

**ROBB EVANS**  
**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 July 1, 2006 Through January 31, 2007**

**Filed February 13, 2007**

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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, 2006  
THROUGH JANUARY 31, 2007**

[NO HEARING NECESSARY]

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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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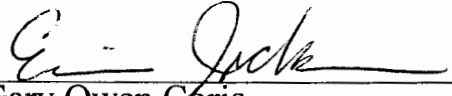
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CENTRAL DISTRICT OF CALIFORNIA  
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1 Management, Inc., and their subsidiaries and affiliates, herewith files his seventh  
2 Report to the Court, covering the period from July 1, 2006 through January 31,  
3 2007.

4  
5 Dated: February 13, 2007

MCKENNA LONG & ALDRIDGE LLP

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7 By:   
8 Gary Owen Caris  
9 Lesley Anne Hawes  
10 Erin M. Jackson  
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Attorneys for Robb Evans, Permanent  
Receiver

**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, 2006 THROUGH JANUARY 31, 2007**

This is the seventh report to the Court. The purpose of this report is to update the Court on the activities of the Receiver<sup>1</sup> 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 seven businesses, a residential property turned over by John Heath, and four residential lots turned over with the Schlarman interests;
- Negotiating with owners, a bankruptcy trustee, and buyers to maximize a return on the investment to the receivership estate; and
- 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 or turned over by accountants and others, interviews with accountants and former staff, and review and reconstruction of multiple bank accounts. The following

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

paragraphs describe the remaining unresolved business assets and their expected recoverable value. As the detail states, recovery from the remaining assets will be limited.

**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 Schlarmann 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, 27 stores have been sold resulting in net proceeds collected of about \$5.3 million. Two stores have been closed. The two remaining stores are in escrow.

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

As previously reported, 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. To date, TI has paid \$1,012,978.49 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 is scheduled to recover approximately \$20,000 on its unsecured claim in quarterly payments over the next five years. Pursuant to the confirmed plan, the Estate received \$998 in December 2005 and \$998 in June 2006. The company continues to struggle post-bankruptcy. It is unknown how much of the \$20,000 will be repaid; however full recovery appears doubtful. The Receiver also retained a 9% ownership interest in the company. It is not anticipated that a buyer for the stock will be found based on the current financial condition.

**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 \$907,000. One third of net collections are forwarded to the Receiver. Payments remitted to the Receiver during 2006 were \$44,000 and have totaled \$131,500 since collection efforts began in 2004. However,

only \$10,000 was remitted after July 1, 2006. 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 age of the receivables, collection prospects are diminishing. Payments received by the estate are net of continuing collections and accounting fees. Consequently, the Receiver expects total additional net collections over the next three years will be only about \$110,000, with 33% of the net collections, or about \$36,000 remitted to the Receiver.

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

Heath was the 100% owner of Integrated Financial, which was the 100% owner of Surgery Pro. A group of doctors holds a 40% ownership of the gross fee income, or collections. Surgery Pro is out of business. The remaining accounts receivable have been assigned to a collection agency. However, because 40% of the collections are paid to the doctors, and with continuing collection fees and unusually high accounting expenses for required patient accounting, payments to the receivership estate have been meager. Total collections were \$72,000 in 2006. However, net income available to the receivership estate was negative \$8,858. Total recoveries to date are \$31,200, with the last payments made in July 2005. The Receiver is making contact with the doctors and others to locate a buyer for the estate's ownership. Any future return is uncertain.

**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. The receivables were billed to patients with personal injury legal actions, and such receivables have a high rate of uncollectability. Previously, a Texas collection agency attempted to collect a portion of the personal injury portfolio totaling \$761,307. The final report issued by the Texas collection agency stated the remaining receivables are six to ten years old and no additional recovery was possible. The Receiver and his outside accountant agree with this assessment and conclusion. A Los Angeles company that was collecting the remaining 362 accounts receivable totaling about \$542,000 collected nothing in 2006. The company believes the balance is not collectable, and the Receiver and his outside accountant agree. In 2006 the Receiver has not been forwarded any payments. There will be no further recovery.

## **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 Schlarmann assets included four residential lots located in Big Bear Lake, CA at 924, 934 and 944 Pine Knot Avenue and 918 Cameron Court. One of the lots sold in December 2006 at a price above appraised value. The sale is subject to Court approval with escrow scheduled to close in the first quarter of 2007. The net proceeds for all four lots should be \$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 was listed for sale in April 2006 by a well known national franchise firm.

The specific property location has experienced a decline in values and an increase in properties for sale. Although the subject property received numerous showings and was marketed intently, there were no offers until the listing price was recently reduced for the third time. The property is now in escrow and the expected net proceeds should be \$115,000 to \$130,000.

### **Leslee J. Heath's Bankruptcy**

On November 20, 2006 this Court approved a settlement between the Receiver and Leslee Heath's Chapter 7 Bankruptcy Trustee. Pursuant to that agreement the Chapter 7 Trustee has paid \$1,630,619 to the Receiver.

## Completed and Projected Distributions

Total distributions to date have been \$22 million, or 18.6% of approved claims. The Receiver anticipates seeking this Court's approval for a third interim distribution in the second quarter of 2007.

Respectfully submitted,

A handwritten signature in black ink that reads "Robb Evans" followed by a stylized flourish.

Robb Evans  
Receiver