

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 February 1, 2007 Through July 31, 2007

Filed August 20, 2007

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U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIF.
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8 **UNITED STATES DISTRICT COURT**
9 **CENTRAL DISTRICT OF CALIFORNIA**

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SECURITIES AND EXCHANGE
COMMISSION,

Plaintiff,

v.

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

Defendants.

CASE NO. CV 04-02949 JFW (EX)

**REPORT OF RECEIVER'S
ACTIVITIES FROM FEBRUARY 1,
2007 THROUGH JULY 31, 2007**

[NO HEARING NECESSARY]

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

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

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Management, Inc., and their subsidiaries and affiliates, herewith files his eighth Report to the Court, covering the period from February 1, 2007 through July 31, 2007.

Dated: August 17, 2007

MCKENNA LONG & ALDRIDGE LLP

By: 
Gary Owen Caris
Lesley Anne Hawes
Erin M. Jackson

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
FEBRUARY 1, 2007 THROUGH JULY 31, 2007

This is the eighth 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 businesses, 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; and
- Resolving disputed non-investor claims.

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

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

paragraphs describe the remaining 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. Two stores were closed. The remaining 29 stores have been sold resulting in net proceeds collected of about \$5.8 million.

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 provided for partial releases of the shares to TI, provided payments were delivered to the Receiver as scheduled. TI has paid its full obligation of \$1,800,000 to the Receiver.

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

As previously reported, 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 for the 12 months of 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. During the reporting period, just \$3,000 was received. The Receiver has concluded any future returns will be insignificant.

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, 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 has attempted, without success, to locate a buyer for the receivership estate's interest. The Receiver believes it would not be cost effective to continue to pursue a buyer and recommends this asset be abandoned.

Real Properties

Four Residential Lots in Big Bear Lake

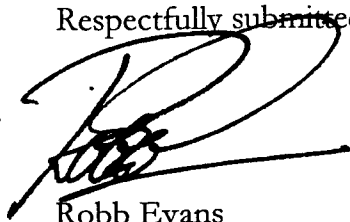
All four properties were under contract for sale in December 2006 at a price above appraised value. The sales were subject to Court approval with escrows scheduled to close in the first quarter of 2007. Prior to closing, the City determined that correct easements for ingress and egress were not in place and there was not sufficient water to three of the lots. Additionally, the buyers would be required to construct 350 feet of road and to bring utilities to the lots. Based on these developments, the buyers cancelled the contracts. The 944 Pine Knot Avenue property sale closed in March 2007. Net sales proceeds received were \$119,996.

Two new offers have been received for two of the three remaining lots at a significantly reduced price. The appraisals on the remaining three lots will be updated using the City's criteria and the offers will be evaluated based on the new values.

Completed and Projected Distributions and Claims Adjudication

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 third quarter of 2007 in an amount of not less than \$4,000,000. Prior to seeking approval for a third interim distribution, the Receiver has commenced efforts to resolve four disputed non-investor claims. Those claims will either be resolved by stipulation, subject to Court approval, or if he is unable to resolve them, the Receiver will file a motion to disallow the claims concurrently with bringing his motion for a third distribution.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Robb Evans', written over the text 'Respectfully submitted,'.

Robb Evans
Receiver