

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
CASE NO.

06-61251

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

DAWN M. SCHLEGEL, and
SANDRA L. HATFIELD,

Defendants.

CIV - SEITZ

McALLEN

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CLERK OF U.S. DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA - MIAMI

COMPLAINT FOR INJUNCTIVE AND OTHER RELIEF

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

I. INTRODUCTION

1. DHB Industries, 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 Dawn M. Schlegel, DHB's former Chief Financial Officer, and Defendant Sandra L. Hatfield, DHB's former Chief Operating Officer, engaged in widespread manipulation of DHB's inventory, cost of goods sold, gross profit, gross margin, pre-tax income, and other figures through fraudulent and repeated violations of Generally Accepted Accounting Principles ("GAAP"). This resulted in DHB materially misstating key financial information in its filings with the Commission and in its earnings releases.

2. For example, Schlegel and Hatfield routinely overstated the value of DHB's inventory by tens of millions of dollars to falsely improve DHB's gross profit and margins. In addition, Schlegel and Hatfield transferred tens of millions of dollars from cost of goods sold to research and development expenses to materially increase DHB's gross profit and margins. Schlegel then lied to DHB's auditors to conceal the fraud. Schlegel and Hatfield's knowingly

fraudulent conduct caused DHB to file materially false and misleading annual and quarterly reports with the Commission, to issue false press releases, and to violate the books and records and internal control provisions of the federal securities laws.

3. Schlegel and Hatfield profited handsomely from their fraudulent scheme. In addition to receiving millions of dollars in bonuses and other compensation, they sold a combined 418,868 shares of DHB stock on the public market at inflated prices. Schlegel and Hatfield each sold their shares while knowing, or being extremely reckless in not knowing, they possessed material, non-public information concerning their fraudulent scheme. Together, they received more than \$8.2 million from their unlawful sales.

4. Through their conduct, each of the Defendants violated Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rules 10b-5 and 13b2-1, and 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. Additionally, Schlegel violated Rules 13b2-2 and 13a-14 promulgated pursuant to the Exchange Act. Due to the extended and serious nature of Schlegel and Hatfield’s violations, as well as the scienter they demonstrated through their willful and wanton disregard for the federal securities laws, the Defendants have shown they will continue to violate the law unless the Court enjoins them from further violations.

II. JURISDICTION AND VENUE

5. 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.

6. The Court has personal jurisdiction over the Defendants 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,

Hatfield resides in the Southern District of Florida.

7. In connection with the conduct alleged in this Complaint, the Defendants, 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. DEFENDANTS

8. Schlegel, 37, became DHB's CFO in September 1999 and a board member in July 2000. In April 2006, Schlegel resigned at the request of DHB's board of directors. She is a licensed Certified Public Accountant ("CPA") in the State of New York. She resides in Eastport, New York.

9. Hatfield, 52, was a DHB employee from 1992 through 2005 and served as DHB's COO from December 2000 through August 2005, when she resigned from that position. From August to November 2005, Hatfield continued working for DHB in a sales capacity, until she was fired. She resides in Pompano Beach, Florida.

IV. RELEVANT ENTITIES

10. DHB is a publicly traded company currently incorporated in Delaware, with its headquarters in Pompano Beach, Florida and its 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. § 78l(b), and was listed on the American Stock Exchange until July 7, 2006, when it was delisted. DHB's stock currently is quoted on the pink sheets.

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 Pompano Beach, Florida.

V. THE FRAUDULENT SCHEME AND ITS IMPACT

12. From at least 2003 through the third quarter of 2005 (the last period for which DHB has announced results) DHB materially misrepresented its inventory, cost of goods sold, gross profit, gross margin, pre-tax income, and other key figures in its reports filed with the Commission and its earnings releases. Schlegel and Hatfield simply changed or manufactured figures in DHB's books and records to achieve their desired results. Schlegel, as a the CFO of a publicly reporting company and a CPA trained in GAAP, and Hatfield, as the COO of a publicly reporting company, knew or were extremely reckless in not knowing that there was no basis for their manipulations, and their conduct was improper.

13. Schlegel failed to ensure that DHB devised and implemented adequate internal controls. Defendants used this absence of internal controls to make baseless journal entries, false supporting schedules, and inflated valuations which they knew or were extremely reckless in not knowing would result in DHB reporting materially false figures in its filings and earnings releases.

A. Falsification of DHB's Inventory and Expense Figures

1. Fraudulent Overstatement of Inventory Values

14. Except for the second quarter of 2003, in every quarter from the beginning of 2003 through the third quarter of 2005, Hatfield and Schlegel knowingly or extremely recklessly overstated the value of DHB's inventory by falsely overstating the labor costs, overhead costs, and the amount of raw materials used in DHB's products to materially misrepresent DHB's gross profit and gross margins as higher than they really were.

15. Except for the second quarter of 2003, in every quarter from the beginning of 2003 through the third quarter of 2005, Hatfield, without any basis whatsoever, falsely adjusted

Point Blank'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. 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.

16. Hatfield knew or was extremely reckless in not knowing she had no basis or documentation to support the inflated values she assigned to Point Blank's inventory in DHB's books and records. She also knew or was extremely reckless in not knowing DHB would use those values in calculating figures for its earnings releases and filings with the Commission.

17. In every quarter from the beginning of 2003 through the third quarter of 2005 except for the second quarter of 2003, Schlegel reviewed and approved Hatfield's inventory valuations and knowingly incorporated them into DHB's earnings releases and filings with the Commission. Schlegel knew or was extremely reckless in not knowing these valuations were materially false and unsubstantiated because, among other things, she had discussed inventory valuation problems with DHB's auditors, had been warned about overvaluation of DHB's inventory, had acknowledged in late 2004 or early 2005 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.

18. At the end of 2004, Schlegel and Hatfield's manipulations had falsely inflated DHB's inventory by approximately \$23.1 million. 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 despite this warning, and despite

knowing or being extremely reckless in not knowing there was no legitimate support for the inflated inventory valuations.

2. Fraudulent Overstatement of Inventory Quantities

19. In the first quarter of 2005, Hatfield and Schlegel also knowingly or extremely recklessly used inflated inventory counts to materially misrepresent the company's gross profit and gross margins as higher than they really were. They did so by adding 62,975 nonexistent vest components to Point Blank's ending inventory records. This action increased the value of the ending inventory in Point Blank's books by \$7.1 million, the purported value of these phony vest components, which correspondingly increased DHB's gross profit and gross margin, among other key figures.

20. Schlegel and Hatfield left the \$7.1 million in fictitious vest components in DHB's inventory records until the third quarter of 2005, when Schlegel concealed the Defendants' previous distortions of DHB's inventory. Schlegel removed the concocted vest components from Point Blank's inventory records by hiding them in a \$60 million charge to earnings for the discontinued production and sale of an unrelated product line in that quarter. She achieved this by instructing the controller for Point Blank to make an unsupported \$7.1 million journal entry removing the 62,975 nonexistent vest components from inventory and including them in the inventory write-off for the discontinued product line. Schlegel knew, or was extremely reckless in not knowing, there was nothing to substantiate this action.

3. Fraudulent Expense Reclassifications

21. In every quarter from at least the beginning of 2003 through the third quarter of 2005, except for the first quarter of 2004, Hatfield and Schlegel also knowingly manipulated DHB's gross margin by reclassifying expenses from cost of goods sold to another expense

category on DHB's income statement – selling, general, and administrative (“SG&A”) expenses. Hatfield knowingly and materially overstated amounts of Point Blank's SG&A expenses for research and development activities and provided these figures to Schlegel. Hatfield had no legitimate basis for her figures, and she knew or was extremely reckless in not knowing Schlegel would use those figures in preparing DHB's financial statements.

22. In each of these same quarters, Schlegel then ordered Point Blank's controllers to make journal entries recording these bogus amounts as research and development expenses purportedly relating to sample vests provided to sales personnel and customers. Hatfield and Schlegel knew or were extremely reckless in not knowing these amounts were baseless because, among other things, they represented tens of thousands of sample vests more than what Point Blank normally used. Furthermore, the corresponding overstated expenses were more than three times Point Blank's actual cost of samples.

23. The amounts of Hatfield and Schlegel's fraudulent research and development reclassifications each quarter are set forth in the table below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2003	\$660,932	\$2,747,336	\$1,415,212	\$2,780,635	\$7,604,115
2004	--	\$1,157,060	\$2,562,061	\$2,148,825	\$5,867,946
2005	\$2,199,498	\$3,088,657	\$3,182,252	unreported	<u>\$8,470,407</u>
					<u>\$21,942,468</u>

24. Hatfield and Schlegel knew or were extremely reckless in not knowing that these overstatements and journal entries would cause DHB to make materially false and misleading filings with the Commission and earnings releases.

25. Schlegel also falsely boosted DHB's gross margin in the third quarter of 2005 by improperly ordering Point Blank's controller to record a journal entry transferring \$2 million from cost of goods sold into the same \$60 million charge to earnings for the discontinued product line she had already used to hide the fictional vests the Defendants previously had added to DHB's inventory. Schlegel knew or was extremely reckless in not knowing there was no legitimate basis for this \$2 million entry.

26. Schlegel knew, or was extremely reckless in not knowing, these manipulations of DHB's books and records were baseless, did not comply with GAAP, and would result in DHB's financial statements giving a materially false impression of the company's stated results for the third quarter of 2005.

**B. The Impact of the Defendants' Fraud:
DHB's False and Misleading Filings with the Commission**

27. Due to Schlegel and Hatfield's fraudulent conduct described in Section V.A. above, DHB issued and filed earnings releases and filed Forms 10-K, Forms 10-Q, and Forms 8-K attaching earnings releases from the beginning of 2003 through the third quarter of 2005, which materially misrepresented DHB's inventory, cost of goods sold, gross profit, gross margin, SG&A expenses, and pre-tax income or loss, as described in the following paragraphs.

1. False and Misleading Filings for 2003

28. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the first quarter of 2003 materially overstated its inventory by approximately \$2.2 million or 5%, its gross profit by approximately \$2.8 million or 28%, its gross margin by approximately 28%, its SG&A expenses by approximately \$660,000 or 13%, and its pre-tax income by approximately \$2.2 million or 40%, while materially understating its cost of goods sold by approximately \$2.8 million or 8%.

29. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the second quarter of 2003 materially overstated its gross profit by approximately \$600,000 or 4%, its gross margin by approximately 4%, and its SG&A expenses by approximately \$2.7 million or 55%, while materially understating its cost of goods sold by approximately \$600,000 or 1% and its pre-tax income by approximately \$2.2 million or 23%.

30. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the third quarter of 2003 materially overstated its inventory by approximately \$2.6 million or 5%, its gross profit by approximately \$4 million or 37%, its gross margin by approximately 37%, its SG&A expenses by approximately \$1.4 million or 19%, and its pre-tax income by approximately \$2.6 million or 88%, while materially understating its cost of goods sold by approximately \$4 million or 9%.

31. DHB's earnings release and Form 8-K attaching the earnings release for the fourth quarter of 2003 materially overstated its inventory by approximately \$6.6 million or 14%, its gross profit by approximately \$6.8 million or 52%, its gross margin by approximately 52%, its SG&A expenses by approximately \$2.8 million or 23%, and its pre-tax income by approximately \$4 million or 232%, while materially understating its cost of goods sold by approximately \$6.8 million or 11%.

32. DHB's Form 10-K for the year ended December 31, 2003 materially overstated the value of its inventory by approximately \$6.6 million or 14%, its gross profit by approximately \$14.2 million or 29%, its SG&A expenses by approximately \$7.6 million or 26%, and its pre-tax income by approximately \$6.6 million or 34%, while materially understating its annual cost of goods sold by approximately \$14.2 million or 8%.

2. False and Misleading Filings for 2004

33. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the first quarter of 2004 materially overstated its inventory by approximately \$6 million or 10%, and its cost of goods sold by approximately \$600,000 or 1%, while materially understating its gross profit by approximately \$600,000 or 3%, its gross margin by approximately 3%, and its pre-tax income by approximately \$600,000 or 6%.

34. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the second quarter of 2004 materially overstated its inventory by approximately \$9.2 million or 14%, its gross profit by approximately \$4.4 million or 23%, its gross margin by approximately 23%, its SG&A expenses by approximately \$1.2 million or 12%, and its pre-tax income by approximately \$3.3 million or 35%, while materially understating its cost of goods sold by approximately \$4.4 million or 7%.

35. DHB's Form 10-Q, earnings release, and Forms 8-K attaching the earnings release for the third quarter of 2004 materially overstated its inventory by approximately \$12.4 million or 18%, its gross profit by approximately \$5.7 million or 30%, its gross margin by approximately 30%, its SG&A expenses by approximately \$2.6 million or 28%, and its pre-tax income by approximately \$3.1 million or 32%, while materially understating its cost of goods sold by approximately \$5.7 million or 8%.

36. DHB's earnings release, and Form 8-K attaching the earnings release for the fourth quarter of 2004 materially overstated its inventory by approximately \$23.1 million or 37%, its gross profit by approximately \$12.9 million or 110%, its gross margin by approximately 110%, its SG&A expenses by approximately \$2.1 million or 21%, and its pre-tax income by approximately \$10.7 million or 819%, while materially understating its cost of goods sold by

approximately \$12.9 million or 16%.

37. DHB's Form 10-K for the year ended December 31, 2004 materially overstated the value of its inventory by approximately \$23.1 million or 37%, its gross profit by approximately \$22.4 million or 31%, its SG&A expenses by approximately \$5.9 million or 15%, and its pre-tax income by approximately \$16.5 million or 52%, while materially understating its annual cost of goods sold by approximately \$22.4 million or 8%.

3. False and Misleading Filings for 2005

38. Although DHB has not yet filed a Form 10-K for 2005, Schlegel and Hatfield's fraudulent conduct described above in Section V.A caused DHB to file materially false and misleading Forms 10-Q, earnings releases, and Forms 8-K attaching earnings releases for the first, second, and third quarters of 2005.

39. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the first quarter of 2005 materially overstated the value of the company's inventory by approximately \$21.7 million or 27%, its gross profit by approximately \$826,000 or 4%, its gross margin by approximately 4%, and its SG&A expenses by approximately \$2.2 million or 26%, while materially understating its cost of goods sold by \$800,000 or 1% and its pre-tax income by approximately \$1.4 million or 10%.

40. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the second quarter of 2005 materially overstated the value of the company's inventory by approximately \$21.3 million or 27%, its gross profit by approximately \$2.6 million or 12%, its gross margin by approximately 12%, and its SG&A expenses by approximately \$3.1 million or 37%, while materially understating its cost of goods sold by approximately \$2.6 million or 4% and its pre-tax income by approximately \$500,000 or 4%.

41. DHB's Form 10-Q, earnings release, and Form 8-K attaching the earnings release for the third quarter materially overstated the value of the company's inventory by approximately \$12 million or 19%, its gross profit by approximately \$3 million or 14%, its gross margin by approximately 14%, its SG&A expenses by approximately \$3.2 million or 14%, and its pre-tax loss by \$9.3 million or 18%, while materially understating its cost of goods sold by approximately \$3 million or 4%.

42. Schlegel and Hatfield knew or were extremely reckless in not knowing each of the above-referenced filings with the Commission contained materially false figures, which they had created or manipulated to misrepresent DHB's financial results.

C. Schlegel's False Certifications

43. As part of DHB's Forms 10-K for the years ended 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, Schlegel falsely certified in writing that each report contained no untrue statement of a material fact and fairly presented in all material respects the financial condition and results of DHB's operations and cash flows as of, and for, the periods presented. Because of her manipulation of DHB's books and records, Schlegel knew or was extremely reckless in not knowing that her certifications were false.

D. DHB's Failure to Devise and Implement Adequate Internal Controls

44. Between the beginning of 2003 and August 2005, Hatfield, as DHB's COO, was responsible for valuing Point Blank's inventory. In this same three-year period and until she was terminated, Schlegel, as DHB's CFO, was responsible for reviewing and approving the inventory valuations before incorporating them into DHB's financial statements and public filings.

45. During this same time period and under Schlegel's direction, DHB failed to

devise and maintain internal controls sufficient to provide reasonable assurances that they accounted for DHB's inventory, cost of goods sold, gross profit, gross margin, SG&A expenses, pre-tax income, and other key figures in its financial statements in conformity with GAAP. In addition, the company maintained only minimal inventory records and inadequate inventory controls.

46. DHB also failed to take accurate quarterly physical inventory counts, and the documentation used to value its inventory was outdated, unsupported, and grossly inaccurate. Schlegel and Hatfield knew or were extremely reckless in not knowing DHB failed to devise and maintain adequate internal controls.

47. Schlegel and Hatfield took advantage of these deficiencies to create and manipulate the figures they included in the company's books, records, filings with the Commission, and earnings releases in their scheme to materially overstate key DHB results. They fabricated these figures knowing or being extremely reckless in not knowing DHB would include them in its public filings and earnings releases.

E. Schlegel's False and Misleading Statements to Auditors

48. To hide Schlegel and Hatfield's manipulations of DHB's books, records, and financial statements, Schlegel lied to DHB's auditors during audits of DHB's financial statements. Schlegel executed fraudulent letters to DHB's auditors at each quarter and year-end from at least 2004 through 2005. For example, in representation letters dated March 5, 2004, March 6, 2005, March 8, 2005, May 9, 2005, July 28, 2005, and November 7, 2005, Schlegel falsely told DHB's auditors she had no knowledge of any fraud involving management, DHB's financial statements were fairly presented in conformity with GAAP, and there were no material transactions not properly recorded in the records underlying the financial statements.

49. Schlegel also lied to the auditors and provided false support for the \$60 million charge to earnings recorded in the third quarter of 2005. Specifically, in a meeting on March 7, 2006, at one of DHB's facilities in Pompano Beach, Florida, Schlegel falsely told DHB's auditors she did not know anything about the \$2 million reclassification from cost of goods sold to the \$60 million charge to earnings — the same entry she had directed in the third quarter of 2005. Later that day, Schlegel changed her story and again lied to the auditors by stating the \$2 million entry was to correct the previous adjustment for the discontinued product line.

50. Schlegel continued trying to hide Hatfield's and her manipulations of DHB's books, records, and financial statements by giving the company's auditors fabricated inventory schedules that concealed the \$2 million reclassification from cost of goods sold in the third quarter of 2005 and the \$7.1 million in fictitious inventory added in the first quarter of 2005. For example, on March 7, 2006, Schlegel provided DHB's auditors with a schedule that supposedly showed the breakdown of the \$60 million charge to earnings taken in the third quarter of 2005. In this schedule, however, she masked the \$2 million and \$7.1 million as an approximate \$9 million write-off of inventory of the unrelated product line.

51. In a meeting that same day at DHB's Pompano Beach location, Schlegel falsely told the auditors the \$7.1 million inventory adjustment was related to the products forming the basis of the \$60 million charge. Also in this meeting, she also lied by telling the auditors the \$7.1 million of vest components had been moved from one facility to another due to a lack of space, and that they were ultimately destroyed in a hurricane.

52. The following day, Schlegel e-mailed bogus support for her inventory schedule to DHB's auditors. This putative support purports to show specific items and costs comprising the approximately \$9 million write-off on her March 7, 2006 schedule.

53. Ultimately, in a March 14, 2006 meeting at DHB's Pompano Beach office, attended by Schlegel, Hatfield, DHB's auditors, and others, Schlegel admitted that she and Hatfield had placed the 62,975 nonexistent vest components on DHB's books in the first quarter of 2005 to increase DHB's quarterly gross margin. Schlegel further admitted she had written off the vest components in the third quarter of 2005, and that the \$60 million charge to earnings was materially incorrect.

F. Insider Trading

54. At the end of the third quarter of 2004, Schlegel and Hatfield had overvalued DHB's inventory by approximately \$12.3 million, and Schlegel had fraudulently reclassified more than \$3.7 million from DHB's cost of goods sold to SG&A expenses during the first three quarters of 2004. These acts enabled DHB to materially misrepresent key figures in its Form 10-Q, earnings release, and Form 8-K attaching the earnings release filed on November 9, 2004, as described above in Section V.B.

55. Less than three weeks after reporting these results and before the public knew about the misrepresentations in DHB's filings, Hatfield and Schlegel together dumped 418,868 shares of DHB stock on the market, netting them more than \$8.2 million in profits. This was the first sale of DHB stock for both Schlegel and Hatfield, and was a result of their simultaneous cashless exercise of warrants which DHB had previously granted them.

56. Schlegel sold 149,503 DHB shares on November 29, 2004, at a share price of \$19.61, netting her \$2,931,753.80 in profits. Hatfield sold 269,365 DHB shares in the market on November 29, 2004, December 28, 2004, and December 29, 2004, at share prices ranging from \$19.61 to \$19.76. Hatfield profited by \$5,291,724.20 from these sales.

57. During this period, DHB's stock was trading near its all-time high and reached its

peak of \$20.56 on December 23, 2004. Both Schlegel and Hatfield directed these sales while knowing they possessed material, non-public information regarding their manipulations of DHB's books and records, and the false numbers in the company's public filings.

VI. VIOLATIONS

COUNT I **(All Defendants)**

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

58. The Commission repeats and re-alleges paragraphs 1 through 57 as if fully set forth herein.

59. From at least 2003 through 2005, Defendants, 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.

60. By reason of the foregoing, the Defendants 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 II **(All Defendants)**

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

61. The Commission repeats and re-alleges paragraphs 1 through 57 as if fully set forth herein.

62. At all relevant times, the Defendants knew, or were extremely reckless in not knowing, they 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, they sold DHB stock.

63. From at least 2003 through 2005, Defendants, 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.

64. By reason of the foregoing, the Defendants 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
(All Defendants)

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

65. The Commission repeats and realleges paragraphs 1 through 57 of its Complaint as if fully restated herein.

66. 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.

67. Schlegel and Hatfield 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.

68. By reason of the foregoing, Schlegel and Hatfield 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 IV
(All Defendants)

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

69. The Commission repeats and realleges paragraphs 1 through 57 of its Complaint as if fully restated herein.

70. 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 GAAP or any other criteria applicable to such statements.

71. Schlegel and Hatfield 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).

72. By reason of the foregoing, Schlegel and Hatfield 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 V
(All Defendants)

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

73. The Commission repeats and realleges paragraphs 1 through 57 of its Complaint as if fully restated herein.

74. Schlegel and Hatfield 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.

75. By reason of the foregoing, Schlegel and Hatfield 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 VI
(Against Schlegel)

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

76. The Commission repeats and realleges paragraphs 1 through 57 of its Complaint as if fully restated herein.

77. Schlegel 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.

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

COUNT VII
(Against Schlegel)

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

79. The Commission repeats and realleges paragraphs 1 through 57 of its Complaint as if fully restated herein.

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

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

VII. RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court:

I.

Declaratory Relief

Declare, determine, and find that Schlegel and Hatfield have committed the violations of the federal securities laws alleged in this Complaint.

II.

Permanent Injunction

Permanently restrain and enjoin Schlegel, her agents, servants, employees, representatives, attorneys-in-fact, and assigns and those persons in active concert or participation with her, and each of them, from violating Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), and 78(b)(2)(B), and 78m(b)(5), 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 permanently restrain and enjoin Hatfield, her agents, servants, employees,

representatives, attorneys-in-fact, and assigns and those persons in active concert or participation with her, and each of them, from violating Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), 78(b)(2)(B), and 78m(b)(5), and Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13, and 13b2-1, 17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11, 240.13a-13, and 240.13b2-1.

III.

Disgorgement

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

IV.

Penalties

Issue an Order directing Defendants to pay a 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.

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 Schlegel and Hatfield from acting as an officer or director of a publicly-held company.

VI.

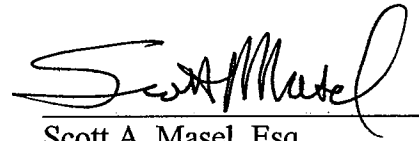
Further Relief

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

August 17, 2006

Respectfully submitted,

By:



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