

1 TIFFANY L. CARROLL, ATTORNEY #157054
2 OFFICE OF THE UNITED STATES TRUSTEE
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4 SAN DIEGO, CA 92101
5 (619) 557-5013

6 Attorney for
7 STEVEN JAY KATZMAN
8 UNITED STATES TRUSTEE

9 UNITED STATES BANKRUPTCY COURT
10 Southern District of California

11 In re:) Case No. 04-05832-LA11
12)
13 XELAN, INC, a California) (Jointly Administered with
14 Corporation, PYRAMIDAL) Case Nos. 04-05833-LA11,
15 FUNDING SYSTEMS, INC, a) 04-05834-LA11 and 04-05835-
16 California Corporation,) LA11) (This pleading applies
17 d/b/a XELAN INSURANCE) to all cases)
18 SERVICES, INC. a California)
19 Corporation, XELAN FINANCIAL) DECLARATION OF KENNETH M.
20 PLANNING, INC., a California) DENNIS IN SUPPORT OF MOTION
21 Corporation, XELAN PENSION) FOR ORDER DIRECTING THE
22 SERVICES, INC., a California) APPOINTMENT OF A CHAPTER 11
23 Corporation,) TRUSTEE
24)
25)
26) Date: December 2, 2004
27) Time: 10:00 a.m.
28 Debtors.) Dept: Two
Room: 118

29 I, Kenneth M. Dennis, declare as follows:

30 1. I am employed by the United States Trustee for the
31 Southern District of California as a Bankruptcy Analyst. I am a
32 Certified Public Accountant and Certified Insolvency and
33 Restructuring Advisor. I have personal knowledge of the facts
34 stated herein, and could competently testify thereto if called as
35 a witness to do so.

1 2. On June 30, 2004, the Debtors filed a petition for
2 relief under Title 11, Chapter 11 of the United States Code.

3 3. On July 2, 2004, the Court entered an order directing
4 the joint administration of the Debtors' cases.

5 4. The Schedule B for Xelan, Inc. lists a claim due from
6 non-debtor Xelan Investment Services ("XIS") in the amount of
7 \$1,617,118.00. [See, Exhibit "A" incorporated herein by
8 reference.] On the balance sheet in Xelan Inc.'s July 2004
9 Operating Report the balance of this claim has been reduced to
10 \$55,520.00. [See, Section VIII, Balance Sheet, from July 2004
11 Operating Report attached hereto as Exhibit "B" and incorporated
12 herein by reference.] In response to the inquiry of the United
13 States Trustee, the Debtor provided the United States Trustee
14 with a copy of the journal entries that were made to adjust the
15 balance of the claim from \$1,617,118.00 to \$55,520.00. [See,
16 Exhibit "C" incorporated herein by reference.] Xelan Inc.'s July
17 2004 Operating Report shows that Xelan, Inc. received \$10,000.00
18 from XIS during July 2004. [See, Exhibit "D" incorporated herein
19 by reference.] These documents indicate that the following
20 transactions were posted to the XIS account:

<u>Description</u>	<u>Amount</u>
Schedule B amount due to Xelan, Inc. from XIS	\$1,617,118.00
Marketing fees from June 30, 2004 journal entry	871,014.25
Amount reclassified to Accounts Receivables due from Xelan Pension "to settle intercompany loans" in June 30, 2004 journal entry posted post petition	<44,966.21>
Amount reclassified to Accounts Receivables due from Xelan Insurance "to settle intercompany loans" in June 30, 2004 journal entry posted post petition	<2,409,968.26>

1	Received from XIS during July 2004	<10,000.00>
2	Net undocumented transactions	<u>32,322.22</u>
3	Amount due to Xelan, Inc. from XIS from July	
4	30, 2004 balance sheet	<u>\$ 55,520.00</u>

5 The journal entry, which reduced the balance due to Xelan, Inc.
6 by \$2,409,968.26, fails to include any supporting calculations to
7 justify this large adjustment. The balance sheet in the
8 September 2004 Operating Report shows that the amount due from
9 XIS had been reduced to \$50,503.00 as of September 30, 2004.
10 [See, Section VIII, Balance Sheet, from September 2004 Operating
11 Report attached hereto as Exhibit "E" and incorporated herein by
12 reference.]

13 5. The Schedule B for Pyramidal Funding Systems, Inc
14 ("Xelan Insurance") lists a claim due from non-debtor Xelan of
15 Texas in the amount of \$481,748.00. [See, Exhibit "F"
16 incorporated herein by reference.] On the balance sheet in Xelan
17 Inc.'s July 2004 Operating Report the balance of this claim has
18 been reduced to \$2,971.00. [See, Section VIII, Balance Sheet,
19 from July 2004 Operating Report attached hereto as Exhibit "G"
20 and incorporated herein by reference.] The July 2004 Operating
21 Report does not report the receipt of any funds from Xelan of
22 Texas. [See, Section I, Cash Receipts and Disbursements, from
23 July 2004 Operating Report attached hereto as Exhibit "H" and
24 incorporated herein by reference.] In response to the inquiry of
25 the United States Trustee, the Debtor provided the United States
26 Trustee with a copy of the journal entry that was made to adjust
27 the balance of the claim from \$481,748.00 to \$2,971.00. [See,
28 Exhibit "I" incorporated herein by reference.] These documents

1 indicated that the following transactions wserre posted to the
2 Xelan of Texas account:

3	<u>Description</u>	<u>Amount</u>
4	Schedule B amount due to Xelan Insurance from	
5	Xelan of Texas	\$481,748.00
6	Amount reclassified to Accounts Receivables due	
7	from Xelan, Inc. "to settle intercompany loans" in June 30, 2004 journal entry posted post petition	<487,511.36>
8	Net undocumented transactions	<u>8,734.36</u>
9	Amount due to Insurance Services from Xelan of Texas from July 30, 2004 balance sheet	<u>\$ 2,971.00</u>

10 The journal entry which reduced the balance due to Xelan
11 Insurance by \$481,748.00 fails to include any supporting
12 calculations to justify this large adjustment. The balance sheet
13 in the September 2004 Operating Report shows that the amount due
14 from Xelan of Texas was \$20,236.00 as of September 30, 2004.
15 [See, Section VIII, Balance Sheet, from September 2004 Operating
16 Report attached hereto as Exhibit "J" and incorporated herein by
17 reference.]

18
19 6. In addition to effectively writing off amounts due from
20 XIS and Xelan of Texas, the documents provided by the Debtors
21 indicate that the Debtors made material adjustments to the
22 amounts the various Debtors owe each other.

23 7. On or about July 15, 2004, I received a telephone call
24 from Everett G. Barry, Jr., Esq., attorney for First National
25 Bank. Mr. Barry provided Tiffany Carroll with a copy of a letter
26 he sent to Martin Eliopolis. [See, Letter attached hereto as
27 Exhibit "K" and incorporated herein by reference.] The Debtors
28 July and August 2004 Operating Reports fail to disclose

1 transactions in First National Bank accounts. The United States
 2 Trustee's Office sent John Morrell a letter dated October 5,
 3 2004, which listed a number of deficiencies in the case.
 4 Included in the letter was a request for the Debtors to provide
 5 evidence of the closing of the Debtors' pre-petition bank
 6 accounts including copies of the closing bank statements. [See,
 7 Letter attached hereto as Exhibit "L" and incorporated herein by
 8 reference.] At the continued 11 U.S.C. § 341(a) meeting held
 9 October 13, 2004, the Debtor provided me with a document from
 10 First National Bank for each account that was closed. The
 11 documents are not closing bank statements but indicate that the
 12 accounts reported on have been closed. Each document lists the
 13 date and amount for the last deposit and check for each account
 14 which is summarized as follows:

First National Bank - Prepetition Accounts					
Debtor	Account #	Date of Last Deposit	Amount of Last Deposit	Date of Last Check	Amount of Last Check
Xelan Inc	105041556	7/13/04	2,142.10	7/19/04	24,545.00
Xelan Inc	105041637	7/14/04	24,014.22	7/20/04	26,441.55
Xelan Inc	90116039	7/2/04	1,281.46	7/2/04	1,281.46
Xelan Insurance	105041718	7/9/04	218,657.58	7/19/04	1,019,177.68
Xelan Insurance	90113648	7/14/04	1,449.34	7/20/04	857.11
Xelan Insurance	105041750	7/14/04	173.06	7/14/04	173.06
Xelan Pension	105041831	7/9/04	12,097.50	7/30/04	80,187.03

26
 27 [See, Bank notices attached hereto as Exhibit "M" and
 28 incorporated herein by reference.] At the October 13, 2004

1 Meeting of Creditors, I again requested closing bank statements.
 2 In addition, I asked the Debtors to provide me with the June 2004
 3 bank statements. I have not received these bank statements to
 4 date. The last check of Xelan Insurance of \$1,019,177.68 is of
 5 great concern to me as the July Operating Report states that
 6 \$768,633.67 was transferred to the DIP account at Torrey Pines
 7 Bank to open the account and these funds do not appear to be
 8 accounted for in the Operating Report. [See, Section I, Cash
 9 Receipts and Disbursements, from July 2004 Operating Report
 10 attached hereto as Exhibit "H" and incorporated herein by
 11 reference.]

12 8. The Operating Reports for Xelan Insurance report that
 13 numerous checks were paid for commissions as follows:

Commissions Paid by Insurance Services		
Debtor	Operating Report Period	Total Commissions Paid
Insurance Services	July 2004	79,365.54
Insurance Services	August 2004	217,529.47
Total		296,895.01

20 The August and September 2004 Operating Reports for Insurance
 21 Services report that the following checks were paid to Greenbook:

Checks Paid to Greenbook by Insurance Services			
Date	Check Number	Purpose	Amount
8/13/03 (sic)	5014	Operating Agreement	215,545.72
8/24/04	5020	Operating Agreement	17,615.99
9/2/04	5028	Operating Agreement	578,000.79
9/9/04	5034	Operating Agreement	491,770.01
9/20/04	5044	Operating Agreement	193,366.57

9/24/04	5048	Operating Agreement	107,857.17
9/29/04	5050	Operating Agreement	203,038.74
Total			1,807,194.99

[See, Disbursements listing from Insurance Services August 2004 Operating Report attached hereto as Exhibit "N" and Disbursements listing from Insurance Services September 2004 Operating Report attached hereto as Exhibit "O" incorporated herein by reference.]

9. On July 27, 2004, I attended the 11 U.S.C. § 341(a) Meeting of Creditors ("Meeting of Creditors"). Patricia De La Torre testified that Seven Locko was working for Greenbook.

10. At the July 27, 2004 Meeting of Creditors, Dr. Guess testified that a \$2,000.00 obligation due from Dr. Guess to the estate of Xelan Insurance arose when Xelan Insurance paid off Dr. Guess' obligation to the Bankruptcy Estate of XF Enterprises in the amount of \$615,904.23. Dr. Guess testified that he had paid back all but \$2,000.00 of the obligation by refinancing his home.

11. At the July 27, 2004 Meeting of Creditors, Dr. Guess testified that he received \$400,000 from Indianapolis Life Insurance Company and used the money to pay personal taxes.

12. On October 12, 2004, I attended a continued Meeting of Creditors. Patricia De La Torre testified that she was an employee of Greenbook Financial Services, Inc..

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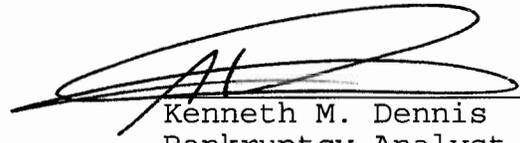
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1 13. On October 12, 2004, Dr. Guess testified that Graham
2 S. Guess does not serve as President to Xelan Insurance.

3 I declare under penalty of perjury that the foregoing
4 statements are true and correct to the best of my knowledge,
5 information and belief. Executed this 27th day of October 2004 in
6 San Diego, California.

7 
8 Kenneth M. Dennis
9 Bankruptcy Analyst

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In re **Xelan Inc.**

Case No. _____

Debtor

SCHEDULE B. PERSONAL PROPERTY
(Continuation Sheet)

Type of Property	N O N E	Description and Location of Property	Husband, Wife, Joint, or Community	Current Market Value of Debtor's Interest in Property, without Deducting any Secured Claim or Exemption
33. Other personal property of any kind not already listed.		Due from Xelan Investment Services	-	1,617,118.00
		Due from Economic Association of Health Professionals	-	260,169.00

Sub-Total >	1,877,287.00
(Total of this page)	
Total >	2,329,081.00

Sheet 3 of 3 continuation sheets attached
to the Schedule of Personal Property

(Report also on Summary of Schedules)

VIII. BALANCE SHEET
(ACCRUAL BASIS ONLY)

	Current Month End
ASSETS	
Current Assets:	
Unrestricted Cash	24,541
Restricted Cash	
Accounts Receivable	3,193
Inventory	
Notes receivable	
Prepaid Expenses	141,168
Other (Itemize)	
Xelan Investment Services	55,520
EAHP	318,012
Refunds	7,745
Due from Employees	568
Due from Financial Counselors	79,070
Allowance for Uncollectible Accounts	(50,000)
Total Current Assets	579,817
Property, Plant, and Equipment	571,899
Accumulated Depreciation	(434,196)
Net Property, Plant, and Equipment	137,703
Other Assets	
Due From Insiders	
Other (Itemize)	-
Total Other Assets	-
TOTAL ASSETS	717,520

XELAN INC
ADJUSTING ENTRIES
JUNE 30, 2004

ACCT #	ACCOUNT DESCRIPTION	DR	CR
1205	PENSION SERVICES	207,509.69	
1206	INSURANCE SERVICES		207,509.69
	To settle intercompany loans		
1205	PENSION SERVICES	44,966.21	
1207	INVESTMENT SERVICES		44,966.21
	To settle intercompany loans		
1206	INSURANCE SERVICES	1,797,157.31	
1207	INVESTMENT SERVICES	871,014.25	
3700	MARKETING FEES		2,668,171.56
	To record marketing fees		
1206	INSURANCE SERVICES	2,409,968.26	
1207	INVESTMENT SERVICES		2,409,968.26
	To settle intercompany loans		
1208	XELAN OF TEXAS	487,511.36	
1206	INSURANCE SERVICES		487,511.36
	To settle intercompany loans		
1210	EAHP	132,717.50	
3420	CONSULTING FEES		132,717.50
	To records consulting fee income		
7110	Attorneys/Legal	30,000.00	
7135	Legal Settlements	44,874.45	
1210	EAHP		74,874.45
	To transfer legal costs paid by EAHP for Xelan, Inc.		
		<u>6,025,719.03</u>	<u>6,025,719.03</u>

EXHIBIT "C"

XELAN INC

CHAPTER 11 (BUSINESS)
CASE NO.
OPERATING REPORT NO.
FOR THE MONTH ENDING:

04-05832
1
7/31/2004

I. CASH RECEIPTS AND DISBURSEMENTS
A. (GENERAL ACCOUNT)

1.	TOTAL RECEIPTS PER ALL PRIOR GENERAL ACCOUNT REPORTS		\$	-
2.	LESS: TOTAL DISBURSEMENTS PER ALL PRIOR GENERAL ACCOUNT REPORTS		\$	-
3.	BEGINNING BALANCE		\$	4
4.	RECEIPTS DURING CURRENT PERIOD			
	ACCOUNTS RECEIVABLE - PRE-FILING	\$		-
	ACCOUNTS RECEIVABLE - POST-FILING	\$		-
	GENERAL SALES	\$	3,413.31	
	OTHER (SPECIFY)			
	RECLASS OUTSTANDING CHECKS	\$	15,612.76	
	TRANSFER FROM INVESTMENT SERVICES	\$	10,000.00	
	TRANSFER FROM INSURANCE SERVICES	\$	45,445.21	
	TRANSFER FROM PENSION SERVICES	\$	41,762.80	
	EXPENSE REIMBURSEMENT	\$	2,782.86	
	TRANSFER BEGINNING CASH BALANCE	\$	5,538.93	
	TOTAL RECEIPTS THIS PERIOD:		\$	124,555.87
5.	BALANCE		\$	124,555.87
6.	LESS: TOTAL DISBURSEMENTS DURING CURRENT PERIOD (Total from Page 2)		\$	109,256.78
7.	ENDING BALANCE		\$	15,299.09
8.	GENERAL ACCOUNT NUMBER: 131007394 DEPOSITORY NAME AND LOCATION: TORREY PINES BANK, 550 WEST C ST., STE. 100 SAN DIEGO, CA 92101			

VIII. BALANCE SHEET
(ACCRUAL BASIS ONLY)

ASSETS	
Current Assets:	
Unrestricted Cash	\$ 9,906
Restricted Cash	
Accounts Receivable	9,293
Inventory	
Notes receivable	
Prepaid Expenses	211,516
Other (Itemize)	
Xelan Investment Services	50,503
EAHP	318,012
Xelan Insurance Services	62,261
Due from Employees	
Due from Financial Counselors	25,961
Allowance for Uncollectible Accounts	
Total Current Assets	<u><u>687,452</u></u>
Property, Plant, and Equipment	571,899
Accumulated Depreciation	<u>(449,227)</u>
Net Property, Plant, and Equipment	<u><u>122,672</u></u>
Other Assets	
Due From Insiders	
Other (Itemize)	
Total Other Assets	<u><u>-</u></u>
TOTAL ASSETS	<u><u>\$ 810,124</u></u>

In re Xelan Insurance Services, Inc./Pyramidal Funding,
Debtor

Case No. _____

SCHEDULE B. PERSONAL PROPERTY
(Continuation Sheet)

Type of Property	N O N E	Description and Location of Property	Husband, Wife, Joint, or Community	Current Market Value of Debtor's Interest in Property, without Deducting any Secured Claim or Exemption
20. Other contingent and unliquidated claims of every nature, including tax refunds, counterclaims of the debtor, and rights to setoff claims. Give estimated value of each.	X			
21. Patents, copyrights, and other intellectual property. Give particulars.	X			
22. Licenses, franchises, and other general intangibles. Give particulars.	X			
23. Automobiles, trucks, trailers, and other vehicles and accessories.	X			
24. Boats, motors, and accessories.	X			
25. Aircraft and accessories.	X			
26. Office equipment, furnishings, and supplies.		See #27 below	-	0.00
27. Machinery, fixtures, equipment, and supplies used in business.		See Attached Exhibit "B"	-	1,999.00
28. Inventory.	X			
29. Animals.	X			
30. Crops - growing or harvested. Give particulars.	X			
31. Farming equipment and implements.	X			
32. Farm supplies, chemicals, and feed.	X			
33. Other personal property of any kind not already listed.		Future Insurance Renewal Commissions Due from Dr. Guess	-	2,000.00
		Future Insurance Renewal Commissions Due from Xelan of Texas	-	481,748.00
			Sub-Total >	485,747.00
			(Total of this page)	

Sheet 2 of 3 continuation sheets attached to the Schedule of Personal Property

**VIII. BALANCE SHEET
(ACCRUAL BASIS ONLY)**

		Current Month End
ASSETS		
Current Assets:		
Unrestricted Cash	\$	1,626,475
Restricted Cash		
Accounts Receivable		
Inventory		
Notes receivable		
Prepaid Expenses		
Other (Itemize)		
Due from Xelan Inc.		87,384
Due from EAHP		31,470
Due from Xelan of Texas		2,971
Due from Employees		3,215
Due from Financial Counselors		90,871
Allowance for Uncollectible Accounts		<u>(50,000)</u>
Total Current Assets		<u>1,792,386</u>
Property, Plant, and Equipment		7,801
Accumulated Depreciation		<u>(6,089)</u>
Net Property, Plant, and Equipment		<u>1,711</u>
Other Assets		
Due From Insiders		2,251
Other (Itemize)		
Total Other Assets		<u>2,251</u>
TOTAL ASSETS	\$	<u>1,796,348</u>

XELAN INSURANCE SERVICES

CHAPTER 11 (BUSINESS)
CASE NO.
OPERATING REPORT NO.
FOR THE MONTH ENDING:

04-05832
1
7/31/2004

I. CASH RECEIPTS AND DISBURSEMENTS
A. (GENERAL ACCOUNT)

1.	TOTAL RECEIPTS PER ALL PRIOR GENERAL ACCOUNT REPORTS		\$	<u>-</u>
2.	LESS: TOTAL DISBURSEMENTS PER ALL PRIOR GENERAL ACCOUNT REPORTS		\$	<u>-</u>
3.	BEGINNING BALANCE		\$	<u>-</u>
4.	RECEIPTS DURING CURRENT PERIOD			
	ACCOUNTS RECEIVABLE - PRE-FILING	\$	194,856.26	
	ACCOUNTS RECEIVABLE - POST-FILING			
	GENERAL SALES	\$	459,216.81	
	OTHER (SPECIFY) RECLASS OUTSTANDING CHECKS	\$	14,897.36	
	OTHER ** (SPECIFY) TRANSFER BEGINNING CASH BALANCE	\$	768,633.67	
	TOTAL RECEIPTS THIS PERIOD:			\$ <u>1,437,604.10</u>
5.	BALANCE		\$	<u>1,437,604.10</u>
6.	LESS: TOTAL DISBURSEMENTS DURING CURRENT PERIOD (Total from Page 2)		\$	<u>174,379.31</u>
7.	ENDING BALANCE		\$	<u>1,263,224.79</u>
8.	GENERAL ACCOUNT NUMBER: 131007408 DEPOSITORY NAME AND LOCATION: TORREY PINES BANK, 550 WEST C ST., STE. 100 SAN DIEGO, CA 92101			

EXHIBIT "H"

XELAN INSURANCE SERVICES
ADJUSTING ENTRIES
JUNE 30, 2004

ACCT #	ACCOUNT DESCRIPTION	DR	CR
1204	Xelan Inc	2,103,194.27	
1203	Xelan IMD (Xelan Inc)		2,103,194.27
	To net intracompany balances		
1204	Xelan Inc	207,509.69	
1205	Pension Services		207,509.69
	To settle intercompany loans		
1204	Xelan Inc	487,511.36	
1210	Xelan of TX		487,511.36
	To settle intercompany loans		
1207	Investment Services	2,409,968.26	
1204	Xelan Inc		2,409,968.26
	To settle intercompany loans		
2108	Viatical Liquidity	350,246.00	
7851	Viatical Liquidity Expense		350,246.00
	To reclass advance payment		
6900	Marketing Expense	1,797,157.31	
1204	Xelan Inc		1,797,157.31
	To record marketing expense		
		<u>7,355,586.89</u>	<u>7,355,586.89</u>

VIII. BALANCE SHEET
(ACCRUAL BASIS ONLY)

	Current Month End
ASSETS	
Current Assets:	
Unrestricted Cash	\$ 1,008,740
Restricted Cash	
Accounts Receivable	52,909
Inventory	
Notes receivable	
Prepaid Expenses	
Other (Itemize)	
Due from Xelan Inc.	90,576
Due from EAHP	31,470
Due from Xelan of Texas	20,236
Due from Employees	3,445
Due from Financial Counselors	90,466
Allowance for Uncollectible Accounts	(50,000)
Total Current Assets	<u>1,247,843</u>
Property, Plant, and Equipment	7,801
Accumulated Depreciation	(6,233)
Net Property, Plant, and Equipment	<u>1,567</u>
Other Assets	
Due From Insiders	2,251
Other (Itemize)	
Total Other Assets	<u>2,251</u>
TOTAL ASSETS	<u><u>\$ 1,251,661</u></u>

LAW OFFICES
MULVANEY, KAHAN & BARRY

A LIMITED LIABILITY PARTNERSHIP

SEVENTEENTH FLOOR

FIRST NATIONAL BANK CENTER

401 WEST "A" STREET

SAN DIEGO, CALIFORNIA 92101-7994

TELEPHONE (619) 238-1010

FACSIMILE (619) 238-1981

Email: mkb@mkblaw.com

Email: ebarry@mkblaw.com

July 15, 2004

~~JOHN J. McEVoy (RET.)~~

OTHER OFFICE
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HOLLY A. GRUBS
MELISSA N. ARMSTRONG
ANGELA KIM
BYRON G. DANELL

OF COUNSEL
DERRICK W. SAMUELSON*
*MEMBER NEW YORK BAR ONLY

VIA MESSENGER

~~Martin A. Eliopoulos, Esq.
Higgs, Fletcher & Mack LLP
401 West A Street, Suite 2600
San Diego, CA 92101~~

Re: Xelan Inc.; U.S. Bankruptcy Court, Southern District of California, Case #04-05832-LA11;
Xelan Insurance Services, Inc./Pyramidal Funding; U.S. Bankruptcy Court, Southern District of California, Case #04-05833-LA11;
Xelan Financial Planning, Inc.; U.S. Bankruptcy Court, Southern District of California, Case #04-05834-LA11

Dear Marty:

This is to confirm our telephone conversation of this morning wherein I advised you that First National Bank ("Bank") has just been made aware of the bankruptcy filings by the above entities by way of the newspaper article in today's Union Tribune.

As you are aware, the Bank has a number of accounts in the name of the Debtor entities. Despite the fact that the Chapter 11 bankruptcy petitions were apparently filed on June 30, 2004, the Bank was not previously made aware of the bankruptcy filings and no debtor in possession accounts have been set up. Accordingly, the Bank does not believe it is in a position at this time, absent appropriate authorization, to honor checks or items drawn on these accounts, although the Bank is prepared to turn over these funds to the Debtors. As I advised, the Bank is not in a position to open or administer debtor in possession bank accounts.

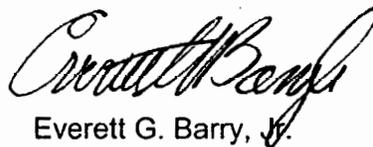
Therefore, pending further authorization or discussion, please be advised that the Bank will not process checks or other items on the accounts from third parties, which may well

LAW OFFICES
MULVANEY, KAHAN & BARRY
A LIMITED LIABILITY PARTNERSHIP

Martin A. Eliopoulos, Esq.
July, 15, 2004
Page 2

include pre-petition claims. I am happy and available to discuss these issues with you at your convenience.

Very truly yours,



Everett G. Barry, Jr.
for the Firm

cc: Tiffany L. Carroll
Office of the United States Trustee



U.S. Department of Justice

United States Trustee, Region 15
Southern District of California

402 West Broadway (619) 557-5013
Suite 600 Fax (619) 557-5339
San Diego, California 92101-8511

October 5, 2004

By E-mail

John L. Morrell, Esquire
Higgs, Fletcher & Mack, LLP
401 West A Street, Suite 2600
San Diego, CA 92101
(morrell@higgslaw.com)

Re: Xelan, Inc., et al.
Jointly Administered under Bankruptcy Case No. 04-05832-A11

Dear Mr. Morrell:

I have taken the better part of a day and gone again through my notes and the hearing tapes searching for items that the United States Trustee has previously requested from the above-referenced Debtors. I again request that the Debtors provide the following information and documents. In addition, there are items I am adding to the list. As we discussed, this case is seriously delinquent in providing this information to our office. I look forward to receiving the information by Friday, October 8, 2004 as promised today.

Xelan, Inc., 04-05832-A11

Items previously requested

1. A certificate of insurance for the workers compensation insurance policy naming the United States Trustee as a party-in-interest to be notified in the event of cancellation.
2. Evidence of the closing of the debtor's prepetition bank accounts including a copy of the closing bank statements.
3. Signature cards and voided checks for each of the Debtor's debtor-in-possession bank accounts.
4. A real property questionnaire. We previously indicated that this questionnaire was not needed but in light of the fact that Greenbook has leased premises we want the questionnaire.
5. Articles of incorporation.

EXHIBIT "L"

6. The August 2004 operating report.
7. The journal entries that were posted to the inter-company accounts after the filing of the petition.
8. Schedule F amended for trade creditors. Many of the trade creditors are scheduled as unknown.

Xelan Insurance Services, Inc., 04-05833-A11

Items previously requested

1. Evidence of the closing of the debtor's prepetition bank accounts including a copy of the closing bank statements.
2. Signature cards and voided checks for each of the Debtor's debtor-in-possession bank accounts.
3. Articles of incorporation.
4. The August 2004 operating report.

Item not previously requested

Check number 0002 dated July 20, 2004 in the amount of \$35,573.80 was paid to Xelan Inc. according to the July operating report yet this check does not appear to be included as a deposit on Xelan's operating report. Please provide a description of what happened to these funds, a copy of the front and back of the cancelled check, and supporting documentation necessary to substantiate the transaction.

Xelan Pension Services, Inc., 04-05835-A11

Items previously requested

1. Evidence of the closing of the debtor's prepetition bank accounts including a copy of the closing bank statements.
2. Signature cards and voided checks for each of the Debtor's debtor-in-possession bank accounts.
3. Articles of incorporation.
4. The August 2004 operating report.

5. The percentage and amount of the pension assets being managed by Xelan entities (listed by entity).

Xelan Financial Planning, Inc., 04-05834-A11

Items previously requested

1. Evidence of the closing of the debtor's prepetition bank accounts including a copy of the closing bank statements.
2. Signature cards and voided checks for each of the Debtor's debtor-in-possession bank accounts.
3. Articles of incorporation.
4. The August 2004 operating report.

Outstanding Items from August 17, 2004 Meeting of Creditors:

Xelan of Texas owes Xelan \$480,000.00 according to the Schedules. Has the Debtor received this money yet? If not, has the Debtor made any demand for the money?

Mr. Farrington indicated that no financial counselors have been paid post-petition for pre-petition debt. Please ask Mr. Farrington to explain in writing how he distinguishes between pre and post-petition obligations for financial counselor commissions. Ask him to explain what he means by "transaction date".

XIS owes Xelan, Inc. \$1,617,000. Mr. Farrington has since stated that this accounts receivable was written off. Please ask Mr. Farrington show the accounting records concerning this write off and explain in writing why it was written off.

It became clear that the Debtors are being represented in ongoing litigation. What is the status of applications to employ professionals. If the Debtors will not be employing professionals who are acting on their behalf, I request that you explain how you distinguish this action with In re: BOH! Ristorante, Inc., 99 B.R. 971 (9th Cir. BAP 1989).

With regard to the computers that hold business records of the Debtors, please explain in writing the Debtors' plans with regard to maintaining these records should the computers be sold.

Please explain why Economic Associates owes Xelan, Inc. money. Please provide the supporting accounting records.

Has Xelan, Inc. been paying Xelan Pension Services employees post-petition?

Why is Xelan, Inc. paying the salary of Merfit Mansour?

What is the amount owed to the Xelan, Inc. employees' 401k fund from any Xelan entity?

When will the Debtors file amended schedules? It was agreed that the Debtors would set forth amounts of claims in the schedules as it became apparent at the § 341(a) meeting of creditors that the Debtors had the information in many instances.

What is American All Risk Insurance and why are they listed as a creditor of Xelan, Inc.?

Who is Amy Falante and why is she listed as a creditor of Xelan, Inc.?

What services did the law firm of Bornn Handy provide to Xelan, Inc.?

Please provide a copy of the contract between Charles Wachendorfer and Xelan, Inc. Please ask an officer from Xelan, Inc. to explain whether Mr. Wachendorfer has been paid any post-petition amounts under this contract. If Mr. Wachendorfer was paid, please set forth the dates and amounts of each payment.

What amount is owed to David Jacquot or his law firm?

What is Good Peerson Hemme & Saylr and why does Xelan, Inc. owe them money?

What is the amount Xelan, Inc. believes is owed to Dr. L. Donald Guess? Please set forth the amount and an explanation concerning the amount. In addition, please provide any supporting accounting documents.

What is McDermott Will? Why does Xelan, Inc. owe them money?

What is Philanthrotec? Why does Xelan, Inc. owe them money?

Was and/or is Rutman & Suverkrubbe holding any funds for any of the Debtors? If so, what are the funds sources? Please provide an explanation of why the firm was or is holding the funds. If the Debtors do not have the funds, where are they now? If they were disbursed to anyone other than the Debtors, please provide an accounting of the funds and the use of the funds. Provide this same information for any entity holding funds for the Debtors.

Provide an analysis of the inter-company transactions as they are set forth on the Schedules. For example, why does Xelan Insurance Services owe Xelan, Inc. money? Provide the analysis with supporting accounting documents.

There are possible preferences to various professionals such as Mr. Rutman and Mr. Suverkrubbe. See Statement of Financial Affairs Question 3a. Please describe Xelan, Inc.'s plans with regard to these payments.

Mr. Wachendorfer has a contract with Xelan, Inc. I have requested a copy of the contract and have not yet received it.

I asked that Exhibit D to the Statement of Financial Affairs Question 3b be clarified. Mr. Farrington promised to analyze and summarize it. I have not received anything to clarify this exhibit. Please provide an exhibit that answers the questions asked in Statement of Financial Affairs Question 3b.

In discussion of the cash management system, the issue arose that a non-debtor or debtor entity is receiving a percentage of invested pension funds. Mr. Farrington agreed to look into where that percentage of funds is going. Please provide this information. Please disclose the amounts generally collected.

For all accounting allocations made in the year before the bankruptcy filing and since the bankruptcy filing, please provide the journal entries and a worksheet which explains the allocations. Please provide this information for debtor and non-debtor entities. If any Debtor has written off any amounts due from affiliates, please have bankruptcy counsel explain how this write off comports with bankruptcy law.

Outstanding Items from October 5, 2004 Meeting of Creditors:

Mr. Farrington provided the 2002 and 2003 tax returns to Ken Dennis at the meeting today. Please indicate whether these tax returns are true copies of the tax returns that were filed with the taxing authorities. It appears that the copies are unsigned and I just want to make sure we are looking at the filed returns.

Thank you for your attention to these issues.

Very truly yours,

/s/

Tiffany L. Carroll,
Attorney for the
United States Trustee

cc: Stuart D. Gibson, Senior Litigation Counsel

BALANCES - SUMMARY

[01] XELAN INC
[08] GENERAL TRUST ACCOUNT
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

Accrued Service Charge:

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
Responsibility Code: [00208] Kimberley Drivas
Type Code: [000]
Employee/Officer/Director Code: [0]
Title: GENERAL ACCOUNT
Tax Name: [01] XELAN INC
Date Last Deposit: Jul 13, 2004
Amount Last Deposit: 2,142.10
Date Last Check: Jul 19, 2004
Amount Last Check: 24,545.00
Date Last NSF: Jun 23, 2004
Items NSF YTD: 21
Times Overdrawn YTD: 3
Date Opened: Sep 18, 1996
Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

OCT 08 2004

Kimberley Drivas
CLOSED 9-17-04

BALANCES - SUMMARY

[01] XELAN INC
PAYROLL ACCOUNT
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

Accrued Service Charge:

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
Responsibility Code: [00208] Kimberley Drivas
Type Code: [000]
Employee/Officer/Director Code: [0]
Tax Name: [01] XELAN INC

.00 Date Last Deposit: Jul 14, 2004
Amount Last Deposit: 24,014.22
Date Last Check: Jul 20, 2004
Amount Last Check: 26,441.55

Date Last NSF: Jul 14, 2004
Items NSF YTD: 2
Times Overdrawn YTD: 3

Date Opened: Sep 18, 1996
Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

Kimberley Drivas
CLOSED 10/8/04

BALANCES - SUMMARY

[01] XELAN INC
[15] COMMISSION ACCOUNT
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

Accrued Service Charge:

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
.00 Responsibility Code: [00208] Kimberley Drivas
.00 Type Code: [000]
.00 Employee/Officer/Director Code: [0]
.00 Tax Name: [01] XELAN INC

.00 Date Last Deposit: Jul 2, 2004
Amount Last Deposit: 1,281.46
Date Last Check: Jul 2, 2004
Amount Last Check: 1,281.46

Date Last NSF: Jun 23, 2004
Items NSF YTD: 6
Times Overdrawn YTD: 3

Date Opened: Apr 25, 2001
Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

Handwritten:
Closed 10-8-04

BALANCES - SUMMARY

[37] XELAN INSURANCE SERVICES
[36] A DBA OF PYRAMIDAL FUNDING SYS
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
.00 Responsibility Code: [00208] Kimberley Drivas
.00 Type Code: [000]
.00 Employee/Officer/Director Code: [0]
.00 Tax Name: [36] A DBA OF PYRAMIDAL FUNDING SYS

.00 Date Last Deposit: Jul 9, 2004
Amount Last Deposit: 218,657.58
Date Last Check: Jul 19, 2004
Amount Last Check: 1,019,177.68

Date Opened: Sep 18, 1996
Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

Accrued Service Charge:

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

Kimberley Drivas
CLOSED 7-20-04

BALANCES - SUMMARY

[37] XELAN INSURANCE SERVICES
[36] A DBA OF PYRAMIDAL FUNDING SYS
PAYROLL ACCOUNT
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

Accrued Service Charge:

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
Responsibility Code: [00208] Kimberley Drivas
.00 Type Code: [000]
.00 Employee/Officer/Director Code: [0]
.00 Tax Name: [36] A DBA OF PYRAMIDAL FUNDING SYS
.00
Date Last Deposit: Jul 14, 2004
.00 Amount Last Deposit: 1,449.34
Date Last Check: Jul 20, 2004
Amount Last Check: 857.11
Date Opened: Apr 25, 2001
Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

Kimberley Drivas
CLOSED 10-8-04

BALANCES - SUMMARY

[37] XELAN INSURANCE SERVICES
[36] A DBA OF PYRAMIDAL FUNDING SYS
COMMISSION ACCT
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
Responsibility Code: [00208] Kimberley Drivas
Type Code: [000]
Employee/Officer/Director Code: [0]
Tax Name: [36] A DBA OF PYRAMIDAL FUNDING SYS

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

.00
.00
.00
.00
Date Last Deposit: Jul 14, 2004
Amount Last Deposit: 173.06
Date Last Check: Jul 14, 2004
Amount Last Check: 173.06

Accrued Service Charge:

.00
Date Last NSF: Feb 12, 2001
Date Opened: Sep 18, 1996
Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

Kimberley Drivas
CLOSED 10-8-04

BALANCES - SUMMARY

[12] XELAN PENSION SERVICES INC
[13] A CALIFORNIA CORPORATION
SAN DIEGO ACCOUNT
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

Accrued Service Charge:

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
Responsibility Code: [00208] Kimberley Drivas
Type Code: [000]
Employee/Officer/Director Code: [0]
Tax Name: [12] XELAN PENSION SERVICES INC
Date Last Deposit: Jul 9, 2004
Amount Last Deposit: 12,097.50
Date Last Check: Jul 30, 2004
Amount Last Check: 80,187.03
Date Last NSF: Jul 19, 2004
Items NSF YTD: 3
Date Opened: Sep 18, 1996
Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

Kimberley Drivas
CLOSED 7-30-04

BALANCES - SUMMARY

[12] XELAN PENSION SERVICES INC
[13] A CALIFORNIA CORPORATION
PAYROLL ACCOUNT
401 W A ST STE 2210
SAN DIEGO CA 92101-7909

Portfolio Number: 514586
Product: [312] Business Checking - Plus
Class: [31] DDA Business
Branch Number: [30] WEST A OFFICE
Accounting Branch: [00030] West A
Responsibility Code: [00208] Kimberley Drivas
.00 Type Code: [000]
.00 Employee/Officer/Director Code: [0]
.00 Tax Name: [12] XELAN PENSION SERVICES INC
Date Opened: Jan 9, 2004
.00 Date Last Update: Oct 7, 2004
Accrued Thru Date: Oct 7, 2004

Memo Ledger Balance:
Memo Available Balance:
Current Ledger Balance:
Current Available Balance:

Accrued Service Charge:

FIRST NATIONAL BANK
401 WEST "A" ST.
SAN DIEGO, CA 92101

Kimberley Drivas
Closed 10-8-04

TOTAL DISBURSEMENTS FROM GENERAL ACCOUNT FOR CURRENT PERIOD

DATE	CHECK NUMBER	PAYEE	PURPOSE	AMOUNT
8/4/2004	5000	ED SIDDELL	COMMISSIONS	\$ 405.33
8/10/2004	5001	COVE TRADING	COMMISSIONS	\$ 960.88
8/10/2004	5002	CARROLL FLANNERY	COMMISSIONS	\$ 113.34
8/10/2004	5004	DAVID JONES	COMMISSIONS	\$ 1,043.89
8/10/2004	5005	ADP	PAYROLL PROCESSING	\$ 49.90
8/10/2004	5006	CAL-SURANCE	WORKERS COMP	\$ 2,916.00
8/10/2004	5007	CONEXIS	CAFÉ PLAN ADMIN	\$ 6.00
8/10/2004	5008	CONEXIS	CAFÉ PLAN ADMIN	\$ 12.00
8/10/2004	5009	DELTA DENTAL	HEALTH INSURANCE	\$ 45.70
8/10/2004	5010	GE GROUP LIFE	LIFE INSURNACE	\$ 51.60
8/10/2004	5011	HEALTH NET	HEALTH INSURANCE	\$ 2,044.78
8/10/2004	5012	SACRAMENTAL POSTAL	POSTAGE	\$ 10.00
8/10/2004	DD	COMMISSIONS	COMMISSIONS	\$ 215,006.03
8/12/2004	5013	MANULIFE FINANCIAL	401K	\$ 75.00
8/13/2003	5014	GREENBOOK	OPERATING AGREEMENT	\$ 215,545.72
8/13/2003	5015	XELAN INC	RENT	\$ 1,750.00
8/17/2004	5016	XELAN ADMIN SERVICES	ADMINISTRATION	\$ 18,500.00
8/13/2004	DD	PAYROLL	PAYROLL	\$ 2,949.22
8/24/2004	5017	CONEXIS	CAFÉ PLAN ADMIN	\$ 50.00
8/24/2004	5018	CONEXIS	CAFÉ PLAN ADMIN	\$ 50.00
8/24/2004	5019	FRANCHISE TAX BOARD	PAYROLL TAXES	\$ 303.53
8/24/2004	5020	GREENBOOK	OPERATING AGREEMENT	\$ 17,615.99
8/24/2004	5021	MANULIFE FINANCIAL	401K	\$ 150.00
8/27/2004	5022	CAL DEPT INSURANCE	FEES	\$ 54.00
8/27/2004	5023	STATE OF IDAHO	FEES	\$ 160.00
8/27/2004	5024	KANSAS	FEES	\$ 54.00
8/27/2004	5025	KENTUCKY	FEES	\$ 50.00
8/30/2004	5026	XELAN ADMIN SERVICES	ADMINISTRATION	\$ 18,500.00
8/30/2004	5027	XELAN INC	RENT	\$ 3,500.00
8/31/2004	BK	ADP	PAYROLL FEE	\$ 333.42
8/31/2004	BK	BANK ERROR	BANK ERROR	\$ 0.03
				<u>\$ 502,306.36</u>

TOTAL DISBURSEMENTS FROM GENERAL ACCOUNT FOR CURRENT PERIOD

DATE	CHECK NUMBER	PAYEE	PURPOSE	AMOUNT
9/2/2004	5028	GREENBOOK	OPERATING AGREEMENT	\$ 578,000.79
9/3/2004	5029	CAL DEPT INSURANCE	LICENSE	\$ 54.00
9/3/2004	5030	STATE OF IDAHO	LICENSE	\$ 160.00
9/3/2004	5031	AIS MARYLAND	LICENSE	\$ 169.00
9/3/2004	5032	NM PUBLIC REG	LICENSE	\$ 25.00
9/9/2004	5033	BLUE SHIELD	HEALTH INSURANCE	\$ 4,288.00
9/9/2004	5034	GREENBOOK	OPERATING AGREEMENT	\$ 491,770.01
9/14/2004	5038	HEALTH NET	HEALTH INSURANCE	\$ 2,044.78
9/14/2004	5039	XELAN ADMIN SERVICES	ADMINISTRATION	\$ 18,500.00
9/14/2004	5040	XELAN INC	RENT	\$ 1,750.00
9/17/2004	5041	AMEX	CREDIT CARD	\$ 993.79
9/17/2004	5042	SBC	TELEPHONE	\$ 171.59
9/17/2004	5043	US TRUSTEE	FEES	\$ 250.00
9/20/2004	5044	GREENBOOK	OPERATING AGREEMENT	\$ 193,366.57
9/23/2004	5045	ALABAMA	LICENSE	\$ 40.00
9/23/2004	5046	KENTUCKY	LICENSE	\$ 15.00
9/23/2004	5047	US TRUSTEE	FEES	\$ 250.00
9/24/2004	5048	GREENBOOK	OPERATING AGREEMENT	\$ 107,875.17
9/29/2004	5049	ANDERSON DIRECT	COPYING	\$ 9,457.50
9/29/2004	5050	GREENBOOK	OPERATING AGREEMENT	\$ 203,038.74
9/29/2004	5051	MONTANA	LICENSE	\$ 50.00
9/29/2004	5052	NORTH CAROLINA	LICENSE	\$ 55.00
9/29/2004	5053	SOUTH CAROLINA	LICENSE	\$ 25.00
9/31/2004	BK	ADP	PAYROLL FEE	\$ 25.86
				<u>\$ 1,612,375.80</u>