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UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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	:
In re:	:
	:
TELECARRIER SERVICES, INC.,	: Chapter 11
	: Case No. 02-20379 (ASH)
	:
	:
Debtor.	:
	:
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**NOTICE OF (I) APPROVAL OF AMENDED DISCLOSURE STATEMENT OF TELECARRIER SERVICES, INC. ("DEBTOR"), DATED FEBRUARY 18, 2004, UNDER CHAPTER 11 OF THE U.S. BANKRUPTCY CODE; (II) HEARING TO CONSIDER CONFIRMATION OF THE DEBTOR'S AMENDED PLAN OF REORGANIZATION, DATED FEBRUARY 18, 2004; (III) PROCEDURES AND DEADLINE FOR VOTING ON THE PLAN; AND (IV) PROCEDURES AND DEADLINE FOR OBJECTING TO CONFIRMATION OF THE PLAN; AND**

**NOTICE OF (I) AUCTION AND BIDDING PROCEDURES FOR A SALE, PURSUANT TO THE PLAN, OF ONE HUNDRED (100%) PERCENT OF THE STOCK OF THE REORGANIZED DEBTOR; AND (II) HEARING TO APPROVE THE SALE OF ONE HUNDRED (100%) PERCENT OF THE STOCK OF THE REORGANIZED DEBTOR PURSUANT TO THE PLAN**

**PLEASE TAKE NOTICE that:**

**A. APPROVAL OF AMENDED DISCLOSURE STATEMENT, CONFIRMATION HEARING SOLICITATION/VOTING PROCEDURES AND OBJECTION PROCEDURES**

AUS \_\_\_\_\_  
CAF \_\_\_\_\_  
CMP \_\_\_\_\_  
COM \_\_\_\_\_  
CTR \_\_\_\_\_  
ECR \_\_\_\_\_  
GCL \_\_\_\_\_  
OPC \_\_\_\_\_  
MMS \_\_\_\_\_  
SEC \_\_\_\_\_  
OTH \_\_\_\_\_

1. On February 18, 2004, the United States Bankruptcy Court for the Southern District of New York (the "Court") entered an Order (the "Disclosure

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Statement/Bidding Procedures Order”) which, inter alia, (i) approved the Amended Disclosure Statement of Telecarrier Services, Inc. (the “Disclosure Statement”), filed by the Debtor on February 18, 2004, and (ii) authorized the Debtor to solicit votes with regard to the acceptance or rejection of the Plan, annexed to the Disclosure Statement as Appendix “A”.

2. The Disclosure Statement/Bidding Procedures Order also approved, inter alia, the Debtor’s proposed solicitation procedures pursuant to which you are receiving a copy of this Notice (defined in the Disclosure Statement/Bidding Procedures order as the “Confirmation/Sale Hearing Notice”), the Disclosure Statement, the Plan, and certain other materials relating to the solicitation of creditors’ votes to accept or reject the Plan (collectively, a “Solicitation Package”).

3. A hearing to consider the confirmation of the Plan (the “Confirmation/Sale Hearing”) will be held at 10:00 a.m. Eastern Time on April 8, 2004, before the Honorable Adlai S. Hardin, United States Bankruptcy Judge, in the United States Bankruptcy Court for the Southern District of New York, 300 Quarropus Street, White Plains, New York 10601. The Confirmation/Sale Hearing may be continued from time to time without further notice other than the announcement by the Debtor of the adjourned date at the Confirmation/Sale Hearing or any continued hearing, and the Plan may be modified, if necessary, pursuant to section 1127 of the Bankruptcy Code prior to, during, or as a result of the Confirmation Hearing, without further notice to interested parties.

4. Objections, if any, to the confirmation of the Plan or to the Stock Sale must (a) be in writing; (b) set forth the nature of the objector’s claims against or interests in the Debtor’s estates, and the basis for the objection and the specific grounds therefor; (c) comply with the Bankruptcy Rules and the local Bankruptcy Rules and Orders of this Court; (d) be, on or before March 26, 2004, filed with the Clerk of the Bankruptcy Court for the Southern District of New York, 300 Quarropas Street, White Plains, New York 10601, and served so as to be actually received by each of the following parties, all no later than 4:00 p.m. (Eastern Time) on said date: (i) counsel to the Debtor, Jenkins & Gilchrist Parker Chapin LLP, The Chrysler Building, 405 Lexington Avenue, New York, New York, 10174 Attn: Lee W. Stremba, Esq., and (ii) the United States Trustee for the Southern District of New York, 33 Whitehall Street, 21<sup>st</sup> Floor, New York, New York 10004.

5. February 18, 2004, shall be the record date for determining (i) the creditors entitled to receive the Solicitation Packages, and (ii) the creditors entitled to vote to accept or reject the Plan (the “Record Date”). If you hold a claim against the Debtor as of, the Record Date, and are entitled to vote to accept or reject the Plan, you have received with this Notice a ballot form (“Ballot”) and voting instructions appropriate for your claim. For your vote to accept or reject the Plan to be counted, you must complete all required information on the Ballot, execute the Ballot, and return the completed Ballot to the address indicated on the Ballot, so as to be received by 4:00 pm Eastern Time on March 26, 2004. Any failure to follow the voting instructions included with the Ballot may disqualify your Ballot and your vote.

6. Holders of (i) unimpaired claims or interests and (ii) claims or interests with respect to which the treatment afforded such claims under the Plan has been consented to, are neither entitled nor required to vote on the Plan. In addition, any holder of a claim that is the

subject of an objection seeking total disallowance of such claim is not entitled to vote on the Plan and, therefore, did not receive a Ballot in its Solicitation Package. Any holder of a claim that is the subject of an objection to the classification or priority of such claim, or of an objection seeking to disallow the claim amount in part, shall be entitled to vote only in the proposed amount and classification or priority set forth in the objection. If you disagree with the Debtor's classification of, or objection to, your claim, then you must (i) have timely filed a proof of claim by the applicable Bar Date and (ii) serve on the Debtors and file with the Court a motion for an order pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules") (a "Rule 3018(a) Motion") temporarily allowing such claim in a different amount or in a different class for purposes of voting to accept or reject the Plan. All Rule 3018(a) Motions must be filed on or before the tenth (10th) day after the later of (i) service of the Confirmation Hearing Notice and (ii) service of notice of an objection, if any, to such claim. In accordance with Rule 3018 of the Bankruptcy Rules, as to any creditor filing a Rule 3018(a) Motion, such creditor's Ballot will not be counted unless temporarily allowed by the Court for voting purposes, after notice and a hearing. Rule 3018(a) Motions that are not timely filed and served in the manner as set forth above shall not be considered.

7. Any holder of a claim that is scheduled in the Debtor's schedules of assets and liabilities heretofore filed with the Clerk of the Court (the "Schedules") at zero or in an unknown amount or as disputed, contingent, or unliquidated, and is not the subject of a timely filed proof of claim or a proof of claim deemed timely filed with the Court pursuant to either the Bankruptcy Code or any order of the Bankruptcy Court or otherwise deemed timely filed under applicable law, or (ii) is not scheduled and is not the subject of a timely filed proof of claim or a proof of claim deemed timely filed with the Court pursuant to either the Bankruptcy Code or any order of the Court or otherwise deemed timely filed under applicable law, shall not be treated as a creditor with respect to such claim for purposes of (a) receiving notices regarding, or distributions under, the Plan, or (b) voting on the Plan.

8. Any party in interest wishing to obtain (i) information about the solicitation procedures or (ii) copies of the Disclosure Statement or the Plan should contact counsel for the Debtor at (212) 704-6000. In addition, all documents that are filed with the Court may be reviewed during regular business hours (8:30 a.m. to 4:00 p.m. weekdays, except legal holidays) at the United States Bankruptcy Court for the Southern District of New York, 300 Quarropus Street, White Plains, New York 10601 or downloaded from the Court's website: [www.sdney.uscourts.gov](http://www.sdney.uscourts.gov).

**B. AUCTION AND HEARING REGARDING SALE OF ONE HUNDRED (100%) PERCENT OF THE STOCK OF THE REORGANIZED DEBTOR**

9. The Disclosure Statement/Bidding Procedures Order also approved, *inter alia*, the bidding and sale procedures relating to the sale of one hundred (100%) percent of the Stock of the Reorganized Debtor (defined in the Plan as the "New Stock"), and directed that a hearing be held at 10:00 a.m. Eastern Time on April 8, 2004, before the Honorable Adlai S. Hardin, United States Bankruptcy Judge, in the United States Bankruptcy Court for the Southern District of New York, 300 Quarropus Street, White Plains, New York 10601, for entry of an

Order approving the sale of the New Stock (previously defined as the "Confirmation/Sale Hearing").

10. The Debtor's parent company, eLEC Communications Corp. has offered to purchase the New Stock for \$325,000 (the "Purchase Price"), subject to certain terms and conditions which are set forth in the Disclosure Statement. The Sale of the New Stock to eLEC is, however, subject to higher and better offers. Accordingly, if the Debtor receives one or more Qualified Bids (as defined below), the Disclosure Statement/Bidding Procedures Order directs that an Auction of the New Stock be held at the office of **Jenkins & Gilchrist Parker Chapin, LLP**, The Chrysler Building, 405 Lexington Avenue, New York, New York 10174, on April 5, 2004 at 10:00 a.m. (the "Auction").

11. A Qualified Bid is a Bid:

- i. in writing and signed by an authorized representative of such bidder;
- ii. providing for a Purchase Price, entirely in cash, equal to or greater than \$340,000;
- iii. providing, as consideration in addition to the Purchase Price, that the Reorganized Debtor shall be responsible for all unpaid, ordinary course debts and obligations of the Debtor incurred in the operation of the Debtor's business between the Petition Date and the Effective Date;
- iv. accompanied by a cash deposit of ten (10%) percent of the Purchase Price component of such bidder's Bid;
- v. containing no financing or due diligence contingencies;
- vi. providing that it shall be a condition to closing of the Stock Sale that the Debtor's Plan be confirmed by order of the Bankruptcy Court, which order shall not have been reversed, modified or stayed as of the Closing Date;
- vii. made by a bidder that submits financial and banking information which demonstrate, to the satisfaction of the Debtor, that the bidder is financially able to consummate the Stock Sale associated with such Bid;
- viii. submitted to counsel for the Debtor, **Jenkins & Gilchrist Parker Chapin LLP**, The Chrysler Building, 405 Lexington Avenue, New York, New York, 10174 Attn: Lee W. Stremba, Esq., The Chrysler Building, 405 Lexington Avenue, 7<sup>th</sup> Floor, New York, NY 10174; such that such Bid is actually received on or before 4:00 p.m. (ET) on March 29, 2004.

14. The Disclosure Statement/Bidding Procedures Order should be referred to for all specific sale and auction terms and conditions.

Dated: New York, New York  
February , 2004

**JENKENS & GILCHRIST  
PARKER CHAPIN LLP**

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Attorneys for the Debtor and Debtor in Possession

UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

----- X  
In re: :  
TELECARRIER SERVICES, INC., : Chapter 11  
: Case No. 02-20379 (ASH)  
: Debtor. :  
----- X

**AMENDED DISCLOSURE STATEMENT**

Lee W. Stremba, Esq.  
Paul H. Deutch, Esq.  
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The Chrysler Building  
405 Lexington Avenue  
New York, New York 10174  
(212) 704-6000  
Attorneys for Debtor and Debtor-in-Possession

Dated: February 18, 2004

THE INFORMATION CONTAINED IN THIS AMENDED DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN OF REORGANIZATION OF TELECARRIER SERVICES, INC., DEBTOR AND DEBTOR-IN-POSSESSION HEREIN (THE "PLAN") AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN. NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT, REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

ALL CREDITORS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF. IN THE EVENT OF ANY CONFLICT BETWEEN THE DESCRIPTION SET FORTH IN THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN, THE TERMS OF THE PLAN SHALL GOVERN.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE UNITED STATES BANKRUPTCY CODE (THE "BANKRUPTCY CODE") AND RULE 3016(b) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE (THE "BANKRUPTCY RULES") AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER NON-BANKRUPTCY LAWS. THIS DISCLOSURE STATEMENT HAS BEEN NEITHER APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING OR TRANSFERRING SECURITIES OR CLAIMS OF TELECARRIER SERVICES, INC. SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSE FOR WHICH THEY WERE PREPARED.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST, OR INTERESTS IN, TELECARRIER SERVICES, INC., DEBTOR AND DEBTOR-IN-POSSESSIONS IN THIS CASE.

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**I.**  
**INTRODUCTION**

The Debtor submits this Disclosure Statement pursuant to section 1125 of title 11 of the United States Code, 11 U.S.C. § 101, *et seq.* (the "Bankruptcy Code") for use in the solicitation of votes on the Plan proposed by the Debtor and filed with the Bankruptcy Court, on January 21, 2004. A copy of the Plan is annexed hereto as Appendix "A" hereof.

The following introduction and summary is a general overview only and is qualified in its entirety by, and should be read in conjunction with, the more detailed discussions, information, and financial statements and notes thereto appearing elsewhere in this Disclosure Statement and the Plan.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS APPLICABLE UNDER THE BANKRUPTCY CODE, CERTAIN DOCUMENTS RELATED TO THE PLAN, CERTAIN EVENTS IN THE CHAPTER 11 CASE, AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE DEBTOR BELIEVES THAT SUCH SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTOR'S MANAGEMENT, EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION. CERTAIN PROVISIONS OF THE PLAN, AND THUS THE DESCRIPTIONS AND SUMMARIES CONTAINED HEREIN, MAY BE THE SUBJECT OF CONTINUING NEGOTIATIONS AMONG THE DEBTOR AND VARIOUS PARTIES, MAY NOT HAVE BEEN FULLY AND FINALLY AGREED UPON, AND MAY BE HEREAFTER MODIFIED. SUCH MODIFICATIONS AND/OR AMENDMENTS, HOWEVER, ARE NOT ANTICIPATED TO HAVE A MATERIAL EFFECT ON THE DISTRIBUTIONS CONTEMPLATED BY THE PLAN.

A. Definitions

Except as otherwise provided herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to them in the Plan.

B. General Structure of the Plan

The Debtor is the proponent of the Plan within the meaning of section 1129 of the Bankruptcy Code. The Plan contains separate classes and proposes recoveries for holders of Claims against and Interests in the Debtor. After careful review of the Debtor's current and anticipated business operations, estimated recoveries in a liquidation scenario, and the prospects of ongoing business, the Debtor has concluded that the recovery to the Debtor's creditors will be maximized by the reorganization of the Debtor as contemplated by the Plan.

The Debtor proposes to fund the Plan through the sale of one hundred (100%) percent of the common stock of the Reorganized Debtor (defined in the Plan as the "New Stock"). The current owner of all of the Debtor's common stock, eLEC, has offered to buy the New Stock of the Reorganized Debtor for a Cash purchase price of \$325,000. eLEC's offer is subject to higher and better offers. An auction for the sale of the New Stock will be held if one or more Qualified Bids (as defined in the Disclosure Statement/Bidding Procedures Order) are received prior to the scheduled date of the Auction.

C. Summary of the Plan Structure

Set forth below is a brief summary of the Plan. The effectiveness of the Plan, and thus the consummation of the distributions provided for in the Plan, is subject to certain conditions precedent. There can be no assurances that these conditions will be satisfied. In addition, the Debtor has reserved the right to amend or modify the Plan.

Under the Plan, the Debtor's pre-petition general unsecured creditors, whose Claims will not be paid in full, have been classified into a primary group for distribution purposes. The Debtor estimates that the Allowed amount of such Claims aggregates to approximately \$825,000. The Plan provides for one or more Cash distributions to be made to general unsecured creditors. The sole source of the Cash to be used by the Debtor to make distributions under the Plan to creditors, including holders of Allowed Unsecured Claims, will be the proceeds of the sale of the New Stock.

## II.

### **BANKRUPTCY PLAN VOTING INSTRUCTIONS AND PROCEDURES**

A. Notice to Holders of Claims and Interests

This Disclosure Statement is being transmitted to certain Creditors for the purpose of soliciting votes on the Plan and to others for informational purposes. The purpose of this Disclosure Statement is to provide adequate information to enable the holder of a Claim against the Debtor to make a reasonably informed decision with respect to the Plan prior to exercising the right to vote to accept or reject the Plan.

By order entered on February 18, 2004, the Bankruptcy Court approved this Disclosure Statement as containing information of a kind, and in sufficient and adequate detail to enable Creditors that are entitled to vote on the Plan to make an informed judgment with respect to acceptance or rejection of the Plan. **THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF THE PLAN BY THE BANKRUPTCY COURT.**

**ALL CREDITORS ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND ITS APPENDICES CAREFULLY AND IN THEIR ENTIRETY BEFORE DECIDING TO VOTE EITHER TO ACCEPT OR TO REJECT THE PLAN.** This Disclosure Statement contains important information about the Plan, considerations pertinent to acceptance or rejection of the Plan, and developments concerning the Chapter 11 Case.

THIS DISCLOSURE STATEMENT AND THE OTHER MATERIALS INCLUDED IN THE SOLICITATION PACKAGE ARE THE ONLY DOCUMENTS AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN. No solicitation of votes may be made except after distribution of this Disclosure Statement, and no person has been authorized to distribute any information concerning the Debtor or the Plan other than the information contained herein.

CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS BY ITS NATURE FORWARD-LOOKING AND CONTAINS ESTIMATES, ASSUMPTIONS AND PROJECTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL, FUTURE RESULTS. Except with respect to the projections set forth in Appendix "B" attached hereto (the "Projections"), and except as otherwise specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof and that may have a material impact on the information contained in this Disclosure Statement. The Debtor does not intend to update the Projections for the purposes hereof; thus, the Projections will not reflect the impact of any subsequent events not already accounted for in the assumptions underlying the Projections. Further, the Debtor does not anticipate that any modifications or amendments to this Disclosure Statement will be distributed to reflect such occurrences. Accordingly, the delivery of this Disclosure Statement does not under any circumstance imply that the information herein is correct or complete as of any time subsequent to the date hereof.

EXCEPT WHERE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT AND MAY NOT HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

#### B. Solicitation Package

Accompanying this Disclosure Statement are, among other things, copies of (1) the Plan; (2) the notice of, among other things, the time for submitting Ballots to accept or reject the Plan; the date, time and place of the hearing to consider the confirmation of the Plan and related matters; and the time for filing objections to the confirmation of the Plan (the "Confirmation Hearing Notice"); and (3) if you are entitled to vote, one or more Ballots (and return envelopes) to be used by you in voting to accept or to reject the Plan.

#### C. General Voting Procedures, Ballots, and Voting Deadline

The Bankruptcy Court may confirm the Plan only if it determines that the Plan complies with the technical requirements of chapter 11 of the Bankruptcy Code and that the disclosures by the Debtor concerning the Plan have been adequate and have included information concerning all payments made or promised by the Debtor in connection with the Plan and the Chapter 11 Case. In addition, the Bankruptcy Court must determine that the Plan has been proposed in good faith and not by any means forbidden by law, and under Rule 3020(b)(2) of the Bankruptcy Rules, it may do so without receiving evidence if no objection is timely filed

In particular, and as described in more detail above, the Bankruptcy Code requires the Bankruptcy Court to find, among other things, that (a) the Plan has been accepted by the requisite votes of all Classes of Impaired Claims and Interests unless approval will be sought under section 1129(b) of the Bankruptcy Code in spite of the nonacceptance by one or more such Classes; (b) the Plan is "feasible," which means that there is a reasonable probability that the Debtor will be able to perform its obligations under the Plan and continue to operate its business without further financial reorganization or liquidation; and (c) the Plan is in the "best interests" of all Creditors and Interest holders, which means that such Creditors and Interest holders will receive at least as much under the Plan as they would receive in a liquidation under chapter 7 of the Bankruptcy Code.

After carefully reviewing the Plan, this Disclosure Statement, and (if you are entitled to vote) the instructions accompanying your Ballot, please indicate your acceptance or rejection of the Plan by checking the appropriate box on the enclosed Ballot. Please complete and sign your original Ballot (copies will not be accepted) and return it in the envelope provided. You must provide all of the information requested by the appropriate Ballot. Failure to do so may result in the disqualification of your vote on such Ballot. Each Ballot has been coded to reflect the Class of Claims it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot or Ballots sent to you with this Disclosure Statement.

THE BANKRUPTCY COURT MUST FIND THAT ALL CONDITIONS MENTIONED ABOVE ARE MET BEFORE IT CAN CONFIRM THE PLAN. THUS, EVEN IF ALL THE CLASSES OF IMPAIRED CLAIMS WERE TO ACCEPT THE PLAN BY THE REQUISITE VOTES, THE BANKRUPTCY COURT MUST STILL MAKE AN INDEPENDENT FINDING THAT THE PLAN SATISFIES THESE REQUIREMENTS OF THE BANKRUPTCY CODE, THAT THE PLAN IS FEASIBLE, AND THAT THE PLAN IS IN THE BEST INTERESTS OF THE HOLDERS OF CLAIMS AGAINST AND INTERESTS IN THE DEBTOR.

IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE PROPERLY COMPLETED AS SET FORTH ABOVE AND IN ACCORDANCE WITH THE VOTING INSTRUCTIONS ON THE BALLOT AND ACTUALLY RECEIVED NO LATER THAN MARCH 26, 2003 AT 4:00 P.M. (PREVAILING EASTERN TIME) (THE "VOTING DEADLINE") BY DEBTOR'S COUNSEL, JENKENS & GILCHRIST PARKER CHAPIN LLP (THE "JENKENS FIRM"). YOUR BALLOT CONTAINS THE CONTACT INFORMATION FOR THE JENKENS FIRM.

BALLOTS RECEIVED AFTER THE VOTING DEADLINE WILL NOT BE COUNTED. BALLOTS SHOULD NOT BE DELIVERED DIRECTLY TO THE DEBTOR, THE BANKRUPTCY COURT OR COUNSEL TO THE DEBTOR.

#### D. Questions About Voting Procedures

If (1) you have any questions about (a) the procedure for voting your Claim, (b) the packet of materials that you have received, or (c) the amount of your Claim holdings or (2) you wish to obtain an additional copy of the Plan, this Disclosure Statement, or any appendices or exhibits to such documents please contact:

Lee W. Stremba, Esq.  
Paul H. Deutch, Esq.  
JENKENS & GILCHRIST PARKER CHAPIN LLP  
The Chrysler Building  
405 Lexington Avenue  
New York, New York 10174  
Tel: (212) 704-6000  
Fax: (212) 704-6288  
Attorneys for Debtor and Debtor-in-Possession

E. Confirmation/Sale Hearing and Deadline for Objections to Confirmation or Stock Sale

Pursuant to section 1128 of the Bankruptcy Code and Federal Rule of Bankruptcy Procedure 3017(c), the Bankruptcy Court has scheduled the Confirmation/Sales Hearing to begin on April 8, 2004, at 10:00 a. m. (prevailing eastern time) before the Honorable Adlai S. Hardin, United States Bankruptcy Judge, at Courtroom 520, U.S. Bankruptcy Court, 300 Quarropas Street, White Plains, NY 10601, to consider: (a) the confirmation of the Plan; and (b) approval of the Stock Sale to eLEC or to such other party as may make the highest or otherwise best bid for the New Stock of the Reorganized Debtor. The Confirmation/Sale Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation/Sale Hearing or at any subsequent adjourned Confirmation/Sale Hearing. As set forth in the Disclosure Statement/Bidding Procedures Order, the Bankruptcy Court has directed that objections, if any, to confirmation of the Plan or to the Stock Sale be filed with the Clerk of the Bankruptcy Court and served so that any such objection(s) are ACTUALLY RECEIVED on or before March 26, 2004, at 4:00 p. m. (prevailing eastern time) by:

Counsel for the Debtor and Debtor in Possession:

Lee W. Stremba, Esq.  
Paul H. Deutch, Esq.  
JENKENS & GILCHRIST PARKER CHAPIN LLP  
The Chrysler Building  
405 Lexington Avenue  
New York, New York 10174  
(212) 704-6000

Office of the United States Trustee for the Southern District of New York  
33 Whitehall Street  
21st floor  
New York, NY 10004

### **III. HISTORY OF THE DEBTOR**

#### A. Historic Overview of Business Operations

The Debtor's primary business is the resale of local and long distance telephone service. The Debtor was incorporated in the State of Delaware in 1992.

Prior to January 21, 2000, the Debtor was owned by two individuals, Michael Lagana ("Lagana") and Zina Hassel ("Hassel"). Of the one hundred and twenty (120) then outstanding shares of TSI stock, Lagana held one hundred (100) and Hassel held twenty (20). On January 21, 2000, Lagana and Hassel sold their interests in TSI (the "TSI Sale") to eLEC for cash and eLEC stock.

As of May, both the Debtor and Essex Communications, Inc. ("Essex") which, like TSI, was a wholly-owned subsidiary of eLEC, remained unprofitable. Essex, like the Debtor, was in the business of selling local, long distance and data communication services. Because Essex was larger than the Debtor and had developed substantially better operating systems (customer care platform, billing system, line provisioning system and collections platform), a determination was made to transfer most of the Debtor's assets, liabilities and employees to Essex in an attempt to cut combined overhead and reach profitability. This transfer of business was completed by May 2001, with Essex taking over the Debtor's customer base and the payment of bills to current vendors. At the time of the transfer to Essex, TSI had a negative tangible net worth.

Although the Debtor ceased operations, it retained several licenses to do business and kept up with required filings for taxes and Federal and State Communications Commission reports in the event that it wanted to begin telephone operations again. Additionally, the Debtor retained its contract with Global Crossing ("Global") through which it purchased long distance access which it then resold to its customers. The invoices which the Debtor received from Global (subsequently assigned to MCI) were paid by Essex. Essex used the Global Contract to service its own customers as well as the customers that were transferred from the Debtor.

The Debtor also retained a contract that it had from the Center for Jewish History ("CJH")<sup>1</sup> to provide telephone services for local and long distance voice traffic and to provide internet connectivity (the "CJH Contract"). The typical monthly fee for these services was \$38,496.00.

The Debtor kept the CJH Receivable to serve as collateral for the Debtor's \$150,000

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<sup>1</sup> CJH is a central repository of Jewish scholarship, history and art and contains approximately 100 million archival documents and a half million books. As a library, CJH qualifies to receive financial subsidies from the federal government through the Universal Service Administrative Company ("USAC"). In particular, USAC subsidizes CJH's use of voice communication services and internet services in connection with the maintenance of the CJH website. USAC would pay TSI directly for approximately sixty-five (65%) percent of CJH's obligations under the Contract and CJH would be responsible for the balance (the "CJH Receivable").

alleged secured loan from Wachovia Bank.<sup>2</sup> The Debtor intended to use proceeds from the collection of monies from USAC to satisfy Wachovia, and any other remaining creditors which had not been transferred to Essex. Because the Debtor had no sales or operations at that time, Essex serviced the account with CJH, bore all relevant expenses, and provided all relevant billing services.

Subsequently, the Debtor began having difficulty collecting receivables from CJH. At a point when the amount due from CJH reached approximately \$180,000 (the "Current Receivable"), the Debtor and Telco, a company owned by Lagana, entered into an agreement, dated January 2, 2002 (the "Telco Agreement"), whereby Telco, as Special Master Agent, would assist the Debtor in servicing its account with CJH and in collecting CJH's unpaid past due amounts. Telco entered into a similar agreement with Essex.

The Debtor contracted with Telco for its services because collecting the accounts receivable from CJH and USAC proved to be difficult and time-consuming, and because Mr. Lagana had developed relationships with CJH and USAC, which placed him in a better position to collect the outstanding balance. In return for the services that Telco provided to the Debtor, the Debtor and Telco agreed that Telco would be paid a collection fee equal to twenty-five (25%) percent of the Current Receivable collected from the CJH above and beyond the first \$100,000 collected. Thus, the Debtor was entitled to keep the first \$100,000 actually collected from the CJH and Telco would receive twenty-five (25%) percent of the next \$80,000 collected from CJH.

In total, the Debtor received \$590,171 from CJH/USAC and Essex received \$141,951. Any monies received by Essex from CJH/USAC were for services rendered by Essex to CJH. To date, neither Telco nor Mr. Lagana has received any monies from payments made by USAC. Telco did receive commission payments from Essex on the cash collected by Essex from CJH, for the period up to December 31, 2002. Telco had several other customers using Essex's services and Telco received a total of approximately \$99,000 from Essex.

The Debtor filed its voluntary petition on July 29, 2002 (the "Petition Date"). Shortly thereafter, Telco asserted a claim against the Debtor's estate for the monies owed to it pursuant to the Telco Agreement. Telco asserted an unsecured priority claim against the Debtor's estate in the amount of \$194,317. Telco further alleges that the Telco Agreement constituted an assignment of the CJH account and the proceeds of that account to Telco, such that the CJH account and its proceeds are not a part of the Debtor's estate, but rather was the sole property of Telco. The Debtor disputes the amount of Telco's claim as well as its assertion that it received an assignment of the CJH account. Telco has subsequently filed a motion for the allowance of an administrative claim in the amount of \$159,100.34. This motion is currently pending.

#### B. Events Leading to the Commencement of the Chapter 11 Case

Just prior to the Petition Date, WorldCom, the Debtor's long distance carrier, gave the

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<sup>2</sup> By Order of this Court, dated September 11, 2003, Wachovia's claim (No. 7) was reclassified as a general unsecured claim in the amount of \$150,979.74. As set forth below, Wachovia had assigned the underlying credit facility to Jaguar Credit Corp.

Debtor five (5) days notice that it would cancel all long distance service unless the Debtor paid WorldCom approximately \$250,000 for outstanding invoices. Although at the time of WorldCom's demand TSI was not conducting any business operations, TSI filed a its chapter 11 petition in order to maintain the availability of those lines. As a result, during the chapter 11 case, the Debtor has been able to resume operations and develop a customer base that can be sold for the benefit of creditors.

#### C. Recent Financial Results

Set forth in Appendix "C" are the following selected unaudited financial data for the Debtor: (i) income statement for the fiscal year ended November 30, 2003; (ii) balance sheet for the fiscal year ended November 30, 2003; and (iii) statement of cash flows for the fiscal year ended November 30, 2003.

#### D. Prepetition Capital Structure Of The Debtor

Prior to the Petition Date, the Debtor's liquidity depended primarily on cash from the collection of outstanding accounts receivable. As of the Petition Date, the Debtor had a facility with Wachovia Bank, which subsequently assigned such facility to Jaguar Credit Corp. As of the Petition Date, the Debtor owed approximately \$150,000 under the credit facility and had no additional available credit. Pursuant to an Order of this Court, dated September 12, 2003, such credit facility was deemed unsecured.

As of the Petition Date, eLEC wholly owned the Debtor. There were no publicly owned shares.

### **IV. CORPORATE STRUCTURE OF THE DEBTOR**

The Debtor is incorporated in Delaware. It has no subsidiaries. eLEC, as sole shareholder of the Debtor, elected its current Directors, Joel Dupre and Paul Riss.

The senior management of the Debtor consists of Paul Riss. Mr. Riss has served as the Chief Executive Officer and the Chief Financial Officer of the Debtor since January 2000, when the Debtor was acquired by eLEC. Mr. Riss has been Chief Executive Officer of eLEC since 1999, Chief Financial Officer and Treasurer since 1996, and a member of the Board of Directors since 1995. Mr. Riss directed the company into the telecommunications industry with the incubation of a Florida-based CLEC, Access One Communications. Mr. Riss served on the board of Access One and helped provide it with the financial resources needed to grow the business to approximately 55,000 local access lines when Talk.com Inc. acquired it.

From 1987 to 1996, Mr. Riss held three Chief Financial Officer positions, including a leveraged buyout, a public company and a sequin manufacturer, where he was responsible for strategic financial planning and all internal and external reporting.

From 1979 to 1987, Mr. Riss served on the audit staff of Ernst & Young, where he was promoted to the level of Senior Audit Manager and managed the audit of several public

companies. Mr. Riss was the recipient of the James P. Kelly Award for distinguished public service from the Westchester Chapter of the New York State Society of Certified Public Accountants in 2000. In 2001, he was also selected as a finalist in the Ernst & Young Entrepreneur of the Year Program for the Southwestern Connecticut and Hudson Valley territory. He is a CPA in New York State and earned an MBA with distinction from the Stern School of Business at New York University and a BA with distinction from Carleton College. Further, he serves on the Board of Directors of a not-for-profit company, MCG Hit-N-Run, Inc.

The Debtor has no outstanding employment contracts with members of management or any other employees.

**V.**  
**THE CHAPTER 11 CASE**

A. Post-petition proceedings

An immediate effect of the filing of the Debtor's chapter 11 petition was the imposition of the automatic stay under the Bankruptcy Code which, with limited exceptions, enjoined the commencement or continuation of all collection efforts by creditors, the enforcement of liens against property of the Debtor, and the continuation of litigation against the Debtor. The automatic stay remains in effect, unless modified by the Bankruptcy Court, until consummation of the Plan.

The Debtor is represented in its Chapter 11 Case by the firm of Jenkins & Gilchrist Parker Chapin LLP. There are no other professionals retained by the Debtor. There is no official committee of unsecured creditors appointed in the Chapter 11 case, and accordingly there are no professionals retained by an official committee.

B. Exclusivity

Pursuant to section 1121 of the Bankruptcy Code, a Chapter 11 debtor has the exclusive right to file a plan of reorganization during the first 120 days of its Chapter 11 case. The 120 day exclusive period may be extended by order of the Bankruptcy Court. In this Chapter 11 Case, pursuant to orders of the Bankruptcy Court, the Debtor's exclusive right to file a plan was extended to December 23, 2003, at which time it expired. The Debtor did not seek a further extension so that, after December 23, 2003, any party in interest could file its own plan. To date, no plan has been filed with the Bankruptcy Court other than this Plan proposed by the Debtor.

C. Post-petition operations

As aforesaid, at the time of the filing of the Debtor's chapter 11 petition, the Debtor was not conducting business. Following the filing of the Debtor's chapter 11 petition, the Debtor took steps to re-establish its business as a reseller of local telephone service. These steps included (i) gaining access to a telecommunications network; (ii) marketing; (iii) hiring of employees; and (iv) business location.

The Debtor entered into an agreement with Verizon Communications, Inc. ("Verizon")

whereby Verizon would provide the Debtor with unlimited access to Verizon's Graphic User Interface System ("GUI"). Access to Verizon's GUI is necessary for the Debtor to manage and use its lines and successfully manage and operate its resale business. To secure payment for its services, Verizon required the Debtor to provide it with a deposit in the amount of \$28,000. On November 13, 2002, the Bankruptcy Court authorized the Debtor to make the deposit payment to Verizon in an amount not to exceed \$35,000. The Debtor has paid the deposit in exchange for unlimited access to Verizon's GUI.

In order to identify new customers, the Debtor needed to market its services to the general public. It is standard in the telecommunications industry for a reseller of telephone service to use telemarketing companies to solicit customers. The Debtor received price quotes for telemarketing services from various sources and ultimately reached an agreement with Midwest Marketing Group, Inc. ("Midwest") for the provision of such services. Under the agreement with Midwest, the Debtor is required to pay \$57.50 for each new customer Midwest solicits who elects to receive local and long distance service through the Debtor. The Debtor would pay Midwest \$47.50 for each new customer it solicits who elects to purchase local telephone service only. Thus, the Debtor only pays for those new customers that Midwest generates. In an Order dated December 31, 2002 (the "December 31<sup>st</sup> Order"), the Bankruptcy Court approved the Debtor's agreement with Midwest.

At the point when the Debtor was beginning to reestablish business operations, the Debtor had no employees on its payroll. Whatever functions needed to be performed were done so, on an uncompensated basis, by four of the Debtor's then current employees, officers and managers: Paul H. Riss, Chief Executive Officer, (management services); Gandolfo Verra, Comptroller (accounting services); Wes Minella, Manager (operations and billing); and Maria Abbagnaro, Director of Regulatory Affairs (licensing and tariffs). Each of the aforementioned individuals were, at the time, also employees and managers of Essex and Essex was paying their entire annual salaries.

In order to successfully provide local telephone service to its customers, the Debtor needed to hire and pay full-time employees. For example, employees were needed to input new customer orders ("Provisioners"), and to make "welcome calls" to new customers and to provide customer service to existing accounts ("Customer Service Representatives"). The Debtor needed at least two full-time Provisioners and one full-time Customer Service Representative and proposed to pay each such employee a bi-weekly salary of \$880. The hiring of two Provisioners and one Customer Service Representative was authorized by the Bankruptcy Court in the December 31<sup>st</sup> Order.

The Debtor also needed to hire a technician to maintain the Debtor's computer systems. Rather than bring in someone new to just handle the Debtor's computers, the Debtor realized that it was more cost effective to employ one of eLEC's technicians. The Debtor, therefore, proposed to employ one of eLEC's computer maintenance technicians on a part-time basis and to pay its pro rata share of the technician's annual salary. The part-time hiring of one of eLEC's computer technicians was also authorized by the December 31<sup>st</sup> Order.

Finally, if the Debtor was to succeed, each of the Debtor's management employees

named above would be required, going forward, to devote more time to the Debtor's business affairs, albeit, on a part-time basis. Management's salaries were also approved by the Bankruptcy Court. In total, the Debtor has been paying total salaries of approximately \$19,000 per month.

Because the Debtor had essentially ceased all business operations for over one year, it had no office space at the beginning of 2003 when it was seeking to recommence operations. Because the Debtor had sought to employ certain personnel from among employees working for another eLEC subsidiary, as stated above, it is in the Debtor's best interest to conduct its business near eLEC's offices in New Rochelle, New York.

The Debtor does not own any real property. eLEC owned a building at 543 Main Street, New Rochelle, New York and agreed to make 2,000 square feet of space available to the Debtor on the building's ground floor (the "eLEC Lease"). The Debtor had been advised that current market rates for leases of commercial office space in New Rochelle were \$16 to \$20 per square foot. eLEC agreed to charge the Debtor a rent of \$16 per square foot or \$2,666.67 per month. Furthermore, the rental price would be a flat rental price, including such things as water, electricity, security, snow removal, and garbage removal. In the December 31st Order, the Bankruptcy Court authorized the Debtor to enter into a lease with eLEC.

The Debtor is currently licensed and authorized to sell local telephone service in New York, New Jersey, Massachusetts and Pennsylvania. As of December, 2003, the Debtor billed for approximately 4,000 lines equating to approximately 2,500 customers. These customers are located in New York and New Jersey only. Each of these customers has either signed a written contract with the Debtor or, as part of a successful telemarketing call, confirmed orally to an independent third party verification firm that they wanted to use the Debtor's services.<sup>3</sup> Neither the oral nor written contracts contain a specific term. Customers are free to cancel the Debtor's service at any time. The Debtor is currently servicing its customers using "eLEC Communications" as its licensed "d/b/a".<sup>4</sup>

The Debtor maintains licenses to operate as a competitive local exchange carrier ("CLEC") in New York, Massachusetts and Pennsylvania. As a CLEC, it is authorized to provide local exchange services in direct competition with the incumbent local exchange carrier, and can provide similar or identical services. As a CLEC, the Debtor leases unbundled network elements from the local incumbent carrier, and the leasing arrangement allows the Debtor to function as though the Debtor owned the facilities. The Debtor, however, does not own any network assets or switching equipment. In New York State, for the fiscal year ended November 30, 2003, billings for local telephone services totaled \$1,198,461 and the Debtor had 2,593 active local lines in New York on December 31, 2003. No sales and no active local lines exist in the states of Massachusetts and Pennsylvania.

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<sup>3</sup> All oral confirmations made to the independent third party verification firm are recorded.

<sup>4</sup> As set forth herein, the Debtor's Plan is predicated on the sale of one hundred (100%) percent of the stock of the Reorganized Debtor. The Debtor is currently servicing its customers using "eLEC Communications" as its licensed "d/b/a". If a Person or Entity other than eLEC purchases the New Stock, eLEC has stated that it shall permit the Purchaser to use the eLEC d/b/a for a reasonable transition period after which the Purchaser will have to service its customers without the eLEC d/b/a.

The Debtor maintains a license to operate as a local reseller in New Jersey. As a reseller of local services, Debtor purchases telecom services at a wholesale rate from another carrier and sells them to third parties. A reseller has no ownership of transmission facilities, network assets, or switching equipment. The Debtor is reselling services that it is purchasing on a wholesale basis from a CLEC that is operating and licensed in New Jersey. Billings for local telephone service in New Jersey for the fiscal year ended November 30, 2003 totaled \$183,441. As of December 31, 2003, the Debtor had 1,132 active local lines that is was billing in New Jersey.

The Debtor also resells long distance (state-to-state) telephone service and is authorized to operate as a reseller of international telecommunications services (Docket ITC 214 1998082400581, granted October 17, 1998). Sales for the year ended November 30, 2003 and the number of active lines at year end for each state that the Debtor is licensed in as a long distance reseller are as follows: California sales of \$406.62 with 5 lines; Connecticut sales of \$0 with no lines; Florida sales of \$3,762.94 with 27 lines; Georgia sales of \$2,182.77 with 27 lines; Massachusetts sales of \$1,439.99 with no lines; New Hampshire sales of \$1,110.33 and no lines; New Jersey sales of \$11,010.24 with 260 lines; New York sales of \$147,439.96 with 1,224 lines; North Carolina sales of \$91.36 with 2 lines; Pennsylvania sales of \$1,470.05 with 1 line; Rhode Island sales of \$0 with no lines; and Texas sales of \$89.66 with 3 lines.

**D. Licensing and Regulatory Requirements**

As aforesaid, the Debtor is licensed to operate as reseller of telecommunications services in California, Connecticut,<sup>5</sup> Florida, Georgia, New Hampshire, New Jersey,<sup>6</sup> North Carolina, Rhode Island and Texas. The Debtor is licensed to operate as a Competitive Local Exchange Carrier in Massachusetts, New York and Pennsylvania. It is also authorized by the Federal Communications Commission to operate as a reseller of international telecommunications services.<sup>7</sup> Based on the foregoing, the Debtor has been required to make the following regulatory filings:

State	Government Agency	Filing Type
	FCC	Form 499Q Form 499A (true-up 499Q) Form 473 (Svc. Provider Annual Cert)
CA	Sec. Of State	Statement Information
CT	DPUC	Annual report
FL	Sec. Of State	Uniform Business Report
	PSC	Regulatory Assessment Fee
GA	Sec. Of State	Annual Report
	PSC	Monthly & Quarterly Reports

<sup>5</sup> An initial tariff was filed on June 9, 1998 and nothing was filed after that date, per Connecticut Department of Public Utility Control it is not a tariffed utility.

<sup>6</sup> TSI operates as Telecarrier Services Inc. d/b/a eLEC Communications in the State of New Jersey. New Jersey does not require resellers to file tariffs with the Board of Public Utilities and therefore TSI does not have a tariff for its operations in New Jersey.

<sup>7</sup> Docket ITC 214 1998082400581, granted October 17, 1998.

MA	Sec. Of State PSC	Foreign Corp. Annual Return Annual Return & Intrastate Rev.
NH	Sec. Of State PSC	Annual Report Annual Report
NC	Sec. Of State	Annual Report
NJ	Board Public Utilities	Annual Report
NY	Sec. Of State PSC	Biennial Statement <sup>8</sup> Customer Trouble Report Statement Gross Intrastate Rev. Telecom Comp. Report
PA	PSC	Annual Report TRS Access Line Report Annual Tracking Access Line
RI	Sec of State	Annual Report
TX	Sec of State PSC	State Franchise Tax & Annual Fee Annual Report

The Debtor's Certificate of Authority to do business as a foreign corporation was revoked by the State of Rhode Island for failure to file 2001 and 2002 annual reports. In addition, the Debtor is not in good standing with the Secretary of State of New Hampshire. THE REORGANIZED DEBTOR WILL BE SUBJECT TO STATE AND FEDERAL REGULATORY REQUIREMENTS FOR EXISTING TELECOMMUNICATION SERVICE LICENSES IN 12 STATES.

With respect to its operations as a CLEC, different states require various levels of notification with regard to the transfer of ownership of the Debtor. For example, upon information and belief, New York requires a petition filed seeking permission to transfer control of a company, Pennsylvania requires an application for transfer of control and Massachusetts requires a letter of explanation. THE PURCHASER WILL NEED TO MAKE ITS OWN EXTENSIVE REGULATORY EXAMINATION OF THE FILINGS AND REQUIREMENTS IN EACH OF THESE STATES IN ORDER TO OPERATE AS A CLEC OR TO DISCONTINUE ITS LICENSES IN ANY OR ALL OF THE STATES.

With respect to its operations as a reseller of long distance services, each state has its own notification requirements for the transfer of ownership of a reseller. THE REORGANIZED DEBTOR WILL NEED TO MAKE ITS OWN EXTENSIVE REGULATORY EXAMINATION OF THE FILINGS AND REQUIREMENTS IN EACH OF THESE STATES IN ORDER TO COMPLY WITH THE REGULATIONS WHETHER OR NOT THE REORGANIZED DEBTOR CHOOSES TO CONTINUING SERVING CUSTOMERS IN SUCH STATES.

E. Summary of Claims Process, Bar Date, Certain Claims, and Professional Fees

On October 28, 2002, the Debtor filed its bankruptcy schedules (the "Schedules") and statement of financial affairs. The Schedules indicate that, at the time of filing, the Debtor had

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<sup>8</sup> TSI filed certificate of authority to do business in State of New York in 3/93, last statement filed 3/03.

approximately \$300,100 of total assets and \$1,278,115 of total liabilities.

On December 10, 2002, the Bankruptcy Court entered an order (the "Bar Date Order") establishing February 21, 2003 as the general deadline for filing proofs of claim against the Debtor (the "Bar Date"). Notice of the Bar Date was provided: (i) the Office of the United States Trustee for the Southern District of New York (the "U.S. Trustee"); (ii) all known holders of "claims" listed on the Schedules at the addresses stated therein; (iii) all parties who have filed a Notice of Appearance in the Debtor's case; and (iv) all counter-parties to the Debtor's executory contracts listed on the schedules at the addresses stated therein.

1. Proofs of Claim and Other Claims.

A total of eleven (11) proofs of claim were filed against the Debtor. The asserted Claims, along with certain non-disputed scheduled entries, total as follows:

<b>SECURED</b>	<b>PRIORITY</b>	<b>GENERAL UNSECURED</b>	<b>TOTAL</b>
\$301,959.48	\$ 388,430.52	\$ 1,013,419.84	\$1,703,809.84

The Debtor believes that certain Claims were asserted without merit or were filed incorrectly (*i.e.*, in the wrong amount or in an improper classification). Consequently, on August 21, 2003, the Debtor filed an omnibus objection to expunge and/or reduce or reclassify nine (9) of the filed claims. On September 12, 2003, the Bankruptcy Court entered an Order which expunged three (3) claims and reduced and/or reclassified four (4) others (the "Claims Order"). Subsequent to the entry of the Claims Order, the Debtor has entered into several agreements which, if approved by the Court, will serve to resolve all prepetition claims. Most significantly, on February 6, 2004, the Bankruptcy Court entered an Order granting Lagana an Allowed Administrative Expense Claim of \$65,000 and an Allowed General Unsecured Claim of \$194,317.01. In addition, the Debtor has recently filed a stipulation with the Bankruptcy Court which, if approved, will grant Wells Fargo Financial Leasing, Inc an Allowed General Unsecured Claim in the amount of \$5,500. Finally, within the next few weeks, the Debtor intends to file a motion to approve a settlement with Verizon which will, *inter alia*, provide Verizon with an Allowed General Unsecured Claim of \$104,527.29 and release the Debtor from any and all obligations it may owe to Verizon based any resale agreements between the parties. Approval by the Bankruptcy Court of the Verizon and Wells Fargo settlements will resolve all known claims issues. Following entry of the Claims Order and, assuming the aforementioned settlements are approved, the Debtor believes that the final Claims tally will be as follows:

<b>SECURED</b>	<b>PRIORITY</b>	<b>GENERAL UNSECURED</b>	<b>TOTAL</b>
\$0.00	\$ 12,533.58 <sup>9</sup>	\$ 833,464.00	\$845,997.58

Based on the foregoing, the Debtor does not intend to file any more objections to any of

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<sup>9</sup> At this time, the Debtor does not anticipate that there will be any Allowed Priority Non-Tax Claims.

the remaining known Claims.

## 2. Professional Fees

As previously indicated, the sole professional firm retained to render services to the Debtor in this Chapter 11 Case is Jenkens & Gilchrist Parker Chapin LLP (“Jenkens”), counsel to the Debtor. As of the Petition Date, Jenkens held a retainer on account for future services to be rendered to the Debtor in the amount of \$95,000. Jenkens has neither sought nor received compensation during the Chapter 11 Case and has not applied its retainer in payment for any services. As set forth in the Plan, within forty-five (45) days after Confirmation, Jenkens will file a first and final fee application seeking compensation for its services to the Debtor. Jenkens’ compensation is subject to approval of the Bankruptcy Court.

### C. Avoidance Actions

As set forth above, the Debtor was not conducting any business operations from May, 2001, up until the time, after the Petition Date, when it started resoliciting customers. Accordingly, the few transfers made by the Debtor during the one (1) year period prior to the Petition Date were for bank fees, licensing fees and like payments required to maintain the Debtor’s corporate status and preserve its assets. Total payments made by the Debtor during the one (1) year period prior to filing did not exceed \$35,000. Having reviewed its books and records for this period, the Debtor, in consultation with its professionals, has concluded that at no time during the ninety (90) day period prior to filing for non-insiders, and the one (1) year period prior to filing for insiders, did the Debtor make any payments that may constitute a preference or fraudulent conveyance under sections 547 or 548 of the Bankruptcy Code.

## VI.

### SUMMARY OF THE REORGANIZATION PLAN

#### A. Classification and Treatment of Claims and Interests.

Section 1122 of the Bankruptcy Code requires that a plan of reorganization classify the claims of a debtor’s creditors and the interests of its equity holders. The Bankruptcy Code also provides that, except for certain claims classified for administrative convenience, a plan of reorganization may place a claim of a creditor or an interest of an equity holder in a particular class only if such claim or interest is substantially similar to the other claims of such class. The Bankruptcy Code also requires that a plan of reorganization provide the same treatment for each claim or interest of a particular class unless the holder of a particular claim or interest agrees to a less favorable treatment of its claim or interest.

The Debtor believes that it has classified all Claims and Interests in compliance with the requirements of the Bankruptcy Code. If a Creditor or Interest holder challenges such classification of Claims or Interests and the Bankruptcy Court finds that a different classification is required for the Plan to be confirmed, the Debtor, to the extent permitted by the Bankruptcy Court, intends to make such reasonable modifications of the classifications of Claims or Interests under the Plan to provide for whatever classification might be required by the Bankruptcy Court for confirmation.

EXCEPT TO THE EXTENT THAT SUCH MODIFICATION OF A CLASSIFICATION ADVERSELY AFFECTS THE TREATMENT OF A HOLDER OF A CLAIM OR INTEREST AND REQUIRES RESOLICITATION, ACCEPTANCE OF THE PLAN BY ANY HOLDER OF A CLAIM PURSUANT TO THIS SOLICITATION WILL BE DEEMED TO BE A CONSENT TO THE PLAN'S TREATMENT OF SUCH HOLDER OF A CLAIM REGARDLESS OF THE CLASS AS TO WHICH SUCH HOLDER ULTIMATELY IS DEEMED TO BE A MEMBER.

1. Treatment of Unclassified Claims

a) Administrative Expense Claims

The Debtor or Disbursing Agent<sup>10</sup> shall pay to each holder of an Allowed Administrative Expense Claim, on account of its Administrative Expense Claim and in full satisfaction thereof, Cash equal to the amount of such Allowed Administrative Expense Claim on, or as soon as practicable after, the later of the Effective Date and the day on which such Claim becomes an Allowed Administrative Expense Claim, unless the holder and the Debtor agree or will have agreed to other treatment of such Claim, or an order of the Bankruptcy Court provides for other payment terms; provided, however, that if incurred in the ordinary course of business or otherwise assumed by the Reorganized Debtor pursuant to the Plan, an Allowed Administrative Expense Claim shall be the responsibility of the Reorganized Debtor on the Effective Date and paid, performed or settled by the Reorganized Debtor when due in accordance with the terms and conditions of the particular agreement(s) governing such obligation or liability.

The Bankruptcy Court has recently approved the Debtor's settlement with Lagana which provided the latter with an Allowed Administrative Expense Claim in the amount of \$65,000. Combined with outstanding and projected Professional Fees, the Debtor estimates that Allowed Administrative Expenses Claims payable by the Disbursing Agent will be approximately \$175,000.<sup>11</sup>

b) Priority Tax Claims

The Debtor or Disbursing Agent shall pay to each holder of an Allowed Priority Tax Claim, on account of its Priority Tax Claim and in full satisfaction thereof, Cash equal to the amount of such Allowed Priority Tax Claim on, or as soon as practicable after, the later of the Effective Date and the day on which such Claim becomes an Allowed Priority Tax Claim, unless the holder and the Debtor agree or will have agreed to other treatment of such Claim, or an order of the Bankruptcy Court provides for other payment terms.

The Debtor estimates that Allowed Priority Tax Claims will be approximately \$13,000.

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<sup>10</sup> As defined in Section 1.23 of the Plan, eLEC is the Disbursing Agent.

<sup>11</sup> This estimate reflects the amount payable after the Debtor's counsel applies its retainer in partial payment of its allowed fees and expenses.

## 2. Treatment of Classified Claims and Interests

Pursuant to section 1122 of the Bankruptcy Code, set forth below is a designation of classes of Claims against and Interests in the Debtor. A Claim or Interest is placed in a particular Class for the purposes of voting on the Plan and of receiving distributions pursuant to the Plan only to the extent that such Claim or Interest is an Allowed Claim or an Allowed Interest in that Class and such Claim or Interest has not been paid, released, or otherwise settled prior to the Effective Date. In accordance with section 1123(a)(i) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims of the kinds specified in sections 507(a)(1) and 507(a)(8) of the Bankruptcy Code have not been classified and their treatment is set forth above.

For certain Classes of Claims, the actual amounts of Allowed Claims could materially exceed or could be materially less than the estimated amounts shown in the table that follows. Accordingly, for these reasons, no representation can be or is being made with respect to whether the estimated percentage recoveries shown in the table below will actually be realized by the holders of Allowed Claims in any particular Class

## 3. Classes of Claims that are Unimpaired.

### a) Class 1 (Priority Non-Tax Claims).

The Debtor believes that, as of Confirmation Date, it will not have any Priority Non-Tax Claims. However, until such time as all Claims are resolved, the debtor does not want to rule out the possibility that such a claim may ultimately exist. To the extent that any such Claims exist at Confirmation, all Allowed Priority Non-Tax Claims shall be paid in full, in Cash, on the Effective Date or as soon as practicable after the Effective Date. Holders of Class 1 Claims shall not be entitled to vote on the Plan and shall be deemed to have accepted the Plan.

## 4. Classes of Claims that are Impaired

### a) Class 2 (Allowed General Unsecured Claims)

General Unsecured Claims are Claims arising primarily as a result of products, merchandise or services provided by vendors or service providers, rejection of executory contracts and unexpired leases, and unsecured indemnity Claims, if any. The Debtor estimates that the total amount of all such Claims in this Class will be approximately \$833,000.

Class 2 Allowed Unsecured Claims are impaired. Each holder of an Allowed Class 2 Claim shall receive a Pro Rata share of Available Cash (defined as all Cash remaining after satisfaction of all Allowed Administrative Expense Claims, all Allowed Priority Tax Claims and all Allowed Claims in Priority Non-Tax Claims), up to but not exceeding the full amount of the holder's Allowed Class 2 Claim. As aforesaid, eLEC has offered to purchase the New Stock for \$325,000. Based on the estimated Claim amounts set forth herein, if the New Stock were to sell for \$325,000, after satisfaction of all Allowed Administrative Expense Claims, all Allowed Priority Tax Claims and all Allowed Priority Non-Tax Claims, holders of Allowed General Unsecured Claims could receive a distribution equal to approximately seventeen (17%) percent

of the Allowed amount of their Claims.<sup>12</sup>

b) Class 3 (Interests)

The Class 3 Allowed Interests are impaired and will not vote on the Plan. All of the Class 3 Allowed Interests are held by eLEC which has consented to this treatment under the Plan. Upon the Effective Date, all existing shares of eLEC's common stock shall be cancelled and extinguished and all certificates representing such common stock or the unexercised right to acquire the same shall become void without the need for further action. Although not anticipated, if all Allowed Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims and General Unsecured Claims are paid in full, the remaining balance of the Stock Sale Proceeds shall be paid to eLEC as the holder of all Class 3 Allowed Interests

B. Means for Implementation of the Plan

1. Continued Corporate Existence

a) The Debtor

The Debtor will continue to exist after the Effective Date as a corporate entity, with all the powers of a corporation under applicable law in the jurisdiction in which the Debtor is incorporated or otherwise formed and pursuant to its certificate of incorporation and bylaws or other organizational documents in effect prior to the Effective Date, except to the extent such certificate of incorporation and bylaws or other organizational documents are amended by the Plan, without prejudice to any right to terminate such existence (whether by merger or otherwise) under applicable law after the Effective Date.

b) New Stock

On the Effective Date, the issuance by the Reorganized Debtor of two hundred (200) shares of New Stock shall be authorized without further act or action under applicable laws, regulations, rules or orders.

c) The Stock Sale

Implementation of the Debtor's Plan is predicated on the sale (the "Stock Sale") of one hundred (100%) percent of the stock of the Reorganized Debtor (the "New Stock"). Specifically, all of the proceeds generated by such sale will be used to fund the distributions to be made under the Debtor's Plan and to pay related expenses. Contemporaneous with the filing of this disclosure statement, the Debtor filed a motion (defined in the Plan as the "Disclosure Statement/Sale Motion")<sup>13</sup> to approve the sale of the New Stock (defined in the Section 6.1 of

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<sup>12</sup> The actual Allowed amount of Claims in this Chapter 11 Case will impact the estimated percentage distribution to creditors.

<sup>13</sup> In the Disclosure Statement/Sale Motion, the Debtor is seeking, *inter alia* : (i) approval of this Disclosure Statement; and (ii) approval of the bidding procedures and notice for an Auction of the New Stock.

the Plan as the “Stock Sale”).<sup>14</sup>

d) The eLEC Offer

eLEC has offered to pay \$325,000 in exchange for one hundred (100%) percent of the New Stock (the “eLEC Offer”). The Debtor proposes to sell the New Stock, pursuant to the terms and conditions set forth in the Disclosure Statement/Sale Motion to eLEC or a Successful Bidder at an auction before the Bankruptcy Court (the “Auction”). As set forth in the Disclosure Statement/Sale Motion, the terms and conditions of the Stock Sale are subject to modification as may be mutually agreed to by and between the Debtor and the Successful Bidder.

The eLEC Offer is subject to the following terms and conditions: (i) the purchase of the New Stock is to be free and clear of any and all liens, claims and encumbrances; (ii) the purchase price is to be paid in Cash at the Closing; (iii) the offer is subject to higher and better offers; and (iv) no break-up fee or other compensation is to be paid to eLEC if it is not the Successful Bidder.

The eLEC Offer also contemplates that the Reorganized Debtor shall not be liable for any of the Debtor’s pre-petition liabilities or any post-petition liabilities relating to the administration of the Debtor’s Chapter 11 case, such as professional fees. The Reorganized Debtor shall be responsible, however, for all unpaid, ordinary course debts and obligations of the Debtor incurred in the operation of the Debtor’s business between the Petition Date and the Effective Date.

e) Auction and Bidding Procedures

As aforesaid, the eLEC Offer is subject to higher and better offers. If one or more Qualified Bids (as defined in the Disclosure Statement/Bidding Procedures Order) are timely received by the Debtor, an Auction will be held at the offices of the Debtor’s counsel. The Disclosure Statement/Bidding Procedures Order shall set forth the procedures by which competitive bidding shall occur.

Upon conclusion of the Auction, the Debtor shall determine the highest and best Bid, and submit such Bid for approval by the Bankruptcy Court. The Debtor shall have the right to reject any and all Bids if the Debtor deems any Bid to be unacceptably low. In addition, any regulatory and statutory license, filing and notice requirements will be considered in the evaluation of the highest and best Bid since such requirements may have a material impact upon the ability of the Bidder to close within a reasonable time, or to close at all. The Debtor shall sell the New Stock to the party with the highest and best offer, subject to the approval of this Court at the Sale and Confirmation Hearing. If the Debtor does not receive any Qualified Bids for the New Stock, then the Debtor will report the same to the Bankruptcy Court and will proceed with the Confirmation/Sale Hearing and no Auction will be held with respect to the New Stock.

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<sup>14</sup> The Debtor is currently servicing its customers using “eLEC Communications” as its licensed “d/b/a”. If the Purchaser is a Person or Entity other than eLEC, eLEC has stated that it shall permit the Purchaser to use the eLEC d/b/a for a reasonable transition period after which the Purchaser will have to service its customers without the eLEC d/b/a.

The Disclosure Statement/Bidding Procedures Order should be referred to for all specific sale and auction terms and conditions.

## 2. Articles of Incorporation and By-Laws

The Articles of Incorporation and Bylaws of the Debtor shall be amended as may be required in order that they are consistent with the provisions of the Plan and the Bankruptcy Code. The Articles of Incorporation of the Debtor shall, among other things, provide, (i) for the authorization of two hundred shares of new common stock (previously defined as the New Stock); and, (ii) pursuant to section 1123(a)(6) of the Bankruptcy Code, for a provision prohibiting the issuance of non-voting equity securities for a period of two (2) years from the Effective Date and, if applicable, a provision setting forth an appropriate distribution of voting power among classes of equity securities possessing voting power, including, in the case of any class of equity securities having a preference over another class of equity securities with respect to dividends, adequate provisions for the election of directors representing such preferred class in the event of default in the payment of such dividends.

## 3. Officers and Directors of the Reorganized Debtor

If the Auction occurs and a party other than eLEC is the successful bidder, the current roster of Officers and Directors shall be deemed to have resigned as of the Effective Date. The owner/sole shareholder of the Reorganized Debtor shall be responsible for the election of new Directors which shall in turn be responsible for the appointment of officers of the Reorganized Debtor.

## 4. Corporate Action

Each of the matters provided for under the Plan involving corporate action to be taken by or required of the Debtor, as of the Effective Date, shall be deemed to have occurred and be effective as provided herein, and shall be authorized, approved and, to the extent taken prior to the Effective Date, ratified in all respects without any requirement of further action by stockholders, creditors, or directors of the Debtor.

## 5. Effectuating Documents; Further Transactions

Debtor's management, or a designee, will be authorized to execute, deliver, file, or record such contracts, instruments, releases, and other agreements or documents, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan or to otherwise comply with applicable law. The secretary or assistant secretary of the Debtor will be authorized to certify or attest to any of the foregoing actions.

### C. Unexpired Leases and Executory Contracts

#### 1. Assumption of Executory Contracts and Unexpired Leases

Any prepetition executory contract or unexpired lease of the Debtor which has not

expressly been assumed or rejected by motion, or which is not the subject of a pending application to assume on the Confirmation Date, shall be deemed rejected on the Effective Date by the Reorganized Debtor.

## 2. Rejection Damages Bar Date

If the rejection by the Debtor pursuant to the Plan of an executory contract or unexpired lease results in a Claim, then such Claim shall be forever barred and shall not be enforceable against the Debtor, the Reorganized Debtor, or such entities' properties unless a proof of claim is filed with the Bankruptcy Court and served upon counsel to the Debtor within thirty (30) days after service of the Confirmation/Sale Order. If an executory contract or unexpired lease has been rejected prior to the Confirmation Date by Order of the Bankruptcy Court, and such Order provides a deadline for the filing of any Claim resulting from such rejection, then the deadline provided in such Order shall govern with respect to the Executory Contract or unexpired lease which is the subject of such Order.

## D. Provisions Governing Distributions

### 1. Funding of the Plan and Distribution of Proceeds

As soon as practicable after the Confirmation Date, and in no event later than the Effective Date, the Disbursing Agent shall establish the Distribution Account at a domestic bank to be identified in the Confirmation/Sale Order for the purpose of holding in escrow Cash to be used to fund distributions to be made to holders of Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Priority Non-Tax Claims, Allowed General Unsecured Claims and Allowed Interests, if any, under the Plan. On the Effective Date, or on the next Business Day thereafter, the Debtor or the Disbursing Agent shall deposit into the Distribution Account the Stock Sale Proceeds, such funds to be held in trust by the Disbursing Agent and used solely for the satisfaction of obligations under the Plan

### 2. Time of Distributions

On the Effective Date or as soon thereafter as is reasonably practicable, the Disbursing Agent shall: (i) pay in full all Administrative Expense Claims which have become Allowed as of the Effective Date; (ii) pay in full all Priority Tax Claims which have become Allowed as of the Effective Date; and (iii) pay in full all Priority Non-Tax Claims which have become Allowed as of the Effective Date.

As soon as practicable after all of the aforementioned claimants in the aforementioned paragraph have been paid, and after the Allowed amount of all Class 2 Claims has been determined, the Disbursing Agent shall pay to each holder of an Allowed Class 2 Claim, a Pro Rata share of Available Cash, up to but not exceeding the full amount of the holder's Allowed Class 2 Claim. Although not anticipated, if all Allowed Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims and General Unsecured Claims are paid in full, the remaining balance of the Stock Sale Proceeds shall be paid to eLEC as the holder of all Class 3 Allowed Interests

### 3. No Interest on Claims or Interests

Post-petition interest shall not accrue or be paid on Claims or Interests, and no Creditor or Interest holder shall be entitled to interest accruing on or after the Petition Date on any Claim, right, or Interest. Additionally, and without limiting the foregoing, interests shall not accrue or be paid on any Disputed Claim in respect of the period from the Effective Date to the date a final distribution is made when and if such Disputed Claim becomes an Allowed Claim.

### 4. Claims Administration and Reservation of Funds to Satisfy Disputed Claims

The Debtor anticipates that all Claims have been filed or scheduled and that all disputes relating to such Claims will be resolved prior to Confirmation. Nevertheless, to provide for the possibility that a rejection damage claim or other claim may be filed and that a dispute related to such claim(s) may arise, the Debtor shall be afforded forty-five (45) days in which to file an objection to any such claims(s).

### 5. Distribution of Funds for Fees and Expenses After the Confirmation Date.

Any professional persons seeking compensation for services rendered and expenses incurred after the Confirmation Date for services rendered on behalf of the Debtor or the Disbursing Agent shall be paid (i) prior to the Effective Date, by the Debtor, or (ii) after the Effective Date, by the Disbursing Agent, upon submission of invoices to the Debtor or the Disbursing Agent. The Debtor or the Disbursing Agent shall have twenty (20) days from the submission of an invoice to object in writing to the invoice in whole or part. Any such objection shall identify with specificity the item or items in the invoice to which objection is made and the grounds for the objection, and shall be served upon the Professional Person who submitted the invoice and upon the other parties entitled to make objections. If no objection is made to an invoice payable by the Debtor or the Disbursing Agent, the Debtor or the Disbursing Agent shall pay such fees and expenses in the amounts requested. If timely objection is made to the fees or expenses of any Professional Person and such objection is not resolved by agreement among such Professional Person and any objecting party, any such dispute shall be submitted to the Bankruptcy Court to which an application for compensation shall be made by such Professional Person seeking payment of the disputed items in the invoice. If objection is made to only part of an invoice, the Debtor or the Disbursing Agent shall pay the undisputed balance of the invoice pending the resolution of the disputed portion of the invoice.

As Disbursing Agent, eLEC will be required to maintain a bond for one hundred and ten (110%) of all cash on hand.

### 6. Distributions of Cash

All distributions of Cash to be made by the Debtor pursuant to the Plan shall be made by check or by wire transfer, in the Debtor's discretion, from the Distribution Account.

### 7. Delivery of Distributions

Distributions to Creditors holding Allowed Claims shall be made by the Disbursing

Agent (a) at the addresses set forth on the proofs of claim filed by such Creditors (or at the last known addresses of such Creditors if no proof of claim is filed or if the Debtor have been notified in writing of a change of address), (b) at the addresses set forth in any written notices of address changes delivered to the Disbursing Agent after the date of any related proof of claim, (c) at the addresses reflected in the Schedules if no proof of claim has been filed and the Disbursing Agent has not received a written notice of a change of address. If any Creditor's distribution is returned as undeliverable, no further distributions to such Creditor shall be made unless and until the Disbursing Agent is notified of such Creditor's then current address, at which time all missed distributions shall be made to such Creditor without interest. Amounts in respect of undeliverable distributions shall be returned to the Disbursing Agent until such distributions are claimed. All funds or other undeliverable distributions returned to the Disbursing Agent and not claimed within six months of return shall be distributed to the other creditors of the Class of which the Creditor to whom the distribution was originally made is a member in accordance with the provisions of the Plan applicable to distributions to that Class. Distribution checks which have been delivered by the Disbursing Agent as aforesaid and which have not been cashed by the payee within six months after the relevant Distribution Date for such check shall be deemed an undeliverable distribution for purposes of the application of this section.

#### 8. Fractional Dollar

Any other provision of the Plan notwithstanding, neither the Reorganized Debtor nor the Disbursing Agent shall be required to make distributions or payments of fractions of dollars. Whenever any payment of a fraction of a dollar under the Plan would otherwise be called for, the actual payment shall reflect a rounding of such fraction to the nearest whole dollar (up or down), with half dollars or less being rounded down.

#### E. Allowance and Payment of Certain Administrative Claims

##### 1. Professional Claims

###### a) Final Fee Applications

All final requests for payment of Professional Claims with respect to any period prior to the Confirmation Date, must be filed no later than forty-five (45) days following the Confirmation Date. After notice and a hearing in accordance with the procedures established by the Bankruptcy Code and any prior orders of the Bankruptcy Court, the allowed amounts of such Professional Claims and expenses shall be determined by the Bankruptcy Court.

###### b) Post-Effective Date Retention

Upon the Effective Date, any requirement that Professionals comply with sections 327 through 331 of the Bankruptcy Code in seeking retention or compensation for services rendered after such date will terminate, and the Disbursing Agent will employ and pay Professionals in the ordinary course of business.

## 2. Other Administrative Claims

All other requests for payment of an Administrative Expense Claim must be filed with the Bankruptcy Court and served on counsel for the Disbursing Agent no later than the Effective Date. Any request for payment of an Administrative Expense Claim pursuant to this section that is not timely filed and served shall be disallowed automatically without the need for any objection from the Disbursing Agent. The Disbursing Agent may settle an Administrative Expense Claim without further Bankruptcy Court approval. Unless the Disbursing Agent objects to an Administrative Expense Claim, such Administrative Expense Claim shall be deemed allowed in the amount requested. In the event that the Disbursing Agent objects to an Administrative Expense Claim, the Bankruptcy Court shall determine the allowed amount of such Administrative Expense Claim. The Reorganized Debtor shall be responsible for all Administrative Expense Claims which are paid or payable by the Debtor or the Reorganized Debtor in the ordinary course of business.

### F. Effect of the Plan on Claims and Interests

#### 1. Vesting of Assets

Except as otherwise explicitly provided in the Plan, on the Effective Date, all property comprising the Estate shall vest in the Reorganized Debtor as of the Effective Date, free and clear of all Claims, liens, charges, encumbrances, rights and interests of creditors and equity security holders.<sup>15</sup> Nothing contained herein provides the Reorganized Debtor with any right, title or interest in the Stock Sale Proceeds.

#### 2. Discharge of Debtor

Pursuant to section 1141(d) of the Bankruptcy Code, except as otherwise specifically provided in the Plan or in the Confirmation/Sale Order, the distributions and rights that are provided in the Plan shall be in complete satisfaction, discharge, and release, effective as of the Confirmation Date (but subject to the occurrence of the Effective Date), of Claims and causes of action, whether known or unknown, against, liabilities of, liens on, obligations of, rights against, and Interests in the Debtor or any of its assets or properties, regardless of whether any property shall have been distributed or retained pursuant to the Plan on account of such Claims, rights, and Interests, including, but not limited to, Claims and Interests that arose before the Confirmation Date, any liability (including withdrawal liability) to the extent such Claims relate to services performed by employees of the Debtor prior to the Petition Date and that arise from a termination of employment or a termination of any employee or retiree benefit program, regardless of whether such termination occurred prior to or after the Confirmation Date, and all debts of the kind specified in sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, in each case whether or not (a) a proof of Claim or Interest based upon such Claim, debt, right, or Interest is filed or deemed filed under section 501 of the Bankruptcy Code, (b) a Claim or

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<sup>15</sup> The Debtor is currently servicing its customers using "eLEC Communications" as its licensed "d/b/a". If the Purchaser is a Person or Entity other than eLEC, eLEC has stated that it shall permit the Purchaser to use the eLEC d/b/a for a reasonable transition period after which the Purchaser will have to service its customers without the eLEC d/b/a.

Interest based upon such Claim, debt, right, or Interest is allowed under section 502 of the Bankruptcy Code, or (c) the holder of such a Claim, right, or Interest has accepted the Plan. The Confirmation/Sale Order shall be a judicial determination of the discharge of all Claims against and Interests in the Debtor, subject to the Effective Date occurring.

### 3. Release by Debtor of Certain Parties

Pursuant to section 1123(b)(3) of the Bankruptcy Code, on the Effective Date, the Debtor, in its individual capacity and as debtor in possession, and the Reorganized Debtor, will be deemed to release, waive or discharge any claims and causes of action and liabilities (other than the rights of the Debtor or the Reorganized Debtor to enforce the Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered hereunder), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise, that are based on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor that could have been asserted by or on behalf of the Debtor or its estate, against the present and former officers and directors of the Debtor and eLEC and each of their respective present and former officers, directors, employees, attorneys, financial advisors, accountants, and agents.

Nothing in this section shall (i) be construed to release or exculpate any entity from fraud, gross negligence, wilful misconduct, malpractice, criminal conduct, unauthorized use of confidential information that causes damages, or ultra vires acts, or (ii) limit the liability of the professionals of the Debtor or the Reorganized Debtor to their respective clients pursuant to DR 6-102 of the Code of Professional Responsibility.

### 4. Setoffs

Subject to Section 8.7 of the Plan, the Debtor may, but shall not be required to at any time prior to the Confirmation Date and in accordance with Section 553 of the Bankruptcy Code and applicable bankruptcy and/or non-bankruptcy laws, set off against or recoup from, any Claim, and the payments or other distributions to be made pursuant to the Plan in respect of such Claim, any nature whatsoever that the Debtor may have against such Creditor

### 5. Exculpation and Limitation of Liability

Subject to Section 12.6 of the Plan, the Debtor, the Disbursing Agent or the Reorganized Debtor and any of such parties' respective present or former members, officers, directors, employees, advisors, attorneys, representatives, financial advisors, investment bankers, or agent and any of such parties' successors and assigns, shall not have or incur, and are hereby released from, any claim, obligation, Cause of Action, or liability to one another or to any Creditor or Interest holder, or any other party-in-interest, or any of their respective agents, employees, representatives, financial advisors, attorneys or Affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of the Debtor's Chapter 11 Case, negotiation and filing of the Plan, filing the Chapter 11 Case, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for their willful misconduct. No Creditor or Interest holder, or

other party in interest, none of their respective agents, employees, representatives, financial advisors, attorneys or affiliates, and no successors or assigns of the foregoing, shall have any right of action against the parties listed in this Article for any act or omission in connection with, relating to or arising out of the Chapter 11 Case, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan.

Nothing in this section shall (i) be construed to release or exculpate any entity from fraud, gross negligence, wilful misconduct, malpractice, criminal conduct, unauthorized use of confidential information that causes damages, or ultra vires acts, or (ii) limit the liability of the professionals of the Debtor or the Reorganized Debtor to their respective clients pursuant to DR 6-102 of the Code of Professional Responsibility.

#### 6. Injunction

Subject to Section 12.3 of the Plan, the satisfaction, release, and discharge provisions of the Plan shall act as an injunction against any Person commencing or continuing any action, employment of process, or act to collect, offset, or recover any Claim or Cause of Action satisfied, released, or discharged under the Plan to the fullest extent authorized or provided by the Bankruptcy Code, including, without limitation, to the extent provided for or authorized by sections 524 and 1141 thereof.

#### 7. U.S. Trustee's Fees

Until the Effective Date, the Debtor shall be responsible for quarterly U.S. Trustee's fees. Following the Effective Date, and until such time as this Chapter 11 Case is closed, converted or dismissed, eLEC shall be responsible for the payment of U.S. Trustee's fees.

### **VII.** **CERTAIN FACTORS TO BE CONSIDERED**

The holder of a Claim against the Debtor should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference herein) before deciding whether to vote to accept or to reject the Plan.

#### A. General Considerations

The formulation of a reorganization plan is the principal purpose of a Chapter 11 Case. The Plan sets forth the means for satisfying the holders of Claims against, and Interests in, the Debtor. Certain Claims may receive partial distributions pursuant to the Plan, and in some instances, no distributions at all. Reorganization of the Debtor's business and operations under the proposed Plan also avoids the potentially adverse impact of a liquidation on the Debtor.

#### B. Certain Bankruptcy Considerations

If the Plan is not confirmed and consummated, there can be no assurance that the Chapter

11 Case will continue rather than be converted to a liquidation or that any alternative plan of reorganization would be on terms as favorable to the holders of Claims and Interests as the terms of the Plan. If a liquidation or protracted reorganization were to occur, there is a substantial risk that the value of the Debtor's Assets would be substantially eroded to the detriment of all stakeholders. The Debtor's comparison of the effects of reorganization versus liquidation are set forth in Section IX(D) herein.

#### C. Claims Estimations

There can be no assurance that the estimated Claim amounts set forth herein are correct. The actual Allowed amount of Claims likely will differ in some respect from the estimates. The estimated amounts are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the actual Allowed amount of Claims may vary from those estimated herein.

#### D. Tax Planning

Due to time and resource constraints resulting from the commencement of the Chapter 11 Case, the Debtor has used and may continue to use certain estimating techniques in connection with their tax planning efforts (for example, in determining the existence and magnitude of built-in gains or losses). The use of such estimating techniques, while cost-effective, necessarily results in lower confidence levels with respect to certain of the tax analyses.

### **VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

A summary description of certain United States federal income tax consequences of the Plan is provided below. This description is for informational purposes only and, due to a lack of definitive judicial or administrative authority or interpretation, substantial uncertainties exist with respect to various tax consequences of the Plan as discussed herein. Only the principal United States federal income tax consequences of the Plan to the Debtor and to Creditors who are entitled to vote to accept or reject the Plan are described below. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan. No rulings or determinations of the Internal Revenue Service (the "IRS") or any other tax authorities have been sought or obtained with respect to any tax consequences of the Plan, and the discussion below is not binding upon the IRS or such other authorities. No representations are being made regarding the particular tax consequences of the confirmation and consummation of the Plan to the Debtor or any Creditor. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position from any discussed herein.

The discussion of United States federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the "IRC"), Treasury Regulations, judicial authorities, published positions of the IRS and other applicable authorities, all as in effect on the date of this document and all of which are subject to change or differing interpretations (possibly with retroactive effect).

The following discussion does not address foreign, state or local tax consequences of the Plan, nor does it purport to address the United States federal income tax consequences of the Plan to special classes of taxpayers (e.g., banks and certain other financial institutions, insurance companies, tax-exempt organizations, governmental entities, persons that are, or hold their Claims through, pass-through entities, persons whose functional currency is not the United States dollar, foreign persons, dealers in securities or foreign currency, employees, persons who received their Claims pursuant to the exercise of an employee stock option or otherwise as compensation and persons holding Claims that are a hedge against, or that are hedged against, currency risk a-that are part of a straddle, constructive sale or conversion transaction). Furthermore, the following discussion does not address United States federal taxes other than income taxes.

Each holder is strongly urged to consult its own tax advisor regarding the United States federal, state, local and any foreign tax consequences of the transactions described herein and in the Plan.

A. United States Federal Income Tax Consequences to the Debtor

1. Cancellation of Indebtedness Income.

Upon implementation of the Plan, the amount of the Debtor's aggregate outstanding indebtedness will be substantially reduced. In general, the discharge of a debt obligation in exchange for an amount of cash and other property having a fair market value (or, in the case of a new debt instrument, an "issue price") less than the "adjusted issue price" of the debt gives rise to cancellation of indebtedness ("COD") income to the debtor. However, COD income is not taxable to the debtor if the debt discharge occurs in a title 11 bankruptcy case. Rather, under the IRC, such COD income instead will reduce certain of the Debtor's tax attributes, generally in the following order: (a) net operating losses ("NOLs") and NOL carryforwards; (b) general business credit carryforwards; (c) minimum tax credit carryforwards; (d) capital loss carryforwards; (e) the tax basis of the Debtor's depreciable and nondepreciable assets (but not below the amount of its liabilities immediately after the discharge); and (f) foreign tax credit carryforwards. A debtor may elect to alter the preceding order of attribute reduction and, instead, first reduce the tax basis of its depreciable assets (and, possibly, the depreciable assets of its subsidiaries). The reduction in tax attributes occurs only after the tax for the year of the debt discharge has been determined (i.e., such attributes may be available to offset taxable income that accrues between the date of discharge and the end of the Debtor's tax year). Any excess COD income over the amount of available tax attributes is not subject to United States federal income tax and has no other United States federal income tax impact.

2. Net Operating Losses-Section 382 of the Internal Revenue Code

In general, Internal Revenue Code Section 382(a) may limit or disallow a net operating loss carryforward where there is a significant change in ownership. A significant change in ownership is one that involves a more than fifty (50%) percent shift in ownership involving any five (5%) percent shareholder. Following this type of change, the availability of net operating losses of the company may be limited. If the 382 limitation exceeds the taxable income of the acquiring corporation, the excess is carried over to the following tax years. Furthermore,

carryovers are disallowed if the new loss corporation does not continue the business of the old loss corporation for at least two years following the acquisition.

The Debtor's parent company, eLEC, has filed consolidated tax returns on behalf of itself, TSI and its other subsidiaries. While there is no NOL specific to the Debtor for federal tax purposes (because eLEC and its subsidiaries file on a consolidated basis), as of November 30, 2002, the last fiscal year end for which a tax return has been filed, the Debtor had a New York State NOL carryforward of approximately \$497,000. The Debtor anticipates that the cancellation of indebtedness resulting from the Plan would fully utilize the net operating loss carryforward.

#### B. Federal Income Tax Consequences to Creditors and Interest holders of the Debtor

The following discusses certain United States federal income tax consequences of the transactions contemplated by the Plan to Claim holders and Interest holders that are "United States holders," as defined below. The United States federal income tax consequences of the transactions contemplated by the Plan to Creditors (including the character, timing and amount of income, gain or loss recognized) will depend upon, among other things, (1) whether the Claim and the consideration received in respect thereof are "securities" for federal income tax purposes; (2) the manner in which a holder acquired a Claim; (3) the length of time the Claim has been held; (4) whether the Claim was acquired at a discount; (5) whether the holder has taken a bad debt deduction with respect to the Claim (or any portion thereof) in the current or prior years; (6) whether the holder has previously included in its taxable income accrued but unpaid interest with respect to the Claim; (7) the holder's method of tax accounting; and (8) whether the Claim is an installment obligation for federal income tax purposes. Therefore, Creditors should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequences to them of the transactions contemplated by the Plan. This discussion assumes that the holder has not taken a bad debt deduction with respect to a Claim (or any portion thereof) in the current or any prior year and such Claim did not become completely or partially worthless in a prior taxable year. Moreover, the Debtor intends to claim deductions to the extent they are permitted to deduct any amounts they pay in cash pursuant to the Plan.

For purposes of the following discussion, a "United States holder" is a Creditor that is (1) a citizen or individual resident of the United States; (2) a partnership or corporation created or organized in the United States or under the laws of the United States or any political subdivision thereof; (3) an estate, the income of which is subject to United States federal income taxation regardless of its source; or (4) a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States fiduciaries have the authority to control all substantial decisions of the trust or (ii) the trust was in existence on August 20, 1996 and properly elected to be treated as a United States person.

##### 1. Holders of Priority Claims.

A holder whose Claim is paid in full or otherwise discharged on the Effective Date will recognize income, gain or loss for United States federal income tax purposes in an amount equal to the difference between (i) the amount of cash received by such holder in respect of its Claim

and (ii) the holder's adjusted tax basis in the Claim. The character of such gain or loss as capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, the nature of the Claim in such holder's hands, whether the Claim constitutes a capital asset in the hands of the holder, whether the Claim was purchased at a discount, and whether and to what extent the holder has previously claimed a bad debt deduction with respect to its Claim. A holder recognizing a loss as a result of the Plan may be entitled to a bad debt deduction, either in the taxable year of the Effective Date or a prior taxable year. In addition, the rules summarized above with respect to accrued interest and market discount may also apply with respect to the receipt of cash in discharge of a holder's Priority Non-Tax Claim.

## 2. Information Reporting and Backup Withholding.

Certain payments, including payments in respect of accrued interest or market discount, are generally subject to information reporting by the payor to the IRS. Moreover, such reportable payments are subject to backup withholding under certain circumstances. Under the IRC's backup withholding rules, a United States holder may be subject to backup withholding at the applicable rate with respect to certain distributions or payments pursuant to the Plan, unless the holder (a) comes within certain exempt categories (which generally include corporations) and when required, demonstrates this fact or (b) provides a correct United States taxpayer identification number and certifies under penalty of perjury that the holder is a U. S. person, the taxpayer identification number is correct and that the holder is not subject to backup withholding because of a failure to report all dividend and interest income.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a holder's United States federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS.

## C. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A CLAIM HOLDER'S PARTICULAR CIRCUMSTANCES. ACCORDINGLY, CREDITORS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE UNITED STATES FEDERAL, STATE, LOCAL, AND APPLICABLE FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN, INCLUDING WITH RESPECT TO TAX REPORTING AND RECORD KEEPING REQUIREMENTS.

**IX.**  
**FEASIBILITY OF THE PLAN AND THE BEST INTERESTS TEST**

A. Feasibility of the Plan

To confirm the Plan, the Bankruptcy Court must find that confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtor. This requirement is imposed by section 1129(a)(11) of the Bankruptcy Code and is referred to as the "feasibility" requirement. The Debtor believes that they will be able to timely perform all obligations described in the Plan and, therefore, that the Plan is feasible.

To demonstrate the feasibility of the Plan, the Debtor has prepared financial data as set forth in Appendix "B" attached to this Disclosure Statement. The Projections indicate that the Reorganized Debtor should have sufficient cash flow to pay and service their debt obligations and to fund their operations. Accordingly, the Debtor believes that the Plan satisfies the feasibility requirement of section 1129(a)(11) of the Bankruptcy Code. As noted in the Projections, however, the Debtor cautions that no representations can be made as to the accuracy of the Projections or as to the Reorganized Debtor's ability to achieve the projected results. Many of the assumptions upon which the Projections are based are subject to uncertainties outside the control of the Debtor. Some assumptions inevitably will not materialize, and events and circumstances occurring after the date on which the Projections were prepared may be different from those assumed or may be unanticipated, and may adversely affect the Debtor's financial results. Therefore, the actual results can be expected to vary from the projected results and the variations may be material and adverse. See Article VII, "Certain Factors to Be Considered," for a discussion of certain risk factors that may affect financial feasibility of the Plan.

THE PROJECTIONS HAVE NOT BEEN AUDITED BY INDEPENDENT ACCOUNTANTS. ALTHOUGH PRESENTED WITH NUMERICAL SPECIFICITY, THE PROJECTIONS ARE BASED UPON A VARIETY OF ASSUMPTIONS, SOME OF WHICH IN THE PAST HAVE NOT BEEN ACHIEVED AND WHICH MAY NOT BE REALIZED IN THE FUTURE, AND ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE DEBTOR. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION OR WARRANTY BY THE DEBTOR, OR ANY OTHER PERSON, THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE PRESENTED IN THE PROJECTIONS.

B. Acceptance of the Plan

As a condition to confirmation, the Bankruptcy Code requires that each Class of Impaired Claims and Interests vote to accept the Plan, except under certain circumstances. Section 1126(c) of the Bankruptcy Code defines acceptance of a plan by a class of Impaired Claims as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of Allowed Claims in that Class, but for that purpose counts only those who actually vote to accept or to reject the Plan. Thus, a Class of Claims will have voted to accept the Plan only if two-thirds in

amount and a majority in number actually voting cast their Ballots in favor of acceptance. Under section 1126(d) of the Bankruptcy Code, a Class of Interests has accepted the Plan if holders of such Interests holding at least two-thirds in amount actually voting have voted to accept the Plan. Holders of Claims or Interests who fail to vote are not counted as either accepting or rejecting the Plan.

### C. Best Interests Test

Even if a plan is accepted by each class of holders of Claims and Interests, the Bankruptcy Code requires a bankruptcy court to determine that the plan is in the “best interests” of all holders of Claims and Interests that are impaired by the plan and that have not accepted the plan. The “best interests” test, as set forth in section 1129(a)(7) of the Bankruptcy Code, requires a bankruptcy court to find either that (i) all members of an impaired class of Claims or Interests have accepted the plan or (ii) the plan will provide a member who has not accepted the plan with a recovery of property of a value, as of the effective date of the plan, that is not less than the amount that such holder would recover if the debtor were liquidated under chapter 7 of the Bankruptcy Code. The Debtor believes that there is no doubt that Class 2 Claimants (General Unsecured Creditors) will recover more if this Plan is consummated than if the Debtor is forced into liquidation.

To calculate the probable distribution to members of each impaired class of holders of Claims and Equity Interests if the debtor were liquidated under chapter 7, a bankruptcy court must first determine the aggregate dollar amount that would be generated from the debtor’s assets if its Chapter 11 Case were converted to a chapter 7 case under the Bankruptcy Code. This “liquidation value” would consist primarily of the proceeds from a forced sale of the debtor’s assets by a chapter 7 trustee.

Generally, the amount of liquidation value available to unsecured creditors would be reduced by, first, the claims of secured creditors to the extent of the value of their collateral, and, second, by the costs and expenses of liquidation, as well as by other administrative expenses and costs of both the chapter 7 case and the Chapter 11 Case. Costs of liquidation under chapter 7 of the Bankruptcy Code would include the compensation of a trustee, as well as of counsel and other professionals retained by the trustee, asset disposition expenses, all unpaid expenses incurred by the debtor in its bankruptcy case (such as compensation of attorneys, financial advisors, and restructuring consultants) that are allowed in the chapter 7 case, litigation costs, and claims arising from the operations of the debtor during the pendency of the bankruptcy case. The liquidation itself would trigger certain priority payments that otherwise would be due in the ordinary course of business. Those priority claims would be paid in full from the liquidation proceeds before the balance would be made available to pay general unsecured claims or to make any distribution in respect of Equity Interests. The liquidation also would prompt the rejection of any remaining executory contracts and unexpired leases and thereby create additional unsecured claims.

Once the court ascertains the recoveries in liquidation of secured creditors and priority claimants, it must determine the probable distribution to general unsecured creditors and equity security holders from the remaining available proceeds in liquidation. If such probable distribution has a value greater than the distributions to be received by such creditors and equity

security holders under a debtor's plan, then such plan is not in the best interests of creditors and equity security holders.

D. Application of the Best Interests Test to the Liquidation Analysis

The Debtor's liquidation analysis is annexed hereto as Appendix "D". The Debtor believes that any liquidation analysis is speculative. For example, the liquidation analysis necessarily contains an estimate of the amount of Claims which will ultimately become Allowed Claims. In preparing the liquidation analysis, the Debtor has projected the amount of Allowed Claims based upon a review of its scheduled and filed proofs of claim. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Claims at the projected amounts of Allowed Claims set forth in the liquidation analysis. The estimate of the amount of Allowed Claims set forth in the liquidation analysis should not be relied on for any other purpose, including, without limitation, any determination of the value of any distribution to be made on account of Allowed Claims and Equity Interests under the Plan. In addition, as noted above, the valuation analysis of the Reorganized Debtor also contains numerous estimates and assumptions.

Notwithstanding the difficulties in quantifying recoveries to creditors with precision, the Debtor believes that the Plan meets the "best interests" test of section 1129(a)(7) of the Bankruptcy Code, because it appears that Allowed General Unsecured Creditors will receive nothing if this Chapter 11 Case is converted to a chapter 7 case.

The Debtor's main assets include its lines and customer accounts, cash on hand and accounts receivables. Based on the assumption that a chapter 7 trustee would not attempt to continue the Debtor's operations, conversion to chapter 7 would render the lines and customer accounts worthless because all of the Debtor's pre-conversion customers would cancel their contracts (which are all at-will) and seek new carriers. Accordingly, as set forth in the Liquidation Analysis, in the event of a conversion and cessation of all business operations, the Debtor believes a chapter 7 trustee would have only two (2) viable assets to liquidate and/or distribute. The first is "cash on hand" which the Debtor estimates will be approximately \$138,209 on the hypothetical conversion date of April 1, 2004 (the "Hypothetical Conversion Date"). The second viable asset would be accounts receivables which are estimated to be approximately \$391,063 on the Hypothetical Conversion Date. As the liquidation analysis demonstrates, however, the Debtor does not believe that one hundred (100%) percent of the receivables will be collected. Indeed, the Debtor believes that, at best, no more than sixty-five (65%) percent of the receivables are collectable. The Debtor has reached this conclusion because a significant portion of the receivables are based on advances for work which will not have been done as of the Hypothetical Conversion Date. In addition, the Debtor believes that a number of its customers will refuse to pay outstanding invoices once they discover that they must switch to new local and long distance carriers. For the foregoing reasons, the Debtor believes that a chapter 7 trustee would have no more than \$392,400 ("Total Liquidated Assets") to pay chapter 7 administrative expenses, chapter 11 administrative expenses, Priority Claims and General Unsecured Claims.

As set forth in the Liquidation Analysis, the Debtor has estimated that a chapter 7 trustee's administrative expenses, including all related professional fees, could be as high as \$100,000 if

not more. The Debtor has further estimated that, on the Hypothetical Conversion Date, the total amount of post-petition payables and accrued expenses, included sales tax payables and professional fees, will be approximately \$657,899 (“Total Administrative Expenses”).

The Bankruptcy Code requires that, upon conversion to chapter 7, all chapter 7 administrative expenses and chapter 11 administrative expenses must be paid in full before any prepetition claims can be paid. As demonstrated on the Liquidation Analysis, the Total Administrative Expenses exceed the Total Liquidated Assets. Accordingly, if this Chapter 11 Case were to be converted, there would be no funds left to pay any portion of the Allowed Priority Tax Claims, Priority Non-Tax Claims and General Unsecured Claims.

Because the Plan calls for the payment in full of all Administrative Expenses Claims, Priority Tax Claims and Priority Non-Tax Claims, and provides for a potential distribution to holders of General Unsecured Claims of approximately sixteen (16%) percent to eighteen (18%) percent, the Debtor firmly believes that the “best interests” test is satisfied.

E. Conditions to Confirmation and Consummation of the Plan

1. Conditions to Confirmation

The following are conditions precedent to confirmation of the Plan. These conditions may be satisfied or waived by the Debtor in its sole discretion, without notice to parties in interest or the Court, and without a hearing:

- a) The Bankruptcy Court shall have approved by Final Order a Disclosure Statement with respect to the Plan in form and substance acceptable to the Debtor in its sole and absolute discretion.
- b) The Confirmation/Sale Order shall be in form and substance acceptable to the Debtor, in its sole and absolute discretion, and shall have been entered by the Bankruptcy Court.

2. Conditions to the Effective Date.

The following are conditions precedent to the occurrence of the Effective Date:

- a) Entry of the Confirmation/Sale Order, which has not been vacated, reversed or modified and as to which there is no stay in effect; and
- b) Closing of the Stock Sale.

F. Retention of Jurisdiction

The Bankruptcy Court shall retain exclusive jurisdiction of all matters arising under, arising out of, or related to, the Chapter 11 Case and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

- a) to enable the Disbursing Agent to prosecute all proceedings to set aside liens or encumbrances and to recover any preferences, transfers, assets or damages to which the Debtor's estate may be entitled under the Bankruptcy Code or other federal, state or local law, if any;
- b) to hear and determine all disputes concerning the classification, allowance or disallowance of any Claim or Interest;
- c) to resolve any disputes concerning any reserve established for Disputed Claims or Disputed Interests or the administration thereof;
- d) to hear and determine all Claims relating to a security or ownership interest in any property of the Debtor or in any proceeds thereof;
- e) to hear and determine all Claims arising out of any agreement entered into by the Debtor's estate after the Petition Date and prior to the Confirmation Date;
- f) to recover all assets and properties of the Debtor or its estate wherever located, if any;
- g) to alter, modify and amend the Plan pursuant to section 1127 of the Bankruptcy Code or to remedy any defect, cure any omissions, or reconcile any inconsistency in the Plan or Confirmation/Sale Order as may be necessary or advisable to carry out the purpose and intent of the Plan and to the extent authorized by the Bankruptcy Code or Bankruptcy Rules;
- h) to hear and determine such other matters as may be provided for in the Confirmation/Sale Order and for the purposes set forth in sections 1127(b) and 1142 of the Bankruptcy Code or in Rules 1019 and 3020(d) of the Bankruptcy Rules;
- i) to hear and determine all applications for compensation;
- j) to hear and determine any and all pending applications, adversary proceedings, contested matters and litigated matters, if any;
- k) to make such orders ex parte or upon application as are necessary or appropriate to carry out the provisions of the Plan, including orders interpreting the provisions hereof;
- l) to enter orders or decrees concluding the Debtor's chapter 11 case; and
- m) to determine such other matters as may be provided for in the Confirmation/Sale Order or, as may be authorized under the provisions of the Bankruptcy Code.

**X.****ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN**

The Debtor believes that the Plan affords holders of Claims and Interests the potential for the greatest realization on the Debtor's assets and, therefore, is in the best interests of such holders. If the Plan is not confirmed, however, the theoretical alternatives include: (a) continuation of the pending Chapter 11 Case; (b) an alternative plan or plans of reorganization; or (c) liquidation of the Debtor under chapter 7 or chapter 11 of the Bankruptcy Code. The mere continuation of the Chapter 11 Case will be, at minimum, impractical, as the Debtor is not likely to survive as a going concern in Chapter 11 Case and would have difficulties sustaining the continuing costs which might arise if the Debtor remains a chapter 11 debtor-in-possession. The Debtor further believes that it has exhausted all reasonable options, and that the likelihood of an alternate plan of reorganization is at best, remote. Finally, if no Plan is confirmed, the Debtor's Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code. As previously discussed, the Debtor's liquidation analysis, which is premised upon a hypothetical liquidation in a chapter 7 case, leads the Debtor to the opinion that the recoveries projected in a chapter 7 liquidation are not likely to afford holders of Claims and holders of Interests as great a realization potential as does implementation of the Plan.

**XI.****CONCLUSION**

The Plan provides for an equitable and early distribution to creditors of the Debtor. The Debtor believe that any alternative to confirmation of the Plan, such as liquidation or attempts by another party in interest to file a plan, could result in significant delays, litigation, and costs. Moreover, the Debtor believes that their creditors will receive greater and earlier recoveries under the Plan than those that would be achieved in liquidation or under an alternative plan. FOR THESE REASONS, THE DEBTOR URGES YOU TO RETURN YOUR BALLOT ACCEPTING THE PLAN.

Dated: February 18, 2004

Respectfully submitted,  
TELECARRIER SERVICES, INC.

By: \_\_\_\_\_

  
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PLAN  
OF  
REORGANIZATION

# APPENDIX “A”

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UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK

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In re: :  
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TELECARRIER SERVICES, INC., : Chapter 11  
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Debtor. : Case No. 02-20379 (ASH)  
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**AMENDED PLAN OF REORGANIZATION OF TELECARRIER SERVICES, INC.**

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**DATED: February 18, 2004**

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UNITED STATES BANKRUPTCY COURT  
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: Chapter 11  
TELECARRIER SERVICES, INC., : Case No. 02-20379 (ASH)  
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**AMENDED PLAN OF REORGANIZATION OF TELECARRIER SERVICES, INC.**

This is the amended plan of reorganization ("Plan") of Telecarrier Services, Inc., the debtor and debtor-in-possession herein (the "Debtor") filed by and through its counsel, Jenkins & Gilchrist Parker Chapin LLP, pursuant to chapter 11 of title 11 of the United States Code, as amended.

**ARTICLE I**

**Definitions**

For purposes of the Plan, the following terms shall have the respective meanings hereinafter set forth (such meanings to be equally applicable to the singular and plural forms of the terms defined), unless a different meaning is clearly required by and explained in the text. Unless otherwise defined herein, terms used in this Plan which are defined in the Bankruptcy Code shall have the meaning assigned therein.

1.1 "Administrative Expense Claim" shall mean a Claim for any cost or expense of administration of this Chapter 11 Case entitled to priority in accordance with the provisions of sections 503 and 507(a)(1) of the Bankruptcy Code, including, without limitation:  
(a) any actual, necessary costs and expenses of preserving the Debtor's estate and of operating

the business of the Debtor (other than such Claims or portions thereof which, by their express terms, are not due or payable by the Effective Date); (b) all allowances of compensation for legal or other services or reimbursement of costs and expenses under sections 330 or 503 of the Bankruptcy Code or otherwise allowed by the Bankruptcy Court; and (c) all fees or charges assessed against the Debtor's estate under chapter 123 of title 28, United States Code.

1.2 "Allowed Administrative Expense Claim" shall mean all or that portion of an Administrative Claim which: (a) has been allowed by a Final Order of the Bankruptcy Court; or (b) for which a request for payment of Administrative Expense Claim has been timely filed, and as to which no objection to the allowance thereof is pending.

1.3 "Allowed Claim" shall mean a Claim, or portion thereof, other than an Administrative Expense Claim, which: (a) (i) is set forth in a proof of claim timely and properly filed on or prior to the Bar Date, or late filed with leave of the Bankruptcy Court pursuant to a Final Order, (ii) is filed in a definite and fixed amount and not as a contingent or unliquidated claim or otherwise as subject to calculation or determination, and (iii) as to which no objection to the allowance thereof is pending; (b) (i) is set forth in the Debtor's Schedules in a definite and fixed amount and not as a contingent, unliquidated or disputed claim or otherwise as subject to calculation or determination; and (ii) as to which no objection to the allowance thereof is pending; or (c) is determined to be allowed by a Final Order of the Bankruptcy Court.

1.4 "Allowed Interest" shall mean all or that portion of an Interest which: (a) has been allowed by a Final Order of the Bankruptcy Court; or (b) for which a proof of claim or a proof of interest has been timely filed by the Bar Date, and as to which no objection to the allowance thereof is pending.

1.5 "Assets" means all legal or equitable interests of the Debtor in any and all

property as described in section 541 of the Bankruptcy Code, of any nature, including, but not limited to, any real estate, buildings, structures, improvements, privileges, rights, easements, leases, subleases, licenses, goods, materials, supplies, furniture, fixtures, equipment, work in process, accounts, chattel paper, cash, deposit accounts, reserves, deposits, contractual rights, shares of stock or other instrument evidencing direct or indirect ownership in any Entity, intellectual property rights, Claims, causes of actions and any other general intangibles, and the proceeds, product, offspring, rents or profits thereof.

1.6 "Available Cash" means all Cash remaining after the satisfaction of all Allowed Administrative Expense Claims, all Allowed Priority Tax Claims and all Allowed Priority Non-Tax Claims.

1.7 "Bankruptcy Code" shall mean title 11 of the United States Code, as amended.

1.8 "Bankruptcy Court" shall mean the United States Bankruptcy Court for the Southern District of New York in which the Debtor's chapter 11 case is pending, and the United States District Court for the Southern District of New York to the extent that with respect to this chapter 11 case, such District Court may have withdrawn the reference, shall have determined to exercise original jurisdiction, or shall have sole authority to enter a final order or judgment.

1.9 "Bankruptcy Rules" shall mean the Federal Rules of Bankruptcy Procedure, and any amendments or supplements thereto.

1.10 "Bar Date" shall mean the date fixed by Order of the Bankruptcy Court on or prior to which Persons asserting a Claim or Interest against the Debtor must file a proof of such Claim or Interest or be forever barred from asserting a Claim or Interest against the Debtor or its property and from voting on the Plan and/or sharing in distributions thereunder. The Bar

Date for this case is February 21, 2003.

1.11 "Business Day" shall mean any day other than a Saturday, Sunday or legal holiday as defined in Bankruptcy Rule 9006(a).

1.12 "Cash" shall mean cash and cash equivalents, including, but not limited to, bank deposits, checks, readily marketable securities issued by the United States Treasury and other similar items.

1.13 "Chapter 11 Case" means the Debtor's voluntary case (No. 02-20379 (ASH)) filed with the Bankruptcy Court under chapter 11 of the Bankruptcy Code.

1.14 "Claim" shall mean a claim as defined in section 101 of the Bankruptcy Code.

1.15 "Claimant" shall mean the holder of a Claim.

1.16 "Class" shall mean any class into which Allowed Claims and Allowed Interests are classified pursuant to Article II of this Plan.

1.17 "Confirmation Date" shall mean the date the Confirmation/Sale Order is entered by the Clerk of the Bankruptcy Court in accordance with the provisions of Chapter 11 of the Bankruptcy Code.

1.18 "Confirmation/Sale Order" shall mean the Final Order of the Bankruptcy Court confirming the Plan and approving the transactions contemplated therein including, but not limited to the Stock Sale, in accordance with and pursuant to section 1129 of the Bankruptcy Code.

1.19 "Creditor" shall have the meaning set forth in section 101(10) of the Bankruptcy Code.

1.20 "Debtor" shall mean Telecarrier Services, Inc., a Delaware corporation.

1.21 "Disallowed Claim" shall mean any Claim or portion thereof which: (a) has been disallowed or expunged by a Final Order of the Bankruptcy Court; or (b)(i) is identified in Debtor's Schedules as a Claim of unknown amount or as a contingent, unliquidated or disputed Claim; and (ii) and as to which the holder of the Claim has not set forth the Claim in a proof of claim timely and properly filed on or prior to the Bar Date, or late filed with leave of the Bankruptcy Court pursuant to a Final Order.

1.22 "Disallowed Interest" shall mean any Interest or portion thereof which: (a) has been disallowed or expunged by a Final Order of the Bankruptcy Court; or (b)(i) is not identified in the Debtor's Schedules; and (ii) as to which the holder of the Interest has not set forth the Interest in a proof of claim or proof of interest timely and properly filed on or prior to the Bar Date, or late filed with leave of the Bankruptcy Court pursuant to a Final Order.

1.23 "Disbursing Agent" means eLEC.

1.24 "Disclosure Statement" means the written disclosure statement that relates to this Plan, as may have been or may be amended, supplemented or modified from time to time, and that is prepared and distributed in accordance with section 1125 of the Bankruptcy Code and Rule 3018 of the Bankruptcy Rules.

1.25 "Disclosure Statement/Sale Motion" means the motion of the Debtor, dated January 21, 2004, entitled Motion For: (A) An Order: (I) Approving The Debtor's Disclosure Statement, (II) Approving Procedures For The Solicitation Of Votes For Or Against The Debtor's Plan, (III) Scheduling An Auction And Approving Bidding Procedures For A Sale, Pursuant To The Plan, Of One Hundred (100%) Percent Of The Stock Of The Reorganized Debtor; (IV) Scheduling A Hearing To Consider Confirmation Of The Debtor's Plan And Approval Of The Aforesaid Stock Sale; And (V) Approving The Form And Manner Of Notices

Of The Foregoing Relief; And (B) An Additional Order Confirming The Debtor's Plan Of Reorganization And Approving The Sale Of One Hundred (100%) Percent Of The Stock Of The Reorganized Debtor Pursuant To The Plan.

1.26 "Disclosure Statement/Bidding Procedures Order" means the Order of the Bankruptcy Court granting relief requested by the Debtor in the Disclosure Statement/Sale Motion.

1.27 "Disputed" means, with respect to a Claim or Interest, any such Claim or Interest that is (a) neither allowed nor disallowed pursuant to the Plan or a Final Order nor deemed allowed pursuant to the Plan or sections 502, 503, or 1111 of the Bankruptcy Code or (b) for which a proof of Claim or Interest (or in the case of an administrative expense, a proof of Claim, motion or request for payment) has been filed with the Bankruptcy Court, to the extent any party in interest has interposed a timely objection or request for estimation in accordance with the Plan, the Bankruptcy Code, and the Bankruptcy Rules, which objection or request for estimation has not been withdrawn or determined by a Final Order.

1.28 "Effective Date" shall mean the first Business Day on which all of the conditions set forth in Article XIII of the Plan shall have been satisfied.

1.29 "Entity" shall have the meaning set forth in section 101(15) of the Bankruptcy Code.

1.30 "eLEC" means eLEC Communications Corp., a publicly traded New York corporation.

1.31 "eLEC Offer" means the \$325,000 Cash offer made by eLEC to purchase the Reorganized Debtor as further described in Section 7.1 herein.

1.32 "Final Order" shall mean an order or a judgment or other decree of the

Bankruptcy Court, the operation or effect of which has not been reversed, stayed, modified or amended and as to which order, judgment or decree all rights of appeal or reconsideration have expired by lapse of time or otherwise and no such appeal or motion for reconsideration has been filed or which appeal or motion has been resolved pursuant to a non-appealable order.

1.33 "Interest" shall mean any rights of a shareholder in respect to its interest in the Debtor.

1.34 "New Stock" shall have the meaning ascribed in Section 6.1 herein.

1.35 "Person" shall have the meaning specified therefor in section 101(41) of the Bankruptcy Code.

1.36 "Petition Date" shall mean July 29, 2002.

1.37 "Plan" shall mean this Amended Plan of Reorganization in its present form or as it hereafter may be amended, modified or supplemented in accordance with the terms hereof or in accordance with the Bankruptcy Code and the Bankruptcy Rules.

1.38 "Priority Non-Tax Claim" means any Claim which is or may be entitled to priority in accordance with section 507(a) of the Bankruptcy Code (other than Administrative Expense Claims and Priority Tax Claims).

1.39 "Priority Tax Claim" shall mean any Claim against the Debtor entitled to priority in accordance with section 507(a)(8) of the Bankruptcy Code.

1.40 "Pro Rata" shall mean with respect to an Allowed Claim or a Disputed Claim in a particular class, on a particular day, the same proportion that such Claim bears on that particular day to the sum of: (i) the aggregate amount of all Allowed Claims of that particular class; and (ii) the aggregate amount of all Disputed Claims of that particular class, with the amount of each Disputed Claim calculated for this purpose as the lesser of: (x) the amount of

such Disputed Claim as alleged in the Claimant's proof of claim; or (y) the amount of such Disputed Claim as may be estimated or temporarily fixed for this purpose, or partially reduced, by Order of the Bankruptcy Court; or with respect to an Allowed Interest or Disputed Interest, on a particular day, the same proportion that such Interest bears on that particular day to the sum of: (i) the aggregate amount of all Allowed Interests; and (ii) the aggregate amount of all Disputed Interests, with the amount of each Disputed Interest calculated for this purpose as the lesser of: (x) the amount of such Disputed Interest as alleged in the Interest holder's proof of interest; or (y) the amount of such Disputed Interest as may be estimated or temporarily fixed for this purpose, or partially reduced, by Order of the Bankruptcy Court.

1.41 "Purchaser" means that Person or Entity whose purchase of the New Stock is approved by the Bankruptcy Court.

1.42 "Reorganized Debtor" means the Debtor as it will be reorganized on and after the Effective Date in accordance with this Plan.

1.43 "Schedules" shall mean the schedules of assets and liabilities, lists and statement of financial affairs and executory contracts filed with the Bankruptcy Court in this chapter 11 case by the Debtor, as same may be amended, modified or supplemented pursuant to the Bankruptcy Rules.

1.44 "Stock Sale" shall have the meaning ascribed in Section 6.1 of this Plan.

1.45 "Stock Sale Proceeds" shall have the meaning ascribed in Section 6.4 of this Plan.

1.46 "Successful Bidder" means the Person or Entity who is deemed to have submitted the highest and best offer for the New Stock at the Auction.

## **ARTICLE II**

### **Classification of Claims and Interests**

#### 2.1 General Classification Rule.

A proof of Claim or Interest which asserts a Claim or Interest which may properly be included in more than one Class is in a Class to the extent it qualifies within the description of such Class and is in a different Class to the extent it qualifies within the description of such different Class.

#### 2.2 Classification.

For purposes of this Plan, all Allowed Claims and Allowed Interests shall be placed in the following Classes, which Classes shall be mutually exclusive:

- (a) Class 1 Claims shall consist of all Allowed Priority Non-Tax Claims.
- (b) Class 2 Claims shall consist of all Allowed General Unsecured Claims.
- (c) Class 3 Interests shall consist of all Allowed Interests in the Debtor. All of the Class 3 Interests are held by eLEC.

## **ARTICLE III**

### **Treatment Of Administrative Expense Claims And Priority Tax Claims**

#### 3.1 Administrative Expense Claims

The Debtor or Disbursing Agent shall pay to each holder of an Allowed Administrative Expense Claim, on account of its Administrative Expense Claim and in full satisfaction thereof, Cash equal to the amount of such Allowed Administrative Expense Claim on, or as soon as practicable after, the later of the Effective Date and the day on which such

Claim becomes an Allowed Administrative Expense Claim, unless the holder and the Debtor agree or will have agreed to other treatment of such Claim, or an order of the Bankruptcy Court provides for other payment terms; provided, however, that if incurred in the ordinary course of business or otherwise assumed by the Reorganized Debtor pursuant to this Plan, an Allowed Administrative Expense Claim shall be the responsibility of the Reorganized Debtor on the Effective Date and paid, performed or settled by the Reorganized Debtor when due in accordance with the terms and conditions of the particular agreement(s) governing such obligation or liability.

### 3.2 Priority Tax Claims

The Debtor or Disbursing Agent shall pay to each holder of an Allowed Priority Tax Claim, on account of its Priority Tax Claim and in full satisfaction thereof, Cash equal to the amount of such Allowed Priority Tax Claim on, or as soon as practicable after, the later of the Effective Date and the day on which such Claim becomes an Allowed Priority Tax Claim, unless the holder and the Debtor agree or will have agreed to other treatment of such Claim, or an order of the Bankruptcy Court provides for other payment terms.

## **ARTICLE IV**

### **Treatment of Claims Not Impaired Under the Plan**

#### 4.1 Class 1 (Priority Non-Tax).

Class 1 Claims are not impaired. Each holder of an Allowed Class 1 Claim shall be paid in full, in Cash, on the Effective Date or as soon as practicable after the Effective Date. Holders of Class 1 Claims shall not be entitled to vote on the Plan and shall be deemed to have accepted the Plan.

## ARTICLE V

### Treatment of Claims and Interests Impaired Under the Plan

#### 5.1 Class 2 (General Unsecured Claims).

Class 2 Claims are impaired. Each holder of an Allowed Class 2 Claim shall receive a Pro Rata share of Available Cash (defined as all cash remaining after satisfaction of all Allowed Administrative Expense Claims, all Allowed Priority Tax Claims and all Allowed Priority Non-Tax Claims), up to but not exceeding the full amount of the holder's Allowed Class 2 Claim.

#### 5.2 The Class 3 Allowed Interests

Class 3 Allowed Interests, all of which are held by eLEC, are impaired and will not vote on the Plan. eLEC, which is the holder of all Class 3 Interests, has consented to its treatment under the Plan. If all Allowed Administrative Expense Claims, Priority Tax Claims, Priority Non-Tax Claims and General Unsecured Claims are paid in full, the remaining balance of the Stock Sale Proceeds shall be paid to eLEC as the holder of all Class 3 Allowed Interests.

#### 5.3 Vote Necessary for Acceptance.

Pursuant to section 1126(c) of the Bankruptcy Code, a class of Claims shall have "accepted" the Plan if the Plan is accepted by the holders of at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Claims of such Class that have voted to accept or reject the Plan. Pursuant to section 1126(c) of the Bankruptcy Code, a class of Interests shall have "accepted" the Plan if the Plan is accepted by the holders of at least two-thirds (2/3) in amount of the Interests of such Class that have voted to accept or reject the Plan.

#### 5.4 Presumed Acceptance of Plan

Class 1 is unimpaired under this Plan and, therefore, is conclusively presumed to

accept this Plan and is not entitled to vote to assume or reject the Plan. In addition, eLEC, as the only holder of Class 3 Interests, has consented to the treatment of its Interests as set forth in this Plan and is, therefore, presumed to accept the Plan and is not entitled to vote to assume or reject the Plan.

## ARTICLE VI

### Means For Implementation And Execution Of This Plan

#### 6.1 Stock Sale

The effectiveness of this Plan is conditioned upon a sale of one hundred (100%) percent of the Reorganized Debtor's stock (the "New Stock") to be issued in accordance with this Plan (the "Stock Sale"). The New Stock shall be sold free and clear of all liens, claims and encumbrances.

#### 6.2 Securities to be Issued Pursuant to this Plan: New Common Stock

On the Effective Date, pursuant to this Plan, the Reorganized Debtor will authorize and issue the New Stock, consisting of two hundred (200) shares of common stock, without further act or action under applicable laws, regulations, rules or orders to the Purchaser.

#### 6.3 Cancellation of Existing Equity Interests

Upon the Effective Date, all existing shares of eLEC's common stock shall be cancelled and extinguished and all certificates representing such common stock or the unexercised right to acquire the same shall become void without the need for further action.

#### 6.4 Funding of the Plan

The proceeds of the Stock Sale (the "Stock Sale Proceeds") will be used to fund this Plan.

#### 6.5 Debtor's Existence

As of the Effective Date, the Debtor will survive as the Reorganized Debtor.

Except as provided otherwise herein, any and all obligations of the Debtor's estate arising under this Plan shall be the responsibility of the Disbursing Agent.

#### 6.6 Officers and Directors of the Reorganized Debtor

If the Purchaser is a Person or Entity other than eLEC, the current roster of Officers and Directors shall be deemed to have resigned as of the Effective Date. The Purchaser, if not eLEC, shall be responsible for the election of new Directors which shall in turn be responsible for the appointment of officers of the Reorganized Debtor.

#### 6.7 Articles of Incorporation and By-Laws

The Articles of Incorporation and Bylaws of the Debtor shall be amended as may be required in order that they are consistent with the provisions of the Plan and the Bankruptcy Code. The Articles of Incorporation of the Debtor shall, among other things, provide, (i) for the authorization of two hundred shares of new common stock (previously defined as the New Stock); and (ii) pursuant to section 1123(a)(6) of the Bankruptcy Code, for a provision prohibiting the issuance of non-voting equity securities for a period of two (2) years from the Effective Date and, if applicable, a provision setting forth an appropriate distribution of voting power among classes of equity securities possessing voting power, including, in the case of any class of equity securities having a preference over another class of equity securities with respect to dividends, adequate provisions for the election of directors representing such preferred class in the event of default in the payment of such dividends.

#### 6.8 Distribution Account

As soon as practicable after the Confirmation Date, and in no event later than the

Effective Date, the Disbursing Agent shall establish the Distribution Account at a domestic bank to be identified in the Confirmation/Sale Order for the purpose of holding in escrow Cash to be used to fund distributions to be made to holders of Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Priority Non-Tax Claims, Allowed General Unsecured Claims and Allowed Interests, if any, under the Plan. On the Effective Date, or on the next Business Day thereafter, the Debtor or the Disbursing Agent shall deposit into the Distribution Account the Stock Sale Proceeds, such funds to be held in trust by the Disbursing Agent and used solely for the satisfaction of obligations under this Plan.

## **ARTICLE VII**

### **The Stock Sale**

#### 7.1 The eLEC Offer

eLEC has offered to pay \$325,000 in exchange for the New Stock (the “eLEC Offer”). The eLEC Offer is subject to higher and better offers to be solicited in the manner set forth below and in greater detail in the Disclosure Statement/Bidding Procedures Order. Upon the closing of the Stock Sale, two hundred (200) shares of common stock of the Reorganized Debtor, constituting one hundred (100%) percent of the Reorganized Debtor, shall be issued to the Purchaser. The terms and conditions of the eLEC Offer are described in further detail in Section VI(B)(1)(d) of the Disclosure Statement and in the Disclosure Statement/Bidding Procedures Order.<sup>1</sup>

#### 7.2 Auction

If one or more Qualified Bids (as defined in the Disclosure Statement/Bidding

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<sup>1</sup> The Debtor is currently servicing its customers using “eLEC Communications” as its licensed “d/b/a”. If the Purchaser is a Person or Entity other than eLEC, eLEC has stated that it shall permit the Purchaser to use the eLEC d/b/a for a reasonable transition period after which the Purchaser will have to service its customers without  
(continued...)

Procedures Order) are timely received by the Debtor, an Auction will be held at the offices of the Debtor's counsel. The Disclosure Statement/Bidding Procedures Order shall set forth the procedures by which competitive bidding shall occur.

If no Person other than eLEC submits a Qualified Bid, no Auction shall be held and the sale of the New Stock shall be presented to the Bankruptcy Court to be consummated with eLEC as the Purchaser pursuant to the terms of the eLEC Offer. If one or more Persons has submitted a Qualified Bid, the Auction shall be held at the offices of Debtor's counsel to determine the highest and best offer. Upon conclusion of the Auction, the Debtor shall determine the highest and best Bid, and submit such Bid for approval by the Bankruptcy Court. The Debtor shall have the right to reject any and all Bids if the Debtor deems any Bid to be unacceptably low. In addition, any regulatory and statutory license, filing and notice requirements will be considered in the evaluation of the highest and best Bid since such requirements may have a material impact upon the ability of the Bidder to close within a reasonable time, or to close at all. The winning bidder, and the terms of the winning bid, shall be set forth in the Confirmation/Sale Order. The party submitting the winning Bid at the Auction shall become the owner of the New Stock subject to entry of the Confirmation/Sale Order and the closing of the Stock Sale.

### 7.3 Assumption of Pre-Petition and Post-Petition Liabilities

Except as may be set forth in this Plan, the Confirmation/Sale Order, and/or any other Order of the Bankruptcy Court, the Purchaser shall not assume and the Reorganized Debtor shall not be responsible for any of the Debtor's pre-petition liabilities or any post-petition

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(...continued)  
the eLEC d/b/a.

liabilities relating to the administration of the Debtor's Chapter 11 case.<sup>2</sup> The Purchaser shall be responsible for all unpaid, ordinary course debts and obligations of the Debtor incurred in the operation of the Debtor's business between the Petition Date and the Effective Date.

## ARTICLE VIII

### Methods of Distribution to Holders of Claims

#### 8.1 Distributions to Holders of Allowed Administrative and Priority Claims.

On the Effective Date or as soon thereafter as is reasonably practicable, the Disbursing Agent shall:

- (a) pay in full all Allowed Administrative Expense Claims;
- (b) pay in full all Allowed Priority Tax Claims; and
- (c) pay in full all Allowed Priority Non-Tax Claims

#### 8.2 Distributions to Holders of Class 2 Claims

As soon as practicable after all of the aforementioned claimants in Section 8.1 have been paid, and after the Allowed amount of all Class 2 Claims has been determined, the Disbursing Agent shall pay to each holder of an Allowed Class 2 Claim, a Pro Rata share of Available Cash, up to but not exceeding the full amount of the holder's Allowed Class 2 Claim.

If the Stock Sale Proceeds are sufficient to satisfy all Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Priority Non-Tax Claims and Allowed General Unsecured Claims, the remaining Stock Sale Proceeds, if any, shall be paid to eLEC as the holder of all Allowed Interests.

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<sup>2</sup> Such post-petition liabilities include, without limitation, professional fees, U.S. Trustee fees, notice costs, etc.

### 8.3 Professional Fees and Expenses

Each professional person or firm retained with approval by order of the Bankruptcy Court or requesting compensation in the Chapter 11 Case pursuant to sections 330 or 503(b) of the Bankruptcy Code shall be required to file an application for an allowance of final compensation and reimbursement of expenses in the Chapter 11 Case incurred through the Confirmation Date no later than forty-five (45) days after the Confirmation. Objections to any such application shall be filed on or before a date to be set by the Bankruptcy Court. After notice and a hearing in accordance with the procedures established by the Bankruptcy Code, the Confirmation/Sale Order or other Orders of this Court, all compensation and reimbursement of expenses allowed by the Bankruptcy Court shall be paid by the Debtor or Reorganized Debtor no later than ten (10) days after the later of: (a) entry of the order allowing such fees and expenses; or (b) the Effective Date.

### 8.4 Distribution of Funds for Fees and Expenses After the Confirmation Date.

Any professional persons seeking compensation for services rendered and expenses incurred after the Confirmation Date for services rendered on behalf of the Debtor or the Disbursing Agent shall be paid on the Effective Date or as soon thereafter as is reasonably possible, upon submission of invoices to the Debtor. The Debtor shall have three (3) business days from the submission of an invoice to object in writing to the invoice in whole or part. Any such objection shall identify with specificity the item or items in the invoice to which objection is made and the grounds for the objection, and shall be served upon the Professional Person who submitted the invoice and upon the other parties entitled to make objections. If no objection is made to an invoice payable by the Debtor or the Disbursing Agent, the Debtor or the Disbursing Agent shall pay such fees and expenses in the amounts requested. If timely objection is made to

the fees or expenses of any Professional Person and such objection is not resolved by agreement among such Professional Person and any objecting party, any such dispute shall be submitted to the Bankruptcy Court to which an application for compensation shall be made by such Professional Person seeking payment of the disputed items in the invoice. If objection is made to only part of an invoice, the Debtor or the Disbursing Agent shall pay the undisputed balance of the invoice pending the resolution of the disputed portion of the invoice.

#### 8.5 Form of Payments.

Payments to be made by the Disbursing Agent to holders of Allowed Claims or Allowed Interests shall be made by check drawn on a domestic bank.

#### 8.6 Delivery of Distributions

Distributions to holders of Allowed Claims shall be made by the Disbursing Agent (a) at the addresses set forth on the proofs of claim filed by such Claimants (or at the last known addresses of such Claimants if no proof of claim is filed or if the Debtor have been notified in writing of a change of address), (b) at the addresses set forth in any written notices of address changes delivered to the Disbursing Agent after the date of any related proof of claim, (c) at the addresses reflected in the Schedules if no proof of claim has been filed and the Disbursing Agent has not received a written notice of a change of address. If any Claimant's distribution is returned as undeliverable, no further distributions to such Claimant shall be made unless and until the Disbursing Agent is notified of such Claimant's then current address, at which time all missed distributions shall be made to such Claimant without interest. Amounts in respect of undeliverable distributions shall be returned to the Disbursing Agent until such distributions are claimed. All funds or other undeliverable distributions returned to the Disbursing Agent and not claimed within one hundred and twenty (120) days of return shall be

used first to pay any reasonable expenses incurred by the Disbursing Agent and then to be distributed to the other Claimants of the Class of which the Claimant to whom the distribution was originally made is a member in accordance with the provisions of the Plan applicable to distributions to that Class. Distribution checks which have been delivered by the Disbursing Agent as aforesaid and which have not been cashed by the payee within one hundred and twenty (120) days after the relevant Distribution Date for such check shall be deemed an undeliverable distribution for purposes of the application of this Section of the Plan.

#### 8.7 Minimum Distributions.

If a distribution to be made to a holder of an Allowed Claim or Allowed Interest would be \$25.00 or less in the aggregate, then notwithstanding any contrary provision in the Plan, no such distribution will be made to such holder. Any distributions so withheld will become available for payment of expenses of the Disbursing Agent or for distribution in accordance with the Plans.

#### 8.8 Setoffs and Recoupment

The Debtor may, at any time prior to the Confirmation Date and in accordance with section 553 of the Bankruptcy Code and applicable bankruptcy or non-bankruptcy law, but shall not be required to, set off against, or recoup from, any Claim, any claims of any nature whatsoever that the Debtor may have against the Claimant.

### **ARTICLE IX**

#### **Executory Contracts or Leases**

##### 9.1 Assumption of Executory Contracts and Unexpired Leases.

Any executory contract or unexpired lease of the Debtor which has not expressly been assumed or rejected by motion, or which is not the subject of a pending application to

assume on the Confirmation Date, shall be deemed rejected on the Effective Date by the Reorganized Debtor.

9.2 Rejection Damage Bar Date.

If the rejection by the Debtor pursuant to the Plan of an executory contract or unexpired lease results in a Claim, then such Claim shall be forever barred and shall not be enforceable against the Debtor, the Reorganized Debtor, or such entities' properties unless a proof of claim is filed with the Bankruptcy Court and served upon counsel to the Debtor within thirty (30) days after service of the Confirmation/Sale Order. If an executory contract or unexpired lease has been rejected prior to the Confirmation Date by Order of the Bankruptcy Court, and such Order provides a deadline for the filing of any Claim resulting from such rejection, then the deadline provided in such Order shall govern with respect to the Executory Contract or unexpired lease which is the subject of such Order.

**ARTICLE X**

**Claims Administration**

10.1 Pre-Confirmation Resolution of All Claims.

The Debtor anticipates that all Claims have been filed or scheduled and that all disputes relating to such Claims will be resolved prior to Confirmation. Nevertheless, to provide for the possibility that a rejection damage claim or other claim may be filed and that a dispute related to such claim(s) may arise, the Debtor shall be afforded forty-five (45) days in which to file an objection to any such claims(s).

## ARTICLE XI

### Retention of Jurisdiction

#### 11.1 Retention of Jurisdiction by the Bankruptcy Court

The Bankruptcy Court shall retain jurisdiction herein pursuant to chapter 11 of the Bankruptcy Code and for the purposes set forth in section 1127(b) of the Bankruptcy Code, including, inter alia, with respect to the following matters:

- (a) to enable the Disbursing Agent to prosecute all proceedings to set aside liens or encumbrances and to recover any preferences, transfers, assets or damages to which the Debtor's estate may be entitled under the Bankruptcy Code or other federal, state or local law, if any;
- (b) to hear and determine all disputes concerning the classification, allowance or disallowance of any Claim or Interest;
- (c) to resolve any disputes concerning any reserve established for Disputed Claims or Disputed Interests or the administration thereof;
- (d) to hear and determine all Claims relating to a security or ownership interest in any property of the Debtor or in any proceeds thereof;
- (e) to hear and determine all Claims arising out of any agreement entered into by the Debtor's estate after the Petition Date and prior to the Confirmation Date;
- (f) to recover all assets and properties of the Debtor or its estate wherever located, if any;
- (g) to alter, modify and amend the Plan pursuant to section 1127 of the Bankruptcy Code or to remedy any defect, cure any omissions, or reconcile any inconsistency in the Plan or Confirmation/Sale Order as may be necessary or advisable to carry out the purpose

and intent of the Plan and to the extent authorized by the Bankruptcy Code or Bankruptcy Rules;

(h) to hear and determine such other matters as may be provided for in the Confirmation/Sale Order and for the purposes set forth in sections 1127(b) and 1142 of the Bankruptcy Code or in Rules 1019 and 3020(d) of the Bankruptcy Rules;

(i) to hear and determine all applications for compensation;

(j) to hear and determine any and all pending applications, adversary proceedings, contested matters and litigated matters, if any;

(k) to make such orders ex parte or upon application as are necessary or appropriate to carry out the provisions of the Plan, including orders interpreting the provisions hereof;

(l) to enter orders or decrees concluding the Debtor's chapter 11 case;

and

(m) to determine such other matters as may be provided for in the Confirmation/Sale Order or, as may be authorized under the provisions of the Bankruptcy Code.

## **ARTICLE XII**

### **Effect of Confirmation**

#### 12.1 Binding Effect of Plan.

On the Confirmation Date, but subject to the occurrence of the Effective Date, the terms of this Plan shall bind all holders of Claims and Interests against the Debtor, its estate and the Reorganized Debtor whether or not such holders accept this Plan.

#### 12.2 Vesting of Assets

Except as otherwise explicitly provided in the Plan, on the Effective Date, all property comprising the Estate shall vest in the Reorganized Debtor as of the Effective Date, free

and clear of all Claims, liens, charges, encumbrances, rights and interests of creditors and equity security holders.<sup>3</sup> Nothing contained herein provides the Reorganized Debtor with any right, title or interest in the Stock Sale Proceeds.

### 12.3 Injunctive Effect of Plan.

The confirmation of the Plan shall act as an injunction against any Person commencing or continuing any action, employment of process, or act to collect, offset, or recover any Claim or cause of action which arose prior to the Effective Date of this Plan, to the fullest extent authorized or provided by the Bankruptcy Code, including, without limitation, to the extent provided for or authorized by sections 524 and 1141 thereof.

### 12.4 Discharge of Debtor

Pursuant to section 1141(d) of the Bankruptcy Code, except as otherwise specifically provided in the Plan or in the Confirmation/Sale Order, the distributions and rights that are provided in the Plan shall be in complete satisfaction, discharge, and release, effective as of the Confirmation Date (but subject to the occurrence of the Effective Date), of Claims and causes of action, whether known or unknown, against, liabilities of, liens on, obligations of, rights against, and Interests in the Debtor or any of its assets or properties, regardless of whether any property shall have been distributed or retained pursuant to the Plan on account of such Claims, rights, and Interests, including, but not limited to, Claims and Interests that arose before the Confirmation Date, any liability (including withdrawal liability) to the extent such Claims relate to services performed by employees of the Debtor prior to the Petition Date and that arise from a termination of employment or a termination of any employee or retiree benefit program,

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<sup>3</sup> The Debtor is currently servicing its customers using “eLEC Communications” as its licensed “d/b/a”. If the Purchaser is a Person or Entity other than eLEC, eLEC has stated that it shall permit the Purchaser to use the eLEC d/b/a for a reasonable transition period after which the Purchaser will have to service its customers without  
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regardless of whether such termination occurred prior to or after the Confirmation Date, and all debts of the kind specified in sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, in each case whether or not (a) a proof of claim or interest based upon such Claim, debt, right, or Interest is filed or deemed filed under section 501 of the Bankruptcy Code, (b) a Claim or Interest based upon such Claim, debt, right, or Interest is allowed under section 502 of the Bankruptcy Code, or (c) the holder of such a Claim, right, or Interest has accepted the Plan. The Confirmation/Sale Order shall be a judicial determination of the discharge of all Claims against and interests in the Debtor, subject to the Effective Date occurring.

#### 12.5 Debtor's Release

Pursuant to section 1123(b)(3) of the Bankruptcy Code, on the Effective Date, the Debtor, in its individual capacity and as debtor in possession, and the Reorganized Debtor, will be deemed to release, waive or discharge any claims and causes of action and liabilities (other than the rights of the Debtor or the Reorganized Debtor to enforce this Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered hereunder), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise, that are based on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor that could have been asserted by or on behalf of the Debtor or its estate, against the present and former officers and directors of the Debtor and eLEC, and each of their respective present and former officers, directors, employees, attorneys, financial advisors, accountants, and agents.

Nothing in this section shall (i) be construed to release or exculpate any entity

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from fraud, gross negligence, wilful misconduct, malpractice, criminal conduct, unauthorized use of confidential information that causes damages, or ultra vires acts, or (ii) limit the liability of the professionals of the Debtor or the Reorganized Debtor to their respective clients pursuant to DR 6-102 of the Code of Professional Responsibility.

#### 12.6 Exculpation and Limitation of Liability

The Debtor, the Disbursing Agent and any of such parties' respective present or former members, officers, directors, employees, advisors, attorneys, representatives, financial advisors, investment bankers, or agent and any of such parties' successors and assigns, shall not have or incur, and are hereby released from, any claim, obligation, cause of action, or liability to one another or to any Creditor or interest holder, or any other party-in-interest, or any of their respective agents, employees, representatives, financial advisors, attorneys or Affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of the Debtor's Chapter 11 Case, negotiation and filing of the Plan, filing the Chapter 11 Case, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for their willful misconduct. No Creditor or Interest holder, or other party in interest, none of their respective agents, employees, representatives, financial advisors, attorneys or affiliates, and no successors or assigns of the foregoing, shall have any right of action against the parties listed in this Section for any act or omission in connection with, relating to or arising out of the Chapter 11 Case, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan.

Nothing in this section shall (i) be construed to release or exculpate any entity from fraud, gross negligence, wilful misconduct, malpractice, criminal conduct, unauthorized use

of confidential information that causes damages, or ultra vires acts, or (ii) limit the liability of the professionals of the Debtor or the Reorganized Debtor to their respective clients pursuant to DR 6-102 of the Code of Professional Responsibility.

#### 12.7 Releases for Acts Prior to the Effective Date.

Upon the Effective Date, in accordance with section 1125(e) of the Bankruptcy Code, the Debtor and the Debtor's professionals retained during the Chapter 11 Case, shall not be deemed to have incurred any liability for any act or omission in connection with, or arising out of, the pursuit of confirmation of this Plan, the consummation of this Plan, the administration of this Plan or the property to be distributed under this Plan.

#### 12.8 U.S. Trustee's Fees

Until the Effective Date, the Debtor shall be responsible for quarterly U.S. Trustee's fees. Following the Effective Date, and until such time as this Chapter 11 Case is closed, converted or dismissed, eLEC shall be responsible for the payment of U.S. Trustee's fees.

### **ARTICLE XIII**

#### **Conditions to the Confirmation and Effective Date**

##### 13.1 Conditions to Confirmation

The following are conditions precedent to confirmation of the Plan. These conditions may be satisfied or waived by the Debtor in its sole discretion, without notice to parties in interest or the Court, and without a hearing:

(a) The Bankruptcy Court shall have approved by Final Order a Disclosure Statement with respect to the Plan in form and substance acceptable to the Debtor in its sole and absolute discretion.

(b) The Confirmation/Sale Order shall be in form and substance acceptable to the Debtor, in its sole and absolute discretion, and shall have been entered by the Bankruptcy Court.

13.2 Conditions to Effective Date

The following shall be conditions to the occurrence of the Effective Date:

- (a) Entry of the Confirmation/Sale Order, which has not been vacated, reversed or modified and as to which there is no stay in effect; and
- (b) Closing of the Stock Sale.

**ARTICLE XIV**

**General Provisions**

14.1 Headings.

The headings used in the Plan are inserted for convenience or reference only and neither constitute a portion of the Plan nor in any manner affect the provisions or interpretations of this Plan.

14.2 Notices.

Notices shall be deemed given when received. All notices, requests or demands described in or required to be made in accordance with the Plan shall be in writing and shall be delivered (a) personally, or (b) by fax and overnight mail (signature requested), to:

If to the Debtor or Disbursing Agent, at:

Jenkins & Gilchrist Parker Chapin LLP  
405 Lexington Avenue  
New York, New York 10174  
Attention: Lee W. Stremba, Esq.  
Fax No. (212) 704-6288

If to a holder of a Claim or Interest, by hand delivery, overnight mail, fax or first

class mail: (a) at such address or fax number as Claimant may direct in a request filed with the Bankruptcy Court and served upon the Debtor on or before the Effective Date; (b) as the Claimant or Interest Holder may direct in a request served upon the Disbursing Agent after the Effective Date; or (c) if no such request is filed or served, at the address shown on the Claimant's proof of Claim or Interest Holder's proof of Interest.

#### 14.3 Change of Address.

Any party identified in Section 14.2 above may change the address or fax number at which it is to receive notices under the Plan by sending written notice pursuant to the provisions of this Article to the Disbursing Agent.

#### 14.4 Modification of the Plan.

The Debtor reserves the right, in accordance with the Bankruptcy Code, to amend or modify the Plan prior to the Confirmation Date or as soon as practicable thereafter. After the Confirmation Date, the Debtor, Reorganized Debtor or the Disbursing Agent may, upon order of the Bankruptcy Court, in accordance with section 1127(b) of the Bankruptcy Code, remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purposes and intent of the Plan.

#### 14.5 Severability.

Should any non-material provision in the Plan be determined to be unenforceable, such determination shall in no way limit or affect the enforceability and operative effect of any and all other provisions of the Plan.

#### 14.6 No Admissions

The terms of the Plan shall not be admissible in evidence in any litigation other than the hearings on approval of the Disclosure Statement or confirmation of the Plan, or any

proceeding seeking the approval, enforcement, or implementation of the terms hereof. The Debtor and/or the Disbursing Agent reserves the right to take positions contrary to or inconsistent with the positions reflected herein in the event the transactions contemplated hereby are not consummated and the Plan is not confirmed or is revoked and withdrawn.

14.7 Successors and Assigns.

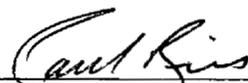
The rights and obligations of any Person named or referred to in the Plan shall be binding upon, and shall inure to the benefit of, the successors and assigns of such Person.

14.8 Governing Law.

Except to the extent that the Bankruptcy Code is applicable, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, exclusive of the laws of the State of New York with regard to issues of conflicts of law.

DATED: February 18, 2004

**PROPOSED IN GOOD FAITH BY:  
TELECARRIER SERVICES, INC. DEBTOR**

BY:   
**Paul Riss  
Chief Executive Officer  
Chief Financial Officer**

# **APPENDIX “B”**

## APPENDIX B

### PROJECTIONS

The financial projections included in this Disclosure Statement (the "Projections") are dependent upon the successful implementation of the Debtor's Chapter 11 Plan of Reorganization and the accuracy of the assumptions contained therein. The Projections incorporate numerous assumptions.

No independent accountants have either examined or compiled the Projections, and the Projections have been prepared by the Debtor's management. Moreover, the Projections have not been prepared to comply with the guidelines established by the Securities and Exchange Commission or the American Institute of Certified Public Accountants.

Projected Balance Sheet  
2004

**Telecarrier Services, Inc. DIP  
Projected Balance Sheets**

	04/01/04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04
<b>Current Assets</b>									
Cash	\$ 138,209	\$ 121,846	\$ 155,673	\$ 100,482	\$ 141,837	\$ 186,732	\$ 120,101	\$ 172,248	\$ 231,356
Accounts Receivable	391,063	404,921	419,427	434,736	450,787	467,564	485,021	503,302	522,380
Prepaid expenses and other	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334
<b>Total Current</b>	<b>533,606</b>	<b>531,101</b>	<b>579,434</b>	<b>539,552</b>	<b>596,957</b>	<b>658,630</b>	<b>609,456</b>	<b>679,884</b>	<b>758,070</b>
<b>Property &amp; Equipment</b>									
Gross PP&E		-	1,000	2,000	2,000	3,000	4,000	4,000	4,000
Acc Deprec.		-	-	(83)	(243)	(389)	(607)	(890)	(1,149)
<b>Net Prop. &amp; Equip.</b>			<b>1,000</b>	<b>1,917</b>	<b>1,757</b>	<b>2,611</b>	<b>3,393</b>	<b>3,110</b>	<b>2,851</b>
Deposits	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000	28,000
Goodwill	146,293	146,293	146,293	146,293	146,293	146,293	146,293	146,293	146,293
<b>Total Assets</b>	<b>\$ 707,899</b>	<b>\$ 705,394</b>	<b>\$ 754,727</b>	<b>\$ 715,761</b>	<b>\$ 773,007</b>	<b>\$ 835,534</b>	<b>\$ 787,142</b>	<b>\$ 857,287</b>	<b>\$ 935,215</b>
<b>Current Liabilities</b>									
Post Petition Payables	\$ 173,250	129,280	136,224	144,520	152,272	159,433	166,639	173,447	179,836
Post Petition Accrued Expense	98,852	98,852	98,852	98,852	98,852	98,852	98,852	98,852	98,852
Sales Taxes Payable	110,797	142,681	176,059	115,745	152,676	191,280	120,688	162,752	206,647
Pre Petition Payables	-	-	-	-	-	-	-	-	-
Pre Petition Accrued Expense	-	-	-	-	-	-	-	-	-
Revolving Loan	-	-	-	-	-	-	-	-	-
<b>Total Current</b>	<b>382,899</b>	<b>370,813</b>	<b>411,135</b>	<b>359,117</b>	<b>403,800</b>	<b>449,565</b>	<b>386,179</b>	<b>435,051</b>	<b>485,335</b>
<b>Shareholders Equity</b>									
Old Common Stock	-	-	-	-	-	-	-	-	-
Retained Earnings	-	9,580	18,592	31,644	44,207	60,969	75,963	97,236	124,880
New Common Stock	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000
<b>Total Shrdrs Equity</b>	<b>325,000</b>	<b>334,580</b>	<b>343,592</b>	<b>356,644</b>	<b>369,207</b>	<b>385,969</b>	<b>400,963</b>	<b>422,236</b>	<b>449,880</b>
<b>Total Liab. &amp; Equity</b>	<b>\$ 707,899</b>	<b>\$ 705,394</b>	<b>\$ 754,727</b>	<b>\$ 715,761</b>	<b>\$ 773,007</b>	<b>\$ 835,534</b>	<b>\$ 787,142</b>	<b>\$ 857,287</b>	<b>\$ 935,215</b>

Projected Balance Sheet  
2005

**TSI Projected Monthly Balance Sheet**

	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05
<b>Current Assets</b>												
Cash	\$ 277,137	\$ 183,093	\$ 233,512	\$ 284,028	\$ 171,949	\$ 224,976	\$ 286,840	\$ 171,350	\$ 249,761	\$ 333,916	\$ 222,468	\$ 332,942
Accounts Receivable	580,905	622,622	664,268	705,932	748,772	791,783	834,955	878,287	921,777	971,727	1,022,478	1,067,334
Prepaid expenses and other	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334	4,334
<b>Total Current</b>	<b>862,376</b>	<b>810,049</b>	<b>902,113</b>	<b>994,294</b>	<b>925,055</b>	<b>1,021,092</b>	<b>1,126,129</b>	<b>1,053,971</b>	<b>1,175,872</b>	<b>1,309,977</b>	<b>1,249,280</b>	<b>1,404,610</b>
<b>Property &amp; Equipment</b>												
Gross PP&E	5,000	6,000	6,000	7,000	8,000	8,000	9,000	10,000	10,000	11,000	12,000	12,000
Acc. Deprec.	(1,191)	(1,232)	(1,282)	(1,332)	(1,391)	(1,457)	(1,524)	(1,599)	(1,682)	(1,768)	(1,857)	(1,957)
<b>Net Prop &amp; Equip.</b>	<b>3,809</b>	<b>4,768</b>	<b>4,718</b>	<b>5,668</b>	<b>6,609</b>	<b>6,543</b>	<b>7,476</b>	<b>8,401</b>	<b>8,318</b>	<b>9,234</b>	<b>10,143</b>	<b>10,043</b>
<b>Deposits</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>	<b>28,000</b>
<b>Goodwill</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>	<b>146,293</b>
<b>Total Assets</b>	<b>\$ 1,040,478</b>	<b>\$ 989,109</b>	<b>\$ 1,081,124</b>	<b>\$ 1,174,255</b>	<b>\$ 1,105,957</b>	<b>\$ 1,201,928</b>	<b>\$ 1,307,898</b>	<b>\$ 1,236,665</b>	<b>\$ 1,358,483</b>	<b>\$ 1,493,504</b>	<b>\$ 1,433,716</b>	<b>\$ 1,588,945</b>
<b>Current Liabilities</b>												
Post Petition Payables	201,244	213,312	224,900	236,029	247,586	258,794	269,665	280,209	290,440	300,467	310,207	319,566
Post Petition Accrued Expense	98,852	98,852	98,852	98,852	98,852	98,852	98,852	98,852	98,852	98,852	98,852	98,852
Sales Taxes Payable	255,080	171,983	226,018	282,684	180,016	241,920	308,313	187,491	256,628	328,741	195,757	272,984
Pre Petition Payables	-	-	-	-	-	-	-	-	-	-	-	-
Pre Petition Accrued Expense	-	-	-	-	-	-	-	-	-	-	-	-
Revolving Loan	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Current</b>	<b>555,176</b>	<b>484,147</b>	<b>549,770</b>	<b>617,565</b>	<b>526,455</b>	<b>599,566</b>	<b>674,830</b>	<b>566,553</b>	<b>645,918</b>	<b>728,060</b>	<b>604,817</b>	<b>691,403</b>
<b>Shareholders Equity</b>												
Old Common Stock	-	-	-	-	-	-	-	-	-	-	-	-
Retained Earnings	160,302	179,962	206,354	231,690	254,502	277,362	308,068	345,113	387,565	440,444	503,900	572,543
New Common Stock	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000	325,000
<b>Total Shrdrs Equity</b>	<b>485,302</b>	<b>504,962</b>	<b>531,354</b>	<b>556,690</b>	<b>579,502</b>	<b>602,362</b>	<b>633,068</b>	<b>670,113</b>	<b>712,565</b>	<b>765,444</b>	<b>828,900</b>	<b>897,543</b>
<b>Total Liab. &amp; Equity</b>	<b>\$ 1,040,478</b>	<b>\$ 989,109</b>	<b>\$ 1,081,124</b>	<b>\$ 1,174,255</b>	<b>\$ 1,105,957</b>	<b>\$ 1,201,928</b>	<b>\$ 1,307,898</b>	<b>\$ 1,236,665</b>	<b>\$ 1,358,483</b>	<b>\$ 1,493,504</b>	<b>\$ 1,433,716</b>	<b>\$ 1,588,945</b>

Projected Income Statement  
2004

Revenue	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Total
Telecom Revenue	\$ 201,076	\$ 205,185	\$ 219,546	\$ 232,882	\$ 245,264	\$ 256,756	\$ 270,947	\$ 284,088	\$ 296,953	\$ 308,973	\$ 323,567	\$ 337,656	\$ 3,182,893
Service Bureau Revenue													
<b>Total Revenue</b>	<b>\$ 201,076</b>	<b>\$ 205,185</b>	<b>\$ 219,546</b>	<b>\$ 232,882</b>	<b>\$ 245,264</b>	<b>\$ 256,756</b>	<b>\$ 270,947</b>	<b>\$ 284,088</b>	<b>\$ 296,953</b>	<b>\$ 308,973</b>	<b>\$ 323,567</b>	<b>\$ 337,656</b>	<b>\$ 3,182,893</b>
Seq Growth		2%	7%	6%	5%	5%	6%	5%	5%	4%	5%	4%	
<b>Cost of Sales</b>													
Telecom	102,488	105,330	113,666	121,776	129,280	136,224	144,520	152,272	159,433	166,639	173,447	179,836	1,684,912
Service Bureau													-
<b>Total Cost of Sales</b>	<b>102,488</b>	<b>105,330</b>	<b>113,666</b>	<b>121,776</b>	<b>129,280</b>	<b>136,224</b>	<b>144,520</b>	<b>152,272</b>	<b>159,433</b>	<b>166,639</b>	<b>173,447</b>	<b>179,836</b>	<b>1,684,912</b>
													-
<b>Gross Margin</b>	<b>98,587</b>	<b>99,855</b>	<b>105,880</b>	<b>111,107</b>	<b>115,983</b>	<b>120,532</b>	<b>126,427</b>	<b>131,816</b>	<b>137,520</b>	<b>142,334</b>	<b>150,120</b>	<b>157,820</b>	<b>1,497,982</b>
GM %	49.0%	48.7%	48.2%	47.7%	47.3%	46.9%	46.7%	46.4%	46.3%	46.1%	46.4%	46.7%	47.1%
Personnel Expense	20,614	20,614	20,614	20,614	28,897	28,564	30,181	34,914	35,440	41,031	41,480	41,894	365,857
Operating Expense	30,183	30,947	32,043	33,061	38,875	40,429	41,527	42,543	43,484	44,355	45,290	46,173	468,911
Travel Expense	550	550	550	550	550	550	550	550	550	550	550	550	6,600
Marketing Expense	750	750	750	750	750	750	750	750	750	750	750	750	9,000
Insurance Expense	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Professional & Other Fees	13,304	13,321	13,378	13,432	7,481	7,527	7,584	7,636	7,688	7,736	7,794	7,851	114,732
Occupancy Expense	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	26,400
Sales Commissions	-	-	-	-	-	-	-	-	-	-	-	-	-
Telemarketing	25,650	25,650	25,650	25,650	25,650	28,500	28,500	28,500	28,500	28,500	28,500	28,500	327,750
													-
<b>Total SGA</b>	<b>95,251</b>	<b>96,031</b>	<b>97,185</b>	<b>98,256</b>	<b>106,403</b>	<b>111,520</b>	<b>113,292</b>	<b>119,093</b>	<b>120,612</b>	<b>127,122</b>	<b>128,564</b>	<b>129,917</b>	<b>1,343,249</b>
SGA %	47.4%	46.8%	44.3%	42.2%	43.4%	43.4%	41.8%	41.9%	40.6%	41.1%	39.7%	38.5%	42.2%
<b>EBITDA</b>	<b>3,336</b>	<b>3,823</b>	<b>8,695</b>	<b>12,850</b>	<b>9,580</b>	<b>9,012</b>	<b>13,135</b>	<b>12,723</b>	<b>16,908</b>	<b>15,212</b>	<b>21,556</b>	<b>27,903</b>	<b>154,733</b>
Depreciation	-	-	-	-	-	-	83	160	146	218	283	259	1,149
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	1,213	1,222	1,231	1,240	-	-	-	-	-	-	-	-	4,907
Other Income	-	-	-	737,121	-	-	-	-	-	-	-	-	737,121
<b>Pre-tax Income</b>	<b>2,123</b>	<b>2,601</b>	<b>7,464</b>	<b>748,731</b>	<b>9,580</b>	<b>9,012</b>	<b>13,052</b>	<b>12,563</b>	<b>16,762</b>	<b>14,994</b>	<b>21,273</b>	<b>27,644</b>	<b>885,799</b>
Taxes													-
<b>Net Income</b>	<b>\$ 2,123</b>	<b>\$ 2,601</b>	<b>\$ 7,464</b>	<b>\$ 748,731</b>	<b>\$ 9,580</b>	<b>\$ 9,012</b>	<b>\$ 13,052</b>	<b>\$ 12,563</b>	<b>\$ 16,762</b>	<b>\$ 14,994</b>	<b>\$ 21,273</b>	<b>\$ 27,644</b>	<b>885,799</b>

Projected Income Statement  
2005

Revenue	Dec-04	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Total
Telecom	\$ 372,564	\$ 394,580	\$ 415,651	\$ 435,896	\$ 456,372	\$ 476,179	\$ 495,337	\$ 513,871	\$ 531,803	\$ 554,734	\$ 577,457	\$ 594,054	\$ 5,818,497
Service Bureau													-
<b>Total Revenue</b>	372,564	394,580	415,651	435,896	456,372	476,179	495,337	513,871	531,803	554,734	577,457	594,054	5,818,497
Seq Growth		6%	5%	5%	5%	4%	4%	4%	3%	4%	4%	3%	
<b>Cost of Sales</b>													
Telecom	201,244	213,312	224,900	236,029	247,586	258,794	269,665	280,209	290,440	300,467	310,207	319,566	3,152,420
Service Bureau													-
<b>Total Cost of Sales</b>	201,244	213,312	224,900	236,029	247,586	258,794	269,665	280,209	290,440	300,467	310,207	319,566	3,152,420
<b>Gross Margin</b>	171,320	181,268	190,751	199,867	208,785	217,385	225,673	233,662	241,363	254,267	267,249	274,487	2,666,077
GM %	46.0%	45.9%	45.9%	45.9%	45.7%	45.7%	45.6%	45.5%	45.4%	45.8%	46.3%	46.2%	45.8%
Personnel Expense	43,533	59,316	60,226	68,620	78,342	85,065	83,929	84,045	84,869	85,662	86,422	87,153	907,180
Operating Expense	50,333	52,164	53,921	55,609	57,239	58,989	60,481	61,934	63,330	64,915	66,462	67,715	713,093
Travel Expense	550	550	550	550	550	550	550	550	550	550	550	550	6,600
Marketing Expense	750	750	750	750	750	750	750	750	750	750	750	750	9,000
Insurance Expense	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Professional & Other Fees	7,990	8,078	8,163	8,244	8,325	8,405	8,481	8,555	8,627	8,719	8,810	8,876	101,274
Occupancy Expense	2,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	10,200	114,400
Commissions	-	-	-	-	-	-	-	-	-	-	-	-	-
Telemarketing	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	342,000
<b>Total SGA</b>	135,856	161,558	164,310	174,473	185,906	194,459	194,892	196,534	198,827	201,296	203,694	205,744	2,217,547
SGA %	36.5%	40.9%	39.5%	40.0%	40.7%	40.8%	39.3%	38.2%	37.4%	36.3%	35.3%	34.6%	38.1%
<b>EBITDA</b>	35,464	19,710	26,441	25,394	22,880	22,926	30,781	37,128	42,536	52,971	63,555	68,743	448,529
Depreciation	42	50	50	58	67	67	75	83	83	92	100	100	867
Amortization													-
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income													-
<b>Pre-tax Income</b>	35,422	19,660	26,391	25,336	22,813	22,860	30,706	37,044	42,452	52,879	63,455	68,643	447,663
Taxes													
<b>Net Income</b>	\$ 35,422	\$ 19,660	\$ 26,391	\$ 25,336	\$ 22,813	\$ 22,860	\$ 30,706	\$ 37,044	\$ 42,452	\$ 52,879	\$ 63,455	\$ 68,643	447,663

# **APPENDIX “C”**

Telecarrier Services, Inc.  
Detailed Income Statement  
For the Year Ending November 30, 2003  
Unaudited

Revenue	\$ 1,522,969.28
Cost of Goods Sold	<u>870,934.97</u>
Gross Profit:	652,034.31
SG&A Expenses:	
Total Associate Expense	203,710.79
Total Operating Expense	289,106.37
Total Marketing Expense	443,091.55
Total Professional and Other Fees	95,704.30
Total Occupancy and Tax Expense	<u>28,889.14</u>
Total SG&A	1,060,502.15
EBITDA	<u>(408,467.84)</u>
EBIT	<u>(408,467.84)</u>
Interest Expense	<u>9,679.27</u>
Provision for State Income Taxes	<u>1,271.00</u>
EBT	(419,418.11)
NET Gain/(Loss)	<u><u>\$ (419,418.11)</u></u>

Telecarrier Services, Inc.  
Detailed Balance Sheet  
For the Year Ending November 30, 2003  
Unaudited

**ASSETS**

Cash and Cash Equivalents	\$ 151,740.15
Accounts Receivable Trade Net	342,546.58
Other Current Assets	128,197.65
Total Current Assets	<u>622,484.38</u>
Intercompany Receivable Other	32,189.94
Other Assets:	
Deposits	28,000.00
Total Other Assets	<u>60,189.94</u>
Total Assets	<u>\$ 682,674.32</u>

**LIABILITIES AND SHAREHOLDER'S EQUITY**

Accounts Payable:	
Accounts Payable - Trade Pre petition	\$ 618,481.50
Accounts Payable - Trade Post petition	224,035.89
Total Accounts Payable	<u>842,517.39</u>
Current Notes Payable and Capital Leases:	
Corestates Line of Credit	161,722.50
Total Current Notes Payable and Capital Leases	<u>161,722.50</u>
Other Current Liabilities	
Other Accrued Expenses Pre petition	103,249.50
Other Accrued Expenses Post petition	207,262.56
Accrued Payroll	1,589.99
Sales and Use Tax Payable	105,522.32
Total Other Current Liabilities	<u>417,624.37</u>
Total Current Liabilities	<u>1,421,864.26</u>
Total Liabilities	<u>1,421,864.26</u>
Shareholders Equity:	
Common stock	4,000.00
Capital in Excess of Par	1,578,685.96
Retained Earnings	(1,902,457.52)
Current Earnings	(419,418.38)
Total Shareholders Equity	<u>(739,189.94)</u>
Total Liabilities and Equity	<u>\$ 682,674.32</u>

Telecarrier Services, Inc.  
Statement of Cash Flows  
For the Year Ending November 30, 2003  
Unaudited

Operating Activities:	
Net loss	\$ (419,418)
Provision for losses on accounts receivable	98,131
Changes in operating assets and liabilities:	
Accounts receivable	(250,697)
Other current assets	(128,198)
Other assets	31,503
Accounts payable and accrued expenses	<u>462,773</u>
Net cash used in operating activities	(205,906)
Financing activities:	
Loans to financial institutions	<u>11,722</u>
Net cash provided by financing activities	<u>11,722</u>
Decrease in cash and cash equivalents	(194,184)
Cash and cash equivalents at beginning of year	<u>345,924</u>
Cash and cash equivalents at end of year	<u>\$ 151,740</u>

# **APPENDIX “D”**

## APPENDIX D

### LIQUIDATION ANALYSIS

Attached is the Liquidation Analysis (the "Analysis") of Telecarrier Services, Inc. presently in proceedings for reorganization under chapter 11 of the Bankruptcy Code (the "Debtor"). Although the Analysis was prepared after the deadline for filing claims against the estate of the Debtor, those claims have not been fully evaluated by the Debtor or adjudicated by the Bankruptcy Court and, accordingly, the amount of the final allowed claims against the Debtor's estate may differ from the claim amounts used in this Analysis. Finally, the Analysis is based on the Debtor's projected balance sheet as of April 1, 2004 and the actual amount of assets available to the Debtor's estate as of the date of liquidation may differ from the amount of assets used in this Analysis.

Management of the Debtor prepared the Analysis. The Analysis presents management's estimated net value of the Debtor's assets if the Debtor were to be liquidated under the provisions of Chapter 7 of the Bankruptcy Code and the net proceeds of the liquidation were to be applied in strict priority to satisfy claims against the Debtor.

The purpose of the Analysis is to provide information in order that the Bankruptcy Court may determine that the Debtor's Plan of Reorganization (the "Plan") is in the best interests of all classes of creditors and equity interest holders impaired by the Plan. The "best interests" test requires that the Bankruptcy Court find that the Plan provides to each member of each impaired class of claims and interests a recovery that has a value at least equal to the value of the distribution each member would receive if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code. The Analysis was prepared to assist the Bankruptcy Court in making this determination, and it should not be used for any other purpose. The presentation utilized in this Analysis is not designed for those who are not informed about such matters.

The Analysis is limited to presenting information developed by the Debtor's management and does not include an evaluation of the support for the underlying assumptions. The Analysis has not been examined or reviewed by independent accountants in accordance with standards promulgated by the American Institute of Certified Public Accountants. The estimates and assumptions, although considered reasonable by management, are inherently subject to significant uncertainties and contingencies beyond the control of management. Accordingly, there can be no assurance that the results shown would be realized if the Debtor were liquidated and actual results in such case could vary materially from those presented. If actual results were lower than those shown, or if the assumptions used in formulating the Analysis were not realized, distribution to each member of each class of claims could be adversely affected.

Conversion to a case under Chapter 7 of the Bankruptcy Code would likely result in significant additional costs to the Debtor's estate. The costs of liquidation under Chapter 7 of the Bankruptcy Code would include the compensation of a Chapter 7 trustee, as well as of counsel and other professionals retained by the trustee, asset dispositions expenses, all unpaid expenses incurred by the Debtor in its Chapter 11 case (such as compensation of attorneys and advisors) that are allowed in the Chapter 7 case, litigation costs, and claims arising from both the operations of the Debtor during the pendency of its Chapter 11 case and from the total cessation of all business activities occasioned by an ensuing Chapter 7 case.

Telecarrier Services, Inc.  
Liquidation Analysis  
Projected as of April 1, 2004

**ASSETS**

Cash		\$	138,209
Accounts Receivable	\$	391,063	
Less Uncollectable Receivables	\$	<u>136,872</u>	
Net Accounts Receivable		\$	254,191
Lines/Customer Accounts**		\$	<u>-</u>
<b>Total</b>		<b>\$</b>	<b>392,400</b>

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**LIABILITIES**

Chapter 7 Administrative Expenses		\$	100,000
Post-Petition Payables/Accrued Expenses	\$	347,102	
Sales Taxes Payables	\$	110,797	
Other Chapter 11 Administrative Expenses	\$	<u>100,000</u>	
		\$	<u>557,899</u>
<b>Total</b>		<b>\$</b>	<b>657,899</b>
<b>Amount available for distribution to holders of Allowed Priority and General Unsecured Claims</b>		<b>\$</b>	<b>-</b>

\*\*Based on assumption that all business operations will cease upon conversion of case.

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 Paul H. Deutch (PHD - 4859)  
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 Attorneys for the Debtor and Debtor in Possession

UNITED STATES BANKRUPTCY COURT  
 SOUTHERN DISTRICT OF NEW YORK

----- X  
 :  
 In re: :  
 : Chapter 11  
 TELECARRIER SERVICES, INC., : Case No. 02-20379 (ASH)  
 :  
 :  
 Debtor. :  
 :  
 ----- X

PROPOSED ORDER PURSUANT TO SECTION 1129  
 OF THE BANKRUPTCY CODE CONFIRMING THE  
 CHAPTER 11 PLAN OF REORGANIZATION OF  
 TELECARRIER SERVICES, INC. AND APPROVING  
 THE ISSUANCE AND SALE OF STOCK OF THE  
 REORGANIZED DEBTOR

Telecarrier Services, Inc., the above captioned debtor and debtor-in-  
 possession (the "Debtor") having filed with this Court on July 29, 2002 (the "Petition  
 Date") a voluntary petition for relief under chapter 11 of title 11 of the United States  
 Code (the "Bankruptcy Code");

And the Debtor having filed a Motion, dated January 21, 2004, for an  
 Order: (I) Approving Debtor's Disclosure Statement, (II) Approving Procedures For The  
 Solicitation Of Votes For Or Against The Plan, (III) Scheduling An Auction And  
 Approving Bidding Procedures For A Sale, Pursuant To The Plan, Of 100% Of The Stock  
 Of The Reorganized Debtor; (IV) Scheduling A Hearing To Consider Confirmation Of

Debtor's Plan And Approval Of The Aforesaid Stock Sale; And (V) Approving The Form And Manner Of Notices Of The Foregoing Relief; And (B) An Additional Order Confirming The Debtor's Plan Of Reorganization And Approving The Sale Of 100% Of The Stock Of The Reorganized Debtor Pursuant To The Plan;

And the Debtor having filed with this Court on February 23, 2004, its Amended Disclosure Statement dated February 18, 2004 (the "Disclosure Statement"), together with the Amended Plan of Reorganization of Telecarrier Services, Inc., dated February 18, 2004 (the "Plan");<sup>1</sup>

And this Court having signed an order on February 18, 2004 (the "Disclosure Statement/Bidding Procedure Order"), approving the Disclosure Statement and the Debtor's solicitation of votes with respect to the Plan, and also approving the notice, bidding and auction procedures for the sale of one hundred (100%) percent of the stock of the Reorganized Debtor (the "New Stock"), such sale (the "Stock Sale") to be conducted pursuant to the Plan and for the express purpose of funding the Plan;

And the Debtor having distributed the Plan and Disclosure Statement with related solicitation materials to all holders of impaired Claims against, and impaired Interests in, the Debtor, that were entitled to vote, for the solicitation of votes to accept or reject the Plan;

And the Debtor having provided notice of the Stock Sale, including the bidding and auction procedures, to over one hundred and twenty (120) companies within the telecommunication industry, and having caused publication of such notice in the February 26, 2004 national edition of the New York Times;

And Jenkins and Gilchrist Parker Chapin LLP (the "Jenkins Firm"), counsel to the Debtor, having certified the receipt of the requisite Ballots voting to accept the Plan;

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<sup>1</sup> Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Plan.

And the Disclosure Statement/Bidding Procedure Order also setting forth a date and time for a hearing, pursuant to section 1129 of the Bankruptcy Code, to consider confirmation of the Plan (the "Confirmation/Sale Hearing");

[If an auction of the sale of the New Stock occurs, a summary of the auction will be inserted here.]

And after due notice, the Confirmation/Sale Hearing having been held before this Court on April 8, 2004, and all parties in interest having had an opportunity to appear and be heard at the Confirmation/Sale Hearing; and this Court having considered the Plan and the Disclosure Statement; and based upon all other pleadings and papers heretofore filed herein, all proceedings heretofore had herein, and the record of the Confirmation/Sale Hearing; and after due deliberation and sufficient cause appearing therefor; and

IT APPEARING AND the Court having found and determined that:<sup>2</sup>

A. Exclusive Jurisdiction; Venue; Core Proceeding. This Court has jurisdiction over the Debtor, this Chapter 11 Case, and this proceeding pursuant to 28 U.S.C. §§ 1334 and 157. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409. This is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(L).

B. Judicial Notice. This Bankruptcy Court takes judicial notice of the docket of this Chapter 11 Case maintained by the Clerk of the Bankruptcy Court including, without limitation, all pleadings and other documents filed, all orders entered, and evidence and argument made, proffered, or adduced at the hearings held before the Bankruptcy Court during the pendency of this Chapter 11 Case, including, but not limited to, the hearing to consider the adequacy of the Disclosure Statement.

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<sup>2</sup> This Order constitutes the Court's findings of fact and conclusions of law under Fed. R. Civ. P. 52, as made applicable to this proceeding by Bankruptcy Rules 9014 and 7052. Any and all findings of fact shall constitute findings of fact even if they are stated as conclusions of law, and any and all conclusions of law shall constitute conclusions of law even if they are stated as findings of fact.

C. Burden of Proof. The Debtor has satisfied the burden of proving the elements of section 1129(a) and (b) of the Bankruptcy Code by a preponderance of the evidence.

D. Notice. Notice of (i) the time fixed for filing objections to confirmation of the Plan and (ii) the Confirmation/Sale Hearing, in each case, was given in accordance with Rule 2002(b)(2) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"). The Debtor has provided adequate and sufficient notice of the Stock Sale including all bidding and sales procedures.

E. Voting and Acceptance of the Plan. The procedures by which the Ballots for acceptance or rejection of the Plan were distributed and tabulated were fair and were properly conducted. The Plan has been duly accepted in accordance with sections 1125 and 1126 of the Bankruptcy Code, in writing, by holders of Class 2 Claims the only Claim or Interest holder entitled to vote on the Plan.

F. Plan Compliance with Bankruptcy Code (§1129(a)(1)). The Plan complies with the applicable provisions of the Bankruptcy Code, thereby satisfying section 1129(a)(1) of the Bankruptcy Code.

1. Proper Classification (§§1122, 1123(a)(1)). In accordance with Bankruptcy Code sections 1122(a) and 1123(a)(1), Article II of the Plan designates separate classes of Claims and Interests (other than Administrative Expenses and Priority Tax Claims which are treated in Article III of the Plan), each of which class contains only Claims or Interests that are substantially similar to the other Claims or Interests within that class.

2. Specified Treatment of Impaired and Unimpaired Classes of Claims (§§ 1123(a)(2), (3), & (4)). In accordance with Bankruptcy Code sections 1123(a)(2), 1123(a)(3), and 1123(a)(4), Articles IV and V of the Plan identify each class of Claims or Interests that is not impaired under the Plan, specifies the treatment of each class that is impaired under the Plan, and provides

the same treatment for each Claim or Interest within a particular class, unless the holder of a particular Claim or Interest agrees to a less favorable treatment of such particular Claim or Interest.

3. Implementation of the Plan (§ 1123(a)(5)). In accordance with Bankruptcy Code section 1123(a)(5), Article VI provides adequate means for the Plan's implementation, to wit, the sale of the New Stock.

4. Charter Provisions (§ 1123(a)(6)). The Plan provides that the charter provisions required pursuant to Bankruptcy Code section 1123(a)(6) will be contained in the charter of the Reorganized Debtor.

5. Designation of Officers and Directors (§ 1123(a)(7)). Section 6.6 of the Plan, regarding the designation of officers and directors, is consistent with the interests of creditors, equity security holders, and public policy in accordance with section 1123(a)(7) of the Bankruptcy Code.

6. Additional Plan Provisions (§ 1123(b)). The Plan's provisions are appropriate and not inconsistent with the applicable provisions of the Bankruptcy Code.

7. Bankruptcy Rule 3016(a). The Plan is dated and identifies the entity submitting it as proponent, thereby satisfying Bankruptcy Rule 3016(a).

G. Debtor's Compliance with Bankruptcy Code (§ 1129(a)(2)). The Debtor has complied with the applicable provisions of the Bankruptcy Code, thereby satisfying section 1129(a)(2) of the Bankruptcy Code. Specifically:

1. The Debtor is a proper debtor under section 109 of the Bankruptcy Code.

2. The Debtor has complied with the applicable provisions of the Bankruptcy Code, except as otherwise provided or permitted by orders of the Bankruptcy Court.

3. The Debtor has satisfactorily complied with the applicable provisions of the Bankruptcy Code, the Bankruptcy Rules and the Disclosure Statement/Bidding Procedures Order in transmitting the Plan, the Disclosure Statement, the Ballots, and related documents and notices and in soliciting and tabulating votes on the Plan.

H. Plan Proposed in Good Faith (§ 1129(a)(3)). The Debtor has proposed the Plan in good faith and not by any means forbidden by law, thereby satisfying section 1129(a)(3) of the Bankruptcy Code. The Debtor's good faith is evident from the facts and records of this Chapter 11 Case, the Disclosure Statement and the hearing thereon, and the record of the Confirmation/Sale Hearing and other proceedings held in this Chapter 11 Case. The Plan was proposed with the legitimate and honest purpose of maximizing the value of the Debtor's estate by providing the means through which the Reorganized Debtor may emerge from chapter 11 as a viable operating enterprise.

I. Payments for Services or Costs and Expenses (§ 1129(a)(4)). Any payment made or to be made by the Debtor for services or for costs and expenses in or in connection with this Chapter 11 Case, or in connection with the Plan and incident to this Chapter 11 Case, has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable, thereby satisfying section 1129(a)(4) of the Bankruptcy Code.

J. Directors, Officers, and Insiders (§ 1129(a)(5)). The Debtor has complied with section 1129(a)(5) of the Bankruptcy Code. The Debtor has disclosed the identity and affiliations of the persons proposed to serve as initial directors or officers of the Reorganized Debtor after confirmation of the Plan. In addition, the appointment to, or continuance in, such offices of such persons is consistent with the interests of holders of Claims against and Interests in the Debtor and with public policy. The identity of any insider that will be employed or retained by the Reorganized Debtor and the nature of such insider's compensation have also been fully disclosed.

K. No Rate Changes (§ 1129(a)(6)). The Plan does not provide for any rate changes requiring the approval of a governmental regulatory commission and, thus, section 1129(a)(6) of the Bankruptcy Code is not applicable.

L. Best Interests of Creditors (§ 1129(a)(7)). The Plan satisfies section 1129(a)(7) of the Bankruptcy Code. The Liquidation Analysis attached to the Disclosure Statement as Appendix “D” and other evidence proffered or adduced at the Confirmation/Sale Hearing (a) are persuasive and credible, (b) have not been controverted by other evidence, and (c) establish that each holder of an impaired Claim or Interest either has accepted the Plan or will receive or retain under the Plan, on account of such Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount that such holder would receive or retain if the Debtor was liquidated under chapter 7 of the Bankruptcy Code.

M. Acceptance by Certain Classes (§ 1129(a)(8)). In accordance with section 1129(a)(8) of the Bankruptcy Code, with respect to each class of Claims and each class of Interests under the Plan, each such class of Claims or Interests has accepted the Plan, or such class is not Impaired under the Plan.

N. Treatment of Administrative and Priority Claims (§ 1129(a)(9)). The Plan provides for treatment of Administrative Expense Claims, Priority Tax Claims, Priority Non-Tax Claims and all other Claims entitled to priority pursuant to section 507(a) of the Bankruptcy Code in the manner required by section 1129(a)(9) of the Bankruptcy Code.

O. Acceptance by Impaired Classes (§ 1129 (a)(10)). The only class of Claims (Class 2 Claims – Allowed General Unsecured Claims) that is impaired under the Plan has accepted the Plan, determined without including any acceptance of the Plan by any insider, thus satisfying section 1129(a)(10) of the Bankruptcy Code.

P. Feasibility (§ 1129(a)(11)). The Disclosure Statement and the evidence proffered or adduced at the Confirmation/Sale Hearing (a) are persuasive and

credible, (b) have not been controverted by other evidence, and (c) establish that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Reorganized Debtor, thus satisfying the requirements of section 1129(a)(11) of the Bankruptcy Code.

Q. Payment of Fees (§ 1129(a)(12)). In accordance with section 1129(a)(12) of the Bankruptcy Code, the Plan provides for the payment of all fees payable to the Office of the United States Trustee under section 1930(a)(6) of title 28 of the United States Code ("U.S. Trustee Fees") on the Effective Date of the Plan by the Debtor. In addition, the Plan will be deemed to be modified to provide that U.S. Trustee Fees due following the Effective Date shall be paid by eLEC as Disbursing Agent.

R. Retiree Benefits (§ 1129(a)(13)). The Debtor is not party to any retiree benefit plan and has never obligated itself to pay any "retiree benefits" (as that term is defined in section 1114 of the Bankruptcy Code), and accordingly section 1129(a)(13) of the Bankruptcy Code is not applicable.

S. Fair and Equitable; No Unfair Discrimination (§ 1129(b)). Based upon the evidence proffered, adduced, or presented by the Debtor at the Confirmation/Sale Hearing, the Plan does not discriminate unfairly and is fair and equitable as required by section 1129(b)(1) and (2) of the Bankruptcy Code.

T. Principal Purpose of the Plan (§ 1129(d)). The principal purpose of the Plan is not the avoidance of taxes or the avoidance of the application of Section 5 of the Securities Act of 1933, as amended.

U. Modifications to the Plan. The modifications to the Plan set forth in this Order constitute technical changes and/or changes with respect to particular Claims by agreement with holders of such Claims, and do not adversely change the treatment of any other Claims or Interests. Accordingly, pursuant to Bankruptcy Rule 3019, these modifications do not require additional disclosure under section 1125 of the Bankruptcy Code or resolicitation of votes under section 1126 of the Bankruptcy Code, nor do they

require that holders of Claims or Interests be afforded an opportunity to change previously cast acceptances or rejections of the Plan.

V. Good Faith Solicitation (§ 1125(e)). Based on the record before the Bankruptcy Court in this Chapter 11 Case, the Debtor, its officers, directors, employees, agents, counsel or other professionals have acted in “good faith” within the meaning of section 1125(e) of the Bankruptcy Code in compliance with the applicable provisions of the Bankruptcy Code and Bankruptcy Rules in connection with all their respective activities relating to the solicitation of acceptances to the Plan and their participation in the activities described in section 1125 of the Bankruptcy Code, and are entitled to the protections afforded by section 1125(e) of the Bankruptcy Code and the exculpation provisions set forth in Section 12.6 of the Plan.

W. Documentation. All documents necessary to implement the Plan are duly authorized and shall, upon execution and delivery, be valid, binding and enforceable agreements and not in conflict with any federal or state law.

X. Conditions Precedent. All conditions precedent to the Confirmation of the Plan set forth in Article XIII of the Plan have been satisfied or waived by the Debtor.

Y. Satisfaction of Confirmation Requirements. All requirements for confirmation of the Plan set forth in section 1129(a) of the Bankruptcy Code have been satisfied.

Z. Retention of Jurisdiction. The Bankruptcy Court may properly retain jurisdiction over the matters set forth in Article XI of the Plan and section 1142 of the Bankruptcy Code.

THEREFORE, IT IS ORDERED, ADJUDGED AND DECREED that:

1. Findings of Fact and Conclusions of Law. The findings of this Court as set forth above shall constitute findings of fact and conclusions of

law pursuant to Bankruptcy Rule 7052, which is applicable to this matter by reason of Bankruptcy Rule 9014.

2. Technical Amendments. The modifications and clarifications to the Plan set forth herein meet the requirements of sections 1127(a) and (c) of the Bankruptcy Code and such modifications and clarifications do not adversely change the treatments of the Claim of any creditor or Interest of any holder thereof within the meaning of Bankruptcy Rule 3019, and no further disclosure, solicitation or voting is required.

3. Confirmation. The Plan is approved and confirmed under section 1129 of the Bankruptcy Code. The terms of the Plan are incorporated by reference into and are an integral part of this Confirmation/Sale Order.

4. Objections. All Objections that have not been withdrawn, waived, or settled, and all reservations of rights pertaining to Confirmation of the Plan included therein, are overruled on the merits.

5. No Rule 3020(e) Stay. This Order is not stayed under Bankruptcy Rule 3020(e) and shall be effective immediately upon the entry hereof.

6. Rejection. As provided for under the Plan and without in any way limiting the provisions of the Plan, any prepetition executory contract or unexpired lease of the Debtor which has not expressly been assumed by motion, or which is not the subject of a pending application to assume on the Confirmation Date, shall be deemed rejected by the Reorganized Debtor on the Effective Date.

7. Authorization to Implement Plan Including Stock Sale. The Debtor and all parties in interest herein are authorized, empowered and directed forthwith to take any and all actions and to execute and, if appropriate,

acknowledge any and all documents necessary to implement the provisions of the Plan, including, without limitation, the sale of the New Stock.

8. Approval of Stock Sale. Subject to the closing of the Stock Sale, the sale of the New Stock to \_\_\_\_\_ is hereby approved, in all respects, subject to the following terms and conditions: [subject to Purchaser]. The Sale of the New Stock to \_\_\_\_\_ is free and clear of all Claims, liens, charges, encumbrances, rights and interests of creditors and equity security holders.

9. Cancellation of Debtor's Existing Common Stock and Issuance of New Stock. The Debtor's existing common stock shall be deemed canceled upon the closing of the Stock Sale. The Reorganized Debtor is hereby authorized and directed to issue to \_\_\_\_\_ two hundred (200) shares of common stock (previously defined as the New Stock).

10. Distributions. All distributions of cash or other consideration required to be made by the Debtor or the Disbursing Agent pursuant to the Plan shall be made within such time as provided by the Plan and all such distributions shall be timely and proper if mailed by first class mail on or before the distribution dates set forth in the Plan to the last known address of the person entitled thereto.

11. Professional Fees. The Jenkens Firm, as the only retained professionals in this case, shall file with the Court an application for final compensation or reimbursement of expenses pursuant to section 328, 330 or 503(b) of the Bankruptcy Code, and shall serve said application upon the Debtor and the Office of the United States Trustee, no later than forty-five (45) days after entry of this Order.

12. Plan Classification Controlling. The classifications of Claims and Interests for purposes of the distributions to be made under the Plan shall be governed solely by the terms of the Plan.

13. Binding Effect. The Plan and its provisions shall be binding upon the Debtor, the Reorganized Debtor, the Disbursing Agent, any entity acquiring or receiving property as a distribution under the Plan, and any holder of a Claim against or Interest in the Debtor, including all governmental entities, whether or not the Claim or Interest of such holder is impaired under the Plan and whether or not such holder or entity has accepted the Plan.

14. Transmittal of Materials; Notice. The transmittal and service of the Disclosure Statement, the Plan, the Ballots and the Confirmation/Sale Hearing Notice, together with the publication of the Confirmation/Sale Hearing Notice, are hereby approved as proper notice of the relief provided in this Order.

15. Vesting of Assets. Except as otherwise explicitly provided in the Plan, on the Effective Date, all property comprising the Estate shall vest in the Reorganized Debtor as of the Effective Date, free and clear of all Claims, liens, charges, encumbrances, rights and interests of creditors and equity security holders; provided, however, that if incurred in the ordinary course of business or otherwise assumed by the Reorganized Debtor pursuant to this Plan, an Allowed Administrative Expense Claim shall be the responsibility of the Reorganized Debtor on the Effective Date and paid, performed or settled by the Reorganized Debtor when due in accordance with the terms and conditions of the particular agreement(s) governing such obligation or liability. Nothing contained in this Order or the Plan provides the Reorganized Debtor with any right, title or interest in the Stock Sale Proceeds.

16. Corporate Existence. Consistent with Section 6.5 of the Plan, as of the Effective Date, the Debtor will survive as the Reorganized Debtor. Except as provided otherwise herein, any and all obligations of the Debtor's estate arising under the Plan shall be the responsibility of the Disbursing Agent.

17. Rejection of Executory Contracts and Unexpired Leases and Rejection Damages Bar Date. In accordance with Section 9.2 of the Plan, if the rejection by the Debtor pursuant to the Plan of an executory contract or unexpired lease results in a Claim, then such Claim shall be forever barred and shall not be enforceable against the Debtor, the Reorganized Debtor, or such entities' properties unless a proof of claim is filed with the Bankruptcy Court and served upon counsel to the Debtor within thirty (30) days after service of the Confirmation/Sale Order. If an executory contract or unexpired lease has been rejected prior to the Confirmation Date by Order of the Bankruptcy Court, and such Order provides a deadline for the filing of any Claim resulting from such rejection, then the deadline provided in such Order shall govern with respect to the Executory Contract or unexpired lease which is the subject of such Order.

18. Governmental Approvals Not Required. This Confirmation/Sale Order shall constitute all approvals and consents required, if any, by the laws, rules, or regulations of any state or any other governmental authority with respect to the implementation or consummation of the Plan and any documents, instruments, or agreements, and any amendments or modifications thereto, and any other acts referred to in or contemplated by the Plan, the Disclosure Statement, and any documents, instruments, or agreements, and any amendments or modifications thereto.

19. Exemption from Certain Taxes. Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange of notes or equity securities under the Plan, the creation of any mortgage, deed of trust, or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, shall not be subject to any stamp, real estate transfer, sales, use, mortgage recording or other similar tax.

20. Injunction Against Interference With Plan. Upon the entry of this Order, all holders of Claims and Interests and other parties in interest, along with their respective present or former employers, agents, officers, directors, or principals, shall be permanently and forever barred, restrained and enjoined from taking any actions to interfere with the implementation or consummation of the Plan.

21. Notice of Entry of Confirmation/Sale Order. On or before the tenth (10th) Business Day following the date of entry of this Confirmation/Sale Order, the Debtor shall serve notice of entry of this Confirmation/Sale Order pursuant to Bankruptcy Rules 2002(f)(7), 2002(k), and 3020(c) on all creditors and interest holders, the United States Trustee, and other parties in interest, by causing notice of entry of the Confirmation/Sale Order (the "Notice of Confirmation"), to be delivered to such parties by first-class mail, postage prepaid. The notice described herein is adequate under the particular circumstances and no other or further notice is necessary.

22. Modification/Reversal. If any provision of this Order is hereafter modified, vacated or reversed by subsequent order of this Bankruptcy Court or any other court, such reversal, modification or vacation shall not affect the validity of the obligations incurred or undertaken under or in connection with the Plan prior to the Debtor's or Disbursing Agent's receipt of written notice of any such order; nor shall such reversal, modification or vacation hereof affect the validity or enforceability of such obligations. Notwithstanding any reversal, modification or vacation hereof, any such obligation incurred or undertaken pursuant to and in reliance on this Order prior to the effective date of such reversal, modification or vacation shall be governed in all respects by the provisions hereof and of the Plan, and all documents, instruments and agreements related thereto, or any amendments or modifications thereto.

23. Conflicts Between Confirmation/Sale Order and Plan. To the extent of any inconsistency between the provisions of the Plan and this Order, the terms and conditions contained in this Order shall govern. The provisions of this Order are integrated with each other and are nonseverable and mutually dependent unless expressly stated by further order of this Bankruptcy Court. The failure to reference or discuss all or part of any particular provision of the Plan herein shall have no effect on the validity, binding effect and enforceability of such provision, and such provision shall have the same validity, binding effect and enforceability as every other provision of the Plan.

Dated: White Plains, New York  
April \_\_, 2004

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HONORABLE ADLAI S. HARDIN  
UNITED STATES BANKRUPTCY JUDGE