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SUPERIOR COURT OF CALIFORNIA
COUNTY OF RIVERSIDE
(Riverside)

THE PEOPLE OF THE STATE OF
CALIFORNIA,

Plaintiff,

v.

DANIEL WILLIAM HEATH
DENIS TIMOTHY O'BRIEN
JOHN WILLIAM HEATH
LARRE JAYE SCHLARMANN,

Defendants.

CASE NO. RIF117775

ORDER APPOINTING ROBB EVANS
AS RECEIVER OF THE
SCHLARMANN INTERESTS
PURSUANT TO PENAL CODE § 186.11

TO DEFENDANTS To the Defendants DANIEL WILLIAM HEATH, DENIS TIMOTHY
O'BRIEN, JOHN WILLIAM HEATH, and LARRE JAYE SCHLARMANN, and to their attorneys
of record herein; AND EVERY PERSON WHO MAY HAVE AN INTEREST IN, OR CUSTODY
OR CONTROL OVER, ANY PROPERTY OR ASSET MENTIONED HEREIN

Having read and considered the following documents filed herein:

1. EX PARTE APPLICATION FOR ORDER TO SHOW CAUSE AND TEMPORARY
RESTRAINING ORDER PURSUANT TO PENAL CODE §186.11(e) TO PRESERVE
PROPERTY OR ASSETS SUBJECT TO LEVY OR SEIZURE UNDER PENAL CODE
§186.11 ["AGGRAVATED WHITE COLLAR CRIME ENHANCEMENT"];
MEMORANDUM OF POINTS AND AUTHORITIES AND DECLARATION OF
GERALD FOX

ORDER APPOINTING RECEIVER, PENAL CODE §186.11

- 1 2. PETITION PURSUANT TO PENAL CODE §186.11(e) TO PRESERVE PROPERTY OR
2 ASSETS SUBJECT TO LEVY OR SEIZURE UNDER PENAL CODE §186.11
3 ["AGGRAVATED WHITE COLLAR CRIME ENHANCEMENT"]
- 4 3. NOTICE OF PETITION PURSUANT TO PENAL CODE §186.11(e) TO PRESERVE
5 PROPERTY OR ASSETS SUBJECT TO LEVY OR SEIZURE UNDER PENAL CODE
6 §186.11 ["AGGRAVATED WHITE COLLAR CRIME ENHANCEMENT"]
- 7 4. NOTICE OF MOTION AND MOTION TO APPOINT RECEIVER TO MARSHAL AND
8 PRESERVE DEFENDANTS' PROPERTY AND POINTS AND AUTHORITIES IN
9 SUPPORT THEREOF: PENAL CODE § 186.11
- 10 5. STIPULATION APPOINTING ROBB EVANS AS RECEIVER OF THE SCHLARMANN
11 INTERESTS.

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14 **IT IS ORDERED THAT:**

15 **I.**

16 Robb Evans is appointed as receiver of The Schlarmann Interests, and their subsidiaries and
17 affiliates, with full powers of an equity receiver, including, but not limited to, full power over all
18 funds, assets, collateral, premises (whether owned, leased, occupied, or otherwise controlled),
19 choses in action, books, records, papers and other real or personal property, including notes, deeds
20 of trust and other interests in real property, belonging to, being managed by, or in the possession of
21 or control of The Schlarmann Interests, and any of their subsidiaries and affiliates, and that such
22 receiver is immediately authorized, empowered and directed:

- 23 A. to have access to and to collect and take custody, control, possession, and charge of all
24 funds, assets, collateral, premises (whether owned, leased, occupied, or otherwise
25 controlled), choses in action, books, records, papers and other real or personal property,
26 including notes, deeds of trust and other interests in real property, of The Schlarmann
27 Interests, and their subsidiaries and affiliates, with full power to sue, foreclose, marshal,
28 sell, liquidate, collect, receive, and take into possession all such property;
 - 29 B. to have control of, and to be added as the sole authorized signatory for all accounts of
30 The Schlarmann Interests, and their subsidiaries and affiliates, including all accounts over
31 which The Schlarmann Interests, and any of their officers, employees or agents, have
32 signatory authority, at any bank, title company, escrow agent, financial institution or
33 brokerage firm which has possession, custody or control of any assets or funds of The
34 Schlarmann Interests, or which maintains accounts over which The Schlarmann Interests,
35 and/or any of their officers, employees or agents have signatory authority;
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- 1 C. to conduct such investigation and discovery as may be necessary to locate and account
2 for all of the assets of, or managed by The Schlarmann Interests, and their affiliates and
3 to engage and employ attorneys, accountants and other persons to assist in such
4 investigation and discovery;
- 5 D. to take such action as is necessary and appropriate to preserve and take control of and to
6 prevent the dissipation, concealment, or disposition of any assets of, or managed by, The
7 Schlarmann Interests, and their affiliates;
- 8 E. to make an accounting, as soon as practicable, to this Court of the assets and financial
9 condition of The Schlarmann Interests, and the assets under their management, including
10 all notes, deeds of trust and other interests in real property, and to file the accounting with
11 the Court and deliver copies thereof to all parties;
- 12 F. to make such payments and disbursements from the funds and assets taken into custody,
13 control, and possession or thereafter received by him, and to incur, or authorize the
14 making of such agreements as may be necessary and advisable in discharging his duties
15 as receiver;
- 16 G. to employ attorneys, accountants, and others to investigate, advise and, where
17 appropriate, to institute, pursue, and prosecute all claims and causes of action of whatever
18 kind and nature which may now or hereafter exist as a result of the activities of present or
19 past employees or agents of The Schlarmann Interests;
- 20 H. to have access to and monitor all mail of The Schlarmann Interests, in order to review
21 such mail which he deems relevant to the business of The Schlarmann Interests, and the
22 discharging of his duties as receiver; and
- 23 I. to exercise all of the lawful powers of The Schlarmann Interests, and their officers,
24 directors, employees, representatives, or persons who exercise similar powers and
25 perform similar duties.

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27 **II.**

28 IT IS FURTHER ORDERED that defendant Larre Schlarmann, The Schlarmann Interests,
29 any of their subsidiaries and affiliates, and their officers, agents, servants, employees and attorneys,
30 and any other persons who are in custody, possession or control of any assets, collateral, books,
31 records, papers, notes, deeds of trust and other interests in real property, or other property of, or
32 managed by, The Schlarmann Interests, and/or their subsidiaries and affiliates shall forthwith give
33 access to and control of such property to the receiver.

34 **III.**

35 IT IS FURTHER ORDERED that no officer, agent, servant, employee, or attorney of
36 defendant Larre Schlarmann, The Schlarmann Interests, or their subsidiaries or affiliates shall take

1 any action or purport to take any action, in the name of or on behalf of The Schlarmann Interests,
2 or any of their subsidiaries and affiliates, without the written consent of the receiver or order of this
3 Court.

4 IV.

5 IT IS FURTHER ORDERED that, except by leave of this Court, during the pendency of
6 this receivership, all clients, investors, trust beneficiaries, note holders, creditors, claimants,
7 lessors, including but not limited to Capital Source Finance LLC, and all other persons or entities
8 seeking relief of any kind, in law or in equity from The Schlarmann Interests, or their affiliates and
9 subsidiaries, and all persons acting on behalf of any such investor, trust beneficiary, note holder,
10 creditor, claimant, lessor, or other person, including sheriffs, marshals, servants, agents, employees,
11 and attorneys, are hereby preliminarily restrained and enjoined from, directly or indirectly, with
12 respect to The Schlarmann Interests, and their subsidiaries and affiliates;

- 13 A. commencing, prosecuting, continuing or enforcing any suit or proceeding The
14 Schlarmann Interests or any of their subsidiaries and affiliates;
15 B. using self-help or executing or issuing or causing the execution or issuance of any court
16 attachment, subpoena, replevin, execution or other process for the purpose of impounding
17 or taking possession of or interfering with or creating or enforcing a lien upon any
18 property or property interests owned by or in the possession of The Schlarmann Interests,
19 and any of their subsidiaries or affiliates, wherever situated; and
20 C. doing any act or thing whatsoever to interfere with taking control, possession or
21 management by the receiver appointed hereunder of the property and assets owned,
22 controlled or in the possession of The Schlarmann Interests, any subsidiaries or affiliates,
23 or in any way to interfere with or harass the receiver, or his attorneys, accountants,
24 employees or agents or to interfere in any manner with the discharge of the receiver's
25 duties and responsibilities hereunder.

26 V.

27 IT IS FURTHER ORDERED that defendant Larre Schlarman, The Schlarmann Interests,
28 and their subsidiaries and affiliates and their officers, agents, servants, employees and attorneys,
29 shall cooperate with and assist the receiver, his attorneys, accountants, employees and agents and
30 shall take no action, directly or indirectly, to hinder, obstruct, or otherwise interfere with the
31 receiver, his attorneys, accountants, employees or agents or to in the conduct of the receiver's
32 duties or to interfere in any manner, directly or indirectly, with the custody, possession,
33 management, or control by the receiver of the funds, assets, collateral, premises, and choses in
34 action described above. Nothing in this paragraph shall be construed to prohibit Larre Schlarmann
35 from asserting any of his rights under the United States Constitution.
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VI.

IT IS FURTHER ORDERED that The Schlarmann Interests shall pay the costs, fees and expenses of the receiver incurred in connection with the performance of his duties described in this Order, including the costs and expenses of those persons who may be engaged or employed by the receiver to assist him in carrying out his duties and obligations. All applications for costs, fees and expenses for services rendered in connection with the receivership other than routine and necessary business expenses in conducting the receivership, such as salaries, rent and any and all other reasonable operating and liquidating expenses, shall be made by application setting forth in reasonable detail the nature of the services and shall be heard by the Court.

VII.

IT IS FURTHER ORDERED that no bond shall be required in connection with the appointment of the receiver. Except for an act of gross negligence, the receiver shall not be liable for any loss or damage incurred by any of the defendants, their officers, agents, servants, employees and attorneys or any other person, by reason of any act performed or omitted to be performed by the receiver in connection with the discharge of his duties and responsibilities.

VIII.

IT IS FURTHER ORDERED that representatives of the Riverside County District Attorney's Office as well as legal counsel for Larre Schlarmann are authorized to have continuing access to inspect or copy any or all of the corporate books and records and other documents of The Schlarmann Interests and their subsidiaries and affiliates, and to inspect their funds, property, assets and collateral, wherever located.

IX.

IT IS FURTHER ORDERED that this Court shall retain jurisdiction over this action for the purpose of implementing and carrying out the terms of all orders.

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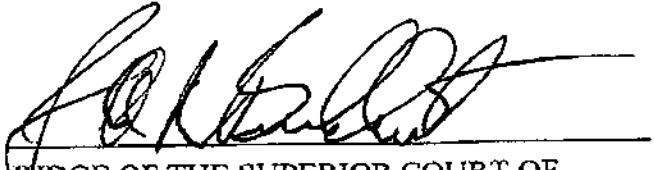
In the event an issue arises which affects or may affect both the administration of the receivership estate created by this Order and the administration of the receivership estate created in the case of Securities and Exchange Commission v. D.W. Heath & Associates, Inc. etc. et al, United States District Court, Central District of California, Western Division, Case No. 04-02949 JFW (Ex) (the "Federal Action") which the Receiver believes requires Court determination or instruction, then the Receiver shall present such issue to the District Court in the Federal Action for hearing and determination. Provided that the Receiver gives notice of such motion, application or other proceeding as may be required by this Court or applicable state law, any order issued by the District Court in the Federal Action pursuant to this paragraph shall be binding to the same extent as if such order had been issued by this Court. Nothing in this order shall be construed to limit the powers of the Receiver in his capacity as the Permanent Receiver in the Federal Action

1 C) **The Hotel Entities** consists of defendant Larre Jaye Schlarmann's interests in Bear Manor, and
2 Northwoods Resort Holdings LP, real and personal property held directly or indirectly in or through
3 Hotel Management, Inc., NADM, Schlarmann and Associates, Inc or any other entity, and interests
4 held directly or indirectly in Hotel Management, Inc., Lakeview Investment Fund LP, HMI Income
5 Fund, Fixed Income Mortgage Fund LP, Mortgage Loan Income Fund LP, Mortgage Planners
6 Income Fund LP, Newport Mortgage Fund LLC, Northwoods II Mortgage Fund LP, Northwoods
7 Mortgage Fund LP, Northwoods Preferred Income Fund, PSR Corporate Income Fund I LP, PSR
8 Corporate Income Fund II LP, Professional Income Fund LP, and Professional Income Fund II LP.

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Dated: This 21 day of July, 2004.





JUDGE OF THE SUPERIOR COURT OF
CALIFORNIA, COUNTY OF RIVERSIDE

(SEAL)