

TALK AMERICA HOLDINGS INC  
Form 10-Q/A  
April 27, 2005

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q/A**  
**(Amendment No. 1)**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2004**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number 000 - 26728**

**Talk America Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of incorporation)

**23-2827736**  
(I.R.S. Employer Identification No.)

**12020 Sunrise Valley Drive, Suite 250, Reston, Virginia**  
(Address of principal executive offices)

**20191**  
(Zip Code)

**(703) 391-7500**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

26,978,275 shares of Common Stock, par value of \$0.01 per share, were issued and outstanding as of November 2, 2004.

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### Explanatory Note

Talk America Holdings, Inc. is filing this Amendment No. 1 on Form 10-Q/A (“Amendment No. 1”) to our Quarterly Report on Form 10-Q originally filed with the Securities and Exchange Commission on November 9, 2004, for the purpose of restating our consolidated financial statements for the quarters ended September 30, 2004 and 2003 to reflect corrections of the following errors:

The quarterly results for the four quarters of 2003 and for the first three quarters of 2004 have been adjusted to reflect the restatement of our previously reported consolidated financial statements for those periods and for the year ended December 31, 2003 as detailed below.

We have revised our consolidated financial statements for these periods to correct for the following errors:

(a) Due to a classification error in our general ledger, we incorrectly recorded certain customer fee revenues as sales, use and excise tax liability to the consolidated balance sheets for the four quarters of 2003, for the year ended December 31, 2003 and for the first three quarters of 2004. These customer fee revenues were \$0.4 million for the third quarter of 2004, \$0.2 million for the third quarter of 2003, \$1.0 million for the nine months ended September 30, 2004, \$0.7 million for the nine months ended September 30, 2003, and an aggregate of \$1.0 million for the full year 2003. These customer fees have now been appropriately recorded to revenues in the consolidated statement of operations for the year ended December 31, 2003 and in the unaudited quarterly periods for the first three quarters 2004 and 2003;

(b) We determined that in our calculations of earnings per share since the third quarter of 2003 we had not incorporated the tax benefits associated with the assumed exercise of employee stock options. As a result, fully diluted shares outstanding were over-reported and income per fully diluted share was understated in the periods subsequent to third quarter 2003; and

(c) We identified errors in the computation of the deferred tax assets recognized in the third quarter of 2003 as follows: (i) failure to deduct state income tax expense from federal taxable income resulted in the deferred tax benefit as originally reported for the year ended December 31, 2003 and the unaudited third quarter 2003 being understated by \$0.9 million and (ii) failure to complete the appropriately detailed analysis of our deferred tax assets relating to state net operating loss carryforwards resulted in the deferred tax benefit as originally reported for the year ended December 31, 2003 and the unaudited third quarter 2003 being understated by \$1.7 million. In February 2005, we determined that we improperly corrected for the errors in the deferred tax computations through an adjustment to the effective tax rate for 2004 rather than through the restatement of our prior period financial statements. As a result, we have restated the first three quarters of 2004 and the third and fourth quarter of 2003 and year end December 31, 2003.

(d) In connection with the release of the valuation allowance in the third quarter 2003, \$6.5 million of deferred tax assets associated with acquired net operating loss carryforwards were realizable and should have been recorded as a deferred tax asset. Originally, we believed this deferred tax asset was limited due to provisions of the Internal Revenue Code Section 382. This error resulted in deferred tax assets being understated and goodwill being overstated in each of the periods beginning in the third quarter 2003. As a result, we have restated the first three quarters of 2004 and the third and fourth quarter of 2003 and year end December 31, 2003.

The effect of these items are reflected in our consolidated financial statements contained in Item 1 of this Amendment, with corresponding changes reflected in Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 4, Controls and Procedures. The effect of these items on our consolidated statement of operations for the four quarters of 2003, the year ended December 31, 2003 and for the first three quarters of 2004 is summarized in the following table.



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(in 000s, except per share data)									
(Unaudited)		<b>2003</b>				<b>2004</b>			
		<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	
<b>Revenue:</b>									
Reported		\$ 87,843	\$ 93,748	\$ 99,929	\$ 101,143	\$ 109,321	\$ 114,881	\$ 120,537	
Adjustments		359	158	249	264	298	332	392	
As Restated		\$ 88,202	\$ 93,906	\$ 100,178	\$ 101,407	\$ 109,619	\$ 115,213	\$ 120,929	
<b>Operating Income:</b>									
Reported		\$ 15,179	\$ 19,027	\$ 17,620	\$ 13,432	\$ 14,103	\$ 13,973	\$ 13,864	
Adjustments		359	158	249	264	298	332	392	
As Restated		\$ 15,538	\$ 19,185	\$ 17,869	\$ 13,696	\$ 14,401	\$ 14,305	\$ 14,256	
<b>Pre-Tax Income:</b>									
Reported		\$ 14,961	\$ 17,500	\$ 16,106	\$ 12,197	\$ 13,387	\$ 13,573	\$ 14,486	
Adjustments		358	158	249	264	298	332	392	
As Restated		\$ 15,319	\$ 17,658	\$ 16,355	\$ 12,461	\$ 13,685	\$ 13,905	\$ 14,878	
<b>Income Tax Expense:</b>									
Reported		\$ 5,835	\$ 6,825	(\$35,460)	\$ 5,103	\$ 5,031	\$ 5,025	\$ 5,339	
Adjustments		141	62	(2,287)	(243)	366	458	528	
As Restated		\$ 5,976	\$ 6,887	(\$37,747)	\$ 4,860	\$ 5,397	\$ 5,483	\$ 5,867	