

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
JANUARY 1, 2006 THROUGH JUNE 30, 2006

This is the sixth 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, a residential property turned over by John Heath, four residential lots turned over with the Schlarman interests, and negotiating with owners, bankruptcy trustees, and buyers to maximize a return on the investment to the receivership estate;
- Communicating with investors;

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 (Heath) and Larre Schlarman (Schlarman) through discovery, review of files and documents seized

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

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 soon, with Court approval of the pending distribution motion, will have distributed \$22 million, which is about 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 the Receiver as a State Court Receiver over the Schlarman assets. Shortly after that appointment, the Receiver obtained approval from the Superior Court for an orderly sale of 31 Quiznos stores owned by the receivership defendants. To date, 24 stores have been sold resulting in net proceeds collected of about \$4.9 million. Two stores have been closed. Another four stores are in escrow. The one remaining store is listed for sale.

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 may not be warranted. The Receiver is investigating a recent inquiry from a possible purchaser to determine if any assets can be located. However, at the present time, 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 was owned by Heath (55%) and Janine Gass (45%). The Receiver now holds the 55% ownership.

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.

On June 5, 2006, this Court approved a settlement reached by TI and the Receiver. The agreement provided for TI to pay the Receiver a total of \$1,800,000 over 11 months, from April 30, 2006 through March 31, 2007. Under the terms of the Court Order and approved settlement, TI cancelled the shares held by Heath and issued them to the Receiver. The settlement provides for partial releases of the shares to TI, provided payments are delivered to the Receiver as scheduled. As of June 30, 2006, TI had paid \$100,000 to the Receiver.

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. Pursuant to the confirmed plan, the Estate received \$998 in December 2005 and \$998 in June 2006. The Receiver will continue to follow for the quarterly payments, and is now seeking offers for its 9% ownership 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 \$1,041,725. One third of net collections are forwarded to the Receiver. Payments remitted to the Receiver for 2006 were \$34,000 and have totaled \$121,500 since collection efforts began in 2004. The remaining receivables are due for workers' compensation claims, personal injury insured claims, and uninsured medical claims. Almost all claims are in litigation. Based on the evaluation of the collection specialist, and the results achieved, the Receiver expects total additional collections over the next two to four years will be about \$430,000 of the \$1,041,725 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, with recoveries

to date totaling \$31,200. However, the last collections were in July 2005. The Receiver is re-evaluating the potential recovery and has requested more account detail. Based on prior information from the collection agent, and subject to additional review, 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 now about \$542,000. The receivables were billed to patients with personal injury legal actions, and such receivables have a high rate of uncollectability. In 2006 the Receiver has not been forwarded any recoveries. The Receiver is re-evaluating the potential recovery and has requested more account detail. Based on prior information from the collection agent, and subject to additional review, the Receiver anticipates a recovery of 5% to 10% of the \$542,000 outstanding over the next 12 to 24 months.

Real Properties

Four Residential Lots in Big Bear Lake

The Receiver previously reported that there was one remaining real property asset located at 1809 Sachs Place, West Covina, CA. Since the date of the last report, it was determined that a prior Order issued by the State Superior Court appointing the Receiver over the Schlarman assets included four residential lots located in Big Bear Lake, CA at 924, 934 and 944 Pine Knot Avenue and 918 Cameron Court. As a result, the Receiver has ordered updated appraisals and brokers' opinions of value for these properties. Once these property evaluations are reviewed and analyzed, the properties will be listed for sale. Preliminary information indicates the properties may produce net proceeds of \$250,000 to \$280,000.

1809 Sachs Place, West Covina, California

As previously reported, the Receiver has taken possession and control of this real property previously owned by John Heath (Heath's father). At the time of possession, the property was in a state of disrepair and required certain cosmetic and mechanical repairs to be completed prior to being listed for sale. All necessary repairs were completed and the property is currently listed for sale in the local

multiple listing service by a well known national franchise firm. The expected net proceeds should be \$150,000 to \$180,000.

Leslee J. Heath's Bankruptcy

As previously reported, discussions continue with Leslee J. Heath's bankruptcy trustee about the proceeds from the sale of Leslee and Daniel Heath's three parcels of real property. The Receiver anticipates a resolution of this matter in the near future.

Mortgage Receivable

The mortgage receivable on 586 Bonanza Trail, Big Bear Lake, CA has been paid in full for \$80,000 plus the prorated interest charges due through the payoff date. Schlarmann previously held the promissory note and mortgage.

Completed and Projected Distributions

On November 17, 2005, this Court approved an initial distribution of \$18 million, or 15.3% of approved claims for 1,403 victims. The Receiver is currently requesting approval to complete a second distribution of at least \$4.0 million, which will bring total distributions to \$22 million, or 18.6% of approved claims. The Receiver will make further distributions from the proceeds of the remaining assets and claims when the liquidation and resolution of those items is completed.

Respectfully submitted,

/s/

Robb Evans
Receiver