ELEC COMMUNICATIONS CORP
Form SB-2
March 30, 2005

As filed with the Securities and Exchange Commission on March 30, 2005
Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

eLEC COMMUNICATIONS CORP.
(Name of Small Business Issuer in Its Charter)

New York	4813	13-2511270
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.

75 South Broadway, Suite 302
White Plains, New York 10601
(914) 682-0214
(Address and Telephone Number of Principal Executive Offices)

75 South Broadway, Suite 302
White Plains, New York 10601
(Address of Principal Place of Business or Intended Principal Place of Business)

Paul H. Riss, Chief Executive Officer
eLEC Communications Corp.
75 South Broadway, Suite 302
White Plains, New York 10601
(914) 682-0214
(Name, address and telephone number of agent for service)

Copies to:
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Approximate Date of Commencement of Proposed Sale to the Public: From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. |X|

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ____________________

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ____________________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ____________________

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To be Registered	Amount to be Registered	Proposed Maximum Aggregate Offering Price Per Share(1)	Proposed Max Aggregate Off Price(1
Common Stock, $.10 par value(2)	4,365,078 shares	$0.47	$2,051,5
Common Stock, $.10 par value(3)	350,000 shares	$0.47	$ 164,5
Common Stock, $.10 per value(4)	253,968 shares	$0.47	$ 119,3
Total Registration Fee			

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(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) based on the average of the high and low prices on the OTC Bulletin Board on March 28, 2005.

(2) The shares of common stock being registered hereunder are being registered for resale by a selling shareholder named in the prospectus upon conversion of an outstanding secured convertible note and the exercise of an outstanding seven-year warrant. In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of shares that may be issued and resold to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(3) The shares of common stock being registered hereunder are being registered for resale by a selling shareholder named in the prospectus upon exercise of outstanding five-year warrants. In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of shares that may be issued and resold to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(4) The shares of common stock being registered hereunder are being registered for resale by certain selling shareholders named in the prospectus upon exercise of outstanding four-year warrants. In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate

number of shares that may be issued and resold to prevent dilution resulting from stock splits, stock dividends or similar transactions.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject to Completion, Dated March 30, 2005

PROSPECTUS

4,969,046 Shares

ELEC COMMUNICATIONS CORP.

Common Stock

This prospectus relates to the resale of up to 4,969,046 shares of common stock, of which 4,365,078 shares are issuable upon the conversion of promissory notes of eLEC Communications Corp. and the payment of the principal amount of, and interest on, these notes to, or the exercise of outstanding warrants by, Laurus Master Fund, Ltd. ("Laurus"), and 603,918 shares of common stock are issuable upon the exercise of warrants of eLEC Communications Corp. by certain selling shareholders identified in this prospectus. All of the shares, when sold, will be sold by these selling shareholders, including Laurus. The selling shareholders may sell their common stock from time to time at prevailing market prices. We will not receive any proceeds from the sale of the shares of common stock by the selling shareholders.

Our common stock is traded in the over-the-counter market and prices are reported on the OTC Bulletin Board under the symbol "ELEC."

See "Risk Factors" beginning on page 4 for risks of an investment in the securities offered by this prospectus, which you should consider before your purchase any shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is __________, 2005

We have not registered the sale of the shares under the securities laws of any state. Brokers or dealers effecting transactions in the shares of common stock offered hereby should confirm that the shares have been registered under the securities laws of the state or states in which sales of the shares occur as of the time of such sales, or that there is an available exemption from the registration requirements of the securities laws of such states.

This prospectus is not an offer to sell any securities other than the shares of common stock offered hereby. This prospectus is not an offer to sell securities in any circumstances in which such an offer is unlawful.

We have not authorized anyone, including any salesperson or broker, to give oral or written information about this offering, eLEC Communications Corp., or the shares of common stock offered hereby that is different from the information included in this prospectus. You should not assume that the information in this prospectus, or any supplement to this prospectus, is accurate at any date other than the date indicated on the cover page of this prospectus or any supplement to it.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this Prospectus and may not contain all of the information that you should consider before investing in the shares. You are urged to read this Prospectus in its entirety, including the information under "Risk Factors" and our consolidated financial statements and related notes included elsewhere in this Prospectus.

Our Company

eLEC Communications Corp. is a telecommunications service holding company with operations in three wholly-owned subsidiaries that focus on delivering integrated telephone service by leasing landlines as a competitive local exchange carrier ("CLEC") and by utilizing high-speed Internet connections to provide Voice over Internet Protocol ("VoIP") services. We offer small businesses and residential consumers an integrated set of telecommunications products and services, including local exchange, local access, domestic and international long distance telephone, VoIP and a full suite of features and calling plans.

Almost all of the local telephone calls made by our customers in fiscal 2004 were routed over a circuit-switched network that we lease from Verizon Services Corp. ("Verizon"). Although we plan to increase the number of local access lines that we route over the Verizon network during fiscal 2005, we also plan to use other networks by offering local exchange services on the Qwest Corporation ("Qwest") network in some of the 14 states in which Qwest is the incumbent local exchange carrier ("ILEC") and by offering VoIP services on an

Internet network over which our customers will make telephone calls through a high-speed Internet connection. When we route a telephone call by our customers over an Internet network, a carrier other than Verizon or Qwest will terminate the call for us into the public switched telephone network ("PSTN"). We also are able to terminate some calls ourselves that are made by our customers, in which cases we do not incur any marginal costs for such calls.

Until December 31, 2004, both of our CLEC subsidiaries leased lines from Verizon, using the unbundled network elements platform ("UNE-P") service offering. UNE-P allows us to lease the network elements we need, such as the local line and the port on a local switch, so that we can provide local dial tone service to our customers. We can provide virtually all of the additional voice services provided by the ILECs, such as three-way calling, call waiting, call forwarding and caller ID. We sell our services at a fee that is at least 10% and as much as 25% less than the published rate charged by the ILEC. We also offer a bundled package of local and regional calling minutes with popular voice service features.

We plan to continue using the UNE-P service offering for one of our CLEC subsidiaries, Telecarrier Services Inc. ("TSI"). UNE-P, however, has been the subject of various court battles between the CLECs and ILECs that may bring an end to UNE-P services. Based upon the Order on Remand in WC Docket No. 04-313 and CC Docket No. 01-338, released on February 4, 2005 (the "TRO Remand Order") by the Federal Communications Commission ("FCC"), Verizon has sent us notice that CLECs operating under UNE-P may not submit orders for completion on or after March 11, 2005. In addition, Verizon has notified us that if TSI has not made arrangements for UNE-P replacement services, TSI's embedded base of customers shall be subject to transitional rate increases established in the TRO Remand Order. Thereafter, TSI will have one year to transfer existing lines from UNE-P to another platform, unless CLECs, state public service commissions or others are successful in blocking part or all of the anticipated actions by the ILECs. TSI currently bills approximately 10,000 lines every month, and we plan to maintain its licensing and customer base while the regulatory battles are waged. However, we do not plan to add any new customers to TSI unless the regulatory environment yields results that are favorable to UNE-P-based CLECs.

We plan to rapidly grow our other CLEC, New Rochelle Telephone Corp. ("NRTC"), which will not be impacted by the regulatory rulings relating to UNE-P. In February 2005, NRTC signed a wholesale advantage services agreement with Verizon, effective on January 1, 2005, that provides NRTC with all the features and functionalities of Verizon's UNE-P service offering, plus certain additional services. While our costs under the wholesale advantage services agreement are somewhat higher than our costs were under UNE-P, the agreement locks in this cost structure for five years and gives us a significant benefit by eliminating any regulatory uncertainty about the future of our CLEC business. NRTC will no longer be impacted by rulings of regulatory bodies relating to UNE-P that might potentially change pricing or availability of network elements to NRTC. The agreement allows us to plan for steady high-margin growth in a business that has been our core business since 1999. At March 1, 2005, NRTC had approximately 17,000 local access lines that it billed under the wholesale advantage services agreement. Pursuant to the agreement, NRTC is required to keep confidential all additional terms and conditions of the agreement.

We also provide local and long distance telephone service on a VoIP platform through our wholly-owned subsidiary, VoX Communications Corp. ("VoX"). Unlike many other CLECs, during the past few years we avoided buying any circuit-switched equipment and instead leased circuit-switched lines from ILECs. We believe packet telephony services represent a significant step in the advancement of telecommunications. Consequently, we have focused our network building efforts on building packet telephony technology and, unlike some other VoIP providers, we have written and own the code to our own software. Ultimately, our goal is to have a wholly-owned telecommunications network that generates revenues and high margins and does not require us to lease facilities from an ILEC. By not being dependent upon an ILEC, we will be able to offer features and services we develop that can be turned on and off almost instantly without requiring an ILEC employee to intervene. We will also lower our cost of services when we route a telephone call over our packet-based network, as we will not be required to pay an ILEC for line rentals or for call origination, transport and termination.

For the foreseeable future, we will continue to lease lines from the ILECs, as we have wholesale agreements with Verizon and Qwest that allow us to lease lines and provide Plain Old Telephone Service ("POTS"). We anticipate that these agreements will allow us to continue to obtain an acceptable gross margin on the POTS services we provide. We plan to attract VoIP-only customers on our packet-switched network and to eventually offer VoIP services to our POTS customers in NRTC and TSI. Although we believe many of our future customers will want VoIP-only services, we are finding that several accounts want VoIP services for the bulk of their telephony needs but still desire to maintain one or two POTS lines. We plan to be able to satisfy the needs of our customers for both VoIP and POTS services by maintaining our CLEC status and by continuously advancing our VoIP product offerings.

Our principal executive offices are located at 75 South Broadway, New York, Suite 302, White Plains, New York 10601, and our telephone number at that address is (914) 682-0214. We also maintain a regional office in Celebration, Florida. We maintain an Internet website at www.elec.net. Information on our website is not part of this prospectus.

About This Offering

This prospectus relates to the resale of up to 4,969,046 shares of common stock, of which 4,365,078 shares are issuable upon the conversion of promissory notes and the payment of the principal amount of, and interest on, these notes to, or the exercise of outstanding warrants by, Laurus Master Fund, Ltd., and 603,918 shares are issuable upon the exercise of outstanding warrants of eLEC Communications Corp. by certain selling shareholders identified in this prospectus. All of the shares, when sold, will be sold by these selling shareholders, including Laurus. The selling shareholders may sell their common

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stock from time to time at prevailing market prices. We will not receive any proceeds from the sale of the shares of common stock by the selling shareholders.

Common Stock Offered..............................	4,969,046 shares
Common Stock Outstanding at February 28, 2005(1)....	16,759,282 shares
Use of Proceeds..................................	We will not receive any of the proceeds from

	the sale of the shares by the selling shareholders, except upon exercise of certain common stock purchase warrants.
OTC Bulletin Board Ticker Symbol..................	ELEC

Selected Financial Information

The selected financial information presented below is derived from and should be read in conjunction with our consolidated financial statements, including notes thereto, appearing elsewhere in this prospectus. See "Financial Statements."

Summary Operating Information

	Fiscal Year Ended November 30, 2004	Fiscal Year Ended November 30, 2003
Net revenues	$ 9,557,600	$ 5,568,004
Loss from operations	$ (642,150)	$ (2,948,352)
Net income	$ 170,253	$ 8,323,211
Net income per common share	$ 01	$ .53
Weighted average number of common shares Outstanding		
Basic	16,254,282	15,771,219
Diluted	16,715,808	15,841,941

Summary Balance Sheet Information

	November 30, 2004
Working capital deficit	$(1,939,147)
Total assets	$ 1,903,802
Total liabilities	$ 3,600,243
Stockholders' deficiency	$(1,696,439)

(1) Does not include (i) 3,174,603 shares that are issuable upon the conversion of outstanding convertible notes, (ii) 4,091,268 shares issuable upon the exercise of outstanding warrants and non-qualified options, or (iii) 1,810,000 shares issuable upon the exercise of outstanding options granted under our 1995 Equity Incentive Plan.

RISK FACTORS

You should carefully consider the risks described below before buying shares in this offering. The risks and uncertainties described below are not the only risks we face. These risks are the ones we consider to be significant to your decision whether to invest in our common stock at this time. We might be wrong. There may be risks that you in particular view differently than we do, and there are other risks and uncertainties that are not presently known to us or that we currently deem immaterial, but that may in fact impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could be seriously harmed, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Relating to Our Business

We have incurred losses since inception of our telephone business and we may be unable to achieve profitability or generate positive cash flow.

We have not generated operating profits since fiscal 1996. While we reported net income of $170,253 and $8,323,211 in fiscal 2004 and 2003, respectively, we reported no income from our telecommunications operations. In fiscal 2004, net income of $170,253 resulted primarily from the gain of approximately $743,000 resulting from a settlement with creditors in the bankruptcy proceedings of a subsidiary. In fiscal 2003, net income of $8,323,211 resulted primarily from the gain on the disposition of a subsidiary and the disposition of property of approximately $11,306,000. In fiscal 2004 and 2003, we generated operating losses of approximately ($642,000) and ($2,948,000), respectively, from our telecommunications operations. We expect to continue to incur operating losses until we develop our telecommunications operations to a level at which it generates sufficient revenues to cover operating expenses.

We have an unproven business model and can give no assurance that our business model and strategy will be successful.

Our business strategy is unproven and we do not know whether our business model and strategy will be successful. We intend to lease virtually all of our telecommunications facilities (such as switches, local loops and other telecommunications equipment) and to focus on selling directly to residential consumers and small businesses. In contrast, many of our competitors own their own facilities or are in the process of building or purchasing such facilities. To be successful, we must convince prospective customers to entrust their telephone service to a company without a long and proven track record. We cannot assure you that our services will be widely accepted. The prices we charge for services and products may be higher than those charged by our competitors. In addition, the prices of communications services and products have fallen historically, and they may continue to fall. We may be required to reduce prices periodically to respond to competition and to generate adequate sales volume. Furthermore, our cost of services increased in fiscal 2005 and we anticipate such costs will continue to rise. The failure to achieve or sustain adequate pricing levels or to achieve or sustain a profitable business would have a material adverse effect on our business, financial condition and results of operations and on the price of our common stock.

We have a need for additional financing.

Due to our recent operating losses and our additional requirements for working capital to establish and grow our business, over the past several months we have sold debt and additional shares of capital stock to fund our working capital needs. We expect that we will continue to sell our capital stock, incur additional indebtedness or sell marketable securities we currently own to fund the anticipated growth of our telecommunications business and implement our business objectives. There can be no

assurance that we will be able to obtain additional funding when needed, or that such funding, if available, will be available on terms we find acceptable. If we cannot obtain additional funds when needed, we may be forced to curtail or cease our activities, which may result in the loss of all or a substantial portion of your investment.

We depend on incumbent carriers as a key component for our business.

To limit our capital expenditures and support staff, we rely extensively on third parties. We lease our local exchange network and our long distance network. As a result, we depend entirely on incumbent carriers for the transmission of customer telephone calls. The risk factors inherent in this approach include, but are not limited to, the following:

- the inability to negotiate and renew favorable wholesale agreements;
- lack of timeliness of the ILEC in processing our orders for customers seeking to utilize our services;
- dependence on the effectiveness of internal and external telemarketing services to attract new customers;
- dependence on third-party contractors to install necessary equipment and wiring at our customers facilities; and
- dependence on a facilities-based carrier to provide our customers with repair services and new installation services.

We depend on a third-party billing system to bill our customers.

The accurate and prompt billing of our customers is essential to our operations and future profitability. We utilize a third-party system for billing, tracking and customer service. The system is designed to provide us with a high degree of flexibility to handle custom rate plans that provide consumers discounts from the incumbent local carriers' rate plans or bundled plans that include various features and long distance services. Although we believe the system is very functional, it is currently set up to support approximately 500,000 local lines in six states, and its ability to handle substantially more customers is not fully tested. In addition, the billing company we utilize competes with us as a CLEC and may terminate its billing services at any time. Furthermore, in the most recent audited financial statements of the billing company we utilize, the report of the independent public accountants expressed doubt about its ability to continue as a going concern. This strategy exposes us to various risks that include, but are not limited to, the following:

- the inability to adapt the billing system to process the number of customers we are targeting in our marketing plans;
- the failure of the system to provide all of the billing services that we require;
- the possibility that we may want to provide services in a state that our billing company has difficulty rating calls and processing data for us; and

- the possibility that we may need to quickly engage a new billing company to process our invoices to our customers, and devote a large amount of internal resources at one time to work on this transition.

Our business is dependent upon our ability to resell long distance services, for which we currently rely on only one third-party carrier.

We offer long distance telephone services as part of our service package. We currently have a wholesale agreement with only one long distance carrier to provide transmission and termination services for all of our long distance traffic. Recently, several long distance carriers have encountered financial difficulties, including the carrier utilized by us. Financial difficulties encountered by our current carrier or any other carrier with which we are negotiating could cause disruption to our operations and loss of customers and revenues.

We could be liable for breaches of security on our web site, fraudulent activities of our users, or the failure of third-party vendors to deliver credit card transaction processing services.

A fundamental requirement for operating a customer-friendly CLEC and an internet-based, worldwide voice service is the secure transmission of confidential information over public networks. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may adversely affect our operating results. The law relating to the liability of providers of online payment services is currently unsettled. We rely on third party providers to process and guarantee payments made by our customers up to certain limits, and we may be unable to prevent our users from fraudulently receiving goods and services. Any costs we incur as a result of fraudulent transactions could harm our business. In addition, the functionality of our current billing system relies on certain third-party vendors delivering services. If these vendors are unable or unwilling to provide services, we will not be able to charge for our services in a timely or scalable fashion.

We may face difficulties managing our anticipated rapid expansion.

We are attempting to grow our business rapidly in terms of the number of services we offer, the number of customers we serve and the regions we serve. In particular, we are expending substantial sums to expand our POTS business and to roll out our VoIP initiative. There can be no assurance that our marketing initiatives will proceed as expected or that they will be successful, particularly in light of the legal and regulatory and competitive uncertainties described elsewhere in this report. Furthermore, there is no assurance that we will successfully manage our efforts to:

- expand, train, manage and retain our employee base;
- expand and improve our customer service and support systems;
- introduce and market new VoIP products and services and new pricing plans in addition to expanding the number of states in which we offer POTS service;
- capitalize on new opportunities in the competitive marketplace; or
- control our expenses.

The strains posed by these new demands are magnified by the emerging nature of our operations. If we cannot manage our growth effectively, our results of operations could be adversely affected.

The failure of our customers to pay their bills on a timely basis could adversely affect our cash flow.

Our target customers consist of residences and small businesses. We anticipate having to bill and collect numerous relatively small customer accounts. We may experience difficulty in collecting amounts due on a timely basis. We have experienced difficulty with residential accounts in the past. Our failure to collect accounts receivable owed to us by our customers on a timely basis could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Acquisitions could divert management's time and attention, dilute the voting power of existing shareholders and have a material adverse effect on our business.

As part of our growth strategy, we may continue to acquire complementary businesses and assets. Acquisitions that we may make in the future could result in the diversion of time and personnel from our business. We also may issue shares of common stock or other securities in connection with acquisitions, which could result in the dilution of the voting power of existing shareholders and could dilute earnings per share. Any acquisitions would be accompanied by other risks commonly encountered in such transactions, including the following:

- difficulties integrating the operations and personnel of acquired companies;
- the additional financial resources required to fund the operations of acquired companies;
- the potential disruption of our business;
- our ability to maximize our financial and strategic position by the incorporation of acquired technology or businesses with our product and service offerings;
- the difficulty of maintaining uniform standards, controls, procedures and policies;
- the potential loss of key employees of acquired companies;
- the impairment of employee and customer relationships as a result of changes in management; and
- significant expenditures to consummate acquisitions.

As a part of our acquisition strategy, we may engage in discussions with various businesses respecting their potential acquisition. In connection with these discussions, we and each potential acquired business may exchange confidential operational and financial information, conduct due diligence inquiries, and consider the structure, terms and conditions of the potential acquisition. In certain cases, the prospective acquired business may agree not to discuss a potential acquisition with any other party for a specific period of time, may grant us certain rights in the event the acquisition is not completed, and may agree to take other actions designed to enhance the possibility of the acquisition. Potential acquisition discussions may take place over a long period of time, may involve difficult business integration and other issues, and may require solutions for numerous family relationship, management succession and related matters. As a result of these and other factors, potential acquisitions that from time to time appear likely to occur may not result in binding legal agreements and may not be consummated. Our acquisition agreements may contain purchase price adjustments, rights of set-off and other remedies in the event that certain unforeseen liabilities or issues arise in connection with an acquisition. These remedies, however, may not be sufficient to compensate us in the event that any unforeseen liabilities or other issues arise.

We need to retain key management personnel and hire additional qualified personnel. We are dependent on the efforts of our executive officers and senior management and on our ability to hire and retain qualified management personnel.

A small number of key management and operating employees and consultants manage our telecommunications business. Our loss of such employees or consultants or their failure to work effectively as a team could materially adversely impact our telecommunications business. Competition for qualified executives in the telecommunications and data communication industries is intense and there are a limited number of persons with applicable experience. We believe that our future success in the telecommunications business significantly depends on our ability to attract and retain highly skilled and qualified telecommunications personnel. We have not entered into employment agreements with any of our senior officers. The loss of any of Paul H. Riss, our Chief Executive Officer, Michael Khalilian, our Chief Technology Officer, or Mark Richards, our Chief Information Officer and the President of our Vox Communications subsidiary, could adversely affect our business.

We may be unable to adapt to rapid technology trends and evolving industry standards.

The communications industry is subject to rapid and significant changes due to technology innovation, evolving industry standards, and frequent new service and product introductions. New services and products based on new technologies or new industry standards expose us to risks of technical or product obsolescence. We will need to use technologies effectively, continue to develop our technical expertise and enhance our existing products and services in a timely manner to compete successfully in this industry. We may not be successful in using new technologies effectively, developing new products or enhancing existing products and services in a timely manner or that any new technologies or enhancements used by us or offered to our customers will achieve market acceptance.

The telecommunications industry is highly regulated and amendments to or repeals of existing regulations or the adoption of new regulations could adversely affect our business, financial condition or results of operations.

Federal, state and local regulation may affect our telecommunications business. Since regulation of the telecommunications industry in general, and the CLEC industry in particular, is frequently changing, we cannot predict whether, when and to what extent new regulations will affect us. The following factors, among others, may adversely affect our business, financial condition and results of operations:

- delays in obtaining required regulatory approvals;
- new court decisions;
- the enactment of new adverse regulations; and
- the establishment of strict regulatory requirements.

The communications services industry is highly competitive and we may be unable to compete effectively.

The communications industry, including Internet and data services, is highly competitive, rapidly evolving and subject to constant technological change and intense marketing by providers with similar products and services. We expect that new competitors are likely to join existing competitors in the communications industry, including the market for VoIP, Internet and data services. Many of our current competitors are significantly larger and have substantially greater market presence as well as greater financial, technical, operational, marketing and other resources and experience than we do. In the event that such a competitor expends significant sales and marketing resources in one or several markets we may not be able to compete successfully in such markets. We believe that competition will continue to increase, placing downward pressure on prices. Such pressure could adversely affect our gross margins if we are not able to reduce our costs commensurate with such price reductions. In addition, the pace of technological change makes it impossible for us to predict whether we will face new competitors using different technologies to provide the same or similar services offered or proposed to be offered by us. If our competitors were to provide better and more cost effective services than ours, our business initiatives could be materially and adversely affected.

Industry consolidation could make it more difficult to compete.

Companies offering Internet, data and communications services are, in some circumstances, consolidating. We may not be able to compete successfully with businesses that have combined, or will combine, to produce companies with substantially greater financial, sales and marketing resources, larger client bases, extended networks and infra-structures and more established relationships with vendors, distributors and partners than we have. With these heightened competitive pressures, there is a risk that our financial performance could be adversely impacted and the value of our common stock could decline.

Risks Relating to Our Proposed VoIP Business

Part of our long-term strategy in building a profitable telephone company includes the marketing of our technology for VoIP-based telephony applications through our wholly-owned subsidiary, VoX. VoIP is a new technology that involves many unique risks, including those set forth below.

The VoIP telephony market is subject to rapid technological change and we depend on new product introductions in order to grow our VoIP business.

VoIP telephony is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we must continue to design, develop and sell new and enhanced VoIP telephony software products and services that provide increasingly higher levels of performance and reliability at lower cost. These new and enhanced products must take advantage of technological advancements and changes, and respond to new customer requirements. Our success in designing, developing and selling such products and services will depend on a variety of factors, including:

- the identification of market demand for new products;
- the scalability of our VoIP telephony software products;

- product and feature selection;

- timely implementation of product design and development;
- product performance;
- cost-effectiveness of products under development;
- effective manufacturing processes; and
- success of promotional efforts.

Additionally, we may also be required to collaborate with third parties to develop our products and may not be able to do so on a timely and cost-effective basis, if at all. We have in the past experienced delays in the development of new products and the enhancement of existing products, and such delays will likely occur in the future. If we are unable, due to resource constraints or technological or other reasons, to develop and introduce new or enhanced products in a timely manner, if such new or enhanced products do not achieve sufficient market acceptance, or if such new product introductions decrease demand for existing products, our operating results would decline and our business would not grow.

Future legislation or regulation of the Internet and/or VoIP services could restrict our business, prevent us from offering service or increase our cost of doing business.

At present there are few laws, regulations or rulings that specifically address access to or commerce on the Internet, including Internet Protocol ("IP") telephony. We are unable to predict the impact, if any, that future legislation, legal decisions or regulations concerning the Internet may have on our business, financial condition or results of operations. Regulation may be targeted toward, among other things, assessing access or settlement charges, imposing taxes related to internet communications, imposing tariffs or regulations based on encryption concerns or the characteristics and quality of products and services, imposing regulations and requirements related to the handling of emergency 911 services, any of which could restrict our business or increase our cost of doing business. The increasing growth of the broadband IP telephony market and popularity of broadband IP telephony products and services heighten the risk that governments or other legislative bodies will seek to regulate broadband IP telephony and the Internet. In addition, large, established telecommunication companies may devote substantial lobbying efforts to influence the regulation of the broadband IP telephony market, which may be contrary to our interests.

Many regulatory actions are underway or are being contemplated by federal and state authorities, including the FCC and other state regulatory agencies. There is risk that a regulatory agency requires us to conform to rules that are unsuitable for VoIP communications technologies or rules that cannot be complied with due to the nature and efficiencies of IP routing, or are unnecessary or unreasonable in light of the manner in which we offer service to our customers. It is not possible to separate the Internet, or any service offered over it, into intrastate and interstate components. While suitable alternatives may be developed in the future, the current IP network does not enable us to identify the geographic nature of the traffic traversing the Internet. There is also risk that specific E911 requirements imposed by a regulatory agency may impede our ability to offer service in a manner that conforms to these requirements. While we are developing technologies that seek to provide access to emergency services in conjunction with our IP communications offerings, the existing requirements, which are tethered to and dependent upon the legacy PSTN network, neither work in an IP environment nor take advantage of the significantly enhanced capabilities of the IP network.

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There are several different types of risks associated with trying to route emergency phone calls over a VoIP system. For example, on March 22, 2005, the Attorney General of the State of Texas commenced an action against Internet telephony provider Vonage Holdings Corp., charging that Vonage was not clear to its customers about deficiencies in VoIP E911 services. Since Vonage is not able to route emergency calls in a traditional manner, calls are sent to administrative offices rather than emergency dispatch centers. Although Vonage provides references on its web sites to the specific limitations with its 911 services, and mailed materials to its customers, the Attorney General of Texas alleges that Vonage does not "clearly disclose the lack of traditional 911 service" nor adequately disclose that customers are required to sign up for the 911 emergency service, which they do not automatically receive.

The success of our planned expansion is dependent upon market developments and usage patterns.

Our purchase of network equipment and placement of our VoIP software will be based in part on our expectations concerning future revenue growth and market developments. As we expand our network, we will be required to make capital expenditures, in addition to making financial commitments for DS-3 circuits and colocation space, and to add additional employees. If our traffic volume were to decrease, or fail to increase to the extent expected or necessary to make efficient use of our network, our costs as a percentage of revenues would increase significantly, which would have a materially adverse effect on our financial condition and results of operations.

Potential regulation of Internet service providers could adversely affect our operations.

To date, the FCC has treated Internet service providers as information service providers. Information service providers are currently exempt from federal and state regulations governing common carriers, including the obligation to pay access charges and contribute to the universal service fund. The FCC is currently examining the status of Internet service providers and the services they provide. If the FCC were to determine that Internet service providers, or the services they provide, are subject to FCC regulation, including the payment of access charges and contribution to the universal service funds, it could have a material adverse effect on our business, financial condition and operating results.

There may be risks associated with the lack of 911 emergency dialing or the limitations associated with E911 emergency dialing with our VoIP service.

We plan to offer E911 service as an option to our customers who choose telephone numbers in markets in which E911 service is available (our E911 service will only available in a subset of the markets in which we provide telephone numbers). We primarily market our VoIP service to our residential customers as a secondary line service, not a primary line service. We do not encourage our residential customers to use our VoIP product as their only telephone service, unless they are fully aware of the E911 issues and are willing to acknowledge that we currently do not provide E911 services over a VoIP line.

To date, the FCC has not classified any interstate VoIP telephony service provider as a "telecommunications carrier," preferring instead to permit the nascent industry to grow. Under current federal law, providers of "information services" do not incur obligations to participate in 911 and E911 emergency calling systems. However, there is no guarantee that the FCC's interpretations and the relevant federal law will not change in a manner that may increase our cost of doing business or otherwise adversely affect our ability to deliver our service to consumers in all geographic regions. We cannot guarantee that 911 service will be available to all of our subscribers, or to subscribers outside of the United States. We are also developing ways to directly connect IP calls to emergency services, but there is no guarantee that these new technologies will work or that regulatory authorities will find these new methods acceptable for emergency service provisioning or the handling of emergency call traffic.

Our success depends on our ability to handle a large number of simultaneous calls, which our network may not be able to accommodate.

We expect the volume of simultaneous calls to increase significantly as our VoIP subscriber base grows. Our network hardware and software may not be able to accommodate this additional volume. If we fail to maintain an appropriate level of operating performance, or if our VoIP service is disrupted, our reputation could be hurt and we could lose customers, which could have a material adverse effect on our business, financial condition and results of operations.

Our growth in our VoIP business is dependent upon our ability to build new relationships with VoIP carriers and to bring on new customers.

Our ability to grow through quick and cost effective deployment of our VoIP services is due, in part, to our ability to create new interconnection agreements with VoIP carriers that can provide us with telephone numbers and termination service to sign contracts with new customers, and, in many cases, to enter into joint venture or strategic agreements with local partners, as well as to satisfy newly enacted regulatory requirements to operate in emerging markets. While we pursue several opportunities simultaneously, we might not be able to create the necessary partnerships and interconnections, expand our customer base, deploy networks and generate profitable traffic over these networks within the time frame envisioned.

We are pursuing new business lines, which require specialized skill sets. Our ability to effectuate our business plan is due, in part, to the roll out of new services, including PC-to-IP Phone, IP Phone-to-IP Phone and IP Phone-to-POTS-Phone.

Our ability to deploy new products and services may be hampered by technical and operational issues which could delay our ability to derive profitable revenue from these service offerings. These issues include our ability to competitively price such products and services. In addition, certain VoIP service offerings are relatively new in our industry and the market potential is relatively untested. Additionally, our ability to market these products and service offerings may prove more difficult. To date, we have not significantly focused on selling VoIP services and thus have derived extremely limited revenue from this offering, and there can be no assurance that we will increase our current focus and/or derive significant revenue from this offering.

We rely on third party equipment suppliers.

We are dependent on third party equipment suppliers for equipment, VoIP phones and adapter devices, including UTStarcom Inc., Cisco Systems, Inc. and Motorola, Inc. If these suppliers fail to continue product development and research and development or fail to deliver quality products or support services on a timely basis, or we are unable to develop alternative sources, if and as required, it could result in a materially adverse impact on our financial condition or results of operations.

Risks Relating to Our Common Stock

Disappointing quarterly revenue or operating results could cause the price of our common stock to fall.

Our quarterly revenue and operating results are difficult to predict and may fluctuate significantly from quarter to quarter. If our quarterly revenue or operating results fall below the expectations of investors or security analysts, the price of our common stock could fall substantially. Our quarterly

revenue and operating results may fluctuate as a result of a variety of factors, many of which are outside our control, including:

- the amount and timing of expenditures relating to the rollout of our POTS and VoIP service offerings;
- our ability to obtain, and the timing of, necessary regulatory approvals;
- the rate at which we are able to attract customers within our target markets and our ability to retain these customers at sufficient aggregate revenue levels;
- our ability to deploy our network on a timely basis;
- the availability of financing to continue our expansion;
- technical difficulties or network downtime;
- the availability of incumbent carrier's wholesale service program for the establishment of our own full-service platform and timing of the implementation of our VoIP platform; and
- the introduction of new services or technologies by our competitors and resulting pressures on the pricing of our service.

We do not intend to pay dividends on our common stock in the foreseeable future, which could cause the market price of our common stock and the value of your investment to decline.

We expect to retain earnings, if any, to finance the expansion and development of our business. Our Board of Directors will decide whether to make future cash dividend payments. Such decision will depend on, among other things, the following factors:

- our earnings;
- our capital requirements;
- our operating condition;

- our financial condition; and
- our compliance with various financing covenants to which we are or may become a party.

The market for our common stock is thinly traded, which could result in fluctuations in the value of our common stock.

Although there is a public market for our common stock, the market for our common stock is thinly traded. The trading prices of our common stock could be subject to wide fluctuations in response to, among other events and factors, the following:

- variations in our operating results;
- sales of a large number of shares by our existing shareholders;
- announcements by us or others;
- developments affecting us or our competitors; and
- extreme price and volume fluctuations in the stock market.

Our common stock price is likely to be highly volatile, which could cause the value of your investment to decline.

The market price of our common stock is likely to be highly volatile as the stock market in general, and the market for small cap and micro cap technology companies in particular, has been highly volatile. For example, during the last 12 months our common stock has traded at prices ranging from $0.14 to $0.74 per share. Investors may not be able to resell their shares of our common stock following periods of volatility because of the market's adverse reaction to volatility. We cannot assure you that our common stock will trade at the same levels of our stocks in our industry or that our industry stocks in general will sustain their current market prices. Factors that could cause such volatility may include, among other things:

- actual or anticipated fluctuations in our quarterly operating results;
- large purchases or sales or our common stock;
- announcements of technological innovations;
- changes in financial estimates by securities analysts;
- investor perception of our business prospects;
- conditions or trends in the telecommunications industry;
- changes in the market valuations of other industry-related companies;
- the acceptance of market makers and institutional investors of our business model and our common stock; and
- worldwide economic or financial conditions.

Effect of certain charter provisions.

Authority of Board of Directors to Issue Preferred Stock. Pursuant to the terms of our charter, our Board of Directors has the authority to issue up to 1,000,000 shares of preferred stock in one or more series. Our Board of Directors may also determine the prices, rights, preferences, privileges and restrictions, including voting rights, of the shares within each series without any further shareholder vote

or action. The rights of the holders of our preferred stock may adversely affect the rights of the holders of common stock. While the issuance of such preferred stock could facilitate possible acquisitions and other corporate activities, it could also impede a third party's ability to acquire control of our company.

Limitation of Liability of Directors. Pursuant to the terms of our charter and to the extent New York law permits, we and our shareholders may not hold our directors personally liable for monetary damages in the event of a breach of fiduciary duty.

Provisions of New York law may discourage a takeover attempt even if doing so may be beneficial to our shareholders.

Certain anti-takeover provisions of New York law could delay or hinder a change of control of our company. While such provisions generally facilitate our Board of Directors' ability to maximize shareholder value, they may discourage takeovers that could be in the best interest of certain shareholders. Such provisions could adversely affect the market value of our stock in the future.

We are exposed to potential risks from recent legislation requiring companies to evaluate internal controls under Section 404 of the Sarbanes Oxley Act of 2002.

We are evaluating and documenting our internal controls systems so that when we are required to do so, our management will be able to report on, and our independent auditors to attest to, our internal controls, as required by this legislation. We will be performing the system and process evaluation and testing (and any necessary remediation) required in an effort to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes Oxley Act. As a result, we expect to incur additional expenses and diversion of management's time. In March 2005, we were advised by our independent auditors that we have a material weakness in our internal controls because of a deficiency in the number of qualified personnel in our accounting department. While we anticipate being able to rectify this weakness and to fully implement the requirements relating to internal controls and all other aspects of Section 404 in a timely fashion, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we might be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission. Any such action could adversely affect our financial results and could cause our stock price to decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business," and elsewhere in this prospectus constitute forward-looking statements. These statements involve risks known to us, significant uncertainties, and other factors which may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by those forward-looking statements.

You can identify forward-looking statements by the use of the words "may," "will," "should," "could," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "proposed," or "continue" or the negative of those terms. These statements are only predictions. In evaluating these statements, you should specifically consider various factors, including the risks outlined above. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the exceptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the shares of our common stock by the selling shareholders.

We will receive proceeds of up to a maximum of $650,793 upon the due exercise, if any, of the seven-year warrants granted by us exercisable for an aggregate of 793,650 shares of common stock. We will receive proceeds up to a maximum of $656,250 upon the due exercise, if any, of the five-year warrants granted by us exercisable for an aggregate of 350,000 shares of common stock. We will receive proceeds of up to a maximum of $160,000 upon the due exercise, if any, of the four-year warrants granted by us exercisable for an aggregate of 253,968 shares of common stock. We intend to use any such proceeds for working capital and general corporate purposes.

Further, to the extent that any of our obligations under our credit facilities with Laurus are converted into, or paid in the form of, shares of our common stock, we will be relieved of such obligations to the extent of such conversion or payment.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

Market for Common Stock

Our common stock is traded on the OTC Bulletin Board under the symbol "ELEC."

The following table contains information about the range of high and low bid prices for our common stock for each full quarterly period in our last two fiscal years and for the first fiscal quarter of 2005, based upon reports of transactions on the OTC Bulletin Board.

	High	Low
Fiscal 2003		
1st Quarter	$0.08	$0.04
2nd Quarter	0.16	0.05
3rd Quarter	0.14	0.08
4th Quarter	0.21	0.08
Fiscal 2004		

1st Quarter	$0.25	$0.13
2nd Quarter	0.26	0.14
3rd Quarter	0.36	0.14
4th Quarter	0.40	0.21
Fiscal 2005		

1st Quarter	$0.74	$0.28
2nd Quarter (through March 24)	$0.69	$0.50

The source of these high and low prices was the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not represent actual transactions. The high and low prices listed have been rounded up to the next highest two decimal places.

The market price of our common stock is subject to significant fluctuations in response to variations in our quarterly operating results, general trends in the market for the products we distribute, and other factors, over many of which we have little or no control. In addition, board market fluctuations, as well as general economic, business and political conditions, may adversely affect the market for our common stock, regardless of our actual or projected performance. On March 24, 2005, the closing bid price of our common stock as reported by the OTC Bulletin Board was $0.50 per share.

Holders

As of March 24, 2005, there were 228 holders of record of our common stock and approximately 4,000 beneficial holders.

Dividend Policy

We have never paid dividends on our common stock and do not expected to do so in the foreseeable future. Our loan agreement with Laurus Master Funds, Ltd. ("Laurus") does not allow us to directly or indirectly declare or pay any dividends so long as our secured convertible term note to Laurus remains outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

When used in this discussion, the words "believes", "anticipates", "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected.

Our business and results of operations are affected by a wide variety of factors, including those we discuss under the caption "Risk Factors" and elsewhere in this prospectus, that could materially and adversely affect us and our actual results. As a result of these and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect our business, financial condition, operating results and stock price.

Any forward-looking statements herein speak only as of the date hereof. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Business Outlook

Our financial condition was significantly improved in February 2005, when we sold to Laurus our fixed rate convertible term note in the principal amount of $2,000,000 and entered into a wholesale services agreement with Verizon. The promissory note issued to Laurus has a three-year term, is payable in thirty-three equal monthly principal installments of $60,606, plus monthly interest at the rate of prime plus 3% per annum, beginning on May 1, 2005, and is convertible into shares of our common stock at a conversion price of $0.63 per share, subject to adjustment. As a result of these two transactions, we now have cash balances that we can use for new customer acquisitions, and a five-year agreement that will allow us to continue our core business regardless of whether the FCC or state public service commissions rule in favor of or against UNE-P.

Our primary methods of obtaining new customer accounts will continue to be through telemarketing and outside sales agents. We believe these are effective low-cost methods of building new accounts, and our past history with these customer acquisition methods is helpful in planning and budgeting our operations on a going-forward basis. While we believe our cash balances are adequate for continued growth, our cash balances may not be sufficient to generate the growth we desire for our VoIP subsidiary. We plan to reassess our cash requirements for VoIP on a regular basis as we begin adding customers to our platform.

We expect to have controlled capital expenditures for our VoIP products during the next 12 months. The amount expended will depend on demand for our products. If we experience higher demand and strong sales growth, we will require additional equipment expenditures. We believe we will be able to make such expenditures as we grow our business so that the utilization percentages of our network equipment will remain high. We do not see a need to purchase network assets that may remain idle or underutilized.

The following discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported

amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Results of Operations

Fiscal Year 2004 Compared to Fiscal Year 2003

Our revenues for fiscal 2004 increased by approximately $3,990,000, or approximately 72%, to approximately $9,558,000 as compared to approximately $5,568,000 reported for fiscal 2003. The growth in revenues is directly related to the growth in our customer base or number of local access lines that we served. We ended fiscal 2004 with 24,034 billed lines, as compared to 10,835 billed lines at November 30, 2003. Although the line count increased by 13,199 lines, or 122%, in fiscal 2004, due to insufficient cash flow to support our telemarketing costs in the first half of fiscal 2004, most of the increase came in the second half of our fiscal year. Therefore, annual revenues did not increase by the same percentage as the percentage increase in our line count. We anticipate that, by utilizing the majority of the net proceeds we received from the Laurus financing we completed in February 2005 for marketing purposes to attract new customers, we will be able to continue to grow our line count by more than 100% in fiscal 2005. Several large CLECs that sell in New Jersey, New York and Pennsylvania have indicated to the public that they are decreasing or discontinuing their selling efforts to new customers because of the TRO Remand Order. We anticipate that the reduced competition in these states will be a factor that will help us to retain our current selling prices in those states, which currently average monthly revenues of approximately $50 per line. We also believe the decrease in the number of competitors may make our selling efforts somewhat easier than we have experienced in the past.

Our gross profit for fiscal 2004 increased by approximately $2,018,000 to approximately $4,820,000 from approximately $2,802,000 reported in fiscal 2003, while our gross profit percentage of 50.4% in fiscal 2004 as compared to 50.3% in fiscal 2003 essentially remained the same from fiscal period to fiscal period. The increase in our dollars of gross profit resulted from the increase in our customer base in fiscal 2004 over fiscal 2003. Our gross profit percentage of approximately 50.4% reflects our sales strategy to sell only in those states in which we believe we will be able to achieve a gross margin of over 40%. Our selling strategy in fiscal 2005 is to continue to sell in states that offer the opportunity to achieve higher margins. However, we do not anticipate achieving a 50% gross margin in fiscal 2005 because our cost of services are higher under our wholesale services agreement with Verizon than we previously experienced while operating under UNE-P. We have passed on this increase in cost to new customers beginning on October 1, 2004, but we have not raised our prices to our existing customers and do not intend to do so in the near future. During fiscal 2005, we also plan to begin selling in localities serviced by Qwest. Although we will begin selling in areas in which we believe we can achieve a gross margin greater than 40%, we do not believe we will achieve gross margins of 50%. In addition, we plan to sell VoIP services nationwide in fiscal 2005. The margins for such services will be dependent on the cost structures we negotiate with carriers for wholesale services or to terminate calls made by our VoIP customers to a traditional landline telephone. Gross margins may also be impacted by product mix in 2005. If we have success in selling our VoIP to wholesale VoIP customers, our gross margins will be lower than if we only sell directly to individual end-users.

Selling, general and administrative expenses ("SG&A") decreased by approximately $215,000, or approximately 3.8%, to approximately $5,447,000 for fiscal 2004 from approximately $5,662,000 reported in the prior year fiscal period. Although we grew our revenues significantly in fiscal 2004, we were able to limit our SG&A. Our occupancy costs were substantially lower in fiscal 2004, as we

incurred rental expense of approximately $6,000 per month under our existing headquarters lease as compared to the occupancy costs of approximately $22,000 per month we incurred in operating our former headquarters building, which we sold in the fourth quarter of fiscal 2003. We believe there are no additional areas in which we can materially reduce our SG&A going forward, and we anticipate our SG&A will increase significantly in fiscal 2005 as we add new customers. We pay outside sales agencies approximately $45 a line for each new local access line they bring to us, and we pay independent verification companies approximately $3 a line for a recorded letter of agency from each new customer. We anticipate new line acquisition costs will increase from approximately $385,000 a quarter in fiscal 2004 to up to one million dollars a quarter in fiscal 2005 as we attempt to rapidly increase our customer base.

Depreciation expense decreased by approximately $74,000, to approximately $14,000 for fiscal 2004 as compared to approximately $88,000 for fiscal 2003. The decline in depreciation expense was primarily attributable to the sale of our headquarters building in the fourth quarter of fiscal 2003 and to the sale of certain assets to EAC in the first quarter of fiscal 2003.

Interest expense decreased by approximately $172,000, to approximately $3,000 for fiscal 2004 as compared to approximately $175,000 for fiscal 2003. The decrease in interest expense was primarily attributable to the repayment of a mortgage note in conjunction with the sale of our headquarters building in the fourth quarter of fiscal 2003. We anticipate interest expense for fiscal 2005 will increase due to the interest that we project we will pay on the debt that we have incurred in 2005.

Other income, net for fiscal 2004 was approximately $46,000 as compared to approximately $164,000 for fiscal 2003. The income for fiscal 2004 resulted primarily from commission income of approximately $88,000, which was partially offset by charges for environmental costs of approximately $45,000 directly related to the sale of our headquarters building in the fourth quarter of fiscal 2003. The income for fiscal 2003 resulted primarily from rental and commission income of approximately $210,000, which was partially offset by the write-down of our investment in Cordia Corporation of approximately $71,000.

In fiscal 2004, we reported income of approximately $904,000 from debt reduction related to the TSI bankruptcy. No such income was reported in fiscal 2003. Bankruptcy reorganization costs for fiscal years 2004 and 2003 of approximately $161,000 and $70,000, respectively, represented legal cost associated with the TSI bankruptcy.

In fiscal 2003, we sold assets of our former subsidiary, Essex Communications, Inc. ("Essex"), Essex stock and our headquarters building. The sales netted a gain of approximately $11,306,000. We had no such asset sales in fiscal 2004.

In fiscal 2004, gain on the sale of investment securities and other investments of approximately $1,000, resulted from the sale of Cordia Corporation ("Cordia") shares as compared to the gain of approximately $122,000 in fiscal 2003, which resulted from the sale of shares of Cordia and Talk America Holdings Inc. ("Talk").

In fiscal 2004, we recorded a net tax benefit of approximately $48,000 offset by a current year provision of $22,000, which resulted from the reduction of an estimated accrual of corporate tax expense for fiscal 2003. In fiscal, 2003, we recorded estimated corporate tax expense of approximately $75,000.

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Liquidity and Capital Resources

At November 30, 2004, we had cash and cash equivalents of approximately $372,000 and negative working capital of approximately $1,939,000 as compared to cash and cash equivalents of approximately $669,000 and negative working capital of approximately $1,938,000 at November 30, 2003. On February 8, 2005, we received net proceeds of $1,744,500 from the sale of a $2 million secured convertible term note.

Net cash used in operating activities aggregated approximately $80,000 and $1,636,000 in fiscal 2004 and 2003, respectively. The principal use of cash from operating activities in fiscal 2004 was the increase in accounts receivable of approximately $1,590,000, which was offset by a non-cash item, an increase in the provision for doubtful accounts of approximately $1,049,000. The principal use of cash from operating activities in fiscal 2003 was net income of approximately $8,323,000, which was offset by non-cash gains on the sale of the Essex assets and subsidiary of approximately $10,825,000.

Net cash (used in) provided by investing activities aggregated approximately ($186,000) and $2,529,000 in fiscal 2004 and 2003, respectively. The principal use of cash from financing activities in fiscal 2004 was the purchase of property and equipment of approximately $182,000. The principal source of cash from investing activities was the net proceeds of $2,100,000 received from the sale of our corporate headquarters building.

Net cash used in financing activities aggregated approximately $31,000 and $1,163,000 in fiscal 2004 and 2003, respectively. In fiscal 2004, net cash used in financing activities resulted from the repayment of debt. In fiscal 2003, net cash used in financing activities resulted principally from the repayment of the mortgage note payable in respect of our former headquarters building of $1,100,000.

In fiscal 2004, we spent approximately $180,000 on capital expenditures, primarily for software related to our VoIP initiative. We intend to spend a similar amount for software enhancements in fiscal 2005. We believe we will also make capital expenditures for our VoIP platform and that capital additions will be flexible depending upon the number of customers that we are able to attract to our network

We have stock purchase warrants that entitle us to purchase approximately 95,000 shares of Talk. The warrant exercise price is $6.30 per share and, at March 24, 2005, our warrants were not in-the-money, as Talk common stock was trading at approximately $6.12 per share at such date.

We have reported profits in the last two fiscal years, but we have also sustained net losses from operations during this time period, as we have worked to build our customer base since the sale of almost all of our customers on December 31, 2002. Our operating losses have been funded through the sale of non-operating assets, the issuance of equity securities and borrowings. We believe that current cash and cash equivalents will be sufficient to finance our operations through at least the next twelve months. However, we continually evaluate our cash needs and growth opportunities and we anticipate seeking additional equity or debt financing in order to achieve our overall business objectives. There can be no assurance that such financing will be available, or, if available, at a price that would be acceptable to us. Failure to generate sufficient revenues, raise additional capital or reduce certain discretionary spending could have an adverse impact on our ability to achieve our longer-term business objectives.

BUSINESS

Overview

eLEC Communications Corp. is a telecommunications service holding company with operations in three wholly-owned subsidiaries that focus on delivering integrated telephone service by leasing landlines as a competitive local exchange carrier ("CLEC") and by utilizing high-speed Internet connections to provide Voice over Internet Protocol ("VoIP") services. We offer small businesses and residential consumers an integrated set of telecommunications products and services, including local exchange, local access, domestic and international long distance telephone, VoIP and a full suite of features and calling plans.

Almost all of the local telephone calls made by our customers in fiscal 2004 were routed over a circuit-switched network that we lease from Verizon Services Corp. ("Verizon"). Although we plan to increase the number of local access lines that we route over the Verizon network during fiscal 2005, we also plan to use other networks by offering local exchange services on the Qwest Corporation ("Qwest") network in some of the 14 states in which Qwest is the incumbent local exchange carrier ("ILEC") and by offering VoIP services on an Internet network over which our customers will make telephone calls through a high-speed Internet connection. When we route a telephone call by our customers over an Internet network, a carrier other than Verizon or Qwest will terminate the call for us into the public switched telephone network ("PSTN"). We also are able to terminate some calls ourselves that are made by our customers, in which cases we do not incur any marginal costs for such calls.

Until December 31, 2004, both of our CLEC subsidiaries leased lines from Verizon, using the unbundled network elements platform ("UNE-P") service offering. UNE-P allows us to lease the network elements we need, such as the local line and the port on a local switch, so that we can provide local dial tone service to our customers. We can provide virtually all of the additional voice services provided by the ILECs, such as three-way calling, call waiting, call forwarding and caller ID. We sell our services at a fee that is at least 10% and as much as 25% less than the published rate charged by the ILEC. We also offer a bundled package of local and regional calling minutes with popular voice service features.

We plan to continue using the UNE-P service offering for one of our CLEC subsidiaries, Telecarrier Services Inc. ("TSI"). UNE-P, however, has been the subject of various court battles between the CLECs and ILECs that may bring an end to UNE-P services. Based upon the Order on Remand in WC Docket No. 04-313 and CC Docket No. 01-338, released on February 4, 2005 (the "TRO Remand Order") by the Federal Communications Commission ("FCC"), Verizon has sent us notice that CLECs operating under UNE-P may not submit orders for completion on or after March 11, 2005. In addition, Verizon has notified us that if TSI has not made arrangements for UNE-P replacement services, TSI's embedded base of customers shall be subject to transitional rate increases established in the TRO Remand Order. Thereafter, TSI will have one year to transfer existing lines from UNE-P to another platform, unless CLECs, state public service commissions or others are successful in blocking part or all of the anticipated actions by the ILECs. TSI currently bills approximately 10,000 lines every month, and we plan to maintain its licensing and customer base while the regulatory battles are waged. However, we do not plan to add any new customers to TSI unless the regulatory environment yields results that are favorable to UNE-P-based CLECs.

We plan to rapidly grow our other CLEC, New Rochelle Telephone Corp. ("NRTC"), which will not be impacted by the regulatory rulings relating to UNE-P. In February 2005, NRTC signed a wholesale advantage services agreement with Verizon, effective on January 1, 2005, that provides NRTC with all the features and functionalities of Verizon's UNE-P service offering, plus certain additional services. While our costs under the wholesale advantage services agreement are somewhat higher than our costs were under UNE-P, the agreement locks in this cost structure for five years and gives us a significant benefit by eliminating any regulatory uncertainty about the future of our CLEC business. NRTC will no longer be impacted by rulings of regulatory bodies relating to UNE-P that might potentially change pricing or availability of network elements to NRTC. The agreement allows us to plan for steady high-margin growth in a business that has been our core business since 1999. At March 1, 2005, NRTC had approximately 17,000 local access lines that it billed under the wholesale advantage services agreement. Pursuant to the agreement, NRTC is required to keep confidential all additional terms and conditions of the agreement.

We also provide local and long distance telephone service on a VoIP platform through our wholly-owned subsidiary, VoX Communications Corp. ("VoX"). Unlike many other CLECs, during the past few years we avoided buying any circuit-switched equipment and instead leased circuit-switched lines from ILECs. We believe packet telephony services represent a significant step in the advancement of telecommunications. Consequently, we have focused our network building efforts on building packet telephony technology and, unlike some other VoIP providers, we have written and own the code to our own software. Ultimately, our goal is to have a wholly-owned telecommunications network that generates revenues and high margins and does not require us to lease facilities from an ILEC. By not being dependent upon an ILEC, we will be able to offer features and services we develop that can be turned on and off almost instantly without requiring an ILEC employee to intervene. We will also lower our cost of services when we route a telephone call over our packet-based network, as we will not be required to pay an ILEC for line rentals or for call origination, transport and termination.

For the foreseeable future, we will continue to lease lines from the ILECs, as we have wholesale agreements with Verizon and Qwest that allow us to lease lines and provide Plain Old Telephone Service ("POTS"). We anticipate that these agreements will allow us to continue to obtain an acceptable gross margin on the POTS services we provide. We plan to attract VoIP-only customers on our packet-switched network and to eventually offer VoIP services to our POTS customers in NRTC and TSI. Although we believe many of our future customers will want VoIP-only services, we are finding that several accounts want VoIP services for the bulk of their telephony needs but still desire to maintain one or two POTS lines. We plan to be able to satisfy the needs of our customers for both VoIP and POTS services by maintaining our CLEC status and by continuously advancing our VoIP product offerings.

Development of Business

We were incorporated in the State of New York under the name Sirco Products Co. Inc. in 1964 and developed a line of high quality handbags, totes, luggage and sport bags. Between 1995 and 1999, we divested our handbag and luggage operations, which had experienced several years of operating losses.

We commenced operations in the telecommunications industry in fiscal 1998 by acquiring Essex Communications, Inc. ("Essex"), a newly-formed CLEC formed to attract and retain a geographically concentrated customer base in the metropolitan New York region, primarily through the resale of products and services of incumbent and alternative facilities-based local providers.

In January 2000, we acquired TSI, a CLEC that operated in the states of Massachusetts, New Jersey, New York and Rhode Island and provided long distance service in 13 states. Most of TSI's operations were merged into Essex after the acquisition was completed, and we maintained TSI's licenses even though it was an inactive subsidiary. On July 29, 2002, TSI commenced a case under chapter 11 of the Bankruptcy Code. In February 2004, TSI filed a plan of reorganization pursuant to

which the capital stock of a reorganized TSI would be sold by competitive bid and the proceeds from the sale of such stock would be used to make distributions to creditors of TSI. In April 2004, the court accepted our plan to purchase all the stock of a reorganized TSI for a price of $325,000.

In October 2000, we acquired Line One, Inc. ("Line One"), a telemarketing firm with approximately 70 seats. We believe telemarketing is a particularly effective marketing strategy to utilize because of the ubiquitous reach that the UNE-P service offering gives us. Due to our limited financial resources, we decreased the operations of Line One at the beginning of 2003 to 15 seats. At this level of operations, our line acquisition cost became higher than the cost we would pay if we outsourced our telemarketing operation. We consequently discontinued internal telemarketing in June 2003. Line One is now an inactive subsidiary and we outsource all of our telemarketing activities on a successful efforts basis.

On September 3, 2002, we entered into a definitive purchase agreement to sell certain of the assets of Essex to Essex Acquisition Corp. ("EAC"), a wholly-owned subsidiary of BiznessOnline.com, Inc. ("Biz"). The sale to EAC was completed on December 31, 2002. EAC purchased selected assets and assumed certain liabilities in conjunction with this transaction. The remaining shell of Essex was sold to Glad Holdings, LLC on September 11, 2003. As a result of such sale, we recorded a gain of approximately $7,314,000 in the fourth quarter of the fiscal 2003.

In November 2002, we began the operations of NRTC, as a start-up CLEC. Since the intellectual know-how and internal systems we had developed in creating Essex were still owned by us, we were able to rebuild our customer base to a total of approximately 27,000 lines in NRTC and TSI combined, as of February 28, 2005.

On August 4, 2004, we incorporated VoX as our wholly-owned VoIP subsidiary. VoX owns technology that enables voice communications over the Internet through the compression of voice into data packets that are transmitted over data networks and then converted back into voice signals at the other end of a telephone conversation.

On February 8, 2005, we sold a $2,000,000 convertible note and we plan to use a substantial portion of the cash proceeds of approximately $1,744,000 from such sale for line growth in NRTC and VoX.

eLEC's Telecommunications Services

We tailor our service offerings to meet the specific needs of small business and residential customers in our target markets. We primarily market our services through two different distribution channels. We use third-party telemarketers to attract small business and residential accounts (typically less than five telephone lines for each account), and we use agents and direct marketing to attract small business and residential accounts (typically one to 20 lines in size for each account). Based upon feedback received from our customers and analysis of the types of services the entities in each of these groups typically utilize, we tailor a basic telecommunications service package, which can be promptly adjusted to the specific needs of individual customers. To further help our customers manage their accounts, our customers can view our invoices, including unbilled telephone calls in the current month, and make payments to us of their invoices, on a secure customer web site. Customers can also input requests for repair orders, moves, adds and changes via the web site, and check their voice mail. We creatively package our services to provide "one-stop shopping" solutions for our customers, so they can purchase directly from us all of their communications requirements. Listed below are the basic categories of services that we offer:

o Local Exchange Services. We offer local exchange services, starting with local dial tone, plus numerous features, the most common of which are call waiting, call forwarding, caller ID and dial back features. By offering local dial tone, when we utilize the UNE-P service offering, we also receive originating and terminating access charges for interexchange calls placed or received by our subscribers.

o Long Distance. In addition to our local telephone service, we offer long distance services as part of a bundled product to customers through agreements we have with a national long distance carrier. The long distance services include domestic service, such as interLATA, which are calls that pass from one "Local Access and Transport Area" or "LATA" to another LATA, and intraLATA, which are calls that stay within the LATA in which they originated, but are beyond the distance limits of the local calling plan. Our services also include toll-free services (800, 888, 877, 866), calling card and other enhanced services.

o International Calling. While we offer international calling, our typical customer does not place a significant number of international calls. Most telephone companies experience a higher bad debt percentage on international calling than on local services. We believe there are marketing opportunities in those cases in which we can offer low international calling rates to particular countries and simultaneously attract more local telephone customers. To reduce the risk of bad debt exposure, however, we do offer a prepaid international product for customers that want to dial overseas and receive a discounted rate. No pin or account numbers are required as the system recognizes the telephone number from which the call is initiated, including any cell phone number that the customer programs into the system. Calls must originate in the United States and can be made to any destination in the world.

o VoIP Calling. Through our wholly-owned subsidiary, VoX, we offer VoIP services to the small business and residential marketplace. In addition to low prices, our VoIP calling plans offer a variety of features, such as Call Hold, Call Waiting, Caller ID, Call Transfer, Hunt Groups, Do Not Disturb, Call Forward, International Call Blocking, Call Return, Repeat Dialing/Redial, Extension Dialing, Anonymous Call Rejection and email notification of voicemail, all at no additional charge. Add-on features include: Multibox Voicemail, Music on Hold, Corporate Conference calling, Reassign Phone, Find me/Follow me, and Auto Attendant, among others.

Business Strategy

Our objective is to build a profitable telephone company with minimal network costs and a stable and scalable platform. Our strategies to accomplish this objective encompass the proper management of our core CLEC telecommunications services on leased networks and the development and marketing of our own technology for VoIP-based telephony applications.

VoIP is a new technology that is threatening the established circuit-switched businesses of the ILECs. We are looking to be a rapidly-growing second-mover in the VoIP marketplace. We believe the first-movers have helped to validate the technology and create the market, and that some of the initial VoIP providers have exited the market as quickly as they have entered it. Other first-movers have demonstrated rapid market entry and unique product variants as they rush to capture market share.

We believe a normal speed second-mover into a market is often an imitator, and in lieu of innovation, tends to offer lower pricing. We do not intend to be a normal speed or slow speed second-mover into the VoIP market. We plan to be fast, owning and mastering our own technology, adjusting product designs and marketing efforts and doing many things that a first-mover does, all while continuing to run our CLEC business, which is currently our core business. We believe we have the resources and know-how, and the contractual commitments with two ILECs, to continue operating a CLEC business that can generate acceptable gross margins and cash flow for further growth. We plan to continue in this fashion while we develop our VoIP business.

In establishing our VoIP business, we do not plan to compete on price, as we believe we have a stable product, and that there is enough demand for the feature-rich service we can provide so as to allow us to distinguish ourselves from lower-priced VoIP alternatives. Furthermore, a VoIP line offers substantial savings to any customer who is switching from a circuit-switched line. In addition to enjoying a retail price for an unlimited local and national calling plan of approximately $20 less per month than the cost of a POTS line, the VoIP consumer also can save approximately $10 a month in telecom taxes, as VoIP generally is considered data communications and is subject to substantially fewer taxes than a POTS line. If we need to lower our prices in the future to capture market share, we believe that option will be available to us.

We are taking the following actions to grow our CLEC and our VoIP businesses:

o Target Small-Business and Residential Customers for CLEC Services. We focus our CLEC sales efforts for local and long distance services on small business and residential consumers having one to five local access lines in any one location. We have elected to focus on this segment because of our ability to obtain an ample gross margin on the services provided to these customers, and because we can rapidly sell, provision and bill these accounts with electronic feeds from third-party verification companies. We also believe that the ILECs and facilities-based CLECs may be less likely to apply significant resources to obtaining or retaining these smaller customers. We expect to attract and retain these customers through telemarketers and agents, by offering bundled local and long distance services, as well as enhanced telecommunication services, at competitive long distance rates, by responsive customer service and support and by offering new and innovative products.

o Achieve Market Share with Competitive Pricing. We always price our CLEC services at a discount to the same services provided by an ILEC. We can ascertain the prices the ILECs charge by accessing the rates they have filed with the various state public service commissions. Our two largest CLEC competitors have announced they are in the process of being purchased by an ILEC. We anticipate that these purchases may help to eliminate some of our competition as a CLEC.

o Market VoIP Services to ILEC Customers. We believe we are very good at selling POTS lines one at a time. Since February 15, 2005, we have sold on average approximately 300 POTS lines a day, and we generally can provision and bill these lines within approximately three days of the sale. Similarly, we plan to sell VoIP lines one at a time to residential consumers, as there are many advantages in both speed and simplicity when we only have to provision one line per location.

o Offer VoIP on a Wholesale Basis. We believe our VoIP platform is scalable and stable. We designed and built our platform with the intention of carrying more than one

million customers. We plan to allow other entities that want to offer VoIP to an existing customer base to use our platform on a wholesale basis. An independent cable company, for example, may not have the technological expertise to build its own VoIP platform, or may realize that any efforts to do so would take more than a year to accomplish. We plan to attract several wholesale accounts by offering our platform on a private label basis.

o Offer VoIP to Businesses. We also have contracted for an Internet-based PBX solution that we are offering to business customers. Businesses that have multiple locations that call each other continuously should achieve substantial savings from accessing a VoIP platform. One obvious savings from implementing a VoIP platform is that calls from one office to another that are transported entirely on a VoIP platform will have no marginal cost. As a result, we do not charge customers using our VoIP platform for these calls. Typically, a new business customer will need to buy additional telephone equipment to access our VoIP platform. However, the monthly savings on line charges and usage should quickly pay for the equipment investment.

o Utilize our Technological Expertise in VoIP to Add New Products. We have developed a robust VoIP platform that we intend to use to develop further product enhancements. By adding new features and technologically innovative products, we believe we can continue to attract new customers and provide additional incentives for current customers to continue using our services.

Competition in the Telecommunications Industry

The local telecommunications market is a highly competitive environment and is dominated by ILECs. Based upon the geographical locations in which we currently sell services, Verizon is our largest competitor. Verizon has a "win-back" program through which it approaches former customers lost to a CLEC or other competitor in an attempt to have the former customers switch back to its services. Most of our actual and potential competitors have substantially greater financial, technical, marketing and other resources (including brand name recognition) than we do. Furthermore, our established competitors, such as the ILECs, are able to compete effectively because they have long-term existing relationships with their customers, strong name recognition, abundant financial resources, and the ability to cut prices of certain services by subsidizing such services with revenues generated from other products. Although the Telecommunications Act of 1996 reduced barriers to entry into the local market, future regulatory decisions could increase the rates that CLECs must pay ILECs for use of ILEC facilities, which would result in lower margins for CLECs and lessen the ability of CLECs to offer consumers a significant percentage savings on their telephone bill. Our CLEC subsidiary, TSI, may face some of these regulatory challenges. However, our other CLEC subsidiary, NRTC, has commercial agreements with two ILECs and should not be subject to future regulatory decisions involving the prices that ILECs can charge.

In addition to competition from ILECs and other CLECs, several other entities currently offer or are capable of offering local service, such as wireless service providers, long distance carriers, cable television companies and electric utilities. These entities, upon entering into appropriate interconnection agreements or resale agreements with ILECs, can offer single source local and long distance services like those we offer. For example, long distance carriers, such as AT&T, MCI and Sprint Corporation, among other carriers, have each successfully implemented local telecommunications services in major U.S. markets using UNE-P or by reselling the ILECs' services.

The long distance market, in comparison to the local market, has relatively insignificant barriers to entry and has been populated by numerous entities that compete for the same customers by frequently offering promotional incentives and lower rates. We compete with many such companies that do not

offer any service other than long distance, and we compete with established major carriers, such as AT&T and MCI. We believe our bundled package of local services and our attentive customer service department will help us compete in this market. We will also have to maintain high quality and low cost services to compete effectively. In many instances, we must be in a position to reduce our rates to remain competitive. Such reductions could adversely impact our results of operations if we do not also provide other services to our long distance customers.

We also compete with wholesale DSL carriers, including companies such as Covad Communications Group, Inc., that offer DSL services and other data related products. Many DSL carriers have significant strategic equity investors, marketing alliances and product development partners, and have obtained licenses to operate as a CLEC. Additionally, many of these competitors are offering, or may soon offer, VoIP services that may take business away from our CLECs or from VoX. VoIP competitors include the brands AT&T, Lingo, Net2phone, Packet8 and Vonage, as well as several ILECs.

Government Regulation

Local and long distance telecommunications services provided by CLECs are subject to regulation by the FCC and by state regulatory authorities. Among other things, these regulatory authorities impose regulations governing the rates, terms and conditions for interstate and intrastate telecommunications services and require us to file tariffs and obtain approval for intrastate service provided in the states in which we currently market our services. We must obtain and maintain certificates of public convenience and necessity from regulatory authorities in the states in which we operate. We are also required to file and obtain prior regulatory approval for tariffs and intrastate services. In addition, we must update or amend the tariffs and, in some cases, the certificates of public convenience and necessity, when rates are adjusted or new products are added to the local and long distance services we offer. Changes in existing laws and regulations, particularly regulations resulting in increased price competition, may have a significant impact on our business activities and on our future operating results. We are also subject to Federal Trade Commission regulation and other federal and state laws relating to the promotion, advertising and direct marketing of our products and services.

Certain marketing practices, including the means to convert a customer's local or long distance telephone service from one carrier to another, have recently been subject to increased regulatory review of both federal and state authorities. Even though we have implemented procedures to comply with applicable regulations, increased regulatory scrutiny could adversely affect the transitioning of customers and the acquisition of new customer bases. Amendments to existing statutes and regulations, adoption of new statutes and regulations and expansion of our operations into new geographic areas and new services could require us to alter our methods of operation or obtain additional approvals, at costs which could be substantial. There can be no assurance that we will be able to comply with applicable laws, regulations and licensing requirements. Failure to comply with applicable laws, regulations and licensing requirements could result in civil penalties, including substantial fines, as well as possible criminal sanctions.

The use of the Internet and VoIP networks as a way of providing voice services is a relatively recent development. Although the provisioning of such services is currently permitted by United States law and is largely unregulated within the United States, several foreign governments have adopted laws and/or regulations that could restrict or prohibit the provisioning of voice communications services over the Internet. Various regulatory actions are underway or are being contemplated by federal, state and local authorities, including the FCC, state regulatory agencies and local governments. To date, the FCC has treated Internet service providers as information service providers. Information service providers are currently exempt from federal and state regulations governing legacy telecommunication carriers,

including the obligation to pay access charges and contribute to the universal service fund. More aggressive domestic or international regulation of the Internet in general, and Internet telephony providers and services specifically, may materially and adversely affect our business plan, financial condition and future prospects, particularly if increased numbers of governments impose regulations restricting the use and sale of Internet telephony services.

Employees

At March 15, 2005, we employed 46 employees, of whom 40 were employed on a full-time basis and six were employed on a part-time basis. We are not subject to any collective bargaining agreement and we believe our relationship with our employees is good.

Properties

The following table sets forth pertinent facts concerning our office leases at March 15, 2005.

Location	Use	Approximate Square Feet	Annual Rent
75 South Broadway White Plains, NY 10601	Office	4,000	$72,000
118 Celebration Avenue Celebration, FL 34747	Office	2,000	$51,600

The lease for our office space in White Plains, New York is a five-year lease that began on December 1, 2003 and our lease for our office space in Celebration, Florida is a three-year lease that began on February 1, 2005. We believe this space is adequate for our current operating needs. We have no other leased or owned properties.

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MANAGEMENT

Management And Board Of Directors

The following sets forth the name, age and position of each of our directors and executive officers as of March 15, 2005:

Name	Age	Principal Occupation for Past Five Years and Current Public Directorships or Trusteeships
Paul H. Riss	49	Director since 1995; acting Chairman of our Board of Directors since March 2005; our Chief Executive Officer since August 1999 and our Chief Financial Officer and Treasurer since November 1996.
Greg M. Cooper	46	Director since April 2004; partner for more than five years of Cooper, Neiman & Co., CPAs, LLP, certified public accountants; and member of the board of directors of Mid Hudson Cooperative Insurance Company in Montgomery New York, a privately-held insurance company.
Gayle Greer	64	Director since January 2005; Ms. Greer retired in 1998 from Time Warner Entertainment after serving over 20 years in a number of executive positions, including most recently Senior Vice President of Time Warner Cable; co-founder of GS2.Net, a business service provider, and served as its Chairwoman from 1999 to April 2001; co-founder of the National Association of Minorities in Cable and Telecommunications and served as its Chairwoman from 1981 to 1985;director of ING North America Financial Services Company, an insurance and financial services company since 1997.
Michael H. Khalilian	42	Director and Chief Technology Officer since October 2004; director and Chief Technology Officer of eLEC and VoX Communications, Inc., our wholly-owned subsidiary, since October 2004; Chairman of the Board of Directors and President of International Packet Communications Consortium, an industry VoIP forum of which Mr. Khalilian is a founding member, since July 2001; Chief Technology Officer and director of Volo Communications Inc., a wholesale VoIP service provider, from January 2003 to July 2004; Chief Technologist and advisor for the Telecom Business Groups at

		NTT from January 2002 to June 2003; Senior Engineer and Senior Director for the Cable, Communications and Telecom business groups at Time Warner Communications from March 1996 to May 2002.
Mark Richards	45	President of our wholly-owned subsidiary, VoX Communications, Inc., since October 2004; Acting Chief Executive Officer of Epicus Communications Inc., a publicly-held CLEC, from January 2002 to January 2004; Chief Information Officer of Epicus Communications Inc. from 2000 to January 2002.

All directors serve for one year and until their successors are elected and qualified. All officers serve at the pleasure of the Board of Directors. There are no family relationships among any of the officers and directors.

Executive Compensation

The following table sets forth, for the fiscal years indicated, all compensation awarded to, earned by or paid to Mr. Paul H. Riss, our Chief Executive Officer, Mr. Michael H. Khalilian, our Chief Information Officer, and Mr. Mark Richards, the President of Vox Communications, Inc., our wholly-owned subsidiary (collectively, the "Named Executives"). None of our other executive officers received more than $100,000 in compensation during fiscal 2004.

Compensation Table

	Annual Compensation				C
Name and Principal Position	Fiscal Year	Salary($)	Bonus($)	Other Annual Compensation ($)	Opti
Paul H. Riss					
Chief Executive Officer,	2004	$150,000	None	None	10
Chief Financial Officer	2003	150,000	None	None	25
and Treasurer	2002	150,000	None	None	
Michael H. Khalilian(1)	2004	$ 12,000	None	None	90
Chief Technology	2003	None	None	None	
Officer	2002	None	None	None	
Mark Richards(2)	2004	$ 22,569	None	None	1,00
President of Vox	2003	None	None	None	
Communications, Inc.	2002	None	None	None	

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(1) Mr. Khalilian became our Chief Technology Officer in October 2004 and receives an annual salary of $120,000 for such services.

(2) Mr. Richards became the President of our wholly-owned subsidiary, Vox

Communications, Inc., in October 2004 and receives an annual salary of $120,000 for such services.

Stock Option Grants

The following table sets forth individual grants of stock options and stock appreciation rights ("SARs") made during fiscal 2004 to the Named Executives.

Option/SAR Grants In Last Fiscal Year

Name	Number of Securities Underlying Options/SARs Granted(1)	Percent of Total Options/SARs Granted to Employees in Fiscal Year(2)	Exercise or Base Price ($/Share)	Exp
Paul H. Riss...........	100,000	4.6%	$0.18	04
Michael Khalilian......	900,000	41.2%	$0.23	10
Mark Richards..........	1,000,000	45.8%	$0.25	10

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(1) No SARs were granted in fiscal 2004.

(2) In fiscal 2004, we granted options to seven employees, certain members of our board of directors and the former Chairman of our Board of Directors to purchase an aggregate of 2,185,000 shares of our common stock.

Stock Option Exercises

The following table contains information relating to the exercise of our stock options by the Named Executives in fiscal 2004, as well as the number and value of their unexercised options as of November 30, 2004.

Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise (#)	Value Realized($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End(#)(1)		Va In-the-
			Exercisable	Unexercisable	Exercis
Paul H. Riss	--	--	370,000	450,000	$47,
Michael Khalilian	--	--	--	900,000	
Mark Richards	--	--	--	1,000,000	

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(1) The sum of the numbers under the Exercisable and Unexercisable column of this heading represents the Named Executives' total outstanding options to purchase shares of common stock.

(2) The dollar amounts shown under the Exercisable and Unexercisable columns of the heading represent the number of exercisable and unexercisable options, respectively, that were "In-the-Money" on November 30, 2004, multiplied by the difference between the closing price of the common stock on

November 30, 2004, which was $0.29 per share, and the exercise price of the options. For purposes of these calculations, In-the-Money options are those with an exercise price below $0.29 per share.

PRINCIPAL STOCKHOLDERS

The following table sets forth, as of March 15, 2005, the names, addresses and number of shares of our common stock beneficially owned by all persons known to us to be beneficial owners of more than 5% of the outstanding shares of our common stock, and the names and number of shares beneficially owned by all of our directors and all of our executive officers and directors as a group (except as indicated, each beneficial owner listed exercises sole voting power and sole dispositive power over the shares beneficially owned). As of March 15, 2005, we had a total of 16,759,282 shares of common stock outstanding:

Name and Address	Number of Shares Beneficially Owned	Percent of Shares Beneficially Owned
Paul H. Riss eLEC Communications Corp. 75 South Broadway, Suite 302 White Plains, New York 10601 ,	1,470,000(1)	8.5%
Joel Dupre One Dot Source LLC 66 Fort Point Street, 2nd Floor Norwalk, Connecticut 06855	999,668(2)	5.4%
Greg M. Cooper Cooper, Neiman & Co., CPAs, LLP	65,000(3)	