

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF MISSOURI  
EASTERN DIVISION**

<b>Securities and Exchange Commission,</b>	)	
	)	
<b>Plaintiff,</b>	)	
	)	
vs.	)	Civil Action No.
	)	
<b>Steven J. Landmann,</b>	)	
	)	
<b>Defendant.</b>	)	

**COMPLAINT**

Plaintiff, the United States Securities and Exchange Commission (“the Commission”), for its Complaint, alleges as follows:

**SUMMARY**

1. From 1997 through 2003, Steven J. Landmann was a participant in a fraudulent scheme that enriched himself and others at Engineered Support Systems, Inc. (“Engineered Support” or “the Company”). Engineered Support periodically issued stock options to its employees and directors as an incentive, purportedly tying the recipients’ compensation to the Company’s future stock price. Pursuant to Engineered Support’s stock option plans, the Company was required to grant these options “at-the-money,” which means that the option exercise price would be equal to the closing market price of the Company’s common stock on the date of the award. Thus, employees and directors would profit only if the Company’s stock price rose after options were awarded.

2. During this period of time, Engineered Support regularly issued proxy statements and annual reports which represented that the Company’s stock options were

issued with exercise prices equal to the closing market prices on the dates of the awards. However, these statements were false.

3. As Engineered Support's Controller, and at the direction of others, Landmann backdated the grant dates of certain of Engineered Support's stock options to coincide with low points in the closing market price for the Company's common stock. This undisclosed practice resulted in grants of disguised in-the-money options, where the options had a lower exercise price than the market price of Engineered Support's common stock on the actual date of the award. Because the Company's stock options vested immediately, this practice conveyed immediate compensation to options recipients which had not been authorized by shareholders.

4. As part of this scheme, on two occasions Landmann also was directed to cancel and reissue previously issued Engineered Support options with a new backdated grant date and exercise price when the Company's stock price fell after the Company had granted those options. The purpose was to bring options that fell out-of-the-money back in-the-money.

5. As part of this scheme, and at the direction of others, Landmann also improperly issued options to non-employee directors beyond what those directors were authorized to receive under Engineered Support's stock option plans. The violation of these plan provisions was never disclosed by the Company.

6. In connection with the scheme, Landmann also prepared portions of proxy statements and periodic reports filed with the Commission from 1997 through 2003 which he knew, or was reckless in not knowing, contained materially false and misleading statements and omissions of material facts concerning Engineered Support's

stock option grants, as well as portions of materially misstated financial statements that understated compensation expense required by Generally Accepted Accounting Principles (“GAAP”). As a result, Engineered Support materially overstated its pretax operating income of \$148 million (for the fiscal years 1997 through 2002) by approximately \$26 million, or 21%.

7. Landmann also was involved in the preparation and review of the stock option award letters and certificates, as well as stock option schedules, which contained false grant dates. These documents were provided to Engineered Support’s auditors as evidence of the actual grant dates.

8. In total, these manipulative options granting practices resulted in approximately \$20 million of unauthorized compensation to Engineered Support insiders. Landmann’s personal ill-gotten gains from this scheme totaled \$518,972.50.

### **JURISDICTION AND VENUE**

9. This Court has jurisdiction over this action pursuant to Sections 20(b) and 22(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b), 77v(a)], and Sections 21(d), 21(e) and 27 of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d)-(e), 78aa]. The defendant has, directly or indirectly, made use of the means and instrumentalities of interstate commerce, or the mails, or of the facilities of a national securities exchange in connection with the acts, practices and courses of business alleged in this complaint.

10. This is an appropriate venue under Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. The

transactions, acts, practices and courses of business constituting the violations alleged herein occurred within the Eastern District of Missouri, and the defendant resides here.

#### **THE DEFENDANT**

11. Steven J. Landmann, age 47, is a resident of St. Louis, Missouri. Landmann was Engineered Support's Controller from 1998 until January, 2006 and was a company officer from 1999 until 2006. Landmann is a holder of a certificate of public accountancy in the State of Missouri. During the time periods relevant to this proceeding, Landmann participated in the administration of Engineered Support's stock option plans.

#### **ENTITY INVOLVED**

12. Engineered Support Systems, Inc. is a Missouri corporation with its principal place of business in St. Louis, Missouri. Engineered Support is a holding company for a number of wholly-owned subsidiaries that design and manufacture military support equipment and electronics, primarily for the U.S. Department of Defense. The Company and its subsidiaries employ more than 3,000 people and its main products include tank trailers, heavy cargo loading equipment, portable generators, field shelters, distribution systems for fuel, water and air, and radar and other electronics systems. Engineered Support's common stock was traded on the NASDAQ NMS, and was registered with the Commission pursuant to Section 12(g) of the Exchange Act, until it was acquired by DRS Technologies, Inc. on January 31, 2006.

## FACTS

### Engineered Support's Stock Option Plans

13. Since at least 1992, Engineered Support issued stock options to employees and non-employee directors pursuant to shareholder-approved stock option plans. From 1997 through 2002, the Company had two stock option plans in effect, one for officers, employees and consultants ("Stock Option Plan"), and one for non-employee directors ("Non-employee Director Plan"). These plans were included in the Company's proxy statements filed with the Commission, and were approved by the Company's shareholders.

14. Engineered Support's Stock Option Plan set a total amount of options to be allocated among officers, employees, and consultants, with individual award amounts to be determined by the Compensation Committee of the Board of Directors. All options granted under this plan vested immediately.

15. Engineered Support's Non-employee Director Plan provided for non-employee directors to receive a fixed amount of options each year immediately following the annual shareholder meeting in March. Non-employee directors were not eligible to receive any additional options grants under any of Engineered Support's stock option plans. All options granted under this plan vested immediately.

16. The Company explicitly stated in both plans that all options were to be granted with an exercise price equal to the closing price of Engineered Support's common stock on the date that the options were awarded.

17. Landmann was responsible for overseeing the completion of the option certificates and award letters for Engineered Support's option grants. Landmann was also involved in the selection of the dates to be used for several of those option grants.

### **Engineered Support's Undisclosed Options Granting Practices**

18. From 1997 through 2002, at the direction of others, Landmann participated in several manipulative options granting schemes and practices at Engineered Support that were not disclosed in filings with the Commission.

19. At the direction of others, Landmann repeatedly backdated Engineered Support's stock option grants, using false grant dates that corresponded to low points in the Company's stock price. In most cases, the grant dates for Engineered Support's options differed from the dates those options were actually awarded. The backdated option grants included those purportedly issued on December 2, 1996; February 1, March 10 and September 4, 1998; July 1 and December 9, 1999; May 4, 2000; March 29, 2001; and, July 24 and October 17, 2002.

20. The purpose of this practice was to grant disguised in-the-money stock options to Company employees and directors that contained an immediate compensatory component. In other words, these options were granted at an exercise price that was lower than the closing price of Engineered Support's common stock on the date of the award. Landmann initially objected to the use of backdated grant dates, but was instructed to participate in the backdating scheme.

21. Because Engineered Support's options vested immediately, the Company conferred instantly realizable compensation to the option recipients. In total, Engineered Support employees and non-employee directors received approximately \$20 million of unauthorized compensation from backdated options, including more than \$15 million to top executives and directors. Landmann personally received unauthorized compensation from in-the-money options in the amount of \$518,972.50.

22. In addition to backdating option grants, at the direction of others, on at least two occasions Landmann also repriced Engineered Support stock options that had fallen out-of-the-money. This involved canceling and reissuing options with a new grant date and lower corresponding exercise price. These option grants purportedly were issued on September 4, 1998 and July 1, 1999.

23. In these two instances, at the direction of others, Landmann backdated the grant dates of both the original options issuance as well as the repriced issuance. Again, the purpose of this practice was to bring options that had fallen out-of-the-money back in-the-money. This double-backdating provided option recipients with the lowest possible exercise price for the options.

24. At the direction of others, Landmann also issued additional stock options for thousands of shares of Company stock to non-employee directors beyond what had been authorized by shareholders under any of Engineered Support's stock option plans. These options also were backdated, and purportedly were issued on December 2, 1996; February 1, 1998; July 1, 1999; and March 29, 2001. As a result, the Company provided significant additional compensation to its outside directors beyond what the shareholders had approved; these same directors later realized approximately \$6 million from the exercise of their additional stock options. Although Landmann initially objected that this practice violated the Non-employee Director Plan, he was instructed to grant these options.

#### **Misleading Filings With the Commission**

25. From 1997 through 2003, Landmann prepared Engineered Support's consolidated financial statements and notes to the financial statements, which were

included in the Company's Forms 10-K and 10-Q filed with the Commission. Landmann also prepared portions of Engineered Support's proxy statements filed with the Commission during the same period.

26. In its consolidated financial statements filed with the Commission, Engineered Support applied the intrinsic value method under APB 25 in accounting for stock options, which required the company to recognize compensation expense for any options that were in-the-money at the time they were granted. APB 25 required Engineered Support to recognize compensation expense equal to the difference between the market price on the date of the award and the exercise price for stock options.

27. In addition, GAAP required Engineered Support to recognize additional compensation expense if it changed the exercise price of previously issued stock options to a lower price which placed them in-the-money.

28. Landmann prepared portions of financial statements filed with the Commission that did not recognize any compensation expense for Engineered Support stock options, despite the fact that the Company had backdated the stock options to place them in-the-money and had repriced stock option grants to keep them in-the-money. These actions caused certain of Engineered Support's consolidated financial statements contained in its Forms 10-K and 10-Q between 1997 and 2002 to be materially misstated. In the aggregate, Engineered Support's pre-tax operating income of \$148 million (from 1997 through 2002) was overstated by approximately \$26 million, or 21%, because of the Company's failure to recognize the compensation expense associated with the issuance of stock options.



29. From 1997 through 2003, Landmann also prepared portions of Engineered Support's Forms 10-K and proxy statements filed with the Commission that misrepresented that all options were granted at an option price equal to the fair market value of the Company's common stock on the date of the award. These assertions were false because Engineered Support was backdating its option grants.

30. Landmann also prepared portions of Engineered Support's proxy statements for the relevant years which concealed the fact that the Company had repriced options in 1998 and 1999. Landmann also prepared portions of the financial statements included in Engineered Support's Forms 10-K which failed to account properly for these repriced options.

31. Finally, Landmann also prepared portions of Engineered Support's proxy statements which concealed the fact that the Company had granted additional options to non-employee directors that were not approved by shareholders under any of the Company's stock option plans, and that the Company had violated the terms of the Non-employee Director Plan.

32. Landmann knew, or was reckless in not knowing, that all of these misstatements and omissions caused certain of Engineered Support's Forms 10-K, Forms 10-Q and proxy statements filed between 1997 and 2003 to be false and materially misleading.

#### **False Statements to Auditors**

33. Landmann also signed management representation letters in connection with the annual audits of Engineered Support that he knew, or was reckless in not knowing, contained false and misleading statements and omissions. For example,

Landmann represented that the financial statements were presented in conformity with GAAP, despite his knowledge that compensation expense was understated. Landmann also represented that “[t]here are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the consolidated financial statements,” despite his knowledge that the stock option grant dates were not properly recorded. Finally, Landmann also falsely represented that there had been no fraud that could have a material effect on the Company’s financial statements.

34. Landmann was involved in the preparation and review of the option award letters and certificates that contained false grant dates. Landmann prepared stock option schedules that reflected false grant dates. Engineered Support provided these documents to its auditors during audits as evidence of the actual grant dates. Landmann failed to disclose that the grant dates in the option letters and certificates, upon which the auditors were relying in assessing compensation expense, were backdated from the actual award dates. Under the circumstances, these constituted omissions of a material fact.

**FIRST CLAIM FOR RELIEF**  
**Violation of Section 17(a) of the Securities Act**

35. The Commission realleges and incorporates by reference the allegations of paragraphs 1 through 34 as if fully set forth herein.

36. Defendant Landmann, directly or indirectly, knowingly, recklessly or negligently, in the offer or sale of a security, by the use of means or instrumentalities of interstate commerce or the mails: (a) employed devices, schemes or artifices to defraud; (b) obtained money or property by means of untrue statements of a material fact or the omission of a material fact necessary in order to make the statements, in light of the circumstances under which they were made, not misleading; or (c) engaged in

transactions, practices or courses of business which operated or would operate as a fraud or deceit upon the purchasers of securities.

37. By engaging in the conduct described above, Landmann has violated Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)].

**SECOND CLAIM FOR RELIEF**  
**Violation of Section 10(b) of the Exchange Act**  
**and Exchange Act Rule 10b-5**

38. The Commission realleges and incorporates by reference the allegations of paragraphs 1 through 37 as if fully set forth herein.

39. Defendant Landmann, knowingly or recklessly, directly or indirectly, by the use of means or instrumentalities of interstate commerce or of the mails, or of a facility of a national securities exchange, in connection with the purchase or sale of a security: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of a material fact or omitted a material fact necessary in order to make the statements, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices or course of business which operated or would operate as a fraud or deceit upon other persons.

40. By engaging in the conduct described above, Landmann has violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

**THIRD CLAIM FOR RELIEF**  
**Violation of Section 14(a) of the Exchange Act**  
**and Exchange Act Rule 14a-9**

41. The Commission realleges and incorporates by reference the allegations of paragraphs 1 through 40 as if fully set forth herein.

42. Defendant Landmann, directly or indirectly, knowingly, recklessly or negligently, by the use of means or instrumentalities of interstate commerce or of the mails, or of a facility of a national securities exchange or otherwise, solicited 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 the light of the circumstances under which they were made, were false and misleading with respect to material facts, or omitted to state material facts necessary in order to make the statements therein not false or misleading or necessary to correct statements in earlier communications with respect to the solicitation of the proxy for the same meeting or subject matter which were false or misleading.

43. By engaging in the conduct described above, Landmann has 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].

**FOURTH CLAIM FOR RELIEF**  
**Violation of Section 13(b)(5) of the Exchange Act**  
**and Exchange Act Rule 13b2-1**

44. The Commission realleges and incorporates by reference the allegations of paragraphs 1 through 43 as if fully set forth herein.

45. Defendant Landmann knowingly circumvented or failed to implement a system of internal accounting controls and, directly or indirectly, falsified or caused to be falsified, books, records or accounts subject to Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

46. By engaging in the conduct described above, Landmann has violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Exchange Act Rule 13b2-1 [17 C.F.R. § 240.13b2-1].

**FIFTH CLAIM FOR RELIEF**  
**Violations of Exchange Act Rule 13b2-2**

47. The Commission realleges and incorporates by reference the allegations of paragraphs 1 through 46 as if fully set forth herein.

48. Defendant Landmann, directly or indirectly, (i) made, or caused to be made, materially false or misleading statements or (ii) omitted to state, or caused others to omit or state, material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading, to an accountant in connection with an audit, review or examination of financial statements or the preparation or filing of a document or report required to be filed with the Commission.

49. By engaging in the conduct described above, Landmann has violated Exchange Act Rule 13b2-2 [17 C.F.R. § 240.13b2-2].

**SIXTH CLAIM FOR RELIEF**  
**Aiding and Abetting Engineered Support's Violations**  
**of Section 13(a) of the Exchange Act and**  
**Exchange Act Rules 12b-20, 13a-1 and 13a-13**

50. The Commission realleges and incorporates by reference the allegations of paragraphs 1 through 49 as if fully set forth herein.

51. Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)], and Exchange Act Rules 13a-1 and 13a-13 [17 C.F.R. §§ 240.13a-1 and 240.13a-13], require issuers of registered securities to file with the Commission factually accurate annual and quarterly reports. Exchange Act Rule 12b-20 [17 C.F.R. § 240.12b-20] further provides that, in

addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they were made not misleading.

52. Engineered Support violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1 and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

53. By engaging in the conduct described above, Landmann knowingly provided substantial assistance to Engineered Support in its violations of the aforementioned provisions, thereby aiding and abetting the Company's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1 and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1 and 240.13a-13].

**SEVENTH CLAIM**  
**Aiding and Abetting Engineered Support's Violations**  
**of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act**

54. The Commission realleges and incorporates by reference the allegations of paragraphs 1 through 53 as if fully set forth herein.

55. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] requires issuers of registered securities to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and disposition of its assets. Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)] requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions were executed in accordance with management's general and specific authorization, and that the transactions were recorded

as necessary to permit preparation of financial statements in conformity with GAAP and to maintain the accountability of assets.

56. Engineered Support violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)-(B)].

57. By engaging in the conduct described above, Landmann knowingly provided substantial assistance to Engineered Support in its violations of the aforementioned provisions, thereby aiding and abetting the Company'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)-(B)].

#### **PRAYER FOR RELIEF**

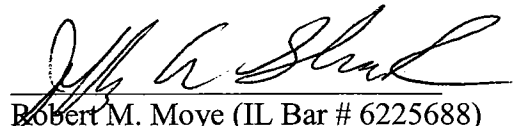
Wherefore, the Commission respectfully prays that this Court:

- (a) permanently enjoin defendant Landmann from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Sections 10(b), 13(b)(5) and 14(a) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(b)(5), 78n(a)] and Exchange Act Rules 10b-5, 13b2-1, 13b2-2 and 14a-9 [17 C.F.R. §§ 240.10b-5, 240.13b2-1, 240.13b2-2, 240.14a-9], and from aiding and abetting violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A)-(B)] and Exchange Act Rules 12b-20, 13a-1, 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-13];
- (b) issue an order directing defendant Landmann to disgorge all ill-gotten gains, compensation and benefits (whether realized, unrealized or received) obtained through the conduct described herein, plus prejudgment interest thereon;

- (c) issue an order directing defendant Landmann to pay a civil money penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)];
- (d) issue an order permanently barring defendant Landmann from acting as an officer or director of any public company pursuant to Section 20(e) of the Securities Act [15 U.S.C. § 77t(e)] and Section 21(d)(2) of the Exchange Act [15 U.S.C. § 78u(d)(2)];
- (e) retain jurisdiction over this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered, or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court; and
- (f) grant such other relief as the Court may deem just and appropriate.

Dated: February 6, 2007.

Respectfully submitted,



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