

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
CASE NO.

FILED BY _____

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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

