



PHONETIME REPORTS THIRD QUARTER 2009 RESULTS

Mississauga, ON - November 16, 2009 - Phonetime Inc. (TSX: PHD), a leading global supplier of international long distance telecommunication services, today reported its financial results for the three- and nine-month periods ended September 30, 2009. All figures are in Canadian currency.

Financial Highlights

<u>Income Statement metrics</u>	Three month period ended September 30		Nine month period ended September 30	
	2009	2008	2009	2008
Revenue	\$ 44,406,164	\$ 39,204,183	\$ 128,262,495	\$ 115,010,915
Gross Margin	\$ 5,194,888	\$ 5,551,575	\$ 16,092,216	\$ 15,646,836
Operating Income (loss) *	\$ 960,788	\$ 1,887,539	\$ 2,823,834	\$ 5,571,861
Net Income	\$ 31,473	\$ 751,102	\$ 515,055	\$ 2,103,906
 <u>Cash flow metrics</u>				
From (Used in) Operating Activities	\$ (421,177)	\$ 1,801,944	\$ 368,413	\$ 3,191,400
From (Used in) Investing Activities	\$ (188,276)	\$ 13,142	\$ (454,828)	\$ (223,528)
Used in Financing Activities	\$ (274,088)	\$ (890,475)	\$ (2,264,764)	\$ (4,374,689)
Earnings per share - fully diluted	\$ 0.000	\$ 0.01	\$ 0.005	\$ 0.02
 <u>Common shares outstanding</u>				
Basic	108,908,925	107,988,092	108,298,409	107,548,676
Fully diluted	109,178,639	123,122,382	108,568,124	131,484,429

* Operating Income is a non-GAAP financial measure, please see reconciliation to Net Income at the end of the press release.

Consolidated revenue for the third quarter ended September 30, 2009 was \$44.4 million, up 13.2% from \$39.2 million for third quarter of 2008. For the nine-month period of 2009, Phonetime's revenue was \$128.2 million, an increase of 11% when compared to 2008. The growth is chiefly due to higher sales volumes of the Company's Wholesale Division, which buys and resells telecommunications long-distance services to telephone carriers around the world using Phonetime's proprietary call trading platform. Phonetime also generates revenues through its Consumer Division, which provides pre-paid calling cards and long-distance services to targeted ethnic consumer groups across Canada. Phonetime currently has more 130,000 customers using its long-distance retail services.

Operating income (a non-GAAP measure) was \$683,000 for the three months ended September 30, 2009, down from \$913,000 in the prior quarter and down from \$1,755,000 in the third quarter of 2008. Revenue has grown quarter over quarter and over the comparative quarter from the prior year. Gross margin has declined to 11.7% in the three month period and 12.5% for the year to date versus 12.5% and 13.6% in the year prior corresponding periods. In absolute terms, the decline in contribution from gross margin was \$357,000 in the three month period ended

September 30, 2009 but contributed an additional \$445,000 for the year to date. In the nine month period, operating costs were \$3.2 million higher in 2009 than in the prior year. The increase was split between sales and marketing costs which were higher by \$1.9 million and general and administrative costs which were higher by \$1.5 million. Operating costs in the three month period increased by \$715,000 year over year comprised of compensation and commission costs of \$500,000, increased marketing costs of \$400,000 and higher general and administrative expenses of \$815,000. General administrative costs increased in part due to one-time expenses of \$300,000, consisting of an additional \$50,000 for the Competition Bureau settlement, \$250,000 for financing and investor relations costs, \$275,000 related network collocation costs and ongoing office costs related to head count increases including office expansions in Vancouver and Florida of approximately \$240,000.

Net Income for the three months ended September 30, 2009 was \$31,000 or nil per share versus \$751,000 or \$0.01 per share for the corresponding period in 2008. Net income for the nine months ended September 30, 2009 was \$515,000 or \$0.005 per share, a decline from net income of \$2.1 million, or \$0.02 per share, for the same period in the prior year

Cash flow from operating activities was a net outflow of \$422,000 in the three-month period ended September 30, 2009 as compared to a contribution of \$1.8 million in the prior year. For the nine-month period ended September 30, 2009, the cash contribution from operating activities was \$368,000 as compared to \$3.2 million for the same period in 2008.

Working Capital deficit was \$3.7 million as at September 30, 2009, an improvement from a deficit of \$5.4 million as at June 30, 2009 and an improvement from a working capital deficit of \$4.6 million at December 31, 2008. Working capital includes \$7.7 million of bank and other debt due in the next 12 months, compared to \$8.4 million of bank and other debt due as at June 30, 2009 and \$7.3 million as at December 31, 2008. The Company has been in breach of its bank loan covenants since December 31, 2008. The bank has tolerated the breach working with Phonetime by amending the credit facility agreement and the covenant ratios therein and by giving management time to source additional financial capital.

In July 2009, the Company closed on an equity financing transaction issuing 3,733,332 units for gross proceeds of \$560,000 at \$0.15 per common share. Certain officers and employees of the Company subscribed for \$260,000 of this amount.

In the quarter ended September 30, 2009, the Company signed a term sheet for a \$5,000,000 subordinated debt issue with a tentative closing on or about August 31, 2009. One of the preconditions of the closing was an acceptable Intercreditor Agreement between the anticipated subordinated lender and the senior lender. The Senior Lender and the anticipated Subordinated debt holder were unable to come to terms on the Intercreditor Agreement which has prohibited the subordinated lender from closing the financing.

As a result of the above impasse, the Company has undertaken to seek a replacement to its Senior Lending facility and is also seeking an alternative to the current anticipated Subordinated Lender. The Company expects that it will be able to restructure its debts by the end of the first quarter 2010. There is no certainty that this restructuring can occur or that it can occur on favourable terms.

As at September 30 2009, Phonetime held cash and short-term investments of \$0.03 million as well as accounts receivable of \$14.4 million.

Operational Highlights

- Completed a private placement, generating gross proceeds of \$560,000.
- Renegotiated the terms of its subordinated debentures, in particular reducing the payments to US\$95,000 per month from US\$176,667 per month and extending the maturity by twelve months.
- The Wholesale Division processed 1.26 billion minutes of international long-distance calls, up 23% from 1.02 billion for Q3 2008.
- The number of carriers served by the Wholesale Division increased to 800.
- The number of Consumer Division customers grew to 130,000.

Highlights Subsequent to Quarter-end

- Announced a number of changes to the Company's Board of Directors designed to enhance independent direction and corporate governance, including the appointment of Gary Clifford as Chairman.

Company Outlook

In the coming periods, Phonetime expects to:

- Refinance its debt and or raise equity in the near term to continue to implement its growth strategy (Phonetime's growth has been financed over the past couple of years via debt, much of the debt was short to mid-term in nature and has been maturing on the Company);
- Continue to increase customer and supplier penetration in Asia and Eastern Europe;
- Continue its organic growth strategy for the Consumer Division;
- Educate the capital markets on the business success to date and market opportunity available to the Wholesale Division with Console;
- Continue to execute on revenue and margin growth while containing overheads; and
- Continue to development and modify internal controls to keep pace with the changing business dynamics.

Phonetime will host a conference call to discuss its 2009 third quarter financial results on Wednesday, November 18 at 11:00 a.m. (ET).

To access the conference call by telephone, dial 416-644-3422 or 1-877-974-0445. Please connect approximately 15 minutes prior to the beginning of the call to ensure participation. The conference call will be archived for replay until Wednesday, November 25, 2009 at midnight. To access the archived conference call, dial 416-640-1917 or 1-877-289-8525 and enter the reservation number 4182045#.

A live audio webcast of the conference call will be available at www.phonetime.com. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. The webcast will be archived at the above web site for 30 days.

Phonetime will file its consolidated financial statements for the third quarter 2009 and related management's discussion and analysis with securities regulatory authorities within the applicable timelines. The material will be available through SEDAR at www.sedar.com and the Company's website, www.phonetime.com.

About Phonetime Inc.

Established in 1994, Phonetime is a leading supplier of international wholesale and retail long distance telecommunications services with network facilities in Canada, the U.S., Europe, Africa and Asia. Through its Wholesale Division, Phonetime buys and resells long-distance services to major telephone carriers around the world using its proprietary call trading platform. Through its Consumer Division, Phonetime competitively markets a range of pre-paid and subscription-based long distance services to targeted ethnic consumers across Canada. Phonetime's common shares trade on the Toronto Stock Exchange under the symbol PHD. More information can be found at the Company's website, www.phonetime.com

Caution Regarding Forward Looking Information:

This press release contains forward-looking statements, which may be identified by words like "expects", "anticipates", "plans", "intends", "indicates" or similar expressions. These statements are not a guarantee of future performance and are inherently subject to risks and uncertainties. Phonetime's actual results could differ materially from those currently anticipated due to a number of factors set forth in reports and other documents filed by the Company with Canadian securities regulatory authorities from time to time.

Readers are cautioned that non-GAAP measures do not have standardized meanings prescribed by GAAP. Operating income has no standardized meaning prescribed by Canadian GAAP and is considered a non-GAAP measure. Operating income is earnings before misappropriation of funds, stock compensation costs, interest, taxes, depreciation and amortization. This measure may not be comparable to similar measures presented by other issuers. This measure is described and presented herein in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and ability to generate funds to finance its operations.

The reconciliation of Operating income (a non-GAAP financial measure) to Net income is as follows:

	Three month period ended		Nine month period ended	
	September 30		September 30	
	2009	2008	2009	2008
Operating income	\$ 961	\$ 1,883	\$ 2,824	\$ 5,572
Misappropriation of funds	-	-	-	228
Stock based compensation	271	216	552	568
Amortization	284	242	715	715
Earnings before the undernoted	406	1,425	1,557	4,061
Financing costs	174	251	481	800
Income before income taxes	232	1,174	1,076	3,261
Income taxes	201	423	561	1,157
Net income	\$ 31	\$ 751	\$ 515	\$ 2,104

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The Consolidated financial results over the past eight quarters are summarized below. Management believe that reviewing the business on a rolling quarter basis is an appropriate way of analysing the business.

[\$ thousands]	For the Quarters Ended (unaudited)							
	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Revenue	44,406	\$ 41,280	\$ 42,576	\$ 42,156	\$39,204	\$39,311	\$36,496	\$ 29,643
Cost of sales	39,211	36,218	36,740	37,426	33,652	34,132	31,580	25,169
Gross margin - in \$s	5,195	5,062	5,836	4,730	5,552	5,179	4,916	4,474
Gross margin - in %	11.7%	12.3%	13.7%	11.2%	14.2%	13.2%	13.5%	15.1%
Expenses								
Salaries and benefits	2,124	2,163	2,299	2,459	2,668	2,125	1,979	1,981
Sales and marketing	696	713	1,118	832	295	173	179	253
General and administrative	1,692	1,273	1,381	1,514	834	996	1,023	1,692
Loss(gain) on foreign exchange	(277)	263	(177)	957	(128)	29	(99)	15
Total operating costs	4,235	3,886	4,621	5,762	3,669	3,323	3,082	3,941
Operating income (1)	961	650	1,215	(1,032)	1,883	1,856	1,834	533
Misappropriation of funds	-	-	-	9	-	85	143	260
Stock-based compensation	271	104	179	148	216	142	210	353
Amortization	284	176	254	254	242	244	230	113
Financing costs	174	147	160	222	251	267	282	26
Income taxes	201	(24)	384	23	423	384	350	(112)
Net income (loss)	\$ 31	\$ 247	\$ 236	\$ (1,688)	\$ 751	\$ 734	\$ 619	\$ (107)

(1) Non-GAAP financial measure – see the cautionary statement.

PHONETIME INC.
CONSOLIDATE BALANCE SHEETS
AT SEPTEMBER 30, 2009

	September 30, 2009 <i>(Unaudited)</i>	December 31, 2008 <i>(Audited)</i>
ASSETS		
Current assets		
Short-term investment	\$ 29,219	\$ 29,219
Accounts receivable	14,289,931	13,881,509
Inventories	121,248	61,707
Prepaid expenses and deposits	297,961	376,398
Future income tax assets	67,000	67,000
	14,805,359	14,415,833
Future income tax assets	834,669	905,423
Property and equipment	2,321,917	1,990,611
Goodwill and other intangible assets	15,550,112	15,525,255
	\$ 33,512,057	\$ 32,837,122
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	\$ 5,065,153	\$ 2,713,974
Accounts payable and accrued liabilities	8,815,799	10,062,890
Customer deposits	63,402	75,791
Income taxes payable	1,579,636	1,100,983
Loan from related party	200,000	-
Short-term loan	250,000	-
Current portion of long-term debt	477,670	1,530,453
Current portion of loan payable	184,745	262,949
Current portion of capital lease obligations	565,094	454,605
Current portion of subordinated debentures	978,100	2,322,723
Deferred items	368,666	515,109
	18,548,265	19,039,477
Long-term portion of deferred items	27,716	44,345
Loan payable	-	141,888
Capital lease obligations	365,942	268,412
Subordinated debentures	853,349	1,253,345
	19,795,272	20,747,467
Commitments and contingencies		
Shareholders' equity		
Share capital	15,310,594	14,761,752
Warrants	136,158	-
Contributed surplus	2,616,880	2,189,805
Deficit	(4,346,847)	(4,861,902)
	13,716,785	12,089,655
	\$33,512,057	32,837,122

PHONETIME INC.
Consolidated Statements of Income and
Comprehensive Income and Deficit

	Three months ended		Nine months ended	
	September 30, 2009	September 30 2008	September 30 2009	September 30 2008
				<i>(Not reviewed)</i>
Sales	\$44,406,164	\$ 39,204,183	\$128,262,495	\$ 115,010,915
Cost of sales	39,211,276	33,652,608	112,170,279	99,364,079
	5,194,888	5,551,575	16,092,216	15,646,836
Operating expenses	4,510,731	3,796,237	13,458,993	10,272,855
Loss (gain) on foreign exchange	(276,621)	(128,201)	(190,611)	(197,880)
Stock based compensation	270,457	216,406	552,075	567,851
Amortization of property and equipment	248,780	216,170	627,674	638,272
Amortization of intangible assets	35,404	25,669	86,743	77,008
Interest paid financing costs	134,884	149,682	258,868	434,091
Non-cash financing costs	38,460	101,616	222,207	365,907
	4,962,095	4,377,579	15,015,949	12,158,104
Income before the undernoted and income taxes	232,793	1,173,996	1,076,267	3,488,732
Costs due to misappropriation of funds	-	-	-	228,120
Income before income taxes	232,793	1,173,996	1,076,267	3,260,612
Income tax expense				
Current	176,781	193,623	490,458	339,546
Future income taxes	24,539	229,271	70,754	817,160
	201,320	422,894	561,212	1,156,706
Net income and comprehensive income	31,473	751,102	515,055	2,103,906
Deficit, beginning of period	(4,378,320)	(3,925,408)	(4,861,902)	(5,278,212)
Deficit, end of period	\$ (4,346,847)	\$ (3,174,306)	\$ (4,346,847)	\$ (3,174,306)
Earnings per share				
Basic earnings per share	\$ 0.00	\$ 0.01	\$ 0.005	\$ 0.02
Diluted earnings per share	\$ 0.00	\$ 0.01	\$ 0.005	\$ 0.02