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F.#2003R01830

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

LONG ISLAND OFFICE

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UNITED STATES OF AMERICA

CR 06 550
INDICTMENT
SPATT, J.

- against -

Cr. No. _____
(T. 18, U.S.C., §§
1348, 1349,
981(a)(1)(C), 2 and
3551 et seq.; T. 21,
U.S.C., § 853(p); T. 28,
U.S.C., § 2461(c))

DAWN SCHLEGEL and
SANDRA HATFIELD,

Defendants.

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THE GRAND JURY CHARGES:

INTRODUCTION

At all times relevant to this Indictment, unless otherwise indicated:

I. BACKGROUND

A. The Company

1. D.H.B. Industries, Inc. ("DHB") was a Delaware Corporation headquartered at 400 Post Avenue in Westbury, New York. DHB and its subsidiaries, which included Point Blank Body Armor, Inc. ("Point Blank") and Protective Apparel Corporation of America, Inc. ("PACA"), manufactured and distributed body armor. DHB's customers were primarily all branches of the United States military and various federal and state law enforcement entities located throughout the United States.

2. DHB was a publicly traded corporation, the

common stock of which was traded on the American Stock Exchange under the ticker symbol "DHB." DHB's shareholders were located throughout the United States, including in the Eastern District of New York.

B. The Defendants

3. The defendant DAWN SCHLEGEL was employed by DHB beginning in 1996. In 1999, SCHLEGEL became the Chief Financial Officer ("CFO") of DHB. In 2000, SCHLEGEL became a member of DHB's Board of Directors. SCHLEGEL left DHB in April 2006.

4. The defendant SANDRA HATFIELD was employed by Point Blank beginning in 1995. In October 1996, HATFIELD became President of Point Blank. In 2000, HATFIELD became the Chief Operating Officer of DHB, a position she held until approximately August 2005. HATFIELD left DHB in November 2005.

C. Certain Relevant Accounting and Finance Principles

5. As a public company, DHB was required to comply with the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). The SEC's rules and regulations were designed to protect members of the investing public by, among other things, ensuring that a company's financial information was accurately recorded and disclosed to the investing public.

6. Under the SEC's rules and regulations, DHB and

its officers were required to: (a) make and keep books, records and accounts which, in reasonable detail, fairly and accurately reflected the company's business transactions, including its revenues and expenses; (b) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurance that the company's transactions were recorded as necessary to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP"); and (c) file with the SEC quarterly reports (on Form 10-Q) and annual reports (on Form 10-K) that included financial statements that accurately presented DHB's financial condition and the results of its business operations in accordance with GAAP.

7. In its quarterly and annual reports, DHB disclosed its total revenues, gross profit margin, inventories and earnings, among other information.

8. The term "gross profit margin" refers to the difference between a company's revenues from the sale of its goods and the cost of producing those goods. The term does not reflect the costs associated with the actual sale of goods, such as, for example, the cost of providing free samples to customers, the cost of general administrative expenses, such as executive salaries, or the cost of research and development. Gross profit

margin is a term often used by investors to evaluate how efficiently a manufacturer like DHB produces its goods.

II. The Securities Fraud Scheme

9. The defendants DAWN SCHLEGEL and SANDRA HATFIELD, together with others, devised and carried out a scheme to defraud the investing public by overstating and thereby materially misrepresenting DHB's quarterly and annual gross profit margins, inventories and earnings reported on Forms 10-Q and 10-K. As is set forth in greater detail herein, the scheme involved the following components: (a) the use of fraudulent journal entries to reclassify expenses associated with the cost of producing goods as being related to research and development, samples, or other expenses which did not impact DHB's gross profit margin; (b) the overvaluation of DHB's inventory and inflation of its earnings; and (c) the creation of fraudulent entries in DHB's corporate books and records that accounted for non-existent inventory. The goal of the scheme was to ensure that DHB consistently reported gross profit margins of 27 percent or more and increased earnings, which corresponded to the expectations of professional stock analysts.

A. The Reclassification of Point Blank's Expenses

10. Between 2003 and 2005, accounting personnel at Point Blank regularly compiled preliminary quarterly reports. The reports reflected, among other things, Point Blank's

revenues, expenses and inventory calculations and were provided to the defendants DAWN SCHLEGEL and SANDRA HATFIELD. Point Blank was the largest of DHB's subsidiaries and its financial results had the greatest impact on DHB's overall financial results. SCHLEGEL used Point Blank's quarterly financial results to create consolidated financial statements for DHB that summarized the quarterly financial results of all of DHB's subsidiaries and were included in DHB's quarterly reports on Form 10-Q and annual reports on Form 10-K. As the CFO of DHB, SCHLEGEL was responsible for preparing DHB's consolidated financial statements and filing DHB's Form 10-Qs and Form 10-Ks with the S.E.C.

11. Professional stock analysts generally expected DHB's gross profit margin to be approximately 27 percent to 28 percent. Prior to creating DHB's quarterly financial reports, the defendant DAWN SCHLEGEL reviewed Point Blank's preliminary quarterly reports with the defendant SANDRA HATFIELD. If Point Blank's quarterly financial results resulted in DHB's gross profit margin falling below 27 percent, SCHLEGEL directed Point Blank's various controllers, whose identities are known to the Grand Jury, to make fraudulent entries in Point Blank's books and records that reclassified expenses associated with the cost of producing goods as being related to research and development, samples, or other expenses which did not impact Point Blank's gross profit margin. SCHLEGEL further instructed the controllers

to reclassify the expenses in amounts sufficient to bring DHB's total gross profit margin above 27 percent.

12. The fraudulently reclassified expenses for Point Blank totaled approximately \$7 million in 2003, \$6 million in 2004, and \$9 million in the first three quarters of 2005. In 2003, the reclassified expenses for Point Blank increased DHB's gross profit margin from approximately 24 percent to 28 percent. In 2004, the reclassified expenses increased DHB's gross profit margin from approximately 26 percent to 28 percent.

B. The Overvaluation of Inventory

1. Point Blank's Inventory at PACA

13. In 2004, Point Blank entered into a contract with PACA to sew vest components. From December 31, 2004, through the first week of January 2005, PACA and Point Blank employees prepared a schedule of Point Blank's inventory of vest components that were located at PACA so that the inventory could be included in Point Blank's annual inventory calculation. The schedule valued Point Blank's inventory at PACA at approximately \$2 million. After the schedule was provided to the defendant SANDRA HATFIELD, she, along with Jane Doe, a co-conspirator whose identity is known to the Grand Jury, fraudulently revised it and increased the value of Point Blank's inventory at PACA to approximately \$9 million.

14. Prior to the filing of DHB's 2004 annual report on

Form 10-K for the fiscal year 2004, John Doe, an individual whose identity is known to the Grand Jury, informed the defendant DAWN SCHLEGEL that the defendant SANDRA HATFIELD had fraudulently overvalued Point Blank's inventory at PACA. SCHLEGEL nonetheless included the fraudulently inflated value of Point Blank's inventory at PACA in DHB's 2004 Form 10-K.

15. By fraudulently inflating the value of Point Blank's inventory at PACA, the defendants DAWN SCHLEGEL, SANDRA HATFIELD and others: (a) increased DHB's pre-tax earnings in the fourth quarter of 2004 from approximately \$5 million to \$12 million; (b) increased DHB's 2004 fourth quarter gross profit margin from approximately 20 percent to 27 percent; (c) increased DHB's pre-tax earnings for the fiscal year 2004 from approximately \$41 million to \$48.2 million; and (d) contributed to the increase of DHB's gross profit margin for the fiscal year 2004 from approximately 21 percent to 28 percent.

2. Interceptor Vest Inventory

16. Between 2003 and 2005, DHB's primary product was the "Interceptor" vest, an armored vest designed to withstand penetration by pistol and rifle ammunition, as well as explosive shrapnel fragments. DHB produced the Interceptor vest for various branches of the United States Military, including the United States Marines, the United States Army and the United States Navy. In the latter half of 2004, John Doe determined

that DHB was overvaluing its Interceptor vests inventory, primarily because of inaccurate accounting of the labor costs associated with the production of the Interceptor vests. Beginning in November 2004, John Doe repeatedly informed the defendant SANDRA HATFIELD that the Interceptor vests inventory was overvalued by \$6 million to \$8 million. In February 2005, HATFIELD told John Doe that she would not change the Interceptor vests inventory valuation in the books and records of Point Blank, and directed John Doe to have no contact with DHB's auditors regarding issues related to the valuation of Point Blank's inventory. On or about February 18, 2005, John Doe informed HATFIELD that he was resigning from DHB, in part, because of the Interceptor vests inventory overvaluation. HATFIELD acknowledged to John Doe that DHB's Interceptor vests inventory was overvalued, but told John Doe that DHB could not "take the hit" of reducing the valuation to the correct amount in the year 2004. HATFIELD told John Doe that the value of the Interceptor vests would be corrected at some point in 2005.

17. Several days after John Doe informed the defendant SANDRA HATFIELD that he was resigning, John Doe met with the defendant DAWN SCHLEGEL at DHB's corporate headquarters in Westbury, New York, and explained to her his objections to the overvaluation by HATFIELD of the Interceptor vests inventory. SCHELGEL acknowledged that the Interceptor vests inventory was

overvalued but suggested that the overvaluation was not as high as John Doe claimed. SCHELGEL told John Doe that the Interceptor vests inventory value could not be corrected because DHB could not "take a hit" in 2004. SCHLEGEL further informed John Doe that she and an unindicted co-conspirator, whose identity is known to the Grand Jury, had a "time line" to address issues such as the Interceptor vests inventory valuation, but that it was too soon to address the issue.

18. The overvaluation of the Interceptor vests inventory in fiscal year 2003 inflated DHB's pretax earnings from approximately \$19.6 million to \$26.2 million and contributed to the increase in DHB's gross profit margin from approximately 21 percent to 28 percent. The overvaluation of Point Blank's Interceptor vests inventory in fiscal year 2004 resulted in the inflation of DHB's pretax earnings for 2004 by approximately \$6.8 million, contributed to a fraudulent increase in pretax earnings from approximately \$34.4 million to \$48.2 million and contributed to the increase in DHB's gross profit margin for 2004 from approximately 21 percent to 28 percent.

C. Non-existent Inventory

19. In or about April 2005, prior to the filing of DHB's quarterly report on form 10-Q for the first quarter of 2005, the defendants SANDRA HATFIELD and DAWN SCHLEGEL received financial information that indicated that DHB's earnings and

gross profit margins were far below the predictions of professional stock analysts for the first quarter of 2005. HATFIELD and SCHLEGEL agreed to remedy these shortfalls by creating a fraudulent entry in Point Blank's books and records that showed the existence in Point Blank's inventory of 62,975 Interceptor vest outer shell components, valued at approximately \$7 million ("the non-existent vest components"). The inclusion of the non-existent vest components in Point Blank's inventory increased DHB's pretax earnings for the first quarter of 2005 from approximately \$5 million to \$12 million, and increased DHB's gross profit margin for the first quarter of 2005 from approximately 18 percent to 27 percent.

20. The non-existent vest components remained in Point Blank's inventory as reported in Point Blank's books and records and in DHB's quarterly report on form 10-Q for the second quarter of 2005, until September 2005, when DHB decided to discontinue the sales of products that contained Zylon. Zylon was no longer marketable as of September 2005 and DHB decided to voluntarily replace vests containing Zylon that were previously sold by DHB. As part of the Zylon vests replacement program, DHB reduced the value of its inventory by \$19.2 million to account for vests containing Zylon. However, Zylon was not used in the production of the Interceptor vests. Nevertheless, the defendant DAWN SCHLEGEL included the non-existent vest components in the

September 2005 Zylon inventory reduction. The inclusion of the non-existent vest components in the Zylon inventory reduction increased the amount of that reduction from approximately \$12.2 million to \$19.2 million, as reported in DHB's quarterly report on form 10-Q for the third quarter of 2005.

21. In March 2006, accountants from DHB's independent auditor, whose identities are known to the Grand Jury, questioned the defendant DAWN SCHELGEL, among others, about the non-existent vest components portion of the Zylon inventory reduction. In response to the inquiries, SCHLEGEL initially falsely claimed that the non-existent vest components existed, contained Zylon, and were properly included in the Zylon inventory reduction. Subsequently, SCHLEGEL and the defendant SANDRA HATFIELD admitted to the accountants that the non-existent vest components did not contain Zylon, were never actually observed, and were added to DHB's inventory after SCHLEGEL and HATFIELD reviewed DHB's financial information for the first quarter of 2005. As of July 2006, accountants from DHB's independent auditor, and a team of forensic accountants, whose identities are known to the Grand Jury, were unable to find any evidence that the non-existent inventory components actually existed or that Zylon was used in the manufacture of Interceptor vests.

III. INSIDER TRADING

22. Between April 2003 and December 2004, DHB filed

three quarterly reports on form 10-Q for 2003, an annual report on form 10-K for 2003, and three quarterly reports on form 10-Q for 2004. During this time period: (a) the defendants DAWN SCHLEGEL and SANDRA HATFIELD executed the portion of the scheme identified above regarding the use of fraudulent journal entries to reclassify expenses and the overvaluation of inventory; (b) the quarterly reports and annual reports, as well as related press releases and public statements made by SCHLEGEL, HATFIELD and other senior management at DHB, contained materially false and misleading information regarding DHB's financial results; (c) DHB's true financial results for this time period were not disclosed to the investing public; and (d) SCHLEGEL and HATFIELD's fraudulent scheme to materially misrepresent DHB's reported financial results was not disclosed to the investing public.

23. On or about November 29, 2004, the defendant DAWN SCHLEGEL sold 149,000 shares of DHB's common stock for \$2,931,753, and the defendant SANDRA HATFIELD sold 180,000 shares of DHB's common stock for \$3,532,133. On or about December 28, 2004, HATFIELD sold 24,426 shares of DHB's common stock for \$482,574. On or about December 29, 2004, HATFIELD sold an additional 65,000 shares of DHB's common stock for \$1,277,016.

COUNT ONE

(Conspiracy to Commit Securities Fraud)

24. The allegations contained in paragraphs 1 through 23 are repeated and incorporated as though fully set forth in this paragraph.

25. In or about and between April 2003 and November 2005, both dates being approximate and inclusive, within the Eastern District of New York and elsewhere, the defendants DAWN SCHLEGEL and SANDRA HATFIELD, together with others, did knowingly and intentionally conspire to execute a scheme and artifice (a) to defraud persons in connection with securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc.; and (b) to obtain, by means of false and fraudulent pretenses, representations and promises, money and property in connection with the purchase and sale of securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc., all in violation of Title 18, United States Code, Section 1348.

(Title 18, United States Code, Sections 1349 and 3551 et seq.)

COUNT TWO
(Securities Fraud)

26. The allegations contained in paragraphs 1 through 23 are repeated and incorporated as though fully set forth in this paragraph.

27. In or about and between April 2003 and November 2005, both dates being approximate and inclusive, within the Eastern District of New York and elsewhere, the defendants DAWN SCHLEGEL and SANDRA HATFIELD, together with others, did knowingly and intentionally execute a scheme and artifice (a) to defraud persons in connection with securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc.; and (b) to obtain, by means of false and fraudulent pretenses, representations and promises, money and property in connection with the purchase and sale of securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc.

(Title 18, United States Code, Sections 1348, 2 and 3551 et seq.)

COUNT THREE
(Insider Trading: DAWN SCHLEGEL)

28. The allegations contained in paragraphs 1 through

23 are repeated and incorporated as though fully set forth in this paragraph.

29. On or about November 29, 2004, within the Eastern District of New York and elsewhere, the defendant DAWN SCHLEGEL, together with others, did knowingly and intentionally execute a scheme and artifice (a) to defraud persons in connection with securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc.; and (b) to obtain, by means of false and fraudulent pretenses, representations, and promises, money and property in connection with the purchase and sale of securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc., in that SCHLEGEL sold shares of DHB Industries, Inc. stock and generated total proceeds of \$2,931,753.

(Title 18, United States Code, Sections 1348 and 3551 et seq.)

COUNTS FOUR THROUGH SIX
(Insider Trading: SANDRA HATFIELD)

30. The allegations contained in paragraphs 1 through 23 are repeated and incorporated as though fully set forth in this paragraph.

31. On or about the dates indicated below, within the

Eastern District of New York and elsewhere, the defendant SANDRA HATFIELD, together with others, did knowingly and intentionally execute a scheme and artifice (a) to defraud persons in connection with securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc.; and (b) to obtain, by means of false and fraudulent pretenses, representations, and promises, money and property in connection with the purchase and sale of securities of an issuer with a class of securities that was registered under Section 12 of the Securities Exchange Act of 1934, to wit, the common stock of D.H.B. Industries, Inc., in that HATFIELD sold the shares listed below of DHB Industries, Inc. stock and generated the total proceeds listed below:

COUNT	TRANSACTION	TOTAL PROCEEDS	DATE
FOUR	Sale of 180,000 shares of DHB Industries, Inc. stock	\$3,532,133	November 29, 2004
FIVE	Sale of 24,426 shares of DHB Industries, Inc. stock	\$482,574	December 28, 2004
SIX	Sale of 65,000 shares of DHB Industries, Inc. stock	\$1,277,016	December 29, 2004

(Title 18, United States Code, Sections 1348 and 3551 et seq.)

CRIMINAL FORFEITURE ALLEGATION AS TO COUNTS ONE,
THREE, FOUR, FIVE, AND SIX

32. The United States hereby gives notice to the defendants charged in Counts One, Three, Four, Five, and Six that, upon their conviction of such offenses, the government will seek forfeiture in accordance with Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), which require any person convicted of such offenses to forfeit any property constituting or derived from proceeds obtained directly or indirectly as a result of such offenses, including but not limited to the following:

(a) A sum of money equal to at least approximately \$8,210,417.59 in United States currency, for which the defendants are jointly and severally liable;

(b) All right, title, and interest in the following:

(i) any and all interest in, or derived from, the certificate of deposit number 10013 for \$1,571,016.15 held at U.S. Trust Company of New York in account number [redacted] in the name of Dawn Schlegel International, Inc.;

(ii) any and all interest in, or derived from, the certificate of deposit number 10013 for \$920,000.00 held at U.S. Trust Company of New York in account number [redacted] in the name of Party Time Trust;

(iii) any and all interest in U.S. Trust Company of New York account [redacted] in the name of Party Time Trust derived from

certificate of deposit number 10012 held at U.S. Trust Company of New York in account number [redacted] in the name of Party Time Trust;

(iv) any and all interest in U.S. Trust Company of New York account [redacted] in the name of Dawn Schlegel International, Inc. derived from certificate of deposit number 10012 held at U.S. Trust Company of New York in account number [redacted] in the name of Party Time Trust;

(v) any and all interest in, or derived from, the certificate of deposit number 10034 for \$1,007,750.00 held at U.S. Trust Company of New York in account number [redacted] in the name of Sandra Hatfield Industries, Inc.;

(vi) any and all interest in, or derived from, the certificate of deposit number 10032 for \$2,525,666.66 held at U.S. Trust Company of New York in account number [redacted] in the name of Sandra Hatfield Industries, Inc.;

(vii) any and all interest in U.S. Trust Company of New York account [redacted] in the name of Sandra Hatfield Industries, Inc. derived from certificate of deposit number 10028 held at U.S. Trust Company of New York in account number [redacted] in the name of Sandra Hatfield Industries, Inc.; and

(viii) any and all interest in U.S. Trust Company of New York account [redacted] in the name of Sandra Hatfield Industries, Inc. derived from certificate of deposit number 10027

held at U.S. Trust Company of New York in account number in the name of Sandra Hatfield Industries, Inc.

33. If any of the above-described forfeitable property, as a result of any act or omission of the defendants:

(a) cannot be located upon the exercise of due diligence;

(b) has been transferred or sold to, or deposited with, a third party;

(c) has been placed beyond the jurisdiction of the court;

(d) has been substantially diminished in value; or

(e) has been commingled with other property which cannot be divided without difficulty;

(f) it is the intent of the United States, pursuant to Title 21, United States Code, Section 853(p), as incorporated by Title 28, United States Code, Section 2461(c)), to seek forfeiture of any other property of such defendants up to the value of the forfeitable property described in this forfeiture allegation, including but not limited to the following:

(i) the real property and premises located at 2 Seatuck Cove, Eastport, New York;

(ii) the real property and premises located at 812 North Ocean Boulevard, Pompano Beach, Florida; and

(iii) the real property and premises located at 210 Summit Drive, La Follette, Tennessee.

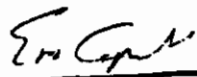
(Title 18, United States Code, Section 981(a)(1)(C)); Title 21, United States Code, Section 853(p); Title 28, United States Code, Section 2461(c))

A TRUE BILL



FOREPERSON

ROSLYNN R. MAUSKOPF
UNITED STATES ATTORNEY
EASTERN DISTRICT OF NEW YORK


BY: _____
ACTING UNITED STATES ATTORNEY
PURSUANT TO 28 C.F.R. 0.138