

**Item 1: General Company Information**

**1. THE EXACT TITLE OF THE ISSUER AND ITS PREDECESSORS:**

Everybody's Phone Company, a Texas corporation

**2. THE ADDRESS OF ITS PRINCIPAL EXECUTIVE OFFICE:**

6666 Harwin, Suite 664  
Houston, Texas 77036  
(713) 268 1610  
(713) 268 1820 – fax  
[www.everybodysphonecompany.com](http://www.everybodysphonecompany.com)

**Person to contact for corporate information:**

Steven H. Bethke – President E-mail: [sbethke@flash.net](mailto:sbethke@flash.net)

**Item 2: Shares Outstanding**

**THE NUMBER OF SHARES OR TOTAL AMOUNT OF SECURITIES OUTSTANDING AS OF THE END OF THE ISSUERS MOST RECENT FISCAL YEAR.**

As of December 31, 2008, the Company has 9,100,000 shares of its common stock outstanding.

As of December 31, 2008, the company has not issued any preferred shares of stock.

As of June 30, 2009, the company has 25,990,000 shares of its common stock issued and outstanding with 6,465,000 held in street name.

As of June 30, 2009, the company has not issued any preferred shares of stock.

Total number of shareholders of record as of 6/30/09: 75

As of September 30, 2009, the company has 25,990,000 shares of its common stock issued and outstanding with 6,465,000 held in street name.

As of September 30, 2009, the company has not issued any preferred shares of stock.

Total number of shareholders of record as of 9/30/09: 85

**Item 3: Interim Financial Statements:**

See exhibit that is attached and made a part of this report

#### **Item 4: Management's Discussion and Analysis or Plan of Operations:**

##### **GENERAL DISCUSSION**

Everybody's Phone Company (the Company) offers local and long distance service on a prepaid basis. Specifically, local services include a "bare bones" product providing unlimited local dial tone and 911 emergency access with the option of several customer calling features, for an additional fee, including Call Waiting, Caller ID, Call Forwarding and Speed Dialing. These features may be purchased individually or in a package at reduced rates.

THE COMPANY purchases phone services from the incumbent local exchange carrier at deep discounts (currently up to 26%) and resells the service on a prepaid basis at a premium, allowing attractive profit margins. The markets are households without phone service due to lack of credit history or a poor credit history, and/or the inability to pay a deposit.

THE COMPANY is a flat rate service provider with a customer base of approximately 0 in Texas. THE COMPANY is not a measured service provider, which is when service is provided on a "per call" or "minute basis".

Economics - The prepaid telephone service reseller business has attractive margins, minimal capital expense and minimal bad debt. THE COMPANY acquires heavily discounted telephone service from the incumbent local exchange carriers, such as Southwestern Bell, Bell South, Sprint, Verizon and Qwest and charges premium rates yielding above average profit margins. Additionally, customers must pay prior to receiving service, thereby mitigating bad debts.

Regulatory Approvals - THE COMPANY possesses regulatory approval to sell and provide local phone service in Texas

##### **Overview**

We are positioning Everybody's Phone Company for pursuing high growth in targeted niche markets of our industry. We are targeting residential, affinity, Hispanic, African American and Asian markets. We believe this focus, combined with our extensive switch-based network assets and broad product offering should allow us to penetrate these targeted niche markets in the U.S.

Our businesses include:

- residential local voice services; and
- retail stores that market wireless products and services to business and consumers

We believe we are positioned to offer traditional communication services to customers in selected niche markets in the U.S.

Using pre-paid calling card switches in combination with voice switches and local voice services, allows us to offer a wide array of pre-paid services. The pre-paid services offered include traditional pre-paid local services and pre-paid 1+ long distance.

We believe the ability to bundle these services combined with the convenience of use, differentiate our offerings from those of our competitors and meets this niche market's unique needs.

## **Industry**

**LOCAL SERVICE.** The communication services industry continues to change, which provides opportunity and risk to the companies competing in these markets. The Telecom Act provided significant opportunity for our business by opening the U.S. local service markets to competition, but also adds significant risk by allowing the traditional local phone companies to provide in-region long distance services.

**LONG DISTANCE SERVICE.** Retail long distance minutes and other basic communication services have experienced a decline in price resulting from competitive pressures, the introduction of more efficient networks and advanced technologies, product substitution, and deregulation. Competition for these products is based on price as well as on other differentiating factors such as: range of services offered, bundling of products, customer service, and communications quality, reliability and availability.

## **Strategy**

Our business strategy is to enter into agreements with established telecommunication providers to market our services, primarily on a prepaid basis. We also seek relationships with national carriers for call termination by these carriers using their network.

Because of changes in the communications industry, our objective is to leverage our assets and establish a market presence to maximize cash flow returns. We plan to:

**OPTIMIZE RESOURCES:** We intend to focus on improving margins and cash flow. We plan to undertake only those initiatives that can generate cash flow without significant capital commitment.

**CREATE BRAND RECOGNITION:** We intend to create brand awareness for our name as well as the names of the entities for which we provide private label services.

**LEVERAGE SALES CHANNELS:** We intend to enhance our existing telemarketing, direct sales, agent and affinity distribution channels to grow our customer base, enhance customer retention and expand our consumer product offerings.

**EXPAND LOCAL SERVICES:** We have entered local communication markets in Texas and we intend to selectively expand into new states. We intend to continue to leverage the margins provided by the Unbundled Network Elements.

**LEVERAGE OPERATIONS SUPPORT SYSTEMS AND AUTOMATION:** We intend to continue to improve operation support systems and increase automation to improve efficiency, enhance customer service and develop a platform for more value-added services.

**TARGET SELECTED NICHE MARKETS:** We intend to focus our sales and marketing efforts on selected niche markets. We plan to only target niche markets in which we can deliver superior service for a reasonable return. Our current targeted

markets include Hispanics, African American and Asians in the consumer markets. We believe that these markets have traditionally been underserved by the incumbent telephone companies.

**OFFER COMPETITIVELY PRICED PRODUCTS:** We intend to offer our niche markets value-based products. We believe that customer satisfaction and retention are closely aligned with the customer's perception of value received.

**MAXIMIZE CUSTOMER RETENTION:** We intend to continue to provide a higher level of customer service than our small and medium-sized customers have traditionally experienced. We believe that by developing and providing a positive customer experience we will improve customer satisfaction and retention. We intend to continue prudent investment in our customer care, provisioning and billing systems and processes.

### **Description of Services**

Our services include long distance voice communications, local voice communications, and other services, as well as dial-up Internet access.

**LONG DISTANCE VOICE COMMUNICATIONS:** We offer domestic voice services, including basic long distance. Long distance voice services are offered individually or combined as a bundle with other services such as local voice services. Long distance voice services are also offered as pre-paid products. Our penetration into the long distance voice market is supported by our telemarketing, direct sales, agent sales and affinity sales channels. We estimate that our market share is less than 1%.

**CONSUMER LOCAL VOICE COMMUNICATIONS:** We are aggressively, yet prudently expanding our local service, by selectively entering local exchange markets, including Texas. We provide local toll and switched access services to residential, typically through Unbundled Network Elements leased from a traditional Incumbent Local Exchange Carrier (ILEC). We usually lease the underlying ILEC network by paying the ILEC a monthly fee for the local wire to the customer and switch equipment and a per-minute fee for switching. This mode of service delivery enables us to lower the cost of providing call origination as well as providing us with call termination revenue. For those residential customers who subscribe to both local and long distance services, we will offer an "all-distance" calling plan that bundles the services at an attractive price for the customer and enhances customer retention.

The consolidated local and long distance subscribers can deliver up to three times the lifetime revenue of standalone long distance customers due to much higher monthly spending and lower subscriber churn. We estimate that our market share in these markets is less than 1%.

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus and any other filings we may make with the United States Securities and Exchange Commission in the future before investing in our common stock. If any of the following risks occur, our business, operating results and financial condition could be seriously harmed. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. An investment in our common stock may involve additional risks and uncertainties not described below.

**We Face Intense Competition And May Be Unable To Compete Successfully With Our Competitors.**

The telecommunications industry is highly competitive, rapidly evolving and subject to constant technological change and to intense marketing by different providers of functionally similar services. There are many companies in the United States and in Canada engaged in the sale of telecommunication services. Since there are few, if any, substantial barriers to entry, except in those markets that have not been subject to governmental deregulation, we expect that new competitors are likely to enter our markets. Most, if not all, of our competitors are significantly larger and have substantially greater market presence and longer operating history as well as greater financial, research and development, manufacturing, technical, operational, marketing, personnel and other resources than us.

Our business strategy is to provide competitive pricing to individuals to increase our customer base. We are dependent upon local independent affiliates or partners in each market for sales and marketing, and technical support to terminate and originate our IP telephony services. This marketing strategy should minimize our dependency on any single market and/or group of customers and lessen our costs and expedite our entry into markets. There can be no assurance that we will be able to successfully compete in our present and prospective markets.

Our competition also includes large telecommunications equipment manufacturers as well as small independent value added resellers/integrators in each market, which includes every major city in the United States. All of the large telecommunications equipment manufacturers that compete with us are significantly larger, have substantially greater market presence and longer operating history as well as greater financial, technical, operational, marketing, personnel and other resources than we do.

### **The Company**

We presently have no commitments, understandings or agreements requiring the issuance of additional shares of Common Stock or any shares of Preferred Stock. We could, however, issue some or all of our authorized but unissued shares, and in some cases we could do that without stockholder approval, diluting the holdings of existing stockholders. Existing shareholders will experience significant dilution from our sale of shares. **We Depend On Our Intellectual Property, And If We Are Unable To Protect Our Intellectual Property, We May Be Unable To Compete And Our Business May Fail.**

Our products rely on our proprietary technology, and we expect that future technological advancements made by us will be critical to sustain market acceptance of our products. Therefore, we believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. Consequently, our ability to compete effectively will depend, in part, on our ability to protect our proprietary technology, system designs and manufacturing processes. Unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we may take will prevent unauthorized use of our technology. In addition, the measures we undertake may not be sufficient to adequately protect our proprietary technology and may not preclude competitors from independently developing products with functionality or features similar to those of our product.

**Our Future Plans Could Be Harmed If We Are Unable To Attract Or Retain Key Personnel.**

If we develop a prototype that we believe is marketable, we will require a significant increase in the number of employees. Our future success, therefore, will depend, in part, on attracting and retaining additional qualified management and technical personnel. We do not know whether we will be successful in hiring or retaining qualified personnel. Our inability to hire qualified personnel on a timely basis, or the departure of key employees, could harm our expansion and commercialization plans.

**We Are Dependent On Third Party Suppliers For The Development And Supply Of Key Components For Our Products. If Those Suppliers Are Unable To Provide Sufficient Components, Our Business Will Suffer.**

Although all equipment used by us is provided by major suppliers and is readily available, software to operate the network is commercially available from software suppliers and equipment suppliers, and we have the technical expertise and ability to develop in-house software as needed for network applications and new telecommunications products, a current or future supplier's failure to develop and supply components to us, or the quantity needed, will harm our ability to manufacture our product. In addition, to the extent the processes that our suppliers use to manufacture components are proprietary; we may be unable to obtain comparable components from alternative suppliers.

#### **Risk Factors**

**Termination of License/Certificate - Failure to pay Utility Tax, Line Charge or license fees in the states in which we operate would result in a termination of THE Company's license and/or certificate within the state. Unauthorized change in service provider, known as "Slamming", would also terminate a license or certificate to do business as a reseller of local phone service. Although the Company does not intend on allowing any of these events to occur, if any do occur, the Company would be prohibited from engaging in the local telephone service market, which would have a material adverse effect on the Company.**

**Dependence on Third Parties - The Company depends on many consultants, vendors and suppliers to conduct business. For example, the Company uses a billing service to mail the monthly invoices to our customers and the Company also uses a telemarketing company for subscribing new customers during an advertising campaign. THE COMPANY is not equipped with the necessary personnel or equipment to handle either of these services and is therefore dependent to outsource these types of services. A loss of any one of these third parties would significantly disrupt our operations.**

**Dependence Upon Management - The operations and financial success of the Company are significantly dependent on the managerial personnel of the Company, Steven H. Bethke & Norman George. In the event that the management of the Company becomes unable or unwilling to continue to direct its operations, the Company could be adversely affected.**

**Incumbent Local Exchange Carrier (ILEC) - The Company purchases phone lines from the ILECs at a discount and resells the lines on a prepaid basis; however, the ILEC companies could offer those same lines to the Company's customers. For the most part the ILECs are not interested in this market and have set their pricing and**

restrictions to exclude most of our target market. However, ILEC's may compete directly with the Company, which would drastically increase competition and likely impair our business.

**Incumbent Based Operation-** The Company is a resale-based operation and not a facility based operation and therefore any Acts of God, Terrorist acts or Union Strikes that cause phone service to be interrupted will result in the Company's total dependence on the ILEC provider to restore operations in a timely fashion. Poor service provided by our ILEC could result in the loss of customers to our Company.

**The Financial Difficulties of Other Competitive Communications Providers Could Adversely Affect our Financial Results -** Many competitive local exchange carriers and other emerging communications providers have experienced substantial financial difficulties over the past year, in some cases leading to bankruptcies and liquidations. The financial difficulties of these companies could reflect poorly on the Company's financial stability, may diminish its ability to obtain further working capital and may adversely affect the willingness of potential customers to move their communications services to a competitive local carrier like The Company.

### **Competition and Markets**

The telecommunications industry is highly competitive. The Company believes that the principal competitive factors affecting its business are pricing levels and clear pricing policies, customer service, accurate billing and, to a lesser extent, variety of services. The Company's ability to compete effectively depends upon its continued ability to maintain high quality, market-driven services at prices generally equal to or below those charged by our competitors. To maintain its competitive posture, the Company believes it must be in a position to reduce its prices in order to meet reductions in rates, if any, by others. Any such reductions could materially adversely affect the Company. Many of the Company's current and potential competitors have financial, personnel and other resources, including brand name recognition, substantially greater than we do or expect to have in the near term.

Telephone service providers like THE COMPANY are subject to competition from other providers including those incumbent local exchange carriers from which THE COMPANY purchases phone lines. As a result of the Telecommunications Act of 1996, telephone companies are no longer afforded exclusive franchise service areas. Under that Act, competitors can offer telephone services to THE COMPANY subscribers. The Act contemplates that various regulations will be promulgated by the Federal Communications Commission (FCC) and state regulatory agencies to implement various parts of the Act, such as regulations setting out the procedures and methodologies for implementing and promoting competition in the telephone industry. The regulations could have a material adverse effect, and the Act does open the opportunity for others to be competitive for the same markets.

THE COMPANY is initially targeting Hispanic and African American households in the United States that currently do not have telephone service. This sector presents opportunity, as Hispanics: are growing at a rate faster than the national average; tend to be brand loyal; have a higher than average number of residents in the home creating a need for service; have favorable feature and long distance use; and are easier to target market than other segments, as they tend to watch specific television programming formats and networks during less expensive time periods, allowing for reduced advertising costs. Other local exchange carriers that target this same sector include, but are not limited to, 4Aphone and ComSouth.

The Act of 1996 has significantly increased the level of competition in our local exchange markets. One of the purposes of the 1996 Act was to ensure, and accelerate, the emergence of competition in local exchange markets. Toward this end, the 1996 Act requires most existing local exchange carriers (incumbent local exchange carriers, or ILECS's), to permit competitive local exchange carriers, or CLEC's, including our Company, to purchase service from the ILEC for resale to CLEC customers and interconnect the CLEC's network with the ILEC's network. As a result, competition in the local exchange markets is expected to continue to increase.

### **Governmental and Other Regulations**

THE COMPANY is subject to regulation by the Public Utility Commission, FCC and each of the Utilities Boards in each state in which THE COMPANY holds a license/certificate. THE COMPANY operates our telephone businesses pursuant to license/certificates and various rules and regulations promulgated by these agencies. Although not anticipated to occur, these agencies have the authority to terminate THE Company's right to provide services if they fail to comply with those rules and regulations.

Agencies, like the FCC, require us to file periodic reports, pay various fees and assessments, and comply with rules governing quality of service, consumer protection, and similar issues. Although the specific requirements vary from state to state, they tend to be more detailed than the FCC's regulation because of the strong public interest in the quality of basic local exchange service. We intend to comply with all applicable state regulations, and as a general matter do not expect that these requirements of industry-wide applicability will have a material effect on our business. However, no assurance can be given that the imposition of new regulatory burdens in a particular state will not affect the profitability of our services in that state.

Under the Telecommunications Act, any entity, including cable television companies, electric and gas utilities, may enter any telecommunications market, subject to reasonable state regulation of safety, quality and consumer protection. Because of the implementation of the Telecommunications Act, THE COMPANY is subject to numerous federal and state policy rulemaking proceedings and judicial review. There is still uncertainty as to what impact such legislation will have on us.

The Telecommunications Act is intended to increase competition. This Act was designed to open the local services market by requiring incumbent local carriers to permit interconnection to their networks and establishing incumbent local carriers' obligations with respect to:

**Reciprocal Compensation.** Requires all local exchange carriers to complete calls originated by competitive local exchange carriers under reciprocal arrangements at prices based on tariffs or negotiated prices.

**Resale.** Requires all incumbent local carriers and competitive local carriers to permit resale of their telecommunications services without unreasonable restrictions or conditions. In addition, incumbent local carriers are required to offer wholesale versions of all retail services to other telecommunications carriers for resale at discounted rates, based on the costs avoided by the incumbent local carrier in the wholesale offering.

**Interconnection.** Requires all incumbent local carriers and competitive local carriers to permit their competitors to interconnect with their facilities. Requires all incumbent

local carriers to permit interconnection at any technically feasible point within their networks, on nondiscriminatory terms, at prices based on cost, which may include a reasonable profit. At the option of the carrier seeking interconnection, co-location of the requesting carrier's equipment in the incumbent local carriers' premises must be offered, except where an incumbent local carrier can demonstrate space limitations or other technical impediments to co-location.

**Number Portability.** Requires all incumbent local carriers and competitive local carriers to permit users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching from one telecommunications carrier to another.

**Dialing Party.** Requires all incumbent local carriers and competitive local carriers to provide (1+) equal access to competing providers of telephone exchange service and toll service, and to provide nondiscriminatory access to telephone numbers, operator services, directory listing, with no unreasonable dialing delays.

**Access to Rights-of-Way.** Requires all incumbent local carriers and competitive local carriers to permit competing carriers access to poles, ducts, conduits and rights-of-way at regulated prices.

Incumbent local carriers are required to negotiate in good faith with carriers requesting any or all of the above arrangements. If the negotiating carriers cannot reach agreement within a prescribed time, either carrier may request binding arbitration of the disputed issues by the state regulatory commission. Where an agreement has not been reached, incumbent local carriers remain subject to interconnection obligations established by the FCC and state telecommunications regulatory commissions.

#### **Existing or Probable Governmental Regulations May Adversely Affect Our Business**

In February 1997, the United States and approximately 70 other countries of the World Trade Organization ("WTO") signed an agreement committing to open their telecommunications markets to competition and foreign ownership beginning in January 1998. These countries account for approximately 90% of world telecommunications traffic. The WTO agreement provides us and all companies in our industry with significant opportunities to compete in markets where access was previously either denied or extremely limited. However, the right to offer telecommunications services is subject to governmental regulations and therefore our ability to establish ourselves in prospective markets is subject to the actions of the telecommunications authorities in each country. In the event that new regulations are adopted that limit the ability of companies such as us to offer VOIP telephony services and other services, we could be materially adversely affected.

**We May be Subject To The "Penny Stock" Rules Which May Negatively Affect Your Ability To Sell Our Securities Or The Price You Could Receive.**

If we are subject to penny stock rules, your ability to sell our securities or the price you receive may be adversely affected. The Securities and Exchange Commission has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00 per share (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that the system

which provides current price and volume information with respect to transactions in such securities). The penny stock rules require broker-dealers to deliver, prior to any transaction in a penny stock, certain information to their customers and to comply with other requirements which may have the effect of reducing the level of trading activity in a penny stock and make it more difficult to sell such stock.

**Item 5: Legal Proceedings:**

None

**Item 6: Defaults Upon Senior Securities:**

None

**Item 7: Other Information:**

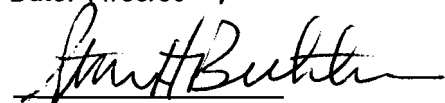
None

**Certification:**

I, Steven H. Bethke, certify that:

1. I have reviewed this annual disclosure statement of Everybody's Phone Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement fairly presents in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: 11/05/09 11/20/09



Steven H. Bethke  
President