managers to consult him regarding issuing laptop computers to individual employees.

23. Brooks was heavily involved in reviewing, editing and occasionally drafting all of DHB's public filings with the Commission and its earnings releases. Brooks also insisted on reviewing and approving every edit made to the company's public filings and earnings releases.

24. Brooks' control extended to DHB's board of directors, which consisted of Brooks' friends and neighbors and Schlegel. At all times relevant to this action, Brooks had a chokehold over DHB's board, which exercised no real oversight, rubber-stamping whatever Brooks wanted, including granting millions of stock options and paying millions of dollars in bonuses to him.

25. Brooks regularly interrupted board meetings, rushed votes without discussion and acted in a threatening manner whenever questioned. In a board meeting Brooks once told a

board member “you know what we do to outsiders . . . you know what we do to people that aren’t on the team.”

26. Brooks also controlled the flow of communication with DHB’s outside auditors, who regarded Brooks as the key decision-maker. On all significant issues arising in audits, the audit teams went directly to Brooks, and not to DHB’s CFO, for guidance.

2. DHB’s Lack of Internal Controls

27. Under Brooks’ reign, DHB’s accounting department was woefully understaffed and mismanaged, and the company lacked the internal accounting and financial reporting processes and controls needed to address its growing business. The lack of transparency and internal controls enabled Brooks to plunder DHB for years, while he aided and abetted DHB’s filing of fraudulent periodic reports and earnings releases.

28. DHB’s outside auditors for the 2002 year-end audit resigned, citing material weaknesses relating to the company’s accounting and finance department and its failure to disclose Brooks’ control over and transactions with TAP, one of DHB’s primary suppliers. Under Brooks’ leadership, DHB largely ignored the auditors’ critical concerns.

29. DHB’s outside auditors for the 2003 year-end audit identified multiple internal control deficiencies relating to DHB’s accounting and finance department. Again, under Brooks’ leadership, DHB largely ignored the auditors’ concerns.

30. Brooks’ disregard for internal controls and the audit function is further evidenced by the fact that he directed DHB to file its 2004 Form 10-K against the auditors’ instructions and without their consent. The auditors identified the premature release of the Form 10-K as a material weakness and identified numerous other internal deficiencies relating to DHB’s accounting and finance department, including a material weakness in the company’s internal

controls for inventory accounting. DHB publicly acknowledged the deficiencies in its internal inventory controls constituted a material weakness. Again, Brooks failed to address these problems in any meaningful way.

31. In March 2006, DHB's fourth set of auditors, over Brooks' objection, refused to issue a timely audit opinion in connection with the 2005 Form 10-K because DHB had no support for many of the figures in the company's books and records. Shortly afterwards, on the day these same auditors notified Brooks they had identified fraudulent accounting at DHB, Brooks, in an improper attempt to shop for a favorable audit opinion that would continue to conceal the fraud, retained a secret, second auditing firm, which communicated only with Schlegel and him.

3. Brooks' Anger and Threats in Response to Scrutiny of DHB's Finances

32. When anyone questioned the accounting and financial practices underlying the fraud at DHB, Brooks became furious and threatening. Brooks' responses to those who probed DHB's finances showed he knew the company's public filings and releases contained bogus and misleading information.

33. For example, as explained in more detail below in Section VI, in 2005, when Brooks learned that Point Blank's controller had informed DHB's auditors of his concerns related to DHB's overvalued inventory, he stormed into the controller's office spewing obscenities at him, called the controller a "snake," confiscated his inventory analysis, and violently ejected him from the premises.

34. Brooks was similarly threatening in response to questions from DHB's outside auditors. Shortly after the lead audit partner on DHB's 2005 year-end audit began questioning certain journal entries, Brooks told DHB's interim CFO he was going to have his friends "pay a

visit” to the audit partner, and that “if she were not careful, she would be wearing cement blocks on her feet in the Atlantic Ocean.”

35. As the 2005 year-end audit team further scrutinized DHB’s historical accounting practices, Brooks stated in front of the engagement audit partner that “someone should . . . put a bullet” in the brain of the partner who worked on DHB’s 2004 audit. As the scrutiny from DHB’s 2005 audit team continued, Brooks declared that counsel for those auditors should have “a bullet to the brain,” and on a separate occasion referred to another of the auditors’ attorneys with an obscenity, saying he would like to shoot him.

VI. DHB’S FINANCIAL FRAUD UNDER BROOKS

36. From at least 2003 through 2005, DHB materially misrepresented its inventory, cost of goods sold, gross profit, net income, and other key figures in its periodic reports and proxy statements filed with the Commission and its earnings releases, by overstating inventory values, falsifying journal entries, and failing to include appropriate charges for obsolete inventory.

37. From at least 2003 through 2005, DHB reported in filings and press releases gross margins that met or exceeded 27%. In reality, during that time, DHB’s actual gross profit margin was materially lower than 27%. As described in more detail below, DHB’s 2006 Comprehensive 10-K contained restated financial statements for 2003, 2004, and 2005 stating the company’s true gross profit margins in 2005, 2004, and 2003 were 18%, 18% and 14%, respectively.

38. Brooks touted DHB’s consistently high gross profit margins in earnings releases, and he certified and signed periodic filings and proxy statements that fraudulently detailed the company’s robust success.

39. Due to Brooks' in-depth involvement in DHB's operations, accounting, and finances, and countless discussions with Schlegel and Hatfield, Brooks knew or was extremely reckless in not knowing that even as DHB's stock hit record highs DHB's and his public statements were false and materially misleading, and DHB was not nearly as profitable as he and others portrayed it.

A. Falsification of DHB's Inventory

40. Between 2003 and 2005, DHB overstated its inventory and created bogus, unsubstantiated bills to price its "work in process" and "finished goods" inventory. These fraudulent bills overstated labor costs, the amount of raw materials, overhead costs, and the unit prices of DHB's four primary vest components.

41. During this same three-year period, Brooks directly supervised Schlegel and Hatfield in performing all their duties, and demanded to review all financial statements and disclosures DHB included in its filings.

42. Throughout this three-year period, Schlegel supervised DHB's inventory accounting for all DHB subsidiaries. Hatfield was responsible for assigning values to the inventory and Schlegel was responsible for reviewing and approving the inventory valuation before incorporating it into the company's consolidated financial statements.

43. By overvaluing DHB's inventory, Schlegel and Hatfield were able to increase the company's reported gross profit and net income. Specifically, by overvaluing inventory, they reduced DHB's cost of goods sold which had the corresponding effect of increasing gross profit and net income.

44. Hatfield, without any basis whatsoever, falsely adjusted DHB's inventory schedules to increase the inventory value. For example in the fourth quarter of 2004, Hatfield

falsely adjusted Point Blank's inventory schedules to increase the ending inventory value from approximately \$2 million to \$9 million.

45. In late 2004 or early 2005, Point Blank's controller warned Schlegel and Hatfield that Point Blank's inventory was overvalued and they needed to reduce it for 2004. Although they acknowledged the inventory was overstated, Schlegel and Hatfield refused to correct the inventory values. Troubled by concerns over the company's inflated inventory values, the controller turned in his resignation.

46. The controller raised his concerns with DHB's auditors. Within days, the auditors informed Brooks of their discussions with the controller and his concerns about the inflated value of the company's inventory. Brooks' immediate response was to confiscate the controller's inventory analysis, and violently eject him from the premises.

47. Brooks knew the controller warned management that the inventory was overvalued. He also knew the controller turned in his resignation over the issue and discussed his concerns with DHB's auditors.

48. Brooks and Hatfield told the auditors that the controller's inventory analysis was incorrect and that there were "no real problems in the inventory."

49. When pressed about the circumstances in which the controller was removed, Brooks told the auditors the controller was dismissed because "he had violated...internal policies and procedures" by informing the auditors of his concerns.

50. Meanwhile, Brooks knew the inflated inventory values remained on the company's books, and did nothing to correct the situation.

51. At the end of 2004, Schlegel and Hatfield's pricing manipulations had falsely inflated DHB's inventory by approximately \$30 million. Later, in April 2005, Hatfield ordered

the use of grossly inflated and unsupported inventory costing schedules to value Point Blank's ending inventory for the first quarter of 2005.

52. Schlegel reviewed and approved Hatfield's inventory valuations and knowingly incorporated them into DHB's 2004 earnings releases and filings with the commission. Schlegel told Brooks she had no support for the numbers DHB was using, but Brooks simply referred Schlegel to Hatfield and then, without any supporting documentation, approved the false numbers in DHB's filings. Brooks therefore knew or was extremely reckless in not knowing Schlegel and Hatfield were falsifying and fraudulently manipulating DHB's books.

53. Furthermore, late in the first quarter of 2005 after DHB filed its 2004 Form 10-K, in a conversation with a DHB manager, Brooks commented that DHB had not made any changes to the company's inflated 2004 inventory values, and that as a result, "[Hatfield's] going to have to make up some number in 2005."

54. Clearly, the inventory was overvalued. DHB's 2006 Comprehensive Form 10-K included adjustments for the overvaluation of the company's ending inventory of approximately \$24 million in 2003, \$30 million in 2004, and \$19 million in 2005.

55. Brooks knew or was extremely reckless in not knowing DHB's inventory valuations were materially false and unsubstantiated because, among other things, he had discussed inventory valuation problems with DHB's auditors, had been warned about overvaluation of DHB's inventory, had acknowledged knowing of the inventory problems and lack of internal controls, had failed to implement adequate inventory controls, and had failed to request adequate support for the inventory figures.

B. Fraudulent Additions to DHB Inventory and the Attempt to Hide Them

1. Baseless Inflation of DHB's Inventory

56. In the first quarter of 2005, Hatfield and Schlegel added almost 63,000 nonexistent vest components to DHB's ending inventory records, thereby falsely increasing the company's inventory value by \$7.1 million and overstating DHB's reported gross profit and net income, among other key figures, in DHB's Form 10-Q for the first quarter of 2005.

2. Fraudulent Use of the Zylon Charge

57. As a result of the National Institute of Justice's August 2005 decertification of the use of Zylon, a bullet resistant material, in government and law enforcement vests, DHB discontinued using Zylon in its products. That caused the company to take a \$60 million charge to earnings on its books in the third quarter of 2005.

58. In August 2005, when discussing the Zylon charge with Schlegel, Brooks stated DHB could use the Zylon charge and related reserve to conceal DHB's inflated inventory by including the 63,000 nonexistent vest components in that charge.

59. In the third quarter of 2005, Schlegel directed a controller to record a fraudulent \$7.1 million journal entry as part of the \$60 million charge to earnings to write off the fictional inventory. DHB would thereby "account" for the 63,000 fictional vest components Hatfield and Schlegel had falsely added to the company's inventory to improve DHB's first quarter gross profit and earnings.

60. Brooks knew or was extremely reckless in not knowing the inflated inventory values remained on DHB's books along with the bogus attempt to conceal them, because he took no action to change them, and under Brooks' domineering micro-management of DHB no one could make such changes without his permission.

61. In March 2006, in connection with its 2005 audit, DHB's outside auditors questioned the Zylon charge and sought supporting documentation. Brooks first told the auditors DHB wrote off the vest components because the United States Army had changed its color requirements, and then that a hurricane damaged those same vest components. He also offered the auditors fake inventory schedules showing the vests existed.

62. Brooks knew the story and schedules he gave the auditors were bogus. Neither Schlegel nor Hatfield, nor anyone else had ever given him any information indicating the \$7.1 million in vest components were real, had been moth balled because of a change in color requirements, or had been damaged by a hurricane. Meanwhile, Brooks' authoritarian management style and in-depth involvement with DHB's finances and operations meant no one at DHB could have made such inventory decisions or entries in DHB's books without his knowledge and approval.

63. Additionally, Brooks had already acknowledged to Schlegel in August 2005 that the nonexistent vest components were part of an inventory manipulation, and that DHB could hide it by including them in the Zylon charge. Then, in a March 2006 conversation, Brooks told Schlegel about his misrepresentations to the auditors, and in exasperation Schlegel asked Brooks why he had told that story, since they had nothing to support it, and the auditors would want support and details.

64. When the outside auditors pressed further for details about the \$7.1 million in vest components, Brooks changed his story. He blamed Hatfield and Schlegel for making up the figures and claimed he had only recently learned they were false.

65. Brooks therefore falsely represented to DHB's auditors that he did not know the story about storm-damaged vests was a lie. Brooks knew both these stories were false, since he

had discussed the nonexistent vests and related journal entries with Schlegel and Hatfield, and he knew there were no such vests.

C. Fraudulent Reclassification Entries

66. Between 2003 and 2005, Schlegel manipulated DHB's reported gross profit margin by reclassifying amounts from cost of goods sold to another category on DHB's income statement – "Research and Development," an expense category. These reclassification entries had the effect of materially understating DHB's cost of goods sold and overstating its expenses, resulting in an overstatement of DHB's gross profit (with no effect on net income and related per share data).

67. Schlegel routinely directed members of the accounting staff to record journal entries that reclassified these expenses without any supporting documentation. These bogus amounts were recorded as research and development expenses, purportedly relating to sample vests provided to sales personnel and customers. However, these amounts were baseless because, among other things, they represented tens of thousands more sample vests than what Point Blank normally used. Furthermore, the corresponding overstated expenses were several times more than Point Blank's actual cost of samples.

68. Brooks was aware of all of the fraudulent reclassification entries, because Schlegel reviewed them with him, and he approved most of them. These entries totaled \$8.8 million in 2003, \$7.1 million in 2004, and \$10.9 million in 2005.

69. Because of his discussions with Schlegel before signing each of the DHB filings in question and his knowledge of DHB's operating expenses, Brooks also knew or was extremely reckless in not knowing these manipulations of DHB's books and records were baseless and would result in DHB's financial statements materially misstating the company's

actual results.

D. Excess and Obsolete Inventories

70. DHB failed to account properly for excess and obsolete inventory as required by U.S. Generally Accepted Accounting Principles (“U.S. GAAP”), which demands that companies value inventories at the lower of cost or market value. DHB’s failure to properly report its inventory values falsely raised its gross profit and net income in its public filings and earnings releases.

71. In 2004, approximately \$12.5 million of armor plates, a key component of DHB’s vests, became obsolete when the U.S. Army changed specifications for the plates. Since the U.S. military was DHB’s main customer, this meant the company could not use those armor plates in marketable vests.

72. TAP, which Brooks controlled and ran, assembled and supplied these armor plates solely for DHB. He set the specific prices for the plates which TAP charged DHB and controlled TAP’s payroll and operations. Brooks therefore knew or was extremely reckless in not knowing the changed specifications left DHB with a large inventory of plates it could not sell.

73. Brooks also demonstrated he knew about the obsolete plates when he urged DHB’s lead salesman to try and sell them, after the military had changed the specifications.

74. DHB should have disclosed this known material risk and uncertainty concerning the marketability of these plates and established an inventory valuation reserve by recognizing an obsolescence charge for these plates in its 2004 Form 10-K. However the company did neither, thereby falsely misrepresenting and overstating its inventory, gross profit, and pre-tax income for 2004 by at least \$12.5 million.

75. Because of his intimate involvement with, and control of DHB's and TAP's operations, his experience dealing with DHB manufacturing, inventory, and sales matters, Brooks knew or was extremely reckless in not knowing DHB's inability to sell or use this obsolete inventory would affect its reported inventory, cost of goods sold, gross profit, and net income for 2004.

VII. BROOKS' MISAPPROPRIATION OF CORPORATE FUNDS

A. Brooks Stole At Least \$4.7 Million from DHB

76. Over the years, Brooks used DHB as his personal piggy bank. He used DHB checks and corporate credit cards to divert company funds to his private entities and pay for millions of dollars in personal expenses, including luxury cars, jewelry, art, real estate, vacations, personal aircraft usage, horse training, designer clothing and accessories from Hermes and Louis Vuitton, among other high fashion retailers, and \$122,000 for iPods included in gift bags for guests at his daughter's multi-million dollar bat mitzvah.

77. To fund his extravagant lifestyle, Brooks directed DHB's payment of his personal expenses totaling at least \$975,000 in 2003, \$788,000 in 2004, and \$1.3 million in 2005. In addition, between 1997 and 2002, Brooks charged at least \$1.7 million in personal purchases on DHB's corporate credit card, which DHB paid.

78. Brooks owned a jet through a private entity he controlled, and from 2003 through 2005 he had DHB pay for numerous personal trips he made to Las Vegas, Aspen, Mexico, St. Barthelemy, and St. Maarten, among others.

79. Brooks did not repay DHB any of these amounts, and DHB never disclosed its improper payment of Brooks' personal expenses in any periodic reports or proxy statements.

80. Brooks knew he was wrongfully misappropriating corporate funds from DHB for

personal expenses. Moreover, Brooks knew or was extremely reckless in not knowing his misappropriation of corporate funds would cause DHB to make materially false and misleading filings with the Commission because those filings made no mention of DHB's improper financing of his opulent lifestyle.

B. Brooks' Use of Fraudulent Statements in DHB's 2004 Proxy Statement to Justify DHB's Payment of His Personal Expenses

81. In response to numerous Commission inquiries relating to DHB's payment of Brooks' personal expenses, the company issued a proxy statement in November 2004, disclosing that DHB had paid \$2 million of Brooks' personal expenses. The proxy statement attempted to justify DHB's payment of Brooks' personal expenses through a previously-undisclosed 1997 Corporate Resolution, which purportedly granted Brooks the right to reimbursement for business and personal expenses in an aggregate amount not to exceed 10% of the company's annual net income.

82. The 1997 Corporate Resolution was a fraudulent document Brooks created to support the company's funding of his lavish lifestyle and payment of his personal expenses. DHB's two-person compensation committee supposedly unanimously "approved" this resolution. The member who actually signed the document was a friend of Brooks who in November 2004 made \$2 million by selling DHB stock, which he received as a board member, in a sale Brooks arranged. The other member of the compensation committee knew nothing about any such resolution, having never even discussed it.

83. Schlegel had never seen or heard of the 1997 Resolution until mid-2004, after Brooks received a Commission subpoena relating to DHB's payment of his personal expenses, when the resolution magically appeared among a box of board materials she had previously compiled.

84. Casting further doubt on the legitimacy of the 1997 Resolution, DHB had never previously tracked or reported Brooks' personal expenses as the 1997 Resolution would have required.

85. Significantly, DHB never disclosed this supposed 1997 Resolution in any of its public filings prior to the issuance of the November 2004 proxy statement. Moreover, none of DHB's outside auditors had ever seen a copy of the resolution or heard of its existence before the resolution first materialized in mid-2004.

86. Furthermore, Brooks had renegotiated his employment agreement in 2000, and that agreement neither mentioned nor incorporated the 1997 Resolution, even though it contained a detailed compensation and bonus provision.

87. Brooks caused DHB to include the bogus 1997 Resolution in its November 2004 proxy statement, thereby causing that filing to be materially false and misleading.

C. Brooks Used a Related Entity to Funnel Millions from DHB

88. From at least 2003 to 2005, Brooks funneled approximately \$10 million out of DHB through the company's fraudulent business arrangement with TAP.

89. Although Brooks' wife was TAP's president, Brooks controlled all aspects of TAP's business and ran TAP's operations with Hatfield. He authorized and reviewed all of TAP's checks prior to disbursement, personally signed TAP checks, directed Schlegel to sign his wife's name to TAP checks, authorized the payment of bonuses to TAP employees (including horse trainers) out of DHB's accounts, controlled the price TAP charged for plates, and made decisions regarding TAP's capital expenditures and personnel.

90. Under Brooks, DHB concealed the existence of his relationship with TAP from its auditors and investors until 2003, when DHB's auditors required DHB to file an amended 2002

Form 10-K to disclose TAP's ownership and DHB's related party transactions with TAP. This filing failed to disclose that Brooks controlled TAP.

91. TAP had no significant assets or access to credit, and DHB was its only customer.

92. By directing DHB to pay TAP's inflated labor costs (which were approximately double the reasonable amount) and purchase all of TAP's inventory, Brooks personally benefited by approximately \$10 million.

93. DHB's periodic filings with the Commission misrepresented money paid to TAP as part of DHB's routine manufacturing expenses.

94. Because of Brooks' control of DHB's and TAP's operations, as well as his power to set the prices TAP charged DHB for plates and services, Brooks knew or was reckless in not knowing he was diverting millions from DHB through the company's fraudulent business transactions with TAP. Brooks orchestrated DHB's fraudulent business transactions with TAP, and thereby caused DHB to make materially false and misleading filings with the Commission.

VIII. BROOKS' FALSE CERTIFICATIONS OF DHB'S FILINGS WITH THE COMMISSION

95. As part of DHB's Forms 10-K for the years ending December 31, 2003 and December 31, 2004, and its Forms 10-Q for all quarters in 2003, 2004, and the first three quarters of 2005, Brooks signed and falsely certified in writing that each report contained no untrue statement of a material fact. Brooks further certified that each report fairly presented DHB's financial condition, results of operations, and cash flows.

96. In certifying each of DHB's filings, Brooks represented, among other things, that each filing contained no material misstatements or omissions. Because of his role in DHB's pervasive accounting and financial fraud, his knowledge of DHB's operations and the manipulation of DHB's books and records, and his systematic looting from the company, Brooks

knew or was extremely reckless in not knowing his certifications were fraudulent.

**IX. BROOKS' FALSE MANAGEMENT
REPRESENTATION LETTERS TO DHB'S AUDITORS**

97. Brooks also signed multiple management representation letters to DHB's outside auditors between 2003 and 2005, affirming, among other things, that there had been no "[f]raud involving management." Brooks knew or was extremely reckless in not knowing these representations were false, because of his role in DHB's accounting fraud, his detailed knowledge and oversight of DHB's operations and the manipulations of its books and records, and his knowledge of the money he misappropriated from DHB for years.

**X. DHB'S FAILURE TO DEVISE AND
IMPLEMENT ADEQUATE INTERNAL CONTROLS**

98. From at least 2003 through 2005, Brooks was DHB's CEO and Chairman, and was responsible for DHB's financial results and disclosures reported in its public filings and announcements. Moreover, Brooks actively participated in the preparation of these filings and announcements. He drafted sections of the filings, insisted on reviewing each edit made to the filings, and approved all information incorporated into DHB's financial statements and public filings.

99. During this same time period and under Brooks' direction, DHB failed to devise and maintain internal controls sufficient to provide reasonable assurance that DHB accounted for its inventory, cost of goods sold, gross profit, gross margin, SG&A expenses, pre-tax income, net income, and other key figures in its financial statements and disclosures in conformity with U.S. GAAP.

100. In addition, DHB maintained only minimal inventory records, and had inadequate inventory controls. The company also failed to take accurate quarterly physical inventory

counts, and the documentation used to value its inventory was outdated, unsupported, and grossly inaccurate.

101. Brooks knew or was extremely reckless in not knowing DHB failed to devise and maintain adequate internal controls. Brooks took advantage of these deficiencies to create and manipulate the figures included in the DHB's books, records, public filings, and earnings releases in his scheme to materially overstate key DHB results. He fabricated these figures while knowing or being extremely reckless in not knowing DHB would include them in its public filings with the Commission and earnings releases.

XI. DHB'S RESTATEMENTS

102. In April 2006, DHB announced investors should no longer rely on the company's previously issued interim financial statements for 2005. Two days later, DHB's auditors issued an "Advisory Statement" pursuant to Section 10A of the Exchange Act, which highlighted an inventory manipulation scheme that occurred during the first three quarters of 2005.

103. The board of directors then demanded Schlegel's resignation, and hired forensic accountants to examine DHB's inventory accounting and gross margin figures.

104. The board placed Brooks on administrative leave on July 7, 2006, and Brooks announced his resignation as Chairman of the Board and CEO on July 13, 2006.

105. The restated financials in DHB's 2006 Comprehensive 10-K provide a radically different view of DHB's results and profitability than what the company originally reported to the public under Brooks' leadership and certification. In fact, these restated financials eliminated all of DHB's 2003 and 2004 profits.

106. In the 2006 Comprehensive 10-K, DHB concluded it overstated its 2003 net income by approximately \$43 million, or 154% (from a reported net income of approximately

\$15 million to a net loss of approximately \$28 million) and its 2004 net income by approximately \$103 million, or 141% (from a reported net income of approximately \$30 million to a net loss of \$73 million).

107. DHB's 2003 net income restatement consisted of: \$25 million in adjustments relating to inventory overvaluation and obsolescence; \$1 million for potential withholding tax obligations; and \$25 million in adjustments relating to accounting for stock options offset by an \$8 million income tax benefit.

108. The company's 2004 net income restatement consisted of: \$23 million in adjustments relating to inventory overvaluation and obsolescence; \$29 million for potential withholding tax obligations for executive and employee bonuses and profits from stock option exercises not withheld by the company and paid to the taxing authorities as required; \$65 million in adjustments relating to accounting for stock options; and \$6 million in other adjustments offset by a \$20 million income tax benefit.

109. DHB had to make these restatements because of the discovery of the fraudulent accounting and financial practices Brooks, Hatfield, and Schlegel employed to create the company's original misleading periodic filings and proxy statements.

110. Brooks knew or was extremely reckless in not knowing about these fraudulent practices because, as described in more detail above, he closely reviewed the preparation of DHB's periodic filings and proxy statements, he was intimately involved in DHB's operations, he had discussed many of these accounting and financial machinations with Schlegel and Hatfield, and others had informed him of problems related to the very figures and entries Schlegel and Hatfield falsified.

XII. BROOKS' INSIDER TRADING

111. At the end of the third quarter of 2004, the accounting and financial fraud and the undisclosed payments by DHB for Brooks' personal expenses caused DHB to materially misrepresent key figures in its Form 10-Q, earnings releases, and Form 8-K attaching the earnings release filed on November 9, 2004.

112. Less than three weeks after DHB reported those November 2004 results and before the public knew about the misrepresentations in DHB's filings, Brooks dumped 9.5 million shares of his DHB stock on the market for an astounding \$186 million.

113. In these sales, Brooks sold approximately 60% of his personal DHB shares.

114. On November 29, 2004, Brooks sold 3.7 million of his DHB shares at a share price of \$18.90, for proceeds of \$69,930,000.

115. On December 22, 2004, Brooks sold 400,000 of his DHB shares at a share price of \$18.60, for proceeds of \$7,440,000.

116. On December 23, 2004, Brooks sold 84,100 of his DHB shares at a share price of \$20.06, for proceeds of \$1,687,046.

117. On December 27, 2004, Brooks sold 2,538,744 of his DHB shares at a share price of \$20.94, for proceeds of \$53,161, 299.

118. On December 28, 2004, Brooks sold 858,267 of his DHB shares at a share price of \$19.88, for proceeds of \$17,062,348.

119. On December 29, 2004, Brooks sold 1,916,914 of his DHB shares at a share price of \$19.10, for proceeds of \$36,613,057.

120. During this period, DHB's stock was trading near its all-time high, reaching its peak of \$20.56 on December 23, 2004.

121. Brooks' salary in 2004 was \$675,000. The proceeds from these stock sales totaled \$185,893,750, or more than 275 times Brooks' 2004 salary.

122. Brooks directed these sales while knowing he possessed material, non-public information regarding the manipulation of DHB's books and records, the materially false numbers in the company's filings, and the company's failure to disclose that he had funneled millions of dollars from DHB through TAP for his personal use while misappropriating millions of dollars from DHB through payments for personal expenses.

XIII. VIOLATIONS

COUNT I

Violations of Section 17(a) of the Securities Act

123. The Commission repeats and re-alleges paragraphs 1 through 122 as if fully set forth herein.

124. By engaging in the conduct described above, Brooks, directly or indirectly, in the offer or sale of securities, by the use of the means or instruments of transportation or communication in interstate commerce or by use of the mails:

(a) with scienter, employed devices, schemes or artifices to defraud;

(b) obtained money or property by means of untrue statements of a material fact or omissions to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and

(c) engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon purchasers of securities.

125. By reason of the foregoing, Brooks has violated, and unless restrained and

enjoined will continue to violate, Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

COUNT II

Fraud in Violation of Section 10(b) and Rule 10b-5 of the Exchange Act

126. The Commission repeats and re-alleges paragraphs 1 through 122 as if fully set forth herein.

127. From at least 2003 through 2005, Brooks, in connection with the purchase or sale of securities as described herein, by the use of means or instrumentalities of interstate commerce or of the mails, directly or indirectly, knowingly, willfully, or recklessly (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud or deceit upon other persons.

128. By reason of the foregoing, Brooks violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

COUNT III

Fraud in Violation of Section 10(b) and Rule 10b-5 of the Exchange Act – Insider Trading

129. The Commission repeats and re-alleges paragraphs 1 through 122 as if fully set forth herein.

130. At all relevant times, Brooks knew, or was extremely reckless in not knowing, he possessed material, non-public information regarding the basis and accuracy of DHB's books, records, filings with the Commission, and earnings releases. While possessing this material non-public information, he sold DHB stock.

131. From at least 2003 through 2005, Brooks, in connection with the purchase or sale of securities as described herein, by the use of means or instrumentalities of interstate commerce or of the mails, directly or indirectly, (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud or deceit upon other persons.

132. By reason of the foregoing, Brooks violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5, 17 C.F.R. § 240.10b-5.

COUNT IV

Aiding and Abetting Violations of Section 13(a) and Rules 12b-20, 13a-1, 13a-11, and 13a-13 of the Exchange Act

133. The Commission repeats and re-alleges paragraphs 1 through 122 of its Complaint as if fully restated herein.

134. DHB failed to file timely and accurate periodic and other reports with the Commission containing required information and failed to add additional material information necessary to make the required periodic reports or statements, in the light of the circumstances under which they are made, not misleading.

135. Brooks knowingly or recklessly substantially participated in DHB's violations of Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, 13a-11, and 13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13.

136. By reason of the foregoing, Brooks aided and abetted DHB's violations of DHB Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, 13a-11, and

13a-13, 17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13.

COUNT V

Aiding and Abetting Violations of Section 13(b)(2)(A) and (B) of the Exchange Act

137. The Commission repeats and re-alleges paragraphs 1 through 122 its Complaint as if fully restated herein.

138. DHB failed to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets, and failed to devise and maintain a system of internal controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. GAAP or any other criteria applicable to such statements.

139. Brooks knowingly or recklessly substantially participated in DHB's violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §§ 78m(b)(2)(A) and (b)(2)(B).

140. By reason of the foregoing, Brooks aided and abetted DHB's violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §§ 78m(b)(2)(A) and (b)(2)(B).

COUNT VI

Violations of Section 13(b)(5) of the Exchange Act and Rule 13b2-1

141. The Commission repeats and re-alleges paragraphs 1 through 122 of its Complaint as if fully restated herein.

142. Brooks knowingly and recklessly circumvented or knowing and recklessly failed to implement a system of internal controls and, directly or indirectly, falsified DHB's books, records, and accounts.

143. By reason of the foregoing, Brooks violated Section 13(b)(5) of the Exchange Act, 15 U.S.C. § 78m(b)(5), and Rule 13b2-1, 17 C.F.R. § 240.13b2-1.

COUNT VII

Violations of Rule 13b2-2 Promulgated under the Exchange Act

144. The Commission repeats and re-alleges paragraphs 1 through 122 of its Complaint as if fully restated herein.

145. Brooks made or caused to be made materially false or misleading statements to an accountant in connection with audits, reviews, or examinations of the financial statements of DHB and the preparation of filing of documents and reports required to be filed with the Commission.

146. By reason of the foregoing, Brooks violated Rule 13b2-2 promulgated under the Exchange Act, 17 C.F.R. § 240.13b2-2.

COUNT VIII

Violations of Rule 13a-14 Promulgated under the Exchange Act

147. The Commission repeats and re-alleges paragraphs 1 through 122 of its Complaint as if fully restated herein.

148. Brooks certified annual and quarterly reports filed by DHB with the Commission that contained materially false and misleading statements.

149. By reason of the foregoing, Brooks violated Rule 13a-14 under the Exchange Act, 17 C.F.R. § 240.13a-14.

COUNT IX

Violations of Section 14(a) of the Exchange Act and Rule 14a-9

150. The Commission repeats and re-alleges paragraphs 1 through 122 of its

Complaint as if fully restated herein.

151. Defendant Brooks, directly or indirectly, by use of the means or instruments of interstate commerce or of the mails, or of the facility of a national securities exchange, knowingly, recklessly or negligently solicited proxies by means of a proxy statement, form of proxy, notice of meeting or other communication, written or oral, containing statements which, at the time and in light of the circumstances under which they were made, were false and misleading with respect to material facts, or which omitted to state material facts which were necessary in order to make the statements made not false or misleading or which were necessary to correct statements in earlier false or misleading communications with respect to the solicitation of proxies for the same meeting or subject matter.

152. By engaging in the conduct described above, Defendant Brooks violated Section 14(a) of the Exchange Act, 15 U.S.C. § 78n(a), and Exchange Act Rule 14a-9, 17 C.F.R. § 240.14a-9, and unless restrained and enjoined will continue to commit such violations.

XIV. RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Declaratory Relief

Declare, determine, and find that Brooks has committed the violations of the federal securities laws alleged in this Complaint.

II.

Permanent Injunction

Permanently restrain and enjoin Brooks, his agents, servants, employees, representatives, attorneys-in-fact, and assigns and those persons in active concert or participation with him, and

each of them, from violating Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a), and Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), 13(b)(5), 14(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), 78(b)(2)(B), 78m(b)(5), and 78n(a), and Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13, 13a-14, 13b2-1, and 13b2-2, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11, 240.13a-13, 240.13a-14, 240.13b2-1, 240.13b2-2, and 240.14a-9 thereunder.

III.

Disgorgement

Issue an Order requiring Defendant to disgorge all ill-gotten gains, including prejudgment interest, resulting from the violations alleged in this Complaint.

IV.

Penalties

Issue an Order directing Defendant to pay civil penalties pursuant to Sections 21(d)(3) and 21A of the Exchange Act, 15 U.S.C. §§ 78u(d)(3) and 78u-1.

V.

Reimbursement of Bonuses and Profits from Stock Sales

Issue an order directing Defendant to repay bonuses and stock profits, pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, 15 U.S.C. § 7243.

VI.

Officer and Director Bar

Issue an Order pursuant to Section 21(d)(2) of the Exchange Act, 15 U.S.C. § 78u(d)(2), barring Brooks from acting as an officer or director of a publicly-held company.

VII.

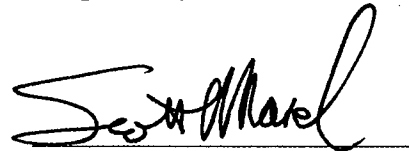
Further Relief

Grant such other relief as this Court may deem just and appropriate.

October 25, 2007

Respectfully submitted,

By:



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