

Four arrested in fraud scheme

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By DEVONA WELLS / The Press-Enterprise

Four men accused of running a massive Ponzi scheme through D.W. Heath & Associates were arrested Thursday on charges of elder abuse, grand theft and money laundering in the biggest fraud ever prosecuted in Riverside County.

The district attorney's office made the coordinated arrests of Daniel William Heath, 47; his father, John William Heath, 77; Denis Timothy O'Brien, 50; and Larre Jaye Schlarmann, 46.

Daniel Heath and Schlarmann each face 232 felony charges and up to 200 years in prison if convicted, said deputy district attorney Mike Silverman. John Heath and O'Brien each face about 77 felony counts and up to 61 years in prison if convicted, according to sentencing guidelines provided by Silverman.



Daniel Heath, left, and Denis O'Brien were arrested Thursday on charges of elder abuse, grand theft and money laundering in a case officials call the biggest fraud ever prosecuted in Riverside County.

Bail for each of the four is set at \$144 million - the amount the district attorney's office says Heath & Associates illegally brought in from 803 seniors lured by promises of guaranteed investments returning 5.5 percent to 8 percent a year. Many found the pitch - often given over free lunches at a local restaurant - appealing enough to turn over their life savings and Individual Retirement Accounts.

Daniel Heath's attorney, David Bortman, said his client denies the charges and believes any mistakes he made were in good faith.

"He's never said anything that wasn't true. If left to run his business, everyone would be OK," Bortman said.

The four men are tentatively scheduled to enter pleas Tuesday in Riverside County Superior Court.

Complaint lists 26 victims

In terms of money involved, Silverman said, the complaint filed Thursday by the district attorney's office amounts to the largest fraud the county has ever prosecuted. He said the defendants sold themselves as senior advocates while lying to vulnerable investors.

In May, the Securities and Exchange Commission sued Heath & Associates, Daniel Heath and O'Brien and accused them of operating a Ponzi scheme - paying early investors with money from later ones. Court-appointed receiver Robb Evans & Associates has been working to recover assets and return investor money.

The district attorney's complaint lists 26 victims, with investments ranging from \$17,143 to \$1.6 million. Charges against the four men include selling unqualified securities, selling them by misrepresentation and violating a 1998 Department of Corporations order to stop selling securities. Elder abuse, a felony charged numerous times, constitutes theft or embezzlement from a victim 65 years old and older, Silverman said.

Investor Marjorie McIntosh, who gave Heath & Associates \$40,000, said Thursday she felt comforted knowing the four men were behind bars.

"They have hurt so many people," McIntosh said. The investors "are not rich people, they're people who've managed to accrue substantial sums of money because they've worked hard."

About \$92 million brought in to Heath & Associates was funneled to two Big Bear projects and an assortment of 50 companies - many of them now worthless, according to Evans.

Bortman, Dan Heath's attorney, repeatedly has said his client's businesses were legitimate.

The arrests came one day after meetings in Hemet that drew more than 550 investors anxious to know when they would see their money returned, if at all. Evans told the overflow crowd that their losses would be significant.

Considered a flight risk

Steve Crise said then he'd lost hope for recovering his mother's \$250,000 savings and only wanted Daniel Heath and the Ponzi scheme's other perpetrators held accountable. With the four men arrested, Crise said he's relieved to know they won't be fleeing the country.

"I think they did this with the full knowledge they were scamming somebody," he said Thursday. "At least there's a local agency who has gotten their act together and are taking it seriously."

Bortman said Daniel Heath was shocked by the 7 a.m. arrest because he has been cooperating with the SEC and Evans. He said he plans to request that bail be reduced so Heath can continue to assist a receiver in returning investors' money.

"I've never heard of bail that high," Bortman said.

Daniel Heath, a Canadian citizen, was considered a flight risk, which added urgency to the timing of the arrests, Silverman said.

"We did not want to have to take the time to extradite him," he said.

In May, the SEC froze the assets of Daniel Heath, along with those of Heath & Associates, PCM Fixed Income Fund 1, Private Capital Management and Private Collateral Management.

The district attorney's office now is seeking to freeze the assets of Schlarmann, O'Brien and John Heath.

Heath & Associates, with offices in Hemet and Temecula, sold Private Capital Management securities to victims, Silverman said. John Heath and O'Brien operated as Heath & Associates salesmen, according to Silverman.

Of the \$145 million Evans said was brought in since 1990, he said just \$40 million has been returned to investors.

Search warrants for the homes of John Heath and Schlarmann also were served Thursday on top of ones already executed at Heath & Associates offices, as well as the homes of Dan Heath and O'Brien.

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