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Receiver of
D.W. Heath & Associates, Inc.;
PCM Fixed Income Fund I, LLC;
Private Capital Management, Inc.;
Private Collateral Management, Inc.
and the Schlarmann Interests

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Securities and Exchange Commission v. D. W. Heath & Associates Inc., et al.
CASE No. CV-04-02949 JFW (Ex)

Report of Receiver's Activities from
July 1, 2005 Through December 31, 2005

Filed February 9, 2006

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U.S. DISTRICT COURT
CENTRAL DIST. OF CALIF.
LOS ANGELES

8 **UNITED STATES DISTRICT COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**

11 SECURITIES AND EXCHANGE
12 COMMISSION,

13 Plaintiff,

14 v.

15 D.W. HEATH & ASSOCIATES, INC.,
etc., et al.,

16 Defendants.

CASE NO. CV 04-02949 JFW (EX)

**REPORT OF RECEIVER'S
ACTIVITIES FROM JULY 1, 2005
THROUGH DECEMBER 31, 2005**

[NO HEARING NECESSARY]

20 TO THE HONORABLE JOHN F. WALTER, UNITED STATES DISTRICT
21 JUDGE:

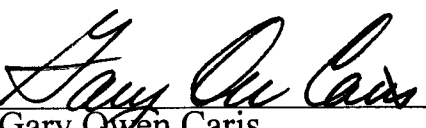
22 Robb Evans, Permanent Receiver of D. W. Heath & Associates, Inc., PCM
23 Fixed Income Fund I, LLC, Private Capital Management, Inc., Private Collateral

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1 Management, Inc., and their subsidiaries and affiliates, herewith files his fifth
2 Report to the Court, covering the period from July 1, 2005 through December 31,
3 2005.

4
5 Dated: February 8, 2006

MCKENNA LONG & ALDRIDGE LLP

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7 By: 
8 Gary Owen Caris
9 Attorneys for Robb Evans, Permanent
Receiver

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ROBB EVANS
Receiver of
D.W. Heath & Associates, Inc.;
PCM Fixed Income Fund I, LLC;
Private Capital Management, Inc.;
Private Collateral Management, Inc., et al.

REPORT OF RECEIVER'S ACTIVITIES
JULY 1, 2005 THROUGH DECEMBER 31, 2005

This is the fifth report to the Court. The purpose of this report is to update the Court on the activities of the Receiver¹ since the last report. This report does not constitute an audit of the financial condition of the receivership; it is intended only for the information of the Court and should not be relied upon for other purposes.

Overview

During the period covered by this report, the Receiver has continued the following activities that were initiated in a prior reporting period.

- Evaluating the value of the remaining unresolved eight businesses, one real property in which Heath invested, and two properties turned over by John Heath, and negotiating with owners, bankruptcy trustees, and buyers to maximize a return on the investment to the receivership estate;
- Communicating with investors;
- Completing the reconciliation and final corrections and changes to the investor database to carry out the first distribution on approved claims that was approved by this Court on November 15, 2005.

Valuation of Recoverable Assets

Business Investments and Assets

As discussed in more detail in previous reports, the Receiver assembled information about investments made and assets held by Daniel Heath and Larre Schlarmann

¹ Reference to the Receiver in this report means the Receiver, the Receiver's deputies, his staff, and his counsel.

through discovery, review of files and documents seized or turned over by accountants and others, interviews with accountants and former staff, and review and reconstruction of multiple bank accounts. The following paragraphs describe the remaining unresolved business assets and their expected recoverable value. As the detail states, recovery from the remaining assets will be limited. The Receiver has recovered and distributed about 80% to 90% of the funds that will be available for the victims and the creditors.

Quiznos related entities - \$11.6 million disbursed by PCM and \$5.1 million raised directly from investors

As previously reported, this Court approved the appointment of a State Court Receiver. The State Court Receiver obtained approval from the Superior Court for an orderly sale of 31 Quiznos stores owned by the receivership defendants. To date, 20 stores have been sold resulting in net proceeds collected of about \$3.1 million. Another six stores are under a letter of intent for sale or are in escrow. The five remaining stores are listed for sale.

QSD Development and QIE Development were two entities in which Schlarmann had ownership interests. These entities were called area directorships and received revenues from the royalties based on store revenue. Quiznos filed suit against the Receiver seeking to terminate the area directorships. With this Court's approval, the Receiver settled this lawsuit and accepted \$3,875,000 cash plus approximately \$90,000 in transfer fees. The Receiver has concluded a settlement with the owner of a partial interest in QSD Development and the Court approved the settlement after the period covered by this report. There will be no additional funds recovered from the area directorships.

Mastermind Distribution, Inc. (MD) and related entities - \$8.2 million disbursed by PCM & TITL

As previously reported, the company has ceased to operate, the Receiver's attempts to meet with the president of the company, Mr. Kareem Campbell, have not been successful and there is no known counsel for Campbell and the company. The Receiver has been unable to obtain complete information as to the ownership of the registered trademarks, and believes that further expense to locate these unverified assets is not warranted. The Receiver does not expect any recovery on this investment.

TechNiGlove International, Inc. (TI) - \$2.7 million disbursed by PCM

TI was incorporated on July 1, 1998. This was another company funded by Heath that received substantial and ongoing funding with no written agreement and no

time frame for repayment of the loans. The company is presently owned by Heath (55%) and Janine Gass (45%).

TI manufactures industrial high-grade latex gloves for export to North America, Japan, and Europe. In 2001, PCM loaned TI an additional \$551,000 to invest in a subsidiary company, Flexitech, located in Malaysia. This loan was converted to equity and the Receiver was advised that share certificates were issued to TI in March 2004. Flexitech went public on November 8, 2004. The Receiver analyzed the current value of Flexitech and the market value of TI's ownership interest in this company.

While settlement discussions with TI were in progress, TI filed a voluntary Chapter 11 bankruptcy petition without the Receiver's knowledge or permission. Settlement discussions have continued while the bankruptcy is pending. The Receiver and TI have not reached an agreement on a settlement amount or payment terms. While there is a potentially meaningful recovery, the timing and amount are uncertain.

Design Solutions, Inc. (Design Solutions) - \$1.06 million disbursed by PCM

Design Solutions filed and emerged from a Chapter 11 proceeding in bankruptcy. Pursuant to a confirmed plan of reorganization, the Receiver will recover about \$20,000 on its unsecured claim from quarterly payments over the next five years. The Receiver also retained a 9% ownership interest in the company, and is now seeking offers for it from other shareholders. The expected value of the 9% interest is currently unknown.

Coastal Diagnostic Services - \$80,000 disbursed by Heath /Heath Entity

Heath was 33% owner of this MRI imaging and evaluation firm that is no longer operating. A medical collection specialist is collecting the receivables. The current total remaining receivables are about \$1,535,000. One third of net collections are forwarded to the Receiver. Payments remitted to the Receiver for 2005 were \$80,000 and have totaled \$97,500 since collection efforts began in 2004. Much of the remaining receivables are related to workers compensation claims and litigation. Based on the evaluation of the collection specialist, and the results achieved, the Receiver expects total collections over the next two years will be about 30% of the \$1,535,000 outstanding, with 33% of the net collections remitted to the Receiver.

Integrated Financial Company (Integrated Financial)/ Surgery Pro LLC (Surgery Pro) - \$954,010 disbursed by PCM

As previously reported, Heath was the 100% owner of Integrated Financial, and Integrated Financial was the 60% owner of Surgery Pro. A group of doctors holds

a 40% ownership in the LLC. Surgery Pro is out of business. There are residual accounts receivable that have been assigned to a collection agency and one remaining piece of equipment. Recoveries to date total \$31,200, although the last collections were in July 2005. Based on recent information from the collection agent, the Receiver anticipates a return on this investment of not greater than \$50,000.

Progressive Rehab, Inc. - \$792,102 disbursed by PCM

Lone Star Family Health, Inc. - \$241,254 disbursed by PCM

These Texas companies are no longer operating. Previously a Texas collection agency attempted to collect personal injury receivables totaling \$761,307. From reports issued by the collection agency, and reviewed by the Receiver's outside accountant, there will be no recovery on this portion of the portfolio. A Los Angeles company is collecting the remaining 362 accounts receivable totaling about \$554,000. The receivables were billed to patients with personal injury legal actions, and such receivables have a high rate of uncollectability. Currently, although collections are slow, the agency continues to follow up. The estimate of recovery is 5% to 10% of the \$554,000 outstanding over the next 12 to 24 months.

Coast Energy Management (Coast) - \$500,000 disbursed by PCM

On November 5, 2004, Coast filed for Chapter 11 bankruptcy protection. The case converted to a Chapter 7. The Receiver has communicated with the bankruptcy trustee and does not expect a meaningful recovery.

Real Properties

The Receiver previously reported that there were two remaining real property assets. As described below, one sale closed during the reporting period and the other sale closed subsequent to the reporting period. Additionally, on November 7, 2005, The Superior Court of California issued an Order appointing Robb Evans as Receiver of real property owned by John Heath (Heath's father) and located at 1809 Sachs Place, West Covina, California. As previously reported, discussions continue with Leslee J. Heath's bankruptcy trustee about the proceeds from the sale of Leslee and Dan Heath's three parcels of real property.

The Pearson Property - \$675,000 disbursed by Prestige Resort Development LLC

During the Receiver's evaluation process, he was notified by Big Bear City that the property could no longer be zoned for residential use and that future commercial

use would require certain code improvements. This Court approved a sale for the revised current value of \$480,000. This sale closed after the date of this report.

161 Marina Pt. Drive, Big Bear City, CA

Previously, the Superior Court of California issued an Order appointing Robb Evans as Receiver of this property owned by John Heath. The Receiver concluded a sale for \$679,250, which was greater than the average appraised value. The sale closed during the reporting period. The Receiver intends to obtain Court approval to include the net sale proceeds in the District Court receivership.

Completed and Projected Distributions

The Receiver completed the reconciliation process and finalized corrections and changes to the investor database to carry out the first distribution on approved claims. On November 17, 2005, this Court approved the distribution. In December 2005, the initial distribution of \$18 million, or 15.3% of approved claims, was completed for 1,403 victims. The settlement proceeds from the Quiznos related entities and the closing of a real estate sale, along with previously recovered funds, allowed the Receiver to increase the initial distribution from \$12 million, or 10% of approved claims, which was announced earlier. From the remaining eight businesses and two real property closings, the Receiver believes there will be a final distribution of another 2.0% to 4.0% of approved claims.

Respectfully submitted,



Robb Evans
Receiver

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PROOF OF SERVICE BY MAIL

STATE OF CALIFORNIA, COUNTY OF LOS ANGELES

I am employed in the aforesaid county, State of California; I am over the age of 18 years and not a party to the within action; my business address is **444 South Flower Street, Los Angeles, California 90071.**

On February 9, 2006, I served the **REPORT OF RECEIVER'S ACTIVITIES FROM JULY 1, 2005 THROUGH DECEMBER 31, 2005** on the interested parties in this action by placing the **true copy/original** thereof, enclosed in a sealed envelope, postage prepaid, addressed as follows:

SEE ATTACHED SERVICE LIST.

I am readily familiar with the business practice of my place of employment in respect to the collection and processing of correspondence, pleadings and notices for mailing with United States Postal Service.

The foregoing sealed envelope was placed for collection and mailing this date consistent with the ordinary business practice of my place of employment, so that it will be picked up this date with postage thereon fully prepaid at Los Angeles, California, in the ordinary course of such business.

(STATE)

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

(FEDERAL)

I declare under penalty of perjury that the foregoing is true and correct, and that I am employed at the office of a member of the bar of this Court at whose direction the service was made.

Executed on February 9, 2006 at Los Angeles, California.

Pamela A Coates

Signature

Pamela A. Coates

Print Name

SERVICE LIST

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