

September 30, 2002 compared with 344,000 bundled lines at June 30, 2002. Approximately 150,000 of the bundled lines at September 30, 2002 and approximately 71% of the Company's new bundled lines for the third quarter of 2002 were in Michigan. The decrease in bundled sales in the third quarter of 2002 compared to 2001 reflects the Company's decision to slow growth in bundled sales while the Company pursued its plans to improve the efficiencies of the Company's bundled business model and improve customer quality and collections processes. The increase in bundled revenues sequentially from the second quarter of 2002 to the third quarter of 2002 is attributed to growth in bundled lines and reductions in customer turnover. In the third quarter of 2002, agent sales slowed due to implementation issues associated with the Company's new product offerings in the previous quarter. Bundled revenues are expected to increase to between \$48 and \$53 million in the fourth quarter of 2002. Bundled revenues for the full year 2003 are expected to be between \$270 and \$290 million. Longer-term growth in revenues will depend upon continued operating efficiencies, lower customer turnover and the Company's ability to develop and scale various marketing programs in other states. Revenues per bundled line are expected to decline in the future as the Company continues to market lower priced products to be more competitive with incumbent and other competitive local exchange carriers and provide greater value to its customers.

Network and Line Costs. Network and line costs decreased by 35.6% to \$37.9 million for the quarter ended September 30, 2002 from \$58.7 million for the quarter ended September 30, 2001. The decrease in network and line costs was primarily due to a lower number of local and long distance customers, a reduction in access and usage charges and a reduction in primary interexchange carrier charges. Network and line costs for the three months ended September 30, 2002 benefited from a credit of \$0.4 million in connection with a New York Public Service Commission-mandated refund from Verizon New York of certain ONE-P switching costs totaling an aggregate \$1.6 million. Of the Verizon New York refund, \$1.2 million was received in the second and third quarters of 2002. The remaining balance of the credit, an additional \$0.4 million, will be provided to the Company in the form of bill credits from Verizon over the quarter ended December 31, 2002. Network and line costs also benefited from favorable resolution of disputes with vendors. The Company's policy is not to record credits from such disputes until received. As a percentage of sales, network and line costs increased to 47.8% for the quarter ended September 30, 2002, as compared to 46.4% for the same quarter last year. The FCC is currently undertaking its triennial review of local phone competition, including the continued availability of certain unbundled network elements and switching. As the Company's long distance customer base declines, the Company could be subject to higher network and line costs as percentage of sales due to fixed costs of the Company's long distance network and certain minimum contract commitments. See "Liquidity and Capital Resources, Other Matters."

Gross profit, defined as sales less network and line costs, decreased by 39.9% for the quarter ended September 30, 2002 to \$41.3 million from \$67.7 million for the same quarter last year, and gross margin, defined as gross profit as a percentage of sales, decreased to 32.2% as compared to 53.6% for the quarter ended September 30, 2001. Gross margin for the long distance product was 60.8% for the third quarter of 2002 as compared to 59.1% for the same quarter last year and gross margin for the bundled product was 45.6% for the third quarter of 2002 as compared to 46.7% for the same quarter last year. The growth of local bundled service as a percentage of total revenue and product mix has contributed to the decrease in overall gross margin. Excluding the benefit of the Verizon New York credit and other dispute resolutions, the gross margin for the bundled product would have been in the low 40% range. Excluding amortization of deferred revenue related to a telecommunications service agreement, which expired in October 2002 and various dispute resolutions, gross margin for the long distance product would have been in the low 50% range. The FCC is currently considering modifications to the Universal Service Fund ("USF") program that may go into effect as early as the end of 2002. Changes to the methodology used in the calculation of the collection and payment of USF charges may have an adverse impact on the Company's gross margin.

General and Administrative Expenses. General and administrative expenses decreased by 41.8% to \$12.0 million for the quarter ended September 30, 2002 from \$20.3 million for the quarter ended September 30, 2001. The overall decrease in general and administrative expenses was due primarily to significant workforce reductions and other cost cutting efforts by the Company as it pursued improvements in operating efficiencies of the Company's bundled business model. Included in general and administrative expenses for the quarter ended September 30, 2002 was a non-cash credit of \$1.7 million related to a favorable legal settlement of a dispute that had previously been reflected as a liability, partially offset by an increase in legal reserves of \$0.5 million. While the Company expects to realize further general and administrative expense efficiencies as the customer base grows, realization of such efficiencies will be dependant on the ability of management to control personnel costs in areas such as collections and customer service. There can be no assurances that the Company will be able to realize these efficiencies.

Provision for Doubtful Accounts. Provision for doubtful accounts decreased by 92.4% to \$2.2 million for the quarter ended September 30, 2002 from \$28.9 million for the same quarter last year and, as a percentage of sales, decreased to 2.3% as compared to 32.9% for the quarter ended September 30, 2001. The Company had taken several steps during the third and fourth quarters of 2001 to reduce bad debt expense, improve the overall credit quality of its customer base and improve its collections of past due amounts. The benefits of the Company's actions to reduce bad debt expense and improve the overall credit quality of its customer base are reflected in the lower bad debt expense for the quarter ended September 30, 2002. Further, the provision for doubtful accounts for the third quarter of 2002 reflects a benefit from a reversal of the reserve for doubtful accounts of \$0.7 million. In general, the Company believes that the bad debt expense as a percentage of sales of the Company's long distance customers is lower than that of its bundled customers because of the relatively greater maturity of the long distance customer base.

Sales and Marketing Expenses. During the quarter ended September 30, 2002, the Company incurred \$6.8 million of sales and marketing expenses as compared to \$12.4 million for the same quarter last year, a 43.7% decrease, and, as a percentage of sales, a decrease to 8.6% as compared to 9.6% for the quarter ended September 30, 2001. The decrease from the third quarter of 2002 compared to 2001 is primarily attributable to the reduction in marketing fees paid to AOL due to the termination of the marketing relationship with AOL effective September 30, 2001. Sales and marketing expenses declined further as the Company slowed growth as it pursued its plan to improve efficiencies of the Company's bundled business model. Currently, substantially all of the sales and marketing expenses relate to the bundled product. Sales and marketing expenses are expected to increase in the fourth quarter of 2002 as the Company continues to target growth in the bundled product and invest in the development of its marketing programs.

Depreciation and Amortization. Depreciation and amortization for the quarter ended September 30, 2002 was \$4.5 million, a decrease of \$5.7 million compared to \$10.3 million for the quarter ended September 30, 2001, and, as a percentage of sales, decreased to 5.3% as compared to 8.2% for the quarter ended September 30, 2001. The Company's amortization expense decreased significantly for the quarter ended September 30, 2002 due to the write-down in the third quarter of 2001 of goodwill associated with the acquisition of Access One. Additionally, the Company implemented Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which established the impairment approach rather than amortization for goodwill, resulting in reduced amortization in 2002 (See Note 1 of the Notes to Consolidated Financial Statements).

Impairment and Restructuring Charges. The Company incurred impairment and restructuring charges of \$171.2 million for the quarter ended September 30, 2001. Included in the amount for the quarter ended September 30, 2001 was an impairment charge of \$168.7 million, primarily related to the write-down of goodwill associated with the acquisition of Access One, as discussed above. In September 2001, the Company approved a plan to close one of its call center operations. The Company recorded a charge of \$2.5 million in the quarter ended September 30, 2001 to reflect the elimination of approximately 225 positions and lease exit costs in connection with the call center closure. There were no impairment or restructuring charges in the third quarter of 2002 (see Note 6 of the Notes of the Consolidated Financial Statements).

Interest Income. Interest income was \$0.3 million for the quarter ended September 30, 2002 versus \$0.3 million for the quarter ended September 30, 2001.

Interest Expense. Interest expense was \$2.6 million for the quarter ended September 30, 2002 as compared to \$1.5 million for the quarter ended September 30, 2001. The increase in interest expense is attributed to higher yielding debt instruments associated with the exchange of the Company's 4 1/2% and 5% Notes for 8% and 12% Notes and the restructuring of the MCG credit facility (see Notes 2, 3 and 5 of the Notes to Consolidated Financial Statements and "Liquidity and Capital Resources"). As described in Note 3 of the Notes to Consolidated Financial Statements, the issuance of the 8% convertible notes due 2011 was accounted for as a troubled debt restructuring and, as such, interest expense associated with these notes would not be recorded in future periods in the Company's statements of operations. For the quarter ended September 30, 2002, \$0.7 million of interest expense associated with the issuance of these notes was not reflected in net income. Interest expense is expected to decrease in the

fourth quarter of 2002 as compared to the third quarter of 2002 due to the early retirement of the Company's senior credit facility and the retirement of \$3.9 million of the 4 1/2% Notes.

Other, Net. Net other expenses were \$0.1 million for the quarter ended September 30, 2002 as compared to \$2.5 million for the quarter ended September 30, 2001. The amount for the quarter ended September 30, 2001 primarily consists of a \$2.4 million unrealized loss on the increase in fair value of the AOL contingent redemptions in accordance with the fair value accounting treatment under EITF Abstract No. 00-19. This amount did not recur, as the AOL contingent redemptions had been restructured effective September 2001.

Provision for Income Taxes. At September 30, 2002 and 2001, a full valuation allowance has been provided against the Company's net operating loss carryforwards and other deferred tax assets. Since the amounts and extent of the Company's future earnings are not determinable with a sufficient degree of probability to recognize the deferred tax assets in accordance with the requirements of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," the Company has recorded a full valuation allowance on the net deferred tax assets. For the quarter ended September 30, 2002, although the Company has net income, no provision for income taxes has been reflected on the statement of operations due to the full valuation allowance. The Company has not recorded any income tax expense or benefit for the quarter ended September 30, 2001 because the Company incurred losses during this period as well as maintained a full valuation allowance at September 30, 2001. The third quarter of 2002 represents the fourth consecutive quarter of profitability for the Company. In the fourth quarter of 2002, as part of its 2003 budgeting process, management will evaluate the valuation allowance and, if appropriate after the evaluation, will reverse all or a portion of this valuation allowance, resulting in a non-cash deferred income tax benefit on the statement of operations. At that time, the Company would record the estimated net realizable value of the deferred tax asset and, beginning in 2003, would provide for income taxes at a rate equal to the Company's combined federal and state effective rates. However, to the extent of available net operating loss carryforwards, the Company would be shielded from paying cash income taxes for several years. There can be no assurances that the Company will realize the full benefit of the net operating loss carryforwards on future taxable income generated by the Company due to the "change of ownership" provisions of the Internal Revenue Code Section 382 (see "Liquidity and Capital Resources, Other Matters").

Extraordinary Gain (Loss). The Company incurred an extraordinary gain in the quarter ended September 30, 2001 of \$16.9 million, which represents the gain on restructuring of the AOL contingent redemptions in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as discussed above in Note 3 of the Notes to the Consolidated Financial Statements. As a result of the retirement of the Company's senior credit facility prior to maturity, the Company will incur a one-time, non-cash extraordinary loss of approximately \$1.1 million in the fourth quarter of 2002 reflecting the acceleration of the amortization of certain deferred finance charges and fees.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

Sales. Sales decreased by 39.5% to \$236.3 million for the nine months ended September 30, 2002 from \$390.6 million for the nine months ended September 30, 2001.

The Company's long distance sales decreased to \$116.9 million for the nine months ended September 30, 2002 from \$236.3 million for the nine months ended September 30, 2001. A significant percentage of the Company's revenues were derived from long distance telecommunication services provided to customers who were obtained under the AOL marketing agreement. The Company's decision to focus on the bundled product and the discontinuation of the AOL marketing relationship effective September 30, 2001, together with customer turnover, contributed to the decline in long distance customers and revenues. This decline in long distance customers and revenues is expected to continue so long as the Company continues to focus its marketing efforts on the bundled product. Long distance revenues for the nine months ended September 30, 2002 and September 30, 2001 included non-cash amortization of deferred revenue of \$5.6 million related to a telecommunications service agreement entered into in 1997. Deferred revenue relating to this agreement has been amortized over a five-year period. The agreement and related amortization terminated in October 2002.

The Company's bundled sales for the nine months ended September 30, 2002 were \$119.4 million compared with \$154.3 million for the nine months ended September 30, 2001. The decrease in bundled sales for the nine months ended September 30, 2002 compared to 2001 reflects the Company's decision to slow growth in bundled sales while the Company pursued its plans to improve the efficiencies of the Company's bundled business model and improve customer quality and collections processes. In addition, a significant portion of the bundled sales for the nine months ended September 30, 2001 were generated from bundled service customers acquired through marketing programs that had been discontinued in 2001. Longer-term growth in revenues will depend upon continued operating efficiencies, lower customer turnover and the Company's ability to develop and scale various marketing programs in other states. Revenues per bundled line are expected to decline in the future as the Company continues to market lower priced products to be more competitive with incumbent and other competitive local exchange carriers and provide greater value to consumers.

Network and Line Costs. Network and line costs decreased by 38.1% to \$115.7 million for the nine months ended September 30, 2002 from \$186.9 million for the nine months ended September 30, 2001. The decrease in costs was primarily due to a lower number of local and long distance customers, a reduction in access and usage charges and a reduction in primary interexchange carrier charges. Network and line costs for the nine months ended September 30, 2002 benefited from the Verizon New York credit of \$1.2 million. Network and line costs also benefited from favorable resolution of disputes with vendors. The Company's policy is not to record credits from such disputes until received. As a percentage of sales, network and line costs increased to 49.0% for the nine months ended September 30, 2002, as compared to 47.9% for the same period last year. The FCC is currently undertaking its triennial review of local phone competition including the continued availability of certain unbundled network elements and switching. As the Company's long distance customer base declines, the Company could be subject to higher network and line costs as a percentage of sales due to fixed costs of the Company's long distance network and certain minimum contract commitments. See "Liquidity and Capital Resources, Other Matters."

Gross profit, defined as sales less network and line costs, decreased by 40.8% for the nine months ended September 30, 2002 to \$120.6 million from \$203.7 million for the same period last year, and gross margin, defined as gross profit as a percentage of sales, decreased to 51.0% as compared to 52.1% for the nine months ended September 30, 2001. Gross margin for the long distance product was 59.1% for the nine months ended September 30, 2002 as compared with 55.9% for the same period last year and gross margin for the bundled product was 43.1% for the nine months ended September 30, 2002 as compared to 46.5% for the same period last year. The growth of local bundled service as a percentage of total revenue and product mix has contributed to the decrease in overall gross margin.

General and Administrative Expenses. General and administrative expenses decreased by 37.5% to \$40.2 million for the nine months ended September 30, 2002 from \$64.2 million for the nine months ended September 30, 2001. The overall decrease in general and administrative expenses was due primarily to significant workforce reductions and other cost cutting efforts by the Company as it pursued improvements in operating efficiencies of the Company's bundled business model. The Company had increased personnel costs associated with supporting the Company's bundled services offerings, including customer service, provisioning and collections personnel during the nine months ended September 30, 2001 as compared with 2002. Included in general and administrative expenses for the nine months ended September 30, 2002 was a non-cash credit of \$1.7 million related to a favorable settlement of a vendor dispute that had previously been reflected as a liability, partially offset by an increase in legal reserves of \$0.5 million. While the Company expects to realize further general and administrative expense efficiencies as the customer base grows, realization of such efficiencies will be dependant on the ability of management to control personnel costs in areas such as collections and customer service. There can be no assurances that the Company will be able to realize these efficiencies.

Provision for Doubtful Accounts. Provision for doubtful accounts decreased by 88.7% to \$9.0 million for the nine months ended September 30, 2002 from \$79.4 million for the same period last year and, as a percentage of sales, decreased to 3.8% as compared to 20.3% for the nine months ended September 30, 2001. The Company had taken several steps during the third and fourth quarters of 2001 to reduce bad debt expense, improve the overall credit quality of its customer base and improve its collections of past due amounts. The benefits of the Company's actions to reduce bad debt expense and improve the overall credit quality of its customer base are reflected in the lower bad debt expense for the nine months

ended September 30, 2002. Further, the provision for doubtful accounts for the nine months ended September 30, 2002 reflects a benefit from a reversal of the reserve for doubtful accounts of \$2.2 million. In general, the Company believes that the bad debt expense as a percentage of sales of the Company's long distance customers is lower than that of its bundled customers because of the relatively greater maturity of the long distance customer base.

Sales and Marketing Expenses. During the nine months ended September 30, 2002, the Company incurred \$19.6 million of sales and marketing expenses as compared to \$68.6 million for the same period last year, a 71.4% decrease, and, as a percentage of sales, a decrease to 3.3% as compared to 17.6% for the nine months ended September 30, 2001. The decrease in 2002 is primarily attributable to the reduction in marketing fees paid to AOL due to the termination of the marketing relationship with AOL effective September 30, 2001. Sales and marketing expenses declined further as the Company slowed growth as it pursued its plan to improve efficiencies of the Company's bundled business model. Currently, substantially all of the sales and marketing expenses relate to the bundled product.

Depreciation and Amortization. Depreciation and amortization for the nine months ended September 30, 2002 was \$13.5 million, a decrease of \$15.3 million compared to \$29.3 million for the nine months ended September 30, 2001, and, as a percentage of sales, decreased to 5.7% as compared to 7.5% for the nine months ended September 30, 2001. The Company's amortization expense decreased significantly for the nine months ended September 30, 2002 due to the write-down in the third quarter of 2001 of goodwill associated with the acquisition of Access One. Additionally, the Company implemented Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which established the impairment approach rather than amortization for goodwill, resulting in reduced amortization for the nine months ended September 30, 2002 (see Note 1 of the Notes to the Consolidated Financial Statements).

Impairment and Restructuring Charges. The Company incurred impairment and restructuring charges of \$171.2 million for the nine months ended September 30, 2001. Included in the amount for the nine months ended September 30, 2001 was an impairment charge of \$168.7 million, primarily related to the write-down of goodwill associated with the acquisition of Access One, as discussed above. In September 2001, the Company approved a plan to close one of its call center operations. The Company recorded a charge of \$2.5 million in the nine months ended September 30, 2001 to reflect the elimination of approximately 225 positions and lease exit costs in connection with the call center closure. There were no impairment or restructuring charges in the nine months ended September 30, 2002 (see Note 6 to the Notes of the Consolidated Financial Statements).

Interest Income. Interest income was \$0.5 for the nine months ended September 30, 2002 versus \$1.1 million for the nine months ended September 30, 2001. Interest income for the nine months ended September 30, 2002 was lower due to decrease in interest rates during the nine months ended September 30, 2002 as compared to 2001, partially offset by the Company's higher average cash balances in 2002 as compared to 2001.

Interest Expense. Interest expense was \$6.9 million for the nine months ended September 30, 2002 as compared to \$4.6 million for the nine months ended September 30, 2001. The increase in interest expense is attributed to higher yielding debt instruments associated with the exchange of the Company's 4 1/2% and 5% Notes for 8% and 12% Notes and the MCG credit facility restructuring (see Notes 2, 3 and 5 of the Notes to Consolidated Financial Statements and "Liquidity and Capital Resources"). In addition, interest expense for the nine months ended September 30, 2002 includes the write-off of deferred financing costs of \$0.4 million in connection with the bond restructuring. As described in Note 3 of the Notes to Consolidated Financial Statements, the issuance of the 8% convertible notes due 2011 was accounted for as a troubled debt restructuring and, as such, interest expense associated with these notes would not be recorded in future periods in the Company's statements of operations. For the nine months ended September 30, 2002, \$2.0 million of interest expense associated with the issuance of these notes was not reflected in net income.

Other, Net. Net other expenses were \$0.9 for the nine months ended September 30, 2002 as compared to \$2.6 million for the nine months ended September 30, 2001. The amount for the nine months ended September 30, 2002 primarily consists of costs in connection with the Company's restructuring of its convertible subordinated notes (see Note 2 of the Notes to Consolidated Financial Statements). The amount for the nine months ended September 30, 2001 primarily consists of a \$2.4 million unrealized loss on the increase in fair

value of the AOL contingent redemptions in accordance with the fair value accounting treatment under EITF Abstract No. 00-19. This amount was not recurring, as the AOL contingent redemptions had been restructured effective September 2001.

Provision for Income Taxes. At September 30, 2002 and 2001, a full valuation allowance has been provided against the Company's net operating loss carryforwards and other deferred tax assets. Since the amounts and extent of the Company's future earnings are not determinable with a sufficient degree of probability to recognize the deferred tax assets in accordance with the requirements of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," the Company has recorded a full valuation allowance on the net deferred tax assets. For the nine months ended September 30, 2002, although the Company has net income, no provision for income taxes has been reflected on the statement of operations due to the full valuation allowance. The Company has not recorded any income tax expense or benefit for the nine months ended September 30, 2001 because the Company incurred losses during this period as well as maintained a full valuation allowance at September 30, 2001. The third quarter of 2002 represents the fourth consecutive quarter of profitability for the Company. In the fourth quarter of 2002, as part of its 2003 budgeting process, management will evaluate the valuation allowance and, if appropriate after the evaluation, will reverse all or a portion of this valuation allowance, resulting in a non-cash deferred income tax benefit on the statement of operations. At that time, the Company would record the estimated net realizable value of the deferred tax asset and, beginning in 2003, would provide for income taxes at a rate equal to the Company's combined federal and state effective rates. However, to the extent of available net operating loss carryforwards, the Company would be shielded from paying cash income taxes for several years. There can be no assurances that the Company will realize the full benefit of the net operating loss carryforwards on future taxable income generated by the Company due to the "change of ownership" provisions of the Internal Revenue Code Section 382 (see "Liquidity and Capital Resources, Other Matters").

Extraordinary Gain. The Company incurred an extraordinary gain in the nine months ended September 30, 2001 of \$16.9 million, which represents the gain on restructuring of the AOL contingent redemptions in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," as discussed above in Note 2 of the Notes to the Consolidated Financial Statements.

Cumulative Effect of an Accounting Change. The Company adopted Emerging Issues Task Force Abstract No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," in the nine months ended September 30, 2001. The cumulative effect of the adoption of this change in accounting principle resulted in a non-cash charge to operations of \$36.3 million in the nine months ended September 30, 2001, representing the change in fair value of contingent redemption features of warrants and common stock held by AOL from issuance on January 5, 1999 through June 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash requirements arise primarily from the subsidiaries' operational needs, the subsidiaries' capital expenditures, and the debt service obligations of the subsidiaries and of Talk America Holdings, Inc. Since Talk America Holdings, Inc. conducts all of its operations through its subsidiaries, primarily Talk America Inc., it relies on dividends, distributions and other payments from its subsidiaries to fund its obligations.

Contractual obligations of the Company as of September 30, 2002 are summarized by years to maturity as follows (in thousands):

1 year or 2 - 3 4 - 5 Contractual Obligations (4) Total less Years Years Thereafter

Talk America Holdings, Inc.:

	1 year or 2	3	4	5	Total less
3% Convertible notes due 2011(1)	\$ 54,487	\$ 1,384	\$ 2,941	\$ 3,132	\$ 56,980
12% Senior subordinated notes due 2007	71,681	--	--	71,681	--
3% Convertible senior subordinated notes due 2007 (2)	4,103	--	--	4,103	--
5% Convertible subordinated notes due 2004	670	--	670	--	--

Talk America Inc. and other subsidiaries:

Senior credit facility (3)	13,750	13,750	--	--	--
Capital lease obligations	101	60	41	--	--
Other long-term obligations	63	63	--	--	--

Total Contractual Obligations	\$ 154,855	\$15,257	\$ 3,652	\$78,966	\$ 56,980
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(1) The 2011 Convertible Notes include \$34.3 million of principal and \$30.2 million of future accrued interest (see Note 3 of the Notes to Consolidated Financial Statements). The 2011 Convertible Notes are subject to mandatory redemption, at the option of the holder, in September 2006 and September 2008 at par plus accrued interest.

(2) The 3% Notes include \$2.8 million of principal and \$1.3 million of future accrued interest (see Note 2 of the Notes to Consolidated Financial Statements).

(3) On October 4, 2002, the principal operating subsidiaries of Company retired, prior to maturity, all of the debt outstanding under the MCG Credit Facility Agreement.

(4) Excluded from these contractual obligations are operating lease obligations and network service obligations. The Company leases office space and equipment under operating lease agreements. Certain leases contain renewal options and purchase options, and generally provide that the Company shall pay for insurance, taxes and maintenance. As of December 31, 2001, the Company had future minimum annual lease obligations under noncancellable operating leases with terms in excess of one year as follows: 2002 - \$1.8 million, 2003 - \$1.7 million, 2004 - \$1.4 million, 2005 - \$0.9 million, 2006 - \$0.4 million and 2007 and thereafter - \$0.3 million. The Company is also party to various network service agreements, which contain certain minimum usage commitments. The largest contract establishes pricing and provides for annual minimum payments for the years ended December 31, as follows: 2002 - \$22.2 million, 2003 - \$22.8 million and 2004 - \$27.9 million. A separate contract with a different vendor establishes pricing and provides for annual minimum payments for the years ended December 31, as follows: 2002 - \$3.0 million, 2003 - \$6.0 million and 2004 - \$3.0 million. As a consequence of these minimum network service obligations, unless the Company can re-price or restructure these obligations or obtain additional minutes of usage from the wholesale or other long distance markets, of which there can be no assurances that the Company will be able to accomplish, the Company will experience an increase in per minute network costs.

The Company relies on cash generated from operations and cash and cash equivalents on hand to fund its capital and financing requirements. The Company had \$41.1 million of cash and cash equivalents as of September 30, 2002, and \$22.1 million as of December 31, 2001.

Net cash provided by operating activities was \$35.2 million for the nine months ended September 30, 2002 compared to net cash used in operating activities of \$3.1 million for the nine months ended September 30, 2001. For the nine months ended September 30, 2002, the major contributors to the net cash provided by operating activities were the net income of \$30.9 million and non-cash charges of \$22.1 million, primarily consisting of provision for doubtful accounts of \$9.0 million and depreciation and amortization of \$13.5 million. These amounts were offset by an increase in accounts receivable of \$6.0 million and a decrease in accounts payable of \$13.3 million. For the nine months ended September 30, 2001, the net cash used in operating activities was mainly generated by the net loss of \$235.1 million, an increase in accounts receivable of \$68.2 million, a decrease in accounts payable and accrued expenses of \$7.6 million and a non-cash extraordinary gain on restructuring of contingent redemptions of \$15.9 million, offset by non-cash charges of \$319.3 million. The non-cash items primarily consisted of provision for doubtful accounts of \$79.4 million, depreciation and amortization of \$29.3 million, impairment and restructuring charges of \$171.2 million and the cumulative effect of an accounting change for contingent redemptions of \$36.8 million.

Net cash used in investing activities was \$4.3 million during the nine months ended September 30, 2002, which consisted of capitalized software development costs of \$1.8 million and capital expenditures for the purchase of equipment of \$3.0 million. Net cash used in investing activities was \$3.6 million during the nine months ended September 30, 2001, which primarily consisted of capitalized software development costs of \$0.7 million and capital expenditures for the purchase of equipment of \$2.3 million.

Net cash used in investing activities was \$1.5 million during the three months ended September 30, 2002, which consisted of capitalized software development costs of \$0.6 million and capital expenditures for the purchase of equipment of \$0.9 million. The Company anticipates incurring for the full year 2002 capital expenditures of approximately \$4 million and capitalized software development costs of approximately \$2.5 million. The Company expects to incur capital expenditures of between \$8 million and \$10 million and capitalized software development costs of between \$2 million and \$3 million in 2003, including approximately \$5.5 million of networking equipment and software. The FCC is currently undertaking its triennial review of local phone competition including the continued availability of certain unbundled network elements and switching (see "Liquidity and Capital Resources, Other Matters").

Net cash used in financing activities for the nine months ended September 30, 2002 was \$11.4 million compared to \$4.9 million for the nine months ended September 30, 2001. The net cash used in financing activities for the nine months ended September 30, 2002 was primarily attributable to payment of borrowings under the Company's Senior Credit Facility of \$3.8 million, payments related to the maturity the remaining \$3.9 million principal balance of its outstanding 4 1/2% Notes, payments under its 8% Convertible notes due 2011 of \$1.9 million, payments in connection with exchange of the Company's 4 1/2% Notes for 3% Notes of \$0.5 million and payments under capital lease obligations of \$1.0 million. The cash used in financing activities for the nine months ended September 30, 2001 of \$4.9 million was primarily attributed to payment of borrowings under the Company's credit facility of \$1.3 million and payments in connection with the restructuring of the AOL contingent redemptions of \$3.5 million. On October 4, 2002, the principal operating subsidiaries of Company retired, prior to maturity, all of the debt outstanding under the MCG Credit Facility Agreement of \$13.8 million.

For the three months ended September 30, 2002, \$1.7 million of interest expense was recorded as additional principal on the 12% Notes and 8% Convertible Notes due 2011 due to payment of interest in kind rather than cash.

The Company generally does not have a significant concentration of credit risk with respect to net trade accounts receivable, due to the large number of end-users comprising the Company's customer base.

CONVERTIBLE SUBORDINATED NOTES AND EXCHANGE OFFERS (see Note 2 of the Notes to Consolidated Financial Statements)

Effective April 4, 2002, the Company completed the exchange of \$57.9 million of the \$61.3 million outstanding principal balance of its 4 1/2% Convertible Subordinated Notes that mature on September 15, 2002 into \$53.2

million of new 12% Senior Subordinated PIK Notes due August 2007 ("12% Notes") and \$2.3 million of new 3% Convertible Senior Subordinated Notes due August 2007 and cash paid of \$0.5 million. In addition, the Company exchanged \$17.4 million of the \$19.1 million outstanding principal balance of its 5% Convertible Subordinated Notes that mature on December 15, 2004 into \$17.4 million of the new 12% Notes.

The Company paid at maturity the remaining \$3.9 million principal balance of its outstanding 4 1/2% Convertible Subordinated Notes due September 2002.

AOL AGREEMENTS (see Note 3 of the Notes to Consolidated Financial Statements)

On September 19, 2001, the Company restructured its financial obligations with AOL that arose under the 1999 Investment Agreement and also ended its marketing relationship with AOL effective September 30, 2001 (collectively the "AOL Restructuring"). In connection with the AOL Restructuring, the Company and AOL entered into a Restructuring and Note Agreement ("Restructuring Agreement"), pursuant to which the Company had outstanding as of September 30, 2002, \$34.3 million principal amount of its 3% secured convertible notes due September 2011. With the issuance of additional shares under the Restructuring Agreement, AOL also held 2,400,000 shares of Company common stock.

OTHER MATTERS

The Company's provision of telecommunication services is subject to government regulation. Changes in existing regulations could have a material adverse effect on the Company. The Company's local telecommunication services are provided almost exclusively through the use of ILEC Unbundled Network Elements ("UNE"), and it is primarily the availability of costs-based UNE rates that enables the Company to price its local telecommunications services competitively. On December 12, 2001, the FCC initiated its so-called UNE Triennial Review rulemaking in which it intends to review all UNEs and determine whether ILECs should continue to be required to provide them to competitors. Among other things, the FCC has indicated that it will consider whether ILECs should continue to be required to provide the "local switching" UNE, an essential component of the UNE-P combination. Any curtailment by the FCC in the availability of the local switching UNE would materially impair the Company's ability to provide local telecommunications services, and could eliminate the Company's capability to provide local telecommunications services entirely unless the Company is able to utilize another technology, which may not be available or available on economically feasible terms, or the Company purchases, builds and implements its own local switching network, which would require significant additional capital expenditures by the Company. On May 24, 2002, the United States Court of Appeals for the D.C. Circuit released an opinion in United States Telecom Association v. Federal Communications Commission remanding to the FCC for further consideration the Unbundled Network Element Remand Order, which may provide the FCC with justification for significantly reducing the unbundling obligations of the ILECs as part of the UNE Triennial Review.

The FCC requires the Company and other providers of telecommunication services to contribute to the USF, which helps to subsidize the provision of local telecommunication services and other services to low-income consumers, schools, libraries, health care providers, and rural and insular areas that are costly to serve. The FCC is currently considering modifications to the USF program that may go into effect as early as the end of 2002. Changes to the methodology used in the calculation of the collection and payment of USF charges may have an adverse impact on the Company's gross margin.

At December 31, 2001, the Company had net operating loss (NOL) carryforwards for federal income tax purposes of \$262.8 million. Due to the "change of ownership" provisions of the Internal Revenue Code Section 382, the availability of the Company's net operating loss and credit carryforwards may be subject to an annual limitation against taxable income in future periods if a change of ownership of more than 50% of the value of the Company's stock should occur within a three-year testing period. Many of the changes that affect these percentage change determinations, such as changes in the Company's stock ownership, are outside the Company's control. A more-than-50% cumulative change in ownership for purposes of the Section 382 limitation occurred on August 31, 1998 and October 26, 1999. As a result of such changes, certain of the Company's carryforwards are limited. As of December 31, 2001, approximately \$64.0 million of NOL carryforwards were not available to offset future income. In addition, based on information currently available to the Company, the Company believes that the change of ownership percentage was approximately 45% for the currently applicable three-year testing period. If, during the current three-year testing period, the Company experiences an additional more-than-50% ownership change

under Section 132, the amount of the NOL carryforward available to offset future taxable income may be further and substantially reduced. To the extent the Company's ability to use these net operating loss carryforwards against any future income is limited, its cash flow available for operations and debt service would be reduced. There can be no assurance that the Company will realize the full benefit of the carryforwards.

The Company has provided for a valuation allowance of approximately \$90 million for its net deferred tax assets as of September 30, 2002, primarily related to the Company's NOL carryforwards. The third quarter of 2002 represents the fourth consecutive quarter of profitability for the Company. In the fourth quarter of 2002, as part of its 2003 budgeting process, management will evaluate the valuation allowance and, if appropriate after the evaluation, will reverse all or a portion of this valuation allowance resulting in a non-cash deferred income tax benefit on the statement of operations. At that time, the Company would record the estimated net realizable value of the deferred tax asset and, beginning in 2003, would provide for income taxes at a rate equal to the Company's combined federal and state effective rates. However, to the extent of available net operating loss carryforwards, the Company would be shielded from paying cash income taxes for several years.

The Company is a party to a number of legal actions and proceedings arising from the Company's provision and marketing of telecommunications services, as well as certain legal actions and regulatory investigations and enforcement proceedings arising in the ordinary course of business. The Company believes that the ultimate outcome of the foregoing actions will not result in liability that would have a material adverse effect on the Company's financial condition or results of operations. However, it is possible that, because of fluctuations in the Company's cash position, the timing of developments with respect to such matters that require cash payments by the Company, while such payments are not expected to be material to the Company's financial condition, could impair the Company's ability in future interim or annual periods to continue to implement its business plan, which could affect its results of operations in future interim or annual periods.

While the Company believes that it has access, albeit limited, to new capital in the public or private markets to fund its ongoing cash requirements, there can be no assurance as to the timing, amounts, terms or conditions of any such new capital or whether it could be obtained on terms acceptable to the Company. Accordingly, the Company anticipates that its cash requirements generally must be met from the Company's cash-on-hand and from cash generated from operations. Based on its current projections for operations and having retired the Company's Senior Credit Facility prior to maturity and restructured most of its outstanding convertible notes through the exchange offers, the Company believes that its cash-on-hand and its cash flow from operations will be sufficient to fund its currently contemplated capital expenditures, its debt service obligations, including the increased interest expense of its outstanding indebtedness, and the expenses of conducting its operations for at least the next twelve months. However, there can be no assurance that the Company will be able to realize its projected cash flows from operations, which is subject to the risks and uncertainties discussed above, or that the Company will not be required to consider capital expenditures in excess of those currently contemplated, as discussed above.

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debt, goodwill and intangible assets, income taxes, contingencies and litigation. The Company bases its estimates and judgments on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Recognition of Revenue. The Company derives its revenues from local and long distance phone services, primarily local services bundled with long distance services, long distance services, inbound toll-free service and dedicated private line services for data transmission. The Company recognizes revenue from voice, data and other telecommunications-related services in the

period in which subscribers use the related service. Allowances for doubtful accounts are maintained for estimated losses resulting from the failure of its customers to make required payments and for uncollectible usage.

Deferred revenue represents the unearned portion of local telecommunication services and features that are billed one month in advance. In addition, it includes the amortization of a non-refundable prepayment received in 1997 in connection with a telecommunications services agreement entered into by the Company. The payment is amortized over the five-year term of the agreement, which expired October 2002. The amount included in revenue was \$1.9 million in each of the quarters ended September 30, 2002 and 2001. The remaining amount of \$0.6 million will be included in revenue during the fourth quarter of 2002.

Allowance for Doubtful Accounts: The Company reviews accounts receivable, historical bad debt, and customer credit-worthiness through customer credit scores, current economic trends, changes in customer payment history and acceptance of the Company's calling plans and fees when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company's accounts receivable balance was \$23.6 million, net of allowance for doubtful accounts of \$12.0 million, as of September 30, 2002.

Valuation of Long-Lived Assets and Intangible Assets with a Definite Life: The Company continually reviews the recoverability of the carrying value of long-lived assets, including intangibles with a definite life for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. When such events occur, the Company compares the carrying amount of the assets to the undiscounted expected future cash flows. Factors the Company considers important that could trigger an impairment review include the following:

- Significant underperformance relative to historical or projected future operating results
- Significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business
- Significant negative industry or economic trends
- Significant decline in the Company's stock price for a sustained period and market capitalization relative to net book value

If this comparison indicates there is impairment, the amount of the impairment loss to be recorded is calculated by the excess of the net assets' carrying value over their fair value and is typically calculated using discounted expected future cash flows. Management of the Company believes that, for the quarter ended September 30, 2002, no events or changes in circumstances have occurred to trigger an impairment review.

Goodwill: Goodwill represents the cost in excess of net assets of acquired companies. Effective January 1, 2002, with the adoption of SFAS No. 142, goodwill (comprised of goodwill acquired in the Access One acquisition in August 2000) will not be amortized, but rather will be tested for impairment annually, and will be tested for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Prior to January 1, 2002, goodwill and intangibles were amortized on a straight-line basis over periods ranging from 5 years to 15 years. Impairment testing for goodwill is performed at a reporting unit level. An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. Prior to January 1, 2002, goodwill was tested for impairment in a manner consistent with long-lived assets and intangible assets with a definite life. The Company completed the transitional assessment of goodwill under the requirements of SFAS 142 and determined that the fair value of the reporting unit exceeds the carrying amount, thus the goodwill is not considered impaired.

Software Development Costs: Direct development costs associated with internal-use computer software are accounted for under Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and are capitalized, including external direct costs of material and services and payroll costs for employees devoting time to the software projects. Costs incurred during the preliminary project stage, as well as for maintenance and training, are expensed as incurred. Amortization is provided on a straight-line basis over the shorter of 3 years or the estimated useful life of the software.

Income Taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

The Company records a valuation allowance to reduce its deferred tax assets in an amount that is more likely than not to be realized. The Company has provided for a valuation allowance of approximately \$80 million for its net deferred tax assets as of September 30, 2002, primarily related to the Company's NOL carryforwards. The third quarter of 2002 represents the fourth consecutive quarter of profitability for the Company. In the fourth quarter 2002, as part of its 2003 budgeting process, management will evaluate the valuation allowance and, if appropriate after the evaluation, will reverse all or a portion of this valuation allowance, resulting in a non-cash deferred income tax benefit. At that time, the Company would record the estimated net realizable value of the deferred tax asset and, beginning in 2003, would provide for income taxes at a rate equal to the Company's combined federal and state effective rates. However, to the extent of available net operating loss carryforwards, the Company would be shielded from paying cash income taxes for several years.

Legal Proceedings. The Company is a party to a number of legal actions and proceedings arising from the Company's provision and marketing of telecommunications services, as well as certain legal actions and regulatory investigations and enforcement proceedings arising in the ordinary course of business. Management's current estimated range of liability related to some of the pending litigation is based on claims for which management can estimate the amount and range of loss. The Company recorded the minimum estimated liability related to those claims, where there is a range of loss. Because of the uncertainties related to both the amount and range of loss on the remaining pending litigation, management is unable to make a reasonable estimate of the liability that could result from an unfavorable outcome. As additional information becomes available, the Company will assess the potential liability related to the Company's pending litigation and revise its estimates. Such revisions in the Company's estimates of the potential liability could materially affect its results of operations and financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In the normal course of business, the financial position of the Company is subject to a variety of risks, such as the collectibility of its accounts receivable and the realizability of the carrying values of its long-term assets. The Company's long-term obligations consist primarily of its own notes and credit facility. The Company does not presently enter into any transactions involving derivative financial instruments for risk management or other purposes due to the stability in interest rates in recent times and because management does not consider the potential impact of changes in interest rates to be material.

The Company's available cash balances are invested on a short-term basis (generally overnight) and, accordingly, are not subject to significant risks associated with changes in interest rates. Substantially all of the Company's cash flows are derived from its operations within the United States and the Company is not subject to market risk associated with changes in foreign exchange rates.

ITEM 4. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to the date of their evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect the disclosure controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES.

On October 15, 2002, the stockholders of the Company approved an amendment to the Company's Amended and Restated Certificate of Incorporation to effect a one-for-three reverse stock split of the Common Stock of the Company ("Reverse Split"). The Reverse Split was effective as of 5:00 pm, EDT on October 15, 2002 ("Effective Date"). Pursuant to the Reverse Split, each holder of three shares of Company common stock, par value \$0.01 per share ("Old Company Common Stock"), immediately prior to the Effective Date became the holder of one share of Company common stock, par value \$0.01 per share ("New Company Common Stock") after the Effective Date. As a result, 27,273,344 shares of Common Stock and no shares of preferred stock were outstanding immediately following the Effective Date. Following the Reverse Split, the Company has 100 million shares of authorized Common Stock, par value \$0.01 per share and 5 million shares of authorized preferred stock.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification of Gabriel Battista Pursuant to 13 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of David G. Zahka Pursuant to 13 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

During the quarter ended September 30, 2002, the Company filed no Current Reports on Form 8-K, although the Company filed Current Reports on Form 8-K on October 11 and October 16, 2002 in connection with the Company's reverse stock split and the Company's early retirement of its Senior Credit Facility, respectively.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

TALK AMERICA HOLDINGS, INC.

Date: November 12, 2002

By: /s/ Gabriel Battista

Gabriel Battista
Chairman of the Board of Directors,
Chief Executive Officer and Director

Date: November 12, 2002

By: /s/ David G. Zanka

David G. Zanka
Chief Financial Officer
(Principal Financial Officer)

Date: November 12, 2002

By: /s/ Thomas M. Walsh

Thomas M. Walsh
Senior Vice President - Finance
(Principal Accounting Officer)

CERTIFICATIONS

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1360,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Gabriel Battista, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Talk America Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 12, 2002

/s/ Gabriel Battista

Gabriel Battista
Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, David G. Zanka, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Talk America Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 12, 2002

/s/ David G. Zanka

David G. Zanka
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 306
OF THE SARBANES-OXLEY ACT OF 2002

I, Gabriel Battista, Chief Executive Officer of Talk America Holdings, Inc. (the "Company"), have reviewed the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 and, based on the inquiries I have made or caused to be made in the fulfillment of my responsibilities as the Chief Executive Officer of Talk America Holdings, Inc., I hereby certify that:

(i) the Talk America Holdings, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and (ii) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operation of Talk America Holdings, Inc.

This certificate is being made for the exclusive purpose of compliance by the Chief Executive Officer of Talk America Holdings, Inc. with the requirements of Section 306 of the Sarbanes-Oxley Act of 2002, and may not be used for any other purposes.

/s/ Gabriel Battista

Gabriel Battista
Chief Executive Officer
November 12, 2002

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, David G. Zahka, Chief Financial Officer of Talk America Holdings, Inc. (the "Company"), have reviewed the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 and, based on the inquiries I have made or caused to be made in the fulfillment of my responsibilities as the Chief Financial Officer of Talk America Holdings, Inc., I hereby certify that:

(i) the Talk America Holdings, Inc. Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2002 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and (ii) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operation of Talk America Holdings, Inc.

This certificate is being made for the exclusive purpose of compliance by the Chief Financial Officer of Talk America Holdings, Inc. with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be used for any other purposes.

/s/ David G. Zahka

David G. Zahka
Chief Financial Officer
November 12, 2002