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Alleged fraud scope grows

INLAND: The number of possible victims and how much they gave D.W. Heath & Associates rises.

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TAKING STOCK

The number of people who may have invested in an alleged Ponzi scheme has increased from **803** to **1,848**, while the amount they invested rose from **$145 million** to **$178 million.**

Potential fraud victims identified in an investigation of D.W. Heath & Associates ballooned to as many as 1,848 in a new report, while the total amount they forked over climbed to $178 million.

The report more than doubles the original estimate of 803 investors, and the revised investment tally is up sharply from the $145 million previously recorded by Robb Evans & Associates, the court-appointed receiver in charge of recovering assets so that investors might get some of their money back. The report filed in U.S. District Court this week is the second filed in the case.

The number of investors from Inland Southern California has not yet been established, though earlier government estimates said there are hundreds.

Weeks of investigation have uncovered an increasingly complex picture of money flowing through Heath & Associates to dozens of different entities that were often hidden from investors, according to Robb Evans. Most of those entities are now worthless, and government officials have alleged that Heath & Associates used money from new investors to pay original ones, making it a Ponzi scheme.

Heath & Associates, which had offices in Temecula and Hemet, offered at least 5.5 percent to 8 percent interest to seniors. Investors often turned over their life savings and many now say they must sell their homes, revise retirement plans and take second jobs to make ends meet.

Jean Spence's mother gave Heath & Associates all but $26,000 of her savings, including money raised by selling stock in General Electric and Goodrich Corp. With the Heath interest payments gone, her savings are shrinking. When the money is gone, Spence said she may move her 83-year-old mother into her Hemet home.

"I just feel dreadfully sorry for the people who've lost money," said Spence, 61.

"I doubt there'll be much to return."

The prospects for recovering and returning Heath & Associates money remain dire. With the recent discovery of two additional databases, the amount of money brought in will likely grow. The number of investors could fall if people had money in more than one fund, said Kenton Johnson, Robb Evans' executive vice president.

In May, Heath & Associates was sued by the Securities and Exchange Commission, followed by the arrest of four who ran the company and lured investors: Daniel William Heath, 47; his father, John William Heath, 77; Larre Jaye Schlarmann, 46; and Denis Timothy O'Brien, 50. They are charged with various counts of securities fraud and elder abuse - theft from someone at least 65 years old.

The four remain in jail with a hearing scheduled next week in Riverside County Superior Court to enter pleas in what the district attorney's office has called its biggest-ever fraud prosecution. Attorneys for the defendants have said their clients are innocent.

Michael Lipman, Schlarmann's attorney, said Friday that his client provided the receiver with additional information that helped to increase the investment estimate.

"I am not surprised to hear that the receiver concluded there are additional monies because ... we have been cooperating with the receiver," he said.

At this point, the best-case scenario for the value of assets stands at $24.5 million, leaving about a $107.6 million shortfall for getting cash back in the hands of investors who had money in Private Capital Management.

The report says more than 1,300 were caught up in Private Capital Management, which often paid off other investors that were overseen by Schlarmann and housed in separate bank accounts. Incoming funds were then regularly funneled to entities controlled by Daniel Heath and Schlarmann, according to the report.

But many investors were instead told they purchased secure notes, Johnson said.

"They thought they were being issued collateral for their investment when it was just a piece of paper," Johnson said.

David R. Fields, one of two attorneys defending Daniel Heath, said Friday: "Mr. Heath wasn't intending to deceive anyone of anything."

Revised figures for the Heath & Associates case catapults it ahead of other alleged Ponzi schemes with Inland ties. Riverside's MX Factors brought in as much as $55.6 million, while Ontario-based International Product Investment Corp. pulled in about $160 million.

Despite recent white-collar-crime headlines from Martha Stewart and Tyco, securities fraud, including Ponzi schemes, was much more rampant decades ago, said Gordon Klein, an investment law lecturer at UCLA. Ponzi schemes, when they do pop up, tend to be in sunny states where seniors are easy targets.

In the 1930s, "the rules were far more lax and we were simply evolving a focus on these issues. Fortunately, Ponzi schemes seem to be far more the exception than the rule these days," Klein said.

Negotiations are under way with several companies Heath & Associates money flowed to so that at least some portion can be recovered, the report says. Among the long list of companies: a latex glove maker, a circuit board designer, a nursing company and a firm that has a patent pending on a waterproof zipper.

The largest investment made by Heath & Associates investors went to Prestige Resort Development, developer of a timeshare resort known as The Club at Big Bear Village. Just 180 units of 540 potential timeshares are complete or about to be with fewer than one third sold, the report says.

Already, the project has sucked up $25.3 million of investor money on top of $17.2 million Prestige Resort Development owes Maryland firm CapitalSource Finance, according to the report.

The receiver now is trying to convince CapitalSource that the Big Bear project is worth more than the lender is owed, considering the potential for a successful resort once it's finished, Johnson said. A CapitalSource official reached late Friday declined to comment.

"We're pressing hard to get something back. But there is a possibility we'll get nothing," Johnson said.

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