

TALK AMERICA HOLDINGS INC  
Form DEF 14A  
June 30, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**SCHEDULE 14A**

**PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO. )**

Filed by the Registrant  [X]  
Filed by a Party other than the Registrant  [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement  
 [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 [X] Definitive Proxy Statement  
 [ ] Definitive Additional Materials  
 [ ] Soliciting Material Pursuant to Sec. 240.14a-12

TALK AMERICA HOLDINGS, INC.  
(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required.  
 [ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.  
1) Title of each class of securities to which transaction applies:  
2) Aggregate number of securities to which transaction applies:  
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):  
4) Proposed maximum aggregate value of transaction:  
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1) Amount Previously Paid:  
2) Form, Schedule or Registration Statement No.:  
3) Filing Party:  
4) Date Filed:

**TALK AMERICA HOLDINGS, INC.**

6805 Route 202  
New Hope, Pennsylvania 18938  
(215) 862-1500

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

June 28, 2005

To the Stockholders of  
Talk America Holdings, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "Annual Meeting") of Talk America Holdings, Inc., a Delaware corporation (the "Company"), will be held on July 25, 2005, at 3:00 p.m., Eastern Time, at The Inn at Lambertville Station, 11 Bridge St., Lambertville, New Jersey 08530 for the following purposes:

- (1) To consider and vote upon a proposal to elect two directors, each for a term of three years and until his successor has been elected and qualified;
- (2) To consider and vote upon a proposal to ratify and approve the appointment of PricewaterhouseCoopers LLP as the independent certified public accountants for the Company for 2005;
- (3) To consider and vote upon a proposal to ratify and approve the 2005 Incentive Plan; and
- (4) To transact such other business as may properly come before the Annual Meeting or any adjournment or adjournments thereof.

Only stockholders of record at the close of business on June 28, 2005 are entitled to notice of and to vote at the meeting or any adjournment or adjournments thereof.

The Board of Directors hopes that you will be able to attend the Annual Meeting. Whether or not you are able to be present in person at the Annual Meeting, we urge you to sign and date the enclosed proxy and return it at your earliest convenience in the enclosed envelope. If you attend the Annual Meeting, you may revoke the proxy and vote in person if you desire. Please read the enclosed proxy statement, which contains information relevant to the actions to be taken at the Annual Meeting.

By Order of the Board of Directors,

/s/ Aloysius T. Lawn, IV

Aloysius T. Lawn, IV, Secretary

New Hope, Pennsylvania  
June 28, 2005

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**TALK AMERICA HOLDINGS, INC.**

6805 Route 202  
New Hope, Pennsylvania 18938  
(215) 862-1500

**PROXY STATEMENT  
FOR ANNUAL MEETING OF STOCKHOLDERS**

The Board of Directors (the "Board") of Talk America Holdings, Inc., a Delaware corporation (the "Company"), the principal executive offices of which are located at 6805 Route 202, New Hope, Pennsylvania 18938, hereby solicits your proxy in the form enclosed for use at the Annual Meeting of Stockholders to be held on July 25, 2005 (the "Annual Meeting"), or at any adjournment or adjournments thereof. The Annual Meeting will be held at The Inn at Lambertville Station, 11 Bridge St., Lambertville, New Jersey 08530 at 3:00 p.m., Eastern Time. The Company will bear the expenses of soliciting your proxy. This proxy statement and the accompanying form of proxy are first being released for mailing to stockholders on or about June 30, 2005.

We urge you to date, sign and mail your proxy promptly to make certain that your shares will be voted at the Annual Meeting. Proxies in the enclosed form that are received in time for the Annual Meeting will be voted at the Annual Meeting in accordance with the instructions, if any, indicated on the proxy card. If no instruction is given, the proxy will be voted in favor of the nominees for election as directors specified under "PROPOSAL 1: ELECTION OF DIRECTORS"; in favor of the ratification and approval of the selection of auditors as described in "PROPOSAL 2: RATIFICATION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS"; and in favor of the ratification and approval of the adoption of the 2005 Incentive Plan as described in "PROPOSAL 3: APPROVAL OF THE 2005 INCENTIVE PLAN." Any proxy may be revoked at any time before it is exercised by giving written notice of such revocation or delivering a later dated proxy to the Corporate Secretary of the Company prior to the Annual Meeting, or by voting in person at the Annual Meeting.

The solicitation of the accompanying proxy is made on behalf of the Board and may be made by mail, telephone, electronic or facsimile transmission or in person. We have retained the services of Georgeson Shareholder to assist in the solicitation of proxies for a fee not to exceed \$12,500, plus out-of-pocket expenses. In soliciting proxies, we may also use the services of our directors, officers and employees, who will not receive any additional compensation for those services, but who will be reimbursed for their out-of-pocket expenses.

**VOTING SECURITIES**

Only stockholders of record at the close of business on June 28, 2005 are entitled to vote at the Annual Meeting. On June 28, 2005, there were 27,823,543 shares of Company common stock, par value \$.01 per share, outstanding and entitled to vote (excluding 1,315,789 shares of common stock held in treasury). Each share of common stock is entitled to one vote. The presence in person or by proxy at the Annual Meeting of the holders of a majority of the shares of common stock will constitute a quorum for the transaction of business.

With respect to Proposal 1, the nominees in Class III for election as directors who receive the greatest number of votes cast at the Annual Meeting, assuming that a quorum is present, shall be elected as directors. A withheld vote on any nominee will not affect the voting results.

With respect to Proposal 2, approval will require the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote.

With respect to Proposal 3, approval will require the affirmative vote of the holders of a majority of the total votes cast at the Annual Meeting in respect of the proposal.

Brokers who hold shares in street name do not have the authority to vote on certain matters for which they have not received instructions from beneficial owners. Such broker non-votes (arising from the lack of instructions from beneficial owners) will not affect the outcome of the vote on Proposal 1, Proposal 2 or Proposal 3.

It is anticipated that sufficient stockholders will attend the meeting, in person or by proxy, to constitute a quorum for the transaction of business.

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**SECURITY OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information known to the Company with respect to beneficial ownership of the Company common stock as of June 15, 2005 (except as otherwise noted) by (i) each stockholder who is known by the Company to own beneficially more than five percent of the outstanding common stock, (ii) each of the Company's directors and nominees for director, (iii) each of the executive officers named below and (iv) all current directors and executive officers of the Company as a group. Except as otherwise indicated below, the Company believes that the beneficial owners of the common stock listed below have sole investment and voting power with respect to such shares.

Name of Beneficial Owner or Identity of Group	Number of Shares	Percent of Shares
	Beneficially Owned (1)	Beneficially Owned
Paul Rosenberg 650 N. E. 5th Avenue Boca Raton, FL 33432	1,919,995 (2)	6.9%
LSV Asset Management One North Wacker Drive, Suite 4000 Chicago, IL 60606	1,466,940(3)	5.3%
CCM Master Qualified Fund, Ltd., Coghill Capital Management, LLC and Clint D. Coghill One North Wacker Drive, Suite 4350 Chicago, IL 60606	2,612,117(4)	9.4%
Eton Park Fund, L.P., Eton Park Master Fund, Ltd., Eton Park Associates, L.P., Eton Park Capital Management, L.P. and Eric M. Mindich 825 Third Avenue, 8 <sup>th</sup> Floor New York, NY 10022	2,600,000(5)	9.4%
Gabriel Battista	788,333	2.8%
Mark S. Fowler	122,374	*
Robert Korzeniewski	12,667(6)	*
Edward B. Meyercord, III	223,334	*
Ronald R. Thoma	44,311	*
Aloysius T. Lawn, IV	121,666	*
Jeffrey Earhart	79,768	*
Warren A. Brasselle	83,166	*

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Timothy Leonard	75,999	*
David G. Zahka	76,666	*
All directors and executive officers as a group (11 persons)	1,701,617	5.8%

\* Less than 1%

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(1) The securities "beneficially owned" by a person are determined in accordance with the definition of "beneficial ownership" set forth in the regulations of the Securities and Exchange Commission (the "SEC") and, accordingly, may include securities owned by or for, among others, the spouse, children or certain other relatives of such person. The same shares may be beneficially owned by more than one person. Beneficial ownership may be disclaimed as to certain of the securities.

(2) The foregoing information is derived from the Schedule 13D/A filed by Paul Rosenberg, the Rosenberg Family Limited Partnership, PBR, Inc. and the New Millennium Charitable Foundation on February 12, 1999.

(3) The foregoing information is derived from the Schedule 13G filed by LSV Asset Management on February 11, 2005. This Schedule indicates that, as of December 31, 2004, LSV Asset Management had beneficial ownership of 1,466,940 shares, with sole power to vote or to direct the vote for 871,940 shares and sole power to dispose or to direct the disposition of 1,466,940 shares.

(4) The foregoing information is derived from the Schedule 13G/A filed by CCM Master Qualified Fund, Ltd., Coghill Capital Management, LLC and Clint D. Coghill on February 9, 2005. This Schedule indicates that, as of December 31, 2004, CCM Master Qualified Fund, Ltd., Coghill Capital Management, LLC and Clint D. Coghill had beneficial ownership of 2,612,117 shares, with shared voting power for 2,612,117 shares and shared dispositive power for 2,612,117 shares.

(5) The foregoing information is derived from the Schedule 13G filed by Eton Park Fund, L.P., Eton Park Master, Fund, Ltd., Eton Park Associates, L.P., Eton Park Capital Management, L.P. and Eric M. Mindich on April 28, 2005. This Schedule indicates that, as of April 19, 2005, Eton Park Fund, L.P., Eton Park Master, Fund, Ltd., Eton Park Associates, L.P., Eton Park Capital Management, L.P. and Eric M. Mindich had beneficial ownership of 2,600,000 shares, with shared voting power for 2,600,000 shares and shared dispositive power for 2,600,000 shares.

(6) Includes shares of our common stock that could be acquired upon exercise of options exercisable within 60 days after March 10, 2005 as follows: Gabriel Battista - 768,332; Mark S. Fowler - 35,000; Edward B. Meyercord III - 216,667; Ronald R. Thoma - 25,000; Robert Korzeniewski - 11,667; Aloysius T. Lawn IV - 121,666; Jeffrey Earhart - 75,000; Warren Brasselle - 73,333; Timothy Leonard - 59,999; David G. Zahka - 70,000; Thomas Walsh - 70,000; and all directors and executive officers as a group - 1,526,664.

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### **Compliance with Section 16(a) of the Exchange Act**

Under Section 16(a) of the Securities Exchange Act of 1934, as amended, our directors and certain officers and persons who are the beneficial owners of more than 10 percent of our Common Stock are required to report their ownership of the Common Stock, options and certain related securities and any changes in that ownership to the SEC. Specific due dates for these reports have been established, and we are required to report any failure to file by such dates in 2004. We believe that all of the required filings have been made in a timely manner. In making this statement, we have relied on copies of the reporting forms received by us.

### **PROPOSAL 1: ELECTION OF DIRECTORS**

The Company's Amended and Restated Certificate of Incorporation provides that the Board shall consist of not less than one nor more than 15 persons, the exact number to be fixed and determined from time to time by resolution of the Board. The Board has acted to fix the number of directors at five. Pursuant to the terms of the Company's Amended and Restated Certificate of Incorporation, the Board is divided into three classes, as nearly equal in number as reasonably possible, with terms currently expiring at the annual meeting of stockholders in 2005 ("Class III"), the annual meeting of stockholders in 2006 ("Class II"), and the annual meeting of stockholders in 2007 ("Class I"), respectively.

At the Annual Meeting, Mark Fowler and Robert Korzeniewski are nominees for election as Class III directors, for terms to expire at the annual meeting of stockholders in 2008. Messrs. Fowler and Korzeniewski will each serve until his successor has been elected and qualified. Messrs. Fowler and Korzeniewski currently serve as directors of the Company. The proxies solicited hereby, unless directed to the contrary therein, will be voted for the nominees. The nominees have consented to being named in this proxy statement and to serve if elected. The Board has no reason to believe that the nominees for election as director will not be candidates or will be unable to serve, but if either occurs it is intended that the shares represented by proxies will be voted for such substituted nominee or nominees as the Board, in its discretion, may designate.

The following sets forth certain biographical information, present occupation and business experience for the past five years for the nominees for election as directors and the continuing Class I and Class II directors.

*The Board of Directors recommends a vote FOR the Class III nominees listed below.*

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**CLASS III: NOMINEES WHOSE TERMS WILL EXPIRE IN 2005**

**Mark Fowler, age 63.** Mr. Fowler has been one of our Directors since September 1999. From 1981 to 1987, he was the Chairman of the FCC. From 1987 to 1994, Mr. Fowler was Senior Communications Counsel at Latham & Watkins, a law firm, and of counsel from 1994 to 2000. From 2000 through 2004, Mr. Fowler founded and served as Chairman of the Board of Directors of AssureSat, Inc., a provider of telecommunications satellite backup services. Since 2002, Mr. Fowler has been self-employed and pursuing investments in various companies and real estate. From 1991 to 1994, he was the founder, Chairman and Chief Executive Officer of PowerFone Holdings Inc., a telecommunications company. From 1994 to 2000 he was a founder and chairman of UniSite, Inc., a developer of antenna sites for use by multiple wireless operators. From 1999 to December 2002, Mr. Fowler served as a director of Pac-West Telecomm, Inc., a competitive local exchange carrier. From 1999 to date, Mr. Fowler has served as a director of Beasley Broadcast Group, a radio broadcasting company.

**Robert Korzeniewski, age 48.** Mr. Korzeniewski has been one of our Directors since July 2003. He is currently the Executive Vice President, Corporate Development and Strategy, with VeriSign Inc., which provides infrastructure services for Internet and telecommunications networks. From 1996 to 2000, Mr. Korzeniewski served as Chief Financial Officer of Network Solutions, Inc., which was acquired by VeriSign in June 2000. From 1987 to 1996, he held a variety of senior financial positions with SAIC. Mr. Korzeniewski is a certified public accountant. He serves as a director of Kintera, Inc., a software provider for nonprofit organizations. Mr. Korzeniewski is also a director of a number of privately held companies.

**CLASS II: INCUMBENT WHOSE TERM WILL EXPIRE IN 2006**

**Edward B. Meyercord, III, age 40.** Mr. Meyercord currently serves as our Chief Executive Officer and President. From May 2001 through December 2003, Mr. Meyercord served as our President. He served as our Chief Financial Officer between August 1999 and December 2001 and Chief Operating Officer between January 2000 and May 2001. He joined us in September of 1996 as the Executive Vice President, Marketing and Corporate Development. Prior to joining us, Mr. Meyercord was a Vice President in the Global Telecommunications Corporate Finance Group at Salomon Brothers, Inc., based in New York. Prior to Salomon Brothers he worked in the corporate finance department at PaineWebber Incorporated. Mr. Meyercord has served as one of our Directors since 2001.

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**CLASS I: INCUMBENTS WHOSE TERMS WILL EXPIRE IN 2007**

**Gabriel Battista, age 60.** Mr. Battista currently serves as Chairman of our Board of Directors. From January 1999 through May 2001, Mr. Battista served as our Chairman of the Board of Directors, Chief Executive Officer and President. From May 2001 through December 2003, Mr. Battista served as our Chairman of the Board of Directors and Chief Executive Officer. From January 2004 through December 2004, Mr. Battista served as Executive Chairman of the Board of Directors; Mr. Battista's term as an employee of the Company ended on December 31, 2004 (he continues as the non-executive Chairman of our Board and a Director). Prior to joining us in January of 1999 as a Director and Chief Executive Officer, Mr. Battista served as Chief Executive Officer of Network Solutions Inc., an Internet domain name registration company. Prior to joining Network Solutions, Mr. Battista served both as CEO and as President and Chief Operating Officer of Cable & Wireless, Inc., a telecommunication services provider. His career also included management positions at US Sprint, GTE Telenet and The General Electric Company. Mr. Battista serves as a trustee of Capitol College and as a director of a privately held company.

**Ronald Thoma, age 70.** Mr. Thoma is currently a business consultant, having retired in 2000 as an Executive Vice President of Crown Cork and Seal Company, Inc., a manufacturer of packaging products, where he had been employed since 1955. Mr. Thoma has served as one of our Directors since 1995.

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## THE BOARD OF DIRECTORS

The Board met or acted by written consent in lieu of a meeting 17 times in 2004. During the fiscal year ended December 31, 2002, each then-incumbent director attended at least 75% of the aggregate number of meetings of the Board and meetings of the committees of the Board on which he served.

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer. The text of this code of ethics is posted on our internet website, [www.talkamerica.com](http://www.talkamerica.com). A copy of this code of ethics may also be obtained from us by mailing a request to: Talk America Holdings, Inc., Attn: General Counsel, 6805 Route 202, New Hope, Pennsylvania 18938. We intend to satisfy our disclosure requirements regarding any amendment to, or waiver from, a provision of this code of ethics by posting such information on our internet website, [www.talkamerica.com](http://www.talkamerica.com).

Stockholders may send communications to the Board by mailing such communications to: Talk America Directors, c/o Secretary, 6805 Route 202, New Hope, Pennsylvania 18938. All stockholder communications shall be communicated to the Chairman of the Board of Directors, who may, in his/her discretion, provide the communications to the other members of the Board of Directors.

We do not have a policy with regard to our Board members' attendance at our annual meetings. In 2004, three members of the Board attended our annual meeting.

### Board Committees

The Board has established the following two committees, the function and current members of which are noted below.

*Audit Committee.* In 2004, the Audit Committee consisted of Robert Korzeniewski, Mark S. Fowler and Ronald R. Thoma. Mr. Korzeniewski serves as Chairman of the Audit Committee. Our Board has determined that all of the members of the Audit Committee are independent, as that term is defined in the NASD listing standards. Our Board of Directors has also determined that Robert Korzeniewski is an "audit committee financial expert" as this term is defined in the rules and regulations adopted by the SEC. The Audit Committee's primary purpose is to oversee the Company's accounting and financial reporting processes and the audits of the Company's financial statements. Without limitation of the generality of the foregoing, the Audit Committee's primary functions are to oversee: the integrity of the Company's financial statements and financial reporting structure; the Company's compliance with related legal and regulatory requirements; the independent auditor's qualifications and independence; and the performance of the Company's independent auditors. In addition, the Audit Committee is directly and solely responsible for the appointment, replacement, compensation and oversight of the work of the independent auditors. The Audit Committee met eleven (11) times in 2004.

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## Audit Committee Report

The following report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this report by reference therein.

While management is responsible for the preparation and integrity of the Company's financial statements, accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations, the Audit Committee's primary purpose is to oversee the Company's accounting and financial reporting processes and the audits of the Company's financial statements. The Company's independent auditors, PricewaterhouseCoopers LLP, are responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the audited financial statements for fiscal 2004 with the Company's management and has discussed with PricewaterhouseCoopers LLP the matters that are required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*. In addition, PricewaterhouseCoopers LLP has provided the Audit Committee with the written disclosures and the letter required by the Independence Standards Board Standard No.1, *Independence Discussions with Audit Committees*, and the Audit Committee has discussed with PricewaterhouseCoopers LLP their independence.

Based on these reviews and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, for filing with the SEC.

### THE AUDIT COMMITTEE

Robert Korzeniewski, Chairman  
Mark S. Fowler  
Ronald R. Thoma

*Compensation Committee*. In 2004, the Compensation Committee consisted of Mark S. Fowler and Ronald R. Thoma. The Compensation Committee is responsible for determining compensation for the Company's executive officers and currently administers the 1998 Long Term Incentive Plan, the 2000 Long Term Incentive Plan, the 2001 Non-Officer Long Term Incentive Plan and the 2003 Long Term Incentive Plan and reviews and approves the grant of options to employees of the Company. The Compensation Committee met or took action by written consent in lieu of a meeting 22 times during 2004.

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## **Nominating Procedures**

Given the relatively small size of the Board of Directors and the existence of other committees of the Board requiring substantial attention and effort, the Board has determined not to establish a separate nominating committee. The Board has also determined that a nominating committee is not necessary in light of the nominating procedures it has adopted, which require, among other matters, that nominations are to be selected by a majority of the independent members of the Board. While the entire Board may participate in the consideration of director nominees, the selection of director nominees shall be determined solely by the directors who are "independent" as defined by NASD listing standards, by a majority vote thereof.

The Board will consider candidates for membership suggested by its members, as well as by our management and by our stockholders. The Board may also from time to time retain a third-party executive search firm to identify candidates.

A stockholder who wishes to suggest a prospective director candidate for consideration by the Board may do so by written notice to our corporate Secretary setting forth the name, address and principal occupation of the prospective candidate, the name and address of the notifying stockholder, the number of shares of our capital stock owned by the notifying stockholder(s) and, to the extent known to the notifying stockholder, the information regarding the prospective candidate that would be required to be disclosed in a proxy statement filed under the Securities Exchange Act of 1934, together in writing with whatever further supporting material the stockholder considers appropriate. Notwithstanding the foregoing, nominations by stockholders of persons at a meeting for election as a director shall continue to be subject to the terms of our Bylaws, including Section 402, as discussed below.

There shall be no difference in the manner in which a prospective nominee is considered and evaluated by the Board based on the source of the prospective nominee's identification or suggestion (that is, by management, a member of the Board, a stockholder or any other source).

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Once the Board has identified a prospective nominee, it will, by action of a majority of the "independent" directors, make an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination will be based on the need for additional Board members to fill vacancies or to expand the size of the Board. If it is determined that there is a need for additional Board members, the prospective nominee will be evaluated considering the following factors:

- the candidate's ability to represent the interests of our stockholders;
- the candidate's skill, integrity, and independence of thought and judgment;
- the candidate's experience with businesses and other organizations of comparable size and stage of development;
- the relationship of the candidate's experience to the experience of other members of our Board and whether the candidate adds to the range of talent, skill and expertise possessed by the existing members of our Board;
- the candidate's ability to dedicate sufficient time, energy and attention to the diligent performance of a director's duties, including the candidate's service on other boards of directors; and
- such other relevant factors as deemed appropriate, including the current composition of the Board, the balance of management and independent directors, the need for audit committee expertise and the evaluations of other prospective nominees.

As part of the evaluation, the prospective nominee will be interviewed by one or more of the Board members, including at least one of the "independent" members, and others as appropriate, either in person or by telephone. After completing this evaluation and interview, the Board will then determine, by the vote of a majority of the "independent" directors, whether to elect the candidate to the Board in the case where stockholder approval is not required, or to nominate the candidate for election by our stockholders.

In addition to the procedures described above, a stockholder may nominate a person for election as a director at a meeting of stockholders called for the election of directors, provided that the stockholder complies with Section 402 of our Bylaws. This section requires that a notice relating to the nomination of directors must be timely given in writing to the Chairman of our Board prior to the meeting. To be timely, notice relating to the nomination of directors must be delivered not less than 14 days nor more than 50 days prior to any such meeting of stockholders called for the election of directors. Notice to us from a stockholder who proposes to nominate a person at a meeting for election as a director must be accompanied by each proposed nominee's written consent and contain, to the extent known to the notifying stockholder, the name, address and principal occupation of each proposed nominee, the total number of shares of our capital stock that will be voted for each of the proposed nominees, the name and address of the notifying stockholder, the number of shares of our capital stock owned by each notifying stockholder and the information regarding the proposed nominee that would be required to be disclosed in a proxy statement filed under the Securities Exchange Act of 1934. Stockholder nominations not made in accordance with this procedure may be disregarded by the Chairman, who may instruct that all votes cast for each such nominee be disregarded.

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### **Compensation of Directors**

We currently pay non-employee directors an annual retainer of \$20,000. We also pay the Chairman of the Audit Committee an additional annual retainer of \$5,000. On December 22, 2004, the Board approved grants of options to each of Messrs. Fowler, Thoma and Korzeniewski, who are non-employee directors, to purchase 15,000 shares of Common Stock under the 1998 Long Term Incentive Plan at the market value on the date of grant. Non-employee directors are also reimbursed for reasonable expenses incurred in connection with attendance at Board meetings or meetings of committees thereof.

Effective as of January 1, 2005, Mr. Gabriel Battista, whose term as the Executive Chairman of our Board of Directors and an employee (he continues as the non-executive Chairman of our Board and a director) ended on December 31, 2004, entered into a one-year consulting agreement with us, under which consulting agreement Mr. Battista will provide consulting services to us in exchange for monthly compensation of \$25,000.

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**EXECUTIVE COMPENSATION****Summary of Cash and Certain Other Compensation**

The following table sets forth information for the fiscal years ended December 31, 2004, 2003 and 2002 as to the compensation for services rendered paid by us to our Executive Chairman of the Board, to our Chief Executive Officer and to the five other most highly compensated executive officers whose annual salary and bonus exceeded \$100,000.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation		Long Term Compensation
		Salary (1)	Bonus (1)	Securities Underlying Options/SARS
Gabriel Battista, Executive Chairman of the Board of Directors	2004	\$500,000	\$1,000,000	--
	2003	\$500,000	\$645,000	250,000(2)
	2002	\$500,000	\$535,000	--
Edward B. Meyercord, III, Chief Executive Officer, President and Director	2004	\$500,000	\$310,000	--
	2003	\$350,000	\$452,500	300,000(3)(4)
	2002	\$350,000	\$381,500	--
Aloysius T. Lawn, IV, Executive Vice President - General Counsel and Secretary	2004	\$275,000	\$139,900	--
	2003	\$275,000	\$287,800	60,000(3)
	2002	\$275,000	\$245,400	--
Warren A. Brasselle, Executive Vice President - Network Operations	2004	\$250,000	\$127,500	--
	2003	\$250,000	\$265,500	60,000(3)
	2002	\$250,000	\$233,500	8,333(5)
Timothy Leonard, Chief Information Officer	2004	\$250,000	\$127,500	--
	2003	\$250,000	\$265,500	60,000(3)
	2002	\$224,039	\$217,500	25,000(6)
Jeffrey Earhart, Executive Vice President - Customer Operations	2004	\$250,000	\$124,000	--
	2003	\$230,000	\$312,000	60,000(3)
	2002	\$230,000	\$333,000	--
David G. Zahka, Chief Financial Officer	2004	\$250,000	\$124,000	--
	2003	\$250,000	\$264,500	60,000(3)



2002	\$250,000	\$233,500	--
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- (1) The costs of certain benefits not properly categorized as salary or benefits are not included because they did not exceed, in the case of any executive officer named in the table, the lesser of \$50,000 or 10% of the total annual salary and bonus reported in the above table.
  - (2) Options to purchase shares of our common stock. Mr. Battista was granted options under our 2003 Long Term Incentive Plan to purchase 250,000 shares of our common stock at an exercise price of \$10.49 per share that vest in one year.
  - (3) Options to purchase shares of our common stock. Messrs. Meyercord, Lawn, Earhart, Brasselle, Zahka and Leonard were granted options under our 2003 Long Term Incentive Plan to purchase 200,000, 60,000, 60,000, 60,000, 60,000 and 60,000 shares, respectively, of our common stock at an exercise price of \$10.49 per share that vest over three years.
  - (4) Options to purchase shares of our common stock. Mr. Meyercord was granted options under our 1998 Long Term Incentive Plan to purchase 50,000 shares of our common stock at an exercise price of \$10.49 per share that vest over three years. Mr. Meyercord was also granted options under our 2000 Long Term Incentive Plan to purchase 50,000 shares of our common stock at an exercise price of \$10.49 per share that vest over three years.
  - (5) Options to purchase shares of our common stock. Mr. Brasselle was granted options under our 1998 Long Term Incentive Plan to purchase 8,333 shares of our common stock at an exercise price of \$1.53 per share that vest over three years.
  - (6) Options to purchase shares of our common stock. In 2002, prior to Mr. Leonard becoming one of our executive officers, Mr. Leonard was granted options under our 2001 Non-Officer Long Term Incentive Plan to purchase 25,000 shares of our common stock at an exercise price of \$1.53 per share that vest over three years.
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**STOCK OPTION GRANTS**

During 2004, there were no grants of stock options to the executive officers named in the Summary Compensation Table, above. The following table sets forth certain information as to aggregated option/SAR exercises in our fiscal year ended December 31, 2004 and option/SAR values as of December 31, 2004 for each of the executive officers named in the Summary Compensation Table, above.

**Aggregated Option/SAR Exercises in Last Fiscal Year  
and Fiscal Year-End Option/SAR Values**

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs	Value of Unexercised In-the-Money Options/SARs (1)
			----- Exercisable/Unexercisable	----- Exercisable/Unexercisable
Gabriel Battista	0	0	883,332/83,333	\$2,242,083.92/\$51,666.46
Edward B. Meyercord, III	0	0	316,667/249,999	\$763,500.00/\$31,000.00
Aloysius T. Lawn, IV	0	0	148,332/85,833	\$356,300.00/\$28,416.46
Warren A. Brasselle	0	0	110,556/42,777	\$319,540.02/\$14,134.93
Timothy Leonard	0	0	101,666/48,333	\$319,365.74/\$42,414.97
Jeffrey Earhart	0	0	105,000/71,000	\$305,400.00/\$19,220.00
David G. Zahka	0	0	120,000/40,000	\$542,000.00/\$0.00

(1) Calculated as the difference between the exercise/base-price of the options/SARs and a year-end fair market value of the underlying securities equal to \$6.62.

**EMPLOYMENT CONTRACTS**

Edward B. Meyercord, III entered into a three-year employment agreement to serve as our Chief Executive Officer and President effective as of January 1, 2004. Commencing in 2004, under the contract, Mr. Meyercord is entitled to a minimum annual base salary of \$500,000 and certain other perquisites made generally available to our senior executive officers.

Aloysius T. Lawn, IV entered into a three-year employment agreement effective as of July 30, 2004. Under the contract, Mr. Lawn is entitled to a minimum annual base salary of \$275,000 and certain other perquisites made generally available to our senior executive officers.

Warren Brasselle entered into a three-year employment agreement effective as of July 30, 2004. Under the contract, Mr. Brasselle is entitled to a minimum annual base salary of \$250,000 and certain other perquisites made generally available to our senior executive officers.

Timothy Leonard entered into a three-year employment agreement effective as of March 15, 2005. Under the contract, Mr. Leonard is entitled to a minimum annual base salary of \$250,000 and certain other perquisites made generally available to our senior executive officers.

Jeffrey Earhart entered into a three-year employment agreement effective as of July 30, 2004. Under the contract, Mr. Earhart is entitled to a minimum annual base salary of \$250,000 and certain other perquisites made generally available to our senior executive officers.

David G. Zahka entered into a three-year employment agreement effective as of July 30, 2004. Under the contract, Mr. Zahka is entitled to a minimum annual base salary of \$250,000 and certain other perquisites made generally available to our senior executive officers.

Each of the employment agreements for Messrs. Meyercord, Lawn, Brasselle, Leonard, Earhart and Zahka provides for immediate vesting of options in event of a "change of control" (as defined in the agreements) of us and provides for severance benefits in the event employment is terminated by us without cause prior to the end of the term and for a certain period beyond the end of the term in the event of a "change of control." The severance benefits in the event employment is terminated by us without cause prior to the end of the term are generally the payment of an amount equal to one year's (two year's in the case of Mr. Meyercord) base salary plus all bonus amounts due such executive at the time of termination, as well as the continuation of various employee benefits for one year (two years in the case of Mr. Meyercord). The severance benefits in the event employment is terminated for a certain period beyond the end of the term in the event of a "change of control" are generally the payment of an amount equal to one year's (two year's in the case of Mr. Meyercord) base salary plus all the average annual incentive bonus earned by the executive in the preceding four years, as well as the continuation of various employee benefits for one year (two years in the case of Mr. Meyercord).

Each of the above-described agreements requires the executive to maintain the confidentiality of our information and assign any inventions to us. In addition, each of the executive officers has agreed that he will not compete with us by engaging in any capacity in any business that is competitive with our business during the term of his respective agreement and thereafter for specified periods.

Each of our executive officers is entitled to participate in our incentive plans and in annual bonus plans that may be established by our Board of Directors or the compensation committee thereof.

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## COMPENSATION COMMITTEE

### Compensation Committee Interlocks and Insider Participation

None.

### Compensation Committee Report on Executive Compensation

The Compensation Committee approves salaries and certain incentive compensation arrangements for management and key employees of the Company.

The principal elements of the Company's compensation structure are described below:

*Annual Salary.* Minimum annual base salaries for executive officers of the Company have been established pursuant to employment contracts negotiated with each of our executive officers. Increases above such minimum base salaries may be granted in the discretion of the Compensation Committee based on its subjective assessment of individual performance. The Company believes that such employment contracts help to attract and retain qualified individuals. In addition, the employment agreements include confidentiality and non-compete agreements by the officers. See EXECUTIVE COMPENSATION - "Employment Contracts."

*Annual Bonuses.* For 2004, the Board approved an annual bonus program for the executive officers and certain other employees of the Company to provide further incentive to achieve the Company's 2004 performance goals. Bonus targets for the program were 50% of base salary for the CEO and President and 40% of base salary for the balance of the executive officers. Awards under this program were based upon achieving the Company's operating plan, with the opportunity for leverage of the bonus targets based upon surpassing such plan. The Compensation Committee of the Board reviewed the Company's performance in 2004 against the criteria that had been established under the program and, at the Compensation Committee's recommendation, the Board subsequently approved bonuses for the Company's executive officers as set forth in the annual bonus program, which awards to the persons named in the Summary Compensation Table, above, are reflected therein under the "Bonus" column.

In connection with the transition of Mr. Battista's duties as Chief Executive Officer to Mr. Meyercord, the Board approved a bonus program for Mr. Battista for 2004 to provide him with further incentive to achieve our performance goals in 2004. Mr. Battista's bonus target was 100% of base salary and was based upon achieving our operating plan, with the opportunity for leverage of the bonus targets based upon surpassing such plan. In addition, Mr. Battista could earn an additional bonus of up to \$500,000, based upon his meeting certain subjective measures established and as determined by the Board.

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In addition, the Board adopted an incentive compensation plan for a limited number of employees, including executive officers of the Company other than the Executive Chairman of the Board and the CEO. Under this plan, the participating employees were organized in groups on a cross-functional basis and charged with the responsibility for improving and monitoring the following operational areas: customer satisfaction, general and administrative expenses/capital budget, sales and marketing, credit quality, gross margin, and facilities-based provisioning. Incentive compensation under this plan was based upon the Company's achieving certain operational performance measures established by the Board when it adopted the plan. Maximum compensation per employee for each cross-function team was \$4,000 per six-month period, with an aggregate six-month cap of \$8,000. The incentive compensation awards under this plan to the persons named in the Summary Compensation Table, above, are reflected therein under the "Bonus" column in our Annual report on Form 10-K for the year ended December 31, 2004, as amended.

*Long Term Incentive Compensation.* Our long term incentive compensation is currently comprised of stock options granted to employees. We believe that stock options are an effective tool for directly linking the financial interests of executive officers and key employees with those of our stockholders and for recruiting and retaining high quality management personnel. Stock options are intended to focus the efforts of executive officers and key employees on performance that will increase our value for all of our stockholders. No stock options were granted to any of the executive officers named in the Summary Compensation Table above in 2004.

Future option grants or other stock or incentive awards will be made in the discretion of the Compensation Committee, including in connection with the negotiation of individual employment arrangements.

*Chief Executive Officer's 2004 Compensation.* Mr. Meyercord's base salary of \$500,000 in 2004 was established pursuant to the terms of his negotiated employment agreement that was effective as of January 1, 2004. The Compensation Committee determined that the Company's performance satisfied the criteria it had established under the 2004 annual bonus program described above and qualified Mr. Meyercord for a bonus of \$310,000 for 2004.

*Policy on Deductibility of Compensation.* Section 162(m) of the Internal Revenue Code generally denies a deduction to any publicly held corporation for compensation paid to its chief executive officer and its four other highest-paid executive officers to the extent that any such individual's compensation exceeds \$1 million, subject to certain exceptions, including one for "performance-based compensation." Generally, the Compensation Committee seeks to maximize executive compensation deductions for federal income tax purposes. However, the Compensation Committee believes that there may be circumstances where it is appropriate to provide compensation that is not fully deductible because such compensation is more consistent with the Company's executive compensation program.

THE COMPENSATION COMMITTEE

Ronald R. Thoma  
Mark S. Fowler

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**PERFORMANCE GRAPH**

The following graph sets forth a comparison of the percentage change in the cumulative total stockholder return on the Company's common stock compared to the cumulative total return of the S&P MidCap 400 Index and the S&P 500 Integrated Telecommunications Index for the period from December 31, 1999, through December 31, 2004. The comparison assumes that \$100 was invested on December 31, 1999 in the Company's common stock and each of the indices and assumes reinvestment of dividends. The stock price performance shown on the graph below is not necessarily indicative of future performance.

	DEC. 31, 1999	DEC. 29, 2000	DEC. 31, 2001	DEC. 31, 2002	DEC. 31 2003	DEC. 31 2004
Talk America Holdings, Inc.....	\$100	\$8	\$2	\$11	\$22	\$12
S&P MidCap 400 Index...	\$100	\$116	\$114	\$97	\$130	\$149
S&P 500 Integrated Telecommunications Index...	\$100	\$68	\$52	\$33	\$34	\$20

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**PROPOSAL 2: RATIFICATION OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

The Audit Committee of the Board has appointed the firm of PricewaterhouseCoopers LLP as independent auditors of the Company for the current fiscal year. This firm has served as the Company's independent auditors since 2000 and has no direct or indirect financial interest in the Company.

Although not legally required to do so, the Audit Committee and the Board are submitting the selection of PricewaterhouseCoopers LLP as the Company's independent auditors for ratification by the stockholders at the Annual Meeting. If a majority of the shares present in person or represented by proxy at the meeting and entitled to vote is not voted for such ratification (which is not expected), the Audit Committee will reconsider its appointment of PricewaterhouseCoopers LLP as independent auditors of the Company.

A representative of PricewaterhouseCoopers LLP will be present at the Annual Meeting and will have the opportunity to make a statement if she or he desires to do so. It is anticipated that such representative will be available to respond to appropriate questions from stockholders.

*The Board of Directors recommends a vote FOR the proposal to ratify the selection of PricewaterhouseCoopers LLP as independent auditors of the Company.*

During the Company's fiscal years ended December 31, 2004 and 2003, PricewaterhouseCoopers LLP provided services to the Company in the following categories and amounts:

<u>Description</u>	<u>2004</u>	<u>2003</u>
Audit Fees	\$ 960,000	\$ 358,600
Audit-Related Fees	\$ 0	\$ 0
Tax Fees	\$ 8,696	\$ 2,440
All Other Fees	\$ 1,500	\$ 6,580

In the above table, "audit fees" are fees we paid to PricewaterhouseCoopers LLP for professional services for the audit of our consolidated financial statements included in our Form 10-K and review of financial statements included in our Form 10-Qs, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements; "audit related fees" are fees billed by PricewaterhouseCoopers LLP for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements that are not reported under "audit fees;" "tax fees" are fees billed by PricewaterhouseCoopers LLP for tax compliance, tax advice, and tax planning services; and "all other fees" are fees billed by PricewaterhouseCoopers LLP to us for any services not included in the first three categories, including the annual subscription fee for an online information service.



The Audit Committee has determined that the services provided by PricewaterhouseCoopers LLP to us that were not related to its audit of our financial statements were at all relevant times compatible with that firm's independence and approved all such services.

The Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm. The Audit Committee may delegate pre-approval of audit and non-audit services to a subcommittee of the Audit Committee, provided that any decisions made by such subcommittee shall be presented to the full Audit Committee at its next scheduled meeting.

In 2004, the Audit Committee pre-approved 100% of the services provided by our independent auditors.

### **PROPOSAL 3: APPROVAL OF THE 2005 INCENTIVE PLAN**

On June 27, 2005, the Compensation Committee of the Company's Board approved and recommended to the Board, and the Company's Board approved, subject to stockholder approval at the Annual Meeting, the Talk America Holdings, Inc. 2005 Incentive Plan (the "2005 Incentive Plan"). The Compensation Committee reviewed the Company's current 1998 Long Term Incentive Plan, 2000 Long Term Incentive Plan, 2001 Non-Officer Long Term Incentive Plan and 2003 Long Term Incentive Plan (which we refer to collectively as the "Existing Plans") and, based on this review, determined that an insufficient number of shares are available under these plans to enable us to provide future grants of stock options and other awards to our employees, officers, directors and consultants, including to employees of companies that we may acquire. In establishing the number of shares to be available for grant of awards under the 2005 Incentive Plan, the Compensation Committee considered the number of shares currently subject to outstanding options and remaining available for future grants under the Existing Plans as well as the Company's anticipated issuance in the third quarter of 2005 of 1,800,000 shares upon consummation of the Company's acquisition of LDMI Telecommunications, Inc.

The following table shows, as of December 31, 2004, the number of options outstanding, the weighted average exercise price of such options and the number of shares available for award under the Existing Plans and does not reflect the exercise or issuance of options in 2005. To date, the awards under the Existing Plans have been limited to awards of options.

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### Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans(1)
Equity compensation plans approved by security holders	2,620,093	\$7.35	459,429
Equity compensation plans not approved by security holders (2)	2,261,751	\$9.64	219,155
Total	4,881,844	\$8.41	678,584

(1) 1998 Long Term Incentive Plan, 2000 Long Term Incentive Plan and 2003 Long Term Incentive Plan.

(2) These shares are primarily under our 2001 Non-Officer Long Term Incentive Plan, pursuant to which up to 1,666,666 shares of our common stock may be issued to our non-executive employees in the form of options, rights, restricted stock and incentive shares. The balance of these shares include shares issuable on exercise of certain options granted to non-executive employees and granted to executive officers in connection with their initial employment and without shareholder approval as permitted by the rules of Nasdaq.

Under our Existing Plans, if any shares subject to a previous award are forfeited, or if any award is terminated without issuance of shares or satisfied with other consideration, the shares subject to such award shall again be available for future grants.

As of June 15, 2005, there were Company options outstanding to purchase a total of 4,088,626 shares and a total of 446,898 shares available for awards under the Existing Plans.

The Board believes that by allowing us to continue to offer our employees long-term, performance-based compensation through the 2005 Incentive Plan, we will continue to be able to attract, motivate and retain experienced and highly qualified employees who will contribute to our financial success.

The 2005 Incentive Plan provides for the granting of stock options, stock awards, stock appreciation rights, performance-contingent awards and other equity-based awards to our employees. The 2005 Incentive Plan does not permit the repricing of options or the granting of discounted options, and does not contain an evergreen provision.

The 2005 Incentive Plan also will provide the flexibility to grant equity-based awards to our non-employee Directors.

The 2005 Incentive Plan will become effective as of the date it is approved by our stockholders.

The following is a brief description of the 2005 Incentive Plan. The full text of this Plan is attached as Annex A to this Proxy Statement, and the following description is qualified in its entirety by reference to this Annex.

It is the judgment of the Board of Directors that approval of the 2005 Incentive Plan is in the best interests of the Company and our stockholders.

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### **Administration and Duration of the 2005 Incentive Plan**

The 2005 Incentive Plan will be administered by a committee (the "Committee") of the Board, which initially will be the Compensation Committee (the Board will administer the 2005 Incentive Plan as to non-employee Directors). This Committee has the authority (i) to select employees to whom awards are granted, (ii) to determine the size and types of awards granted, (iii) to determine the terms and conditions of such awards in a manner consistent with the 2005 Incentive Plan (discussed below), (iv) to interpret the 2005 Incentive Plan and any instrument or agreement entered into under the 2005 Incentive Plan, (v) to establish such rules and regulations relating to the administration of the 2005 Incentive Plan as it deems appropriate and (vi) to make all other determinations that may be necessary or advisable for the administration of the 2005 Incentive Plan. The Committee may amend the terms of any award, provided that such amendment or substitution may not impair the rights of any participant with respect to any outstanding award without his consent.

Unless earlier terminated by the Board, the 2005 Incentive Plan will terminate on July 25, 2015; termination of the 2005 Incentive Plan will not, however, affect the validity of any then outstanding award.

### **Shares Subject to 2005 Incentive Plan**

Subject to adjustment as described below, 2,000,000 shares of the Company's common stock shall be available for grant of stock option and other stock awards under the 2005 Incentive Plan. We have designed the plan to allow for flexibility. Therefore, in addition to the stated maximum awards described above, the 2005 Incentive Plan provides that awards other than stock options and stock appreciation rights will be counted against the 2005 Incentive Plan maximum in a 2-to-1 ratio. For example, if we issue 100 performance shares, we would reduce the Plan maximum by 200 shares. The maximum number of shares with respect to which an individual may be granted awards under the 2005 Incentive Plan during any calendar year is 750,000 shares, subject to adjustment as discussed under "Certain Adjustments," below. The shares to be delivered under the 2005 Incentive Plan will be made available from authorized but unissued shares of our common stock, from treasury shares, or from shares purchased in the open market or otherwise.

If any shares subject to any award are forfeited, or if any award is terminated without issuance of shares or is satisfied with other consideration, the shares subject to such award shall again be available for future grants. Further, awards granted under the 2005 Incentive Plan in substitution for awards previously made by companies or businesses that we may acquire will not be counted toward the share limit unless otherwise provided by the Committee.

The closing sale price of the Company's common stock on the NASDAQ National Market on June 15, 2005 was \$9.77.

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**Eligibility**

All employees of the Company and its subsidiaries, all non-employee directors of the Company and consultants and independent contractors to the Company or its subsidiaries are eligible to participate in the new 2005 Incentive Plan. From time to time, the Committee or, as to non-employee Directors, the Board, will determine who will be granted awards, and the number of shares subject to such grants.