

FULLNET COMMUNICATIONS INC

Form 10-K

April 02, 2018

0001092570 --12-31 fulo Yes No No false 2017 FY 0001092570 2017-01-01 2017-12-31 0001092570 2017-12-31  
0001092570 2017-06-30 0001092570 2018-04-02 0001092570 2018-04-02 2018-04-02 0001092570 2016-12-31  
0001092570 2016-01-01 2016-12-31 0001092570 us-gaap:CommonStockMember 2017-01-01 2017-12-31  
0001092570 us-gaap:PreferredStockMember 2017-01-01 2017-12-31 0001092570  
us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-12-31 0001092570 us-gaap:RetainedEarningsMember  
2017-01-01 2017-12-31 0001092570 2015-12-31 0001092570 us-gaap:CommonStockMember 2015-12-31  
0001092570 us-gaap:PreferredStockMember 2015-12-31 0001092570 us-gaap:AdditionalPaidInCapitalMember  
2015-12-31 0001092570 us-gaap:RetainedEarningsMember 2015-12-31 0001092570 us-gaap:CommonStockMember  
2016-01-01 2016-12-31 0001092570 us-gaap:PreferredStockMember 2016-01-01 2016-12-31 0001092570  
us-gaap:AdditionalPaidInCapitalMember 2016-01-01 2016-12-31 0001092570 us-gaap:RetainedEarningsMember  
2016-01-01 2016-12-31 0001092570 us-gaap:CommonStockMember 2016-12-31 0001092570  
us-gaap:PreferredStockMember 2016-12-31 0001092570 us-gaap:AdditionalPaidInCapitalMember 2016-12-31  
0001092570 us-gaap:RetainedEarningsMember 2016-12-31 0001092570 us-gaap:CommonStockMember 2017-12-31  
0001092570 us-gaap:PreferredStockMember 2017-12-31 0001092570 us-gaap:AdditionalPaidInCapitalMember  
2017-12-31 0001092570 us-gaap:RetainedEarningsMember 2017-12-31 0001092570  
us-gaap:SoftwareAndSoftwareDevelopmentCostsMember 2017-01-01 2017-12-31 0001092570  
us-gaap:ComputerEquipmentMember 2017-01-01 2017-12-31 0001092570 us-gaap:FurnitureAndFixturesMember  
2017-01-01 2017-12-31 0001092570 us-gaap:StockCompensationPlanMember 2017-01-01 2017-12-31 0001092570  
us-gaap:StockCompensationPlanMember 2016-01-01 2016-12-31 0001092570  
us-gaap:ConvertibleDebtSecuritiesMember 2017-01-01 2017-12-31 0001092570  
us-gaap:ConvertibleDebtSecuritiesMember 2016-01-01 2016-12-31 0001092570 fil:RelatedPartyNote1Member  
2017-01-01 2017-12-31 0001092570 fil:ThroughDecember312014Memberfil:RelatedPartyNote1Member 2017-01-01  
2017-12-31 0001092570 fil:ThroughDecember312015Memberfil:RelatedPartyNote1Member 2017-01-01 2017-12-31  
0001092570 fil:ThroughDecember312016Memberfil:RelatedPartyNote1Member 2017-01-01 2017-12-31  
0001092570 fil:ThroughDecember312017Memberfil:RelatedPartyNote1Member 2017-01-01 2017-12-31  
0001092570 fil:ThroughMay312018Memberfil:RelatedPartyNote1Member 2017-01-01 2017-12-31 0001092570  
fil:RelatedPartyNote1Member 2017-12-31 0001092570 fil:RelatedPartyNote1Member 2016-12-31 0001092570  
fil:RelatedPartyNote2Member 2017-01-01 2017-12-31 0001092570 fil:RelatedPartyNote2Member 2017-12-31  
0001092570 fil:RelatedPartyNote2Member 2016-12-31 0001092570 fil:RelatedPartyNote1Member 2017-12-31  
2017-12-31 0001092570 fil:RelatedPartyNote1Member 2016-12-31 2016-12-31 0001092570  
fil:RelatedPartyNote2Member 2017-12-31 2017-12-31 0001092570 fil:RelatedPartyNote2Member 2016-12-31  
2016-12-31 0001092570 us-gaap:MinimumMember 2017-01-01 2017-12-31 0001092570 us-gaap:MaximumMember  
2017-01-01 2017-12-31 0001092570 us-gaap:MinimumMember 2016-01-01 2016-12-31 0001092570  
us-gaap:MaximumMember 2016-01-01 2016-12-31 0001092570  
fil:VestOneThirdOnEachAnnualAnniversaryOfTheGrantDateMember 2017-01-01 2017-12-31 0001092570  
fil:Event1Member 2017-01-01 2017-12-31 0001092570 fil:Event2Member 2017-01-01 2017-12-31 xbrli:pure  
iso4217:USD xbrli:shares iso4217:USD xbrli:shares

[Table of Contents](#)

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

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

**For the fiscal year ended December 31, 2017**

or

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

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

**Commission File Number: 000-27031**

**FULLNET COMMUNICATIONS INC**

(Exact name of registrant as specified in its charter)

**OKLAHOMA**                      **731473361**  
(State or other jurisdiction of      (I.R.S. Employer Identification No.)  
incorporation or organization)

**201 Robert S. Kerr Avenue, Suite 210**

**Oklahoma City, Oklahoma 73102**

(Address of principal executive offices)

**(405) 236-8200**

(Registrant's telephone number)

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**

Title of class

Common Stock, \$0.00001 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Exchange Act.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every

---

1

---

Table of Contents

---

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of the Common Stock held by non-affiliates computed by reference to the price at which the Common Stock was last sold, or the average bid and asked price of the Common Stock, as of the last business day (June 30, 2017) of registrant's completed second quarter was \$230,109.

As of April 2, 2018, 11,871,009 shares of the registrant's common stock, \$0.00001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

---



Table of Contents

---

**FULLNET COMMUNICATIONS, INC.**

**FORM 10-K**

For the Fiscal Year Ended December 31, 2017

**TABLE OF CONTENTS**

PART I.

<u>Item 1. Business</u>	5
<u>Item 1A. Risk Factors</u>	11
<u>Item 1B. Unresolved Staff Comments</u>	13
<u>Item 2. Properties</u>	13
<u>Item 3. Legal Proceedings</u>	13

PART II.

<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	15
<u>Item 6. Selected Financial Data</u>	16
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	19
<u>Item 8. Financial Statements and Supplemental Data</u>	19
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	19
<u>Item 9A. Controls and Procedures</u>	19

PART III.

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	20
<u>Item 11. Executive Compensation</u>	22
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	25
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	26
<u>Item 14. Principal Accounting Fees and Services</u>	26
<u>Item 15. Exhibits, Financial Statement Schedules</u>	27

SIGNATURES

28

Exhibit 31.1 Certification Pursuant to Rules 13a-14(a) and 15d-14(a)

Exhibit 31.2 Certification Pursuant to Rules 13a-14(a) and 15d-14(a)

Exhibit 32.1 Certification Pursuant to Section 906

Exhibit 32.2 Certification Pursuant to Section 906

---

3

---

Table of Contents

---

Throughout this Report the first personal plural pronoun in the nominative case form “we” and its objective case form “us”, its possessive and the intensive case forms “our” and “ourselves” and its reflexive form “ourselves” refer collectively to FullNet Communications, Inc. and its subsidiaries, and its and their executive officers and directors.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This Annual Report on Form 10-K and the information incorporated by reference may include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In particular, we direct your attention to Item 1. Business, Item 1A. Risk Factors, Item 2. Properties, Item 3. Legal Proceedings, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as “may,” “believe,” “plan,” “will,” “anticipate,” “estimate,” “expect,” “intend” and other phrases of similar meaning. Known and unknown risks, uncertainties and other factors could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions.

Although we believe that our expectations that are expressed in these forward-looking statements are reasonable, there is no assurance that our expectations will prove to be correct. Our actual results could be materially different from our expectations, including the following:

- We may lose customers or fail to grow our customer base;
- We may not successfully integrate new customers or assets obtained through acquisitions, if any;
- We may fail to compete with existing and new competitors;
- We may not adequately respond to technological developments impacting the Internet;
- We may experience a major system failure; and
- We may not be able to obtain needed capital resources.



This list is intended to identify some of the principal factors that could cause actual results to differ materially from those described in the forward-looking statements included elsewhere in this report. These factors are not intended to represent a complete list of all risks and uncertainties inherent in our business, and should be read in conjunction with the more detailed cautionary statements included in this Report under the caption “Item 1A. Risk Factors,” our other Securities and Exchange Commission filings and our press releases.

Table of Contents

---

**PART I**

**Item 1. Business**

General

We are an integrated communications provider. Through our subsidiaries, we provide high quality, reliable and scalable Internet access, web hosting, equipment colocation, customized live help desk outsourcing services, group text and voice message delivery services, traditional telephone services as well as advanced voice and data solutions.

References to us in this Report include our subsidiaries: FullNet, Inc. (“FullNet”), FullTel, Inc. (“FullTel”), and FullWeb, Inc. (“FullWeb”). Our principal executive offices are located at 201 Robert S. Kerr Avenue, Suite 210, Oklahoma City, Oklahoma 73102, and our telephone number is (405) 236-8200. We also maintain Internet sites on the World Wide Web (“WWW”) at [www.fullnet.net](http://www.fullnet.net), [www.fulltel.com](http://www.fulltel.com) and [www.callmultiplier.com](http://www.callmultiplier.com). Information contained on our Websites is not, and should not be deemed to be, a part of this Report.

Company History

We were founded in 1995 as CEN-COM of Oklahoma, Inc., an Oklahoma corporation, to bring dial-up Internet access and education to rural locations in Oklahoma that did not have dial-up Internet access. We changed our name to FullNet Communications, Inc. in December 1995. Today we are an integrated communications provider.

We market our carrier neutral colocation solutions in our network operations center to other competitive local exchange carriers, Internet service providers and web-hosting companies. Our colocation facility is carrier neutral, allowing customers to choose among competitive offerings rather than being restricted to one carrier. Our data center is Telco-grade and provides customers a high level of operative reliability and security. We offer flexible space arrangements for customers and 24-hour onsite support with both battery and generator backup.

Through FullTel, our wholly owned subsidiary, we are a fully licensed competitive local exchange carrier or CLEC in Oklahoma. FullTel activates local access telephone numbers for the cities in which we market, sell and operate our retail FullNet Internet service provider brand, wholesale dial-up Internet service; our business-to-business network

design, connectivity, domain and Web hosting businesses; and traditional telephone services as well as advanced voice and data solutions. At December 31, 2017 FullTel provided us with local telephone access in approximately 232 cities.

In response to the changes in the telecommunications market and deterioration in our ability to effectively compete, we made the decision in the fourth quarter of 2017, to effect an orderly exit from the CLEC business. We were in negotiations with a potential buyer at December 31, 2017, which buyer subsequently purchased substantially all of FullTel's operating assets pursuant to an asset purchase agreement which was executed and closed on February 1, 2018.

Through CallMultiplier, our wholly owned subsidiary, we offer a comprehensive cloud-based solution to consumers and businesses for automated group texting and voice message delivery.

Our common stock trades on the OTC "Pink Sheets" under the symbol FULO. While our common stock trades on the OTC "Pink Sheets", it is very thinly traded, and there can be no assurance that our stockholders will be able to sell their shares should they so desire. Any market for the common stock that may develop, in all likelihood, will be a limited one, and if such a market does develop, the market price may be volatile.

## Mergers and Acquisitions

Our acquisition strategy is designed to leverage our existing network backbone and internal operations to enable us to enter new markets in Oklahoma, as well as to expand our presence in existing markets, and to benefit from economies of scale.

## Our Business Strategy

As an integrated communications provider, we intend to increase shareholder value by continuing to build scale through both acquisitions and internal growth and then leveraging increased revenues over our fixed-costs base. Our strategy is to meet the customer service requirements of retail, business, educational and government advanced voice and data solutions users in our target markets, while benefiting from the scale advantages obtained through being a fully integrated backbone and broadband provider. The key elements of our overall strategy with respect to our principal business operations are described below.

Table of Contents

---

Target Strategic Acquisitions

The goal of our acquisition strategy is to accelerate market penetration by acquiring smaller competitors in the advanced voice and data solutions market. Additionally, we will continue to build upon our core competencies and expand our technical, customer service staff and Internet based marketing efforts. We evaluate acquisition candidates based on their compatibility with our overall business plan. When assessing an acquisition candidate, we focus on the following criteria:

Potential revenue and customer growth;

Low customer turnover or churn rates;

Favorable competitive environment; and

Favorable consolidation savings.

Generate Internal Sales Growth

We intend to expand our customer base by increasing our marketing efforts. At December 31, 2017, our sales efforts are carried out by technical engineers and our senior management. We are exploring other strategies to increase our sales, including other marketing partners and Internet based advertising programs.

Internet Access Services

We provide Internet access services to individual and small business customers located in Oklahoma on both a retail and wholesale basis. Through FullNet, we provide our customers with a variety of dial-up and dedicated connectivity, as well as direct access to a wide range of Internet applications and resources, including electronic mail. FullNet's full range of services includes:

o Private label retail and business direct dial-up connectivity to the Internet and

o Secure private networks through our backbone network.

Our branded and private label Internet access services are provided through a statewide network with points-of-presence in 232 communities throughout Oklahoma. Points-of-presence are local telephone numbers through which customers can access the Internet. Our business services consist of high-speed Internet access services and other services that enable wholesale customers to outsource their Internet and electronic commerce activities. We had approximately 94 and 121 customers at December 31, 2017 and 2016, respectively. Additionally, FullNet sells Internet access to other Internet service providers, who then resell Internet access to their own customers under their private label or under the “FullNet” brand name.

#### CLEC Operations

Through FullTel, our wholly owned subsidiary, we are a fully licensed competitive local exchange carrier or CLEC in Oklahoma. CLECs are new phone companies evolved from the Telecommunications Act of 1996 (Telecommunications Act) that requires the incumbent local exchange carriers or ILECs, generally the regional Bell companies including AT&T, to provide CLECs access to their local facilities, and to compensate CLECs for traffic originated by ILECs and terminated on the CLECs network. By adding our own telephone switch and infrastructure to the existing telephone network in March 2003, we offer certain local Internet access for dial-up services in most of Oklahoma. As a CLEC, we may subscribe to and resell all forms of local telephone service in Oklahoma.

The FullTel data center telephone switching equipment was installed in March 2003. At which time, FullTel began the process of activating local access telephone numbers for every city in Oklahoma within the AT&T service area. At December 31, 2017, FullTel provided us with local telephone access in approximately 232 cities. However, our ability to fully take advantage of these opportunities will be dependent upon the availability of additional capital.

In response to the changes in the telecommunications market and deterioration in our ability to effectively compete, we made the decision in the fourth quarter of 2017, to effect an orderly exit from the CLEC business. We were in negotiations with a potential buyer at December 31, 2017, which buyer subsequently purchased substantially all of FullTel’s operating assets pursuant to an asset purchase agreement which was executed and closed on February 1, 2018.

## Table of Contents

---

### Advanced Voice and Data Solutions

Our primary advanced voice and data solution is marketed under our CallMultiplier brand name. CallMultiplier is a comprehensive cloud-based solution to consumers and businesses for automated calling, texting and voice message delivery. CallMultiplier streamlines and automates call tree management to provide efficient delivery of time sensitive voice and text messages to groups. Satisfied customers include sports teams, businesses, religious groups, schools, staffing companies, clubs and civic groups throughout the United States and Canada.

### Sales and Marketing

We focus on marketing our services to two distinct market segments: enterprises (primarily small and medium size businesses) and consumers. By attracting enterprise customers who use the network primarily during the daytime, and consumer customers who use the network primarily at night, we are able to utilize our network infrastructure more cost effectively. We are now focusing the majority of our efforts on Internet based advertising and marketing.

### Competition

The market for Internet connectivity and related services is extremely competitive. We anticipate that competition will continue to intensify as the use of the Internet continues to expand and grow. The tremendous growth and potential market size of the Internet access market has attracted many new start-ups as well as existing businesses from a variety of industries. We believe a reliable network, knowledgeable salespeople and the quality of technical support currently are the primary competitive factors in our targeted market and that price is usually secondary to these factors.

Our current and prospective competitors include, in addition to other national, regional and local Internet service providers, long distance and local exchange telecommunications companies, cable television, direct broadcast satellite, wireless communication

providers and online service providers. While we believe that our network, products and customer service distinguish us from these competitors, most of these competitors have significantly greater market presence, brand recognition, financial, technical and personnel resources than us.

### Internet Service Providers

Our current primary competitors include other Internet service providers with a significant national presence that focuses on business customers, including Cox Communications and AT&T. These competitors have greater market share, brand recognition, financial, technical and personnel resources than us. We also compete with regional and local Internet service providers in our targeted markets.

#### Telecommunications Carriers

The major long distance companies, also known as inter-exchange carriers, including AT&T, Verizon, and Sprint, offer Internet access services and compete with us. Reforms in the federal regulation of the telecommunications industry have created greater opportunities for ILECs, including the Regional Bell Operating Companies or RBOCs, and other competitive local exchange carriers, to enter the Internet connectivity market. In order to address the Internet connectivity requirements of the business customers of long distance and local carriers, we believe that there is a move toward horizontal integration by ILECs and CLECs through acquisitions or joint ventures with, and the wholesale purchase of, connectivity from Internet service providers. The MCI/WorldCom merger (and the prior WorldCom/MFS/UUNet consolidation), GTE's acquisition of BBN, the acquisition by ICG Communications, Inc. of Netcom, Global Crossing's acquisition of Frontier Corp. (and Frontier's prior acquisition of Global Center) and AT&T's purchase of IBM's global communications network are indicative of this trend. Accordingly, we expect that we will experience increased competition from the traditional telecommunications carriers. These telecommunication carriers, in addition to their greater network coverage, market presence, financial, technical and personnel resources also have large existing commercial customer bases.

#### Cable Companies, Direct Broadcast Satellite and Wireless Communications Companies

Many of the major cable companies are offering Internet connectivity, relying on the viability of cable modems and economical upgrades to their networks, including Media One and Time Warner Cablevision, Inc., Cox Communications and Tele-Communications, Inc. ("TCI").

Table of Contents

---

The companies that own these broadband networks could prevent us from delivering Internet access through the wire and cable connections that they own. Our ability to compete with telephone and cable television companies that are able to support broadband transmissions, and to provide better Internet services and products, may depend on future regulation to guarantee open access to the broadband networks. However, in January 1999, the Federal Communications Commission declined to take any action to mandate or otherwise regulate access by Internet service providers to broadband cable facilities at this time. It is unclear whether and to what extent local and state regulatory agencies will take any initiatives to implement this type of regulation, and whether they will be successful in establishing their authority to do so. Similarly, the Federal Communications Commission is considering proposals that could limit the right of Internet service providers to connect with their customers over broadband local telephone lines. In addition to competing directly in the Internet service provider market, both cable and television facilities operators are also aligning themselves with certain Internet service providers who would receive preferential or exclusive use of broadband local connections to end users. As high-speed broadband facilities increasingly become the preferred mode by which customers access the Internet, if we are unable to gain access to these facilities on reasonable terms, our business, financial condition and results of operations could be materially adversely affected.

#### Online Service Providers

The dominant online service providers, including Cox Communications, Comcast, AT&T, Road Runner, Verizon and EarthLink, have all entered the Internet access business by engineering their current proprietary networks to include Internet access capabilities. We compete to a lesser extent with these service providers, which currently are primarily focused on the consumer marketplace and offer their own content, including chat rooms, news updates, searchable reference databases, special interest groups and shopping.

We believe that our ability to attract business customers and to market value-added services is a key to our future success and profitability. However, there can be no assurance that our competitors will not introduce comparable services or products at similar or more attractive prices in the future or that we will not be required to reduce our prices to match competition. Recently, many competitive ISPs have shifted their focus from individual customers to business customers.

Moreover, there is no assurance that more of our competitors will not shift their focus to attracting business customers, resulting in even more competition for us. There can be no assurance that we will be able to offset the effects of any such competition or resulting price reductions. Increased competition could result in erosion of our market share and could have a material adverse effect on our business, financial condition and results of operations.

#### Government Regulations



The following summary of regulatory developments and legislation is not complete. It does not describe all present and proposed federal, state, and local regulation and legislation affecting the Internet service provider and telecommunications industries. Existing federal and state regulations are currently subject to judicial proceedings, legislative hearings, and administrative proposals that could change, in varying degrees, the manner in which our businesses operate. We cannot predict the outcome of these proceedings or their impact upon the Internet service provider and telecommunications industries or upon our business.

The provision of Internet access service and the underlying telecommunications services are affected by federal, state, local and foreign regulation. The Federal Communications Commission or FCC exercises jurisdiction over all facilities of, and services offered by, telecommunications carriers to the extent that they involve the provision, origination or termination of jurisdictionally interstate or international communications. The state regulatory commissions retain jurisdiction over the same facilities and services to the extent they involve origination or termination of jurisdictionally intrastate communications. In addition, as a result of the passage of the Telecommunications Act, state and federal regulators share responsibility for implementing and enforcing the domestic pro-competitive policies of the Telecommunications Act. In particular, state regulatory commissions have substantial oversight over the provision of interconnection and non-discriminatory network access by ILECs. Municipal authorities generally have some jurisdiction over access to rights of way, franchises, zoning and other matters of local concern.

Our Internet operations are not currently subject to direct regulation by the FCC or any other U.S. governmental agency, other than regulations applicable to businesses generally. However, the FCC continues to review its regulatory position on the usage of the basic network and communications facilities by Internet service providers. Although in an April 1998 Report, the FCC determined that Internet service providers should not be treated as telecommunications carriers and therefore should not be regulated, it is expected that future Internet service provider regulatory status will continue to be uncertain. Indeed, in that report, the FCC concluded that certain services offered over the Internet, including phone-to-phone Internet telephony, may be functionally indistinguishable from traditional telecommunications service offerings, and their non-regulated status may require reexamination.

Table of Contents

---

Changes in the regulatory structure and environment affecting the Internet access market, including regulatory changes that directly or indirectly affect telecommunications costs or increase the likelihood of competition from RBOCs or other telecommunications companies, could have an adverse effect on our business. Although the FCC has decided not to allow local telephone companies to impose per-minute access charges on Internet service providers, and the reviewing court has upheld that decision, further regulatory and legislative consideration of this issue is likely. In addition, some telephone companies are seeking relief through state regulatory agencies. The imposition of access charges would affect our costs of serving dial-up customers and could have a material adverse effect on our business, financial condition and results of operations.

In addition to our Internet service provider operations, we have focused attention on acquiring telecommunications assets and facilities, which are subject to regulation. FullTel, our subsidiary, has received competitive local exchange carrier or CLEC certification in Oklahoma. The Telecommunications Act requires CLECs not to prohibit or unduly restrict resale of their services; to provide dialing parity, number portability, and nondiscriminatory access to telephone numbers, operator services, directory assistance, and directory listings; to afford access to poles, ducts, conduits, and rights-of-way; and to establish reciprocal compensation arrangements for the transport and termination of telecommunications traffic. In addition to federal regulation of CLECs, the states also impose regulatory obligations on CLECs. While these obligations vary from state to state, most states require CLECs to file a tariff for their services and charges; require CLECs to charge just and reasonable rates for their services, and not to discriminate among similarly-situated customers; to file periodic reports and pay certain fees; and to comply with certain services standards and consumer protection laws. As a provider of domestic basic telecommunications services, particularly competitive local exchange services, we could become subject to further regulation by the FCC or another regulatory agency, including state and local entities.

The Telecommunications Act has caused fundamental changes in the markets for local exchange services. In particular, the Telecommunications Act and the related FCC promulgated rules mandate competition in local markets and require that ILECs interconnect with CLECs. Under the provisions of the Telecommunications Act, the FCC and state public utility commissions share jurisdiction over the implementation of local competition: the FCC was required to promulgate general rules and the state commissions were required to arbitrate and approve individual interconnection agreements. The courts have generally upheld the FCC in its promulgation of rules, including a January 25, 1999 U.S. Supreme Court ruling which determined that the FCC has jurisdiction to promulgate national rules in pricing for interconnection.

In July 2000, the Eighth Circuit Court issued a decision on the earlier remand from the Supreme Court and rejected, as contrary to the Telecommunications Act, the use of hypothetical network costs, including total element long-run incremental costs methodology (“TELRIC”), which the FCC had used in developing certain of its pricing rules. The Eighth Circuit Court also vacated the FCC’s pricing rules related to unbundled network elements (UNEs), termination and transport, but upheld its prior decision that ILECs’ universal service subsidies should not be included in the costs of providing network elements. Finally, the Eighth Circuit Court also vacated the FCC’s rules requiring that: (1) ILECs recombine unbundled network elements for competitors in any technically feasible combination; (2) all preexisting interconnection agreements be submitted to the states for review; and (3) the burden of proof for retention of a rural exemption be shifted to the ILEC. The FCC sought review of the Eighth Circuit Court’s invalidation of TELRIC and was granted certiorari. On May 13, 2002, the Supreme Court reversed certain of the Eighth Circuit Court’s findings and affirmed that the FCC’s rules concerning forward looking economic costs, including TELRIC, were proper under

the Telecommunications Act. The Supreme Court also restored the FCC's requirement that the ILEC's combine UNEs for competitors when they are unable to do so themselves.

In November 1999, the FCC released an order making unbundling requirements applicable to all ILEC network elements uniformly. UNE-P is created when a competing carrier obtains all the network elements needed to provide service from the ILEC. In December 1999, the FCC released an order requiring the provision of unbundled local copper loops enabling CLECs to offer competitive Digital Subscriber Loop Internet access. The FCC reconsidered both orders in its first triennial review of its policies on UNEs completed in early 2003, as further discussed below.

On August 21, 2003, the FCC released the text of its Triennial Review Order. In response to the remand of the United States Court of Appeals for the District of Columbia circuit, the FCC adopted new rules governing the obligations of ILECs to unbundle the elements of their local networks for use by competitors. The FCC made national findings of impairment or non-impairment for loops, transport and, most significantly, switching. The FCC delegated to the states the authority to engage in additional fact finding and make alternative impairment findings based on a more granular impairment analysis including evaluation of applicability of FCC-established "triggers." The FCC created "mass market" and "enterprise market" customer classifications that generally correspond to the residential and business markets, respectively. The FCC found that CLECs were not impaired without access to local circuit switching when serving "enterprise market" customers on a national level. CLECs, however, were found to be impaired on a national level without access to local switching when serving "mass market" customers. State commissions had 90 days to ask the FCC to waive the finding of no impairment without switching for "enterprise market" customers. The FCC presumption that CLECs are impaired without access to transport, high capacity loops and "mass market" switching is subject to a more granular nine-month review by state commissions pursuant to FCC-established triggers and other economic and operational criteria.

Table of Contents

---

The FCC also opened a further notice of proposed rulemaking to consider the “pick and choose” rules under which a competing carrier may select from among the various terms of interconnection offered by an ILEC in its various interconnection agreements. Comments have been filed, but the FCC has not issued a decision.

The Triennial Review Order also provided that:

ILECs are not required to unbundle packet switching as a stand-alone network element.

Two key components of the FCC’s TELRIC pricing rules were clarified. First, the FCC clarified that the risk-adjusted cost of capital used in calculating UNE prices should reflect the risks associated with a competitive market. Second, the FCC declined to mandate the use of any particular set of asset lives for depreciation, but clarified that the use of an accelerated depreciation mechanism may present a more accurate method of calculating economic depreciation.

CLECs continue to be prohibited from avoiding any liability under contractual early termination clauses in the event a CLEC converts a special access circuit to an UNE.

We are monitoring the Oklahoma state commission proceedings and participating where necessary as the commission undertakes the 90-day and nine-month analyses to establish rules or make determinations as directed by the Triennial Review Order. In addition, numerous petitions and appeals have been filed in the courts and with the FCC challenging many of the findings in the Triennial Review Order and seeking a stay on certain portions of the order. The appeals have been consolidated in the D.C. Circuit Court of Appeals. Oral arguments were heard on January 28, 2004. On March 2, 2004, a three-judge panel in the D.C. Circuit Court of Appeals overturned the FCC’s Triennial Review Order with regard to network unbundling rules. A majority of the FCC Commissioners is seeking a court-ordered stay and plan to appeal the ruling to the U.S. Supreme Court. Until all of these proceedings are concluded, the impact of this order, if any, on our CLEC operations cannot be determined.

An important issue for CLECs is the right to receive reciprocal compensation for the transport and termination of Internet traffic. We believe that, under the Telecommunications Act, CLECs are entitled to receive reciprocal compensation from ILECs. However, some ILECs have disputed payment of reciprocal compensation for Internet traffic, arguing that Internet service provider traffic is not local traffic. Most states have required ILECs to pay CLECs reciprocal compensation. However, in October 1998, the FCC determined that dedicated digital subscriber line service is an interstate service and properly tariffed at the interstate level. In February 1999, the FCC concluded that at least a substantial portion of dial-up Internet service provider traffic is jurisdictionally interstate. The FCC also concluded that its jurisdictional decision does not alter the exemption from access charges currently enjoyed by Internet service providers. The FCC established a proceeding to consider an appropriate compensation mechanism for interstate Internet traffic. Pending the adoption of that mechanism, the FCC saw no reason to interfere with existing interconnection agreements and reciprocal compensation arrangements. The FCC order has been appealed. In

addition, there is a risk that state public utility commissions that have previously considered this issue and ordered the payment of reciprocal compensation by the ILECs to the CLECs may be asked by the ILECs to revisit their determinations, or may revisit their determinations on their own motion. To date, at least one ILEC has filed suit seeking a refund from a carrier of reciprocal compensation that the ILEC had paid to that carrier. There can be no assurance that any future court, state regulatory or FCC decision on this matter will favor our position. An unfavorable result may have an adverse impact on our potential future revenues as a CLEC. Reciprocal compensation is unlikely to be a significant or a long-term revenue source for us.

As we become a competitor in local exchange markets, we will become subject to state requirements regarding provision of intrastate services. This may include the filing of tariffs containing rates and conditions. As a new entrant, without market power, we expect to face a relatively flexible regulatory environment. Nevertheless, it is possible that some states could require us to obtain the approval of the public utilities commission for the issuance of debt or equity or other transactions that would result in a lien on our property used to provide intrastate services.

## Employees

As of December 31, 2017, we had 15 employees employed in engineering, sales, marketing, customer support and related activities and general and administrative functions. None of our employees are represented by a labor union, and we consider our relations with our employees to be good. We also engage consultants from time to time with respect to various aspects of our business.

Table of Contents

---

**Item 1A. Risk Factors.**

This Report includes “forward looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Although we believe that our plans, intentions and expectations reflected in such forward looking statements are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from our forward looking statements are set forth below and elsewhere in this Report. All forward looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth below.

**Necessity of Successfully Overcoming Numerous Financial and Operational Challenges in Order to Continue as a Going Concern.**

At December 31, 2017, our current liabilities exceeded our current assets by \$1,014,382 and our total liabilities exceeded our total assets by \$1,145,478, and we had an accumulated deficit of \$10,405,041. In addition, as set forth below, we face a number of operational challenges which we must successfully meet. Our ability to continue as a going concern is dependent upon our continued operations that in turn are dependent upon our ability to meet our financing requirements on a continuing basis, to maintain present financing, to achieve the objectives of our business plan and to succeed in our future operations. Our business plan includes, among other things, expansion of our services through mergers and acquisitions and the development of our colocation and advanced voice and data solutions. Execution of our business plan will require significant capital to fund capital expenditures, working capital needs and debt service. Current cash balances will not be sufficient to fund our current business plan beyond the next few months. As a consequence, we are currently focusing on revenue enhancement and cost cutting opportunities as well as working to sell non-core assets and to extend vendor payment terms. We continue to seek additional convertible debt or equity financing as well as the placement of a credit facility to fund our liquidity. There can be no assurance that we will be able to obtain additional capital on satisfactory terms, or at all, or on terms that will not dilute our shareholders’ interests. Consequently we might be unsuccessful in overcoming the numerous financial and operational challenges required to continue as a going concern.

***Necessity of Additional Financing.***

In order for us to have any opportunity for significant commercial success and profitability, we must successfully obtain additional financing, either through borrowings, additional private placements or a public offering, or some combination thereof. Although we are actively pursuing a variety of funding sources, there can be no assurance that we will be successful in obtaining additional financing which would have a material adverse effect on our business prospects, financial condition and results of operation.

***Limited Marketing Experience.***

We have limited experience in developing and commercializing new services based on innovative technologies, and there is limited information available concerning the potential performance of our hardware or market acceptance of our proposed services. There can be no assurance that unanticipated expenses, problems or technical difficulties will not occur which would result in material delays in product commercialization or that our efforts will result in successful product commercialization. Consequently our limited marketing experience could have a material adverse effect on our business prospects, financial condition and results of operation.

***Uncertainty of Products/Services Development.***

Although considerable time and financial resources were expended in the development of our services and products, there can be absolutely no assurance that problems will not develop which would have a material adverse effect on us. We will be required to commit considerable time, effort and resources to finalize our product/service development and adapt our products and services to satisfy specific requirements of potential customers. Continued system refinement, enhancement and development efforts are subject to all of the risks inherent in the development of new products/services and technologies, including unanticipated delays, expenses, technical problems or difficulties, as well as the possible insufficiency of funds to satisfactorily complete development, which could result in abandonment or substantial change in commercialization. There can be no assurance that development efforts will be successfully completed on a timely basis, or at all, that we will be able to successfully adapt our hardware or software to satisfy specific requirements of potential customers, or that unanticipated events will not occur which would result in increased costs or material delays in development or commercialization. In addition, the complex technologies planned to be incorporated into our products and services may contain errors that become apparent subsequent to commencement of commercial use. Remedying these errors could delay our plans and cause us to incur substantial additional costs. Consequently the uncertainty of our products/services development could have a material adverse effect on our business prospects, financial condition and results of operation.

Table of Contents

---

***Competition; Technological Obsolescence.***

The markets for our products and services are characterized by intense competition and an increasing number of potential new market entrants who have developed or are developing potentially competitive products and services. We will face competition from numerous sources, certain of which may have substantially greater financial, technical, marketing, distribution, personnel and other resources than us, permitting such companies to implement extensive marketing campaigns, both generally and in response to efforts by additional competitors to enter into new markets and market new products and services. In addition, our product and service markets are characterized by rapidly changing technology and evolving industry standards that could result in product obsolescence and short product life cycles. Accordingly, our ability to compete will be dependent upon our ability to complete the development of our products and to introduce our products and/or services into the marketplace in a timely manner, to continually enhance and improve our software and to successfully develop and market new products. There is no assurance that we will be able to compete successfully, that competitors will not develop technologies or products that render our products and/or services obsolete or less marketable or that we will be able to successfully enhance our products or develop new products and/or services. Consequently our failure to successfully respond to the demands of competition and technological obsolescence could have a material adverse effect on our business prospects, financial condition and results of operation.

***Risks Relating to the Internet.***

Businesses reliant on the Internet may be at risk due to inadequate development of the necessary infrastructure, including reliable network backbones or complementary services, high-speed modems and security procedures. The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. There can be no assurance that the Internet infrastructure will continue to be able to support the demands placed on it by sustained growth. In addition, there may be delays in the development and adoption of new standards and protocols, the inability to handle increased levels of Internet activity or due to increased government regulation. If the necessary Internet infrastructure or complementary services are not developed to effectively support growth that may occur, our business, results of operations and financial condition would be materially adversely affected.

***Potential Government Regulations.***

We are subject to state commission, Federal Communications Commission and court decisions as they relate to the interpretation and implementation of the Telecommunications Act, the interpretation of Competitive Local Exchange Carrier or CLEC interconnection agreements in general and our interconnection agreements in particular. In some cases, we may become bound by the results of ongoing proceedings of these regulatory and judicial bodies or the legal outcomes of other contested interconnection agreements that are similar to agreements to which we are a party. Consequently potential government regulations and judicial rulings could have a material adverse effect on our business, prospects, financial condition and results of operations.



***Dependence on Key Personnel.***

Our success depends in large part upon the continued successful performance of our current executive officers and key employees, Timothy J. Kilkenny, Roger P. Baresel and Jason C. Ayers, for our continued research, development, marketing and operation. Although we have employed, and will employ in the future, additional qualified employees as well as retaining consultants having significant experience, if Messrs. Kilkenny, Baresel or Ayers fail to perform any of their duties for any reason whatsoever, our ability to market, operate and support our products/services will be adversely affected. While we are located in areas where the available pool of people is substantial, there is also significant competition for qualified personnel. Consequently our dependence on these key personnel could have a material adverse effect on our business prospects, financial condition and results of operation.

***Limited Public Market.***

During February 2000, our common stock began trading on the OTC Bulletin Board under the symbol FULO. While our common stock currently trades on the OTC "Pink Sheets", there can be no assurance that our stockholders will be able to sell their shares should they so desire. Any market for the common stock that may develop, in all likelihood, will be a limited one, and if such a market does develop, the market price may be volatile. Consequently the limited public market for our common stock could have a material adverse effect on our business prospects, financial condition and results of operation.

***Penny Stock Regulation.***

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the SEC. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the

Table of Contents

---

transaction, and, if the broker dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, broker-dealers who sell these securities to persons other than established customers and accredited investors (generally, those persons with assets in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 together with their spouse), must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. Consequently, these requirements may have the effect of reducing the level of trading activity, if any, in the secondary market for a security that is or becomes subject to the penny stock rules. Our common stock is subject to the penny stock rules at the present time, and consequently our stockholders will find it more difficult to sell their shares. Consequently the Penny Stock regulations could have a material adverse effect on our business prospects, financial condition and results of operation.

**Item 1B. Unresolved Staff Comments.**

We do not have any unresolved staff comments to report.

**Item 2. Properties**

We maintain our executive office in approximately 13,000 square feet at 201 Robert S. Kerr Avenue, Suite 210 in Oklahoma City, at an effective annual rental rate of \$16.50 per square foot. These premises are occupied pursuant to a lease that expires December 31, 2019.

**Item 3. Legal Proceedings**

As long as we are a provider of telecommunications, we are affected by regulatory proceedings in the ordinary course of our business at the state and federal levels. These include proceedings before both the Federal Communications Commission and the Oklahoma Corporation Commission ("OCC"). In addition, in our operations we rely on obtaining many of our underlying telecommunications services and/or facilities from incumbent local exchange carriers or other carriers pursuant to interconnection or other agreements or arrangements. In January 2007, we concluded a regulatory proceeding pursuant to the Federal Telecommunications Act of 1996 before the OCC relating to the terms of our interconnection agreement with Southwestern Bell Telephone, L.P. d/b/a AT&T, which succeeds a prior interconnection agreement. The OCC approved this agreement in May 2007. This agreement may be affected by regulatory proceedings at the federal and state levels, with possible adverse impacts on us. We are unable to accurately predict the outcomes of such regulatory proceedings at this time, but an unfavorable outcome could have a material adverse effect on our business, financial condition or results of operations.

---



Table of Contents

---

**PART II****Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is traded in the over-the-counter market and is quoted on the OTC “Pink Sheets” under the symbol FULO. The closing sale prices reflect inter-dealer prices without adjustment for retail markups, markdowns or commissions and may not reflect actual transactions. The following table sets forth the high and low closing sale prices of our common stock during the calendar quarters presented as reported by the OTC “Pink Sheets”.

	<b>Common Stock</b>	
	<b>Closing Sale Prices</b>	
	<b>High</b>	<b>Low</b>
2017 –Calendar Quarter Ended:		
March 31	\$ . 017	\$ . 010
June 30	. 180	. 017
September 30	. 080	. 040
December 31	. 080	. 040
2016 –Calendar Quarter Ended:		
March 31	\$ . 023	\$ . 023
June 30	. 025	. 025
September 30	. 025	. 025
December 31	. 025	. 025

Number of stockholders

The number of beneficial holders of record of our common stock as of the close of business on April 2, 2018 was approximately 119.

Dividend Policy

To date, we have declared no cash dividends on our common stock, and do not expect to pay cash dividends in the near term. We intend to retain future earnings, if any, to provide funds for operations and the continued expansion of our business.

### Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth as of December 31, 2017, information related to each category of equity compensation plan approved or not approved by our shareholders, including individual compensation arrangements with our non-employee directors. We do not have any equity compensation plans that have been approved by our shareholders. All of our outstanding stock option grants and warrants were pursuant to individual compensation arrangements and exercisable for the purchase of our common stock shares.

<b>Plan Category</b>	<b>Number of Shares Underlying Unexercised Options and Warrants</b>	<b>Weighted- Average Exercise Price of Outstanding Options and Warrants</b>	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans</b>
<i>Equity compensation plans approved by our shareholders:</i>			
None	Not Applicable	Not Applicable	Not Applicable
<i>Equity compensation plans not approved by our shareholders:</i>			
Stock option grants to non-employee directors	–	\$–	–
Stock options granted to employees	2,110,834	\$ .006	–
Warrants and certain stock options issued to non-employees	250,000	\$ .003	–
<b>Total</b>	<b>2,360,834</b>	<b>\$ .005</b>	<b>–</b>

Table of Contents

---

**Item 6. Selected Financial Data.**

As a smaller reporting company, we are not required and have not elected to report any information under this item (see “Item 8. Financial Statements and Supplementary Data.”).

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with our Consolidated Financial Statements and notes thereto included in Part II, Item 8 of this Report. The results shown herein are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of events could differ materially from the forward-looking statements as a result of a number of factors. For a discussion of the factors that could cause actual results to differ materially from the forward-looking statements, see “Item 1A. Risk Factors” and our other periodic reports and documents filed with the Securities and Exchange Commission.

Overview

We are an integrated communications provider. Through our subsidiaries, we provide high quality, reliable and scalable Internet access, web hosting, equipment colocation, customized live help desk outsourcing services, group text and voice message delivery services, traditional telephone services as well as advanced voice and data solutions.

All of the markets that we are active in are extremely competitive. We anticipate that competition will continue to intensify. The tremendous growth and potential market size of these markets has attracted many new start-ups as well as existing businesses from a variety of industries. We believe that a reliable network, knowledgeable customer service and technical support personnel combined with live 24/7 support are the primary competitive factors in our targeted markets and that price is usually secondary to these factors.

As long as we are a provider of telecommunications, we are affected by regulatory proceedings in the ordinary course of our business at the state and federal levels. These include proceedings before both the Federal Communications Commission and the Oklahoma Corporation Commission (“OCC”). In addition, in our operations we rely on obtaining many of our underlying telecommunications services and/or facilities from incumbent local exchange carriers or other carriers pursuant to interconnection or other agreements or arrangements. In January 2007, we concluded a regulatory proceeding pursuant to the Federal Telecommunications Act of 1996 before the OCC relating to the terms of our interconnection agreement with Southwestern Bell Telephone, L.P. d/b/a AT&T, which succeeds a prior interconnection agreement. The OCC approved this agreement in May 2007. This agreement may be affected by

regulatory proceedings at the federal and state levels, with possible adverse impacts on us. We are unable to accurately predict the outcomes of these regulatory proceedings at this time, but an unfavorable outcome could have a material adverse effect on our business, financial condition or results of operations.

#### Discontinued Operations

In response to the changes in the telecommunications market and deterioration in our ability to effectively compete, we made the decision in the fourth quarter of 2017, to effect an orderly exit from the CLEC business. We were in negotiations with a potential buyer at December 31, 2017, which buyer subsequently purchased substantially all of FullTel's operating assets pursuant to an asset purchase agreement which was executed and closed on February 1, 2018.

#### Results of Operations

The following table, which includes both continuing and discontinued operations (see Note I – Discontinued Operations of the financial statements appearing elsewhere in this Report), sets forth certain statement of operations data as a percentage of revenues for the years ended December 31, 2017 and 2016:

---

15

---

Table of Contents

	For the Years Ended December 31,			
	2017		2016	
	Amount	Percentage of revenues	Amount	Percentage of revenues
Revenues:				
Access service revenues	\$45,977	2.4%	\$60,134	3.4%
Colocation and other revenues	1,843,636	97.6	1,718,492	96.6
Total revenues	1,889,613	100.0	1,778,626	100.0
Operating costs and expenses:				
Cost of access service revenues	10,426	0.6	38,277	2.2
Cost of colocation and other revenues	159,230	8.4	123,329	6.9
Selling, general and administrative expenses	1,623,242	85.9	1,537,543	86.4
Depreciation and amortization	17,783	0.9	18,382	1.0
Total operating costs and expenses	1,810,681	95.8	1,717,531	96.6
Income from operations	78,932	4.2	61,095	3.4
Interest expense	(2,160)	(0.1)	(2,453)	(0.1)
Net income from continuing operations	\$76,772	4.1%	\$58,642	3.3%

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

### Revenues

Access service revenues decreased \$14,157 or 23.5% to \$45,977 for the year 2017 from \$60,134 for the year 2016 primarily due to a decline in the number of customers.

Colocation and other revenues increased \$125,144 or 7.3% to \$1,843,636 for the year 2017 from \$1,718,492 for the year 2016. This increase was primarily attributable to the net addition of new customers and the sale of additional services to existing customers.



## Operating Costs and Expenses

Cost of access service revenues decreased \$27,851 or 72.8% to \$10,426 for the year 2017 from \$38,277 for the year 2016. This decrease was primarily due to reductions in costs of servicing access customers due to a reduction in the number of customers. Cost of access service revenues as a percentage of total revenues decreased to 0.6% for the year 2017 from 2.2% for the year 2016.

Cost of colocation and other revenues increased \$35,901 or 29.1% to \$159,230 for the year 2017 from \$123,329 for the year 2016. This increase was related to an approximate \$25,000 increase in costs of servicing advanced voice and data solutions customers due to an increase in the number of customers utilizing those services. Additionally, the increase was primarily related to a one-time credit received in 2016 from a trade vendor related to the settlement of a disputed billing in the approximate amount of \$44,600. Cost of colocation and other revenues as a percentage of total revenues increased to 8.4% for the year 2017 from 6.9% for the year 2016.

Selling, general and administrative expenses increased \$85,699 or 5.6% to \$1,623,242 for the year 2017 from \$1,537,543 for the year 2016. This increase was primarily a result of increases in agent commissions, advertising, and property taxes of \$13,555, \$88,637, and \$12,514, respectively. These increases were offset by a decrease in employee costs of \$31,843. In 2016, employee costs included \$51,085 of stock-based compensation expense due to the reduction of the exercise price to \$.003 on 2,968,782 employee stock options with exercise prices ranging from \$.01 to \$.065. Additionally in 2016, we received a property tax refund of \$13,665 related to 2011 property taxes. Selling, general and administrative expenses as a percentage of total revenues remained relatively the same at 85.9% for the year 2017 compared to 86.4% for the year 2016.

Table of Contents

---

Depreciation and amortization expense decreased \$599 or 3.3% to \$17,783 for the year 2017 from \$18,382 for the year 2016 primarily related to assets reaching full depreciation and amortization.

Interest Expense

Interest expense decreased \$293 or 11.9% to \$2,160 for the year 2017 from \$2,453 for the year 2016 primarily related to the reducing principal balance of the notes payable on which the interest is calculated.

Liquidity and Capital Resources

As of December 31, 2017, we had \$29,399 in cash and \$1,060,594 in current liabilities, including \$397,931 of deferred revenues that will not require settlement in cash.

At December 31, 2017 and 2016, we had working capital deficits of \$1,014,382, and \$989,467, respectively. We do not have a line of credit or credit facility to serve as an additional source of liquidity. Historically we have relied on shareholder loans as an additional source of funds.

At December 31, 2017, of the \$37,371 we owed to our trade creditors \$32,803 was past due. At December 31, 2017 we owed \$7,982 to related parties of which \$5 was past due.

We have no formal agreements regarding payment of these amounts.

Cash flows for the years ending December 31, 2017 and 2016 consist of the following:

**For the Years Ended**

	<b>December 31,</b>	
	<b>2017</b>	<b>2016</b>
Net cash flows provided by operating activities – continuing operations	<b>\$141,835</b>	<b>\$150,363</b>
Net cash flows provided by operating activities – discontinued operations – See Note I	<b>(92,151)</b>	<b>(98,174)</b>
Net cash flows used in investing activities – continuing operations	<b>(1,470)</b>	<b>(17,096)</b>
Net cash flows used in investing activities – discontinued operations – See Note I	<b>(4,780)</b>	<b>–</b>
Net cash flows used in financing activities – continuing operations – See Note I	<b>(5,044)</b>	<b>(4,751)</b>
Net cash flows used in financing activities – discontinued operations – See Note I	<b>(28,374)</b>	<b>(26,833)</b>

Cash used for the purchases of equipment was \$1,470 and \$6,596, respectively, for the years ended December 31, 2017 and 2016.

No intangible assets were purchased in 2017. During the year ended December 31, 2016 an intangible asset was purchased for \$26,500 of which \$10,500 was purchased with cash and \$16,000 was purchased on account.

Cash used for principal payments on notes payable was \$5,044 and \$4,751, respectively, for the years ended December 31, 2017 and 2016.

During the year ended December 31, 2017 no employee stock options for shares of the Company's common stock were exercised. During the year ended December 31, 2016 employee stock options for 2,752,848 shares of the Company's common stock were exercised by reducing deferred compensation payable by \$8,259.

The planned expansion of our business will require significant capital to fund capital expenditures, working capital needs, and debt service. Our principal capital expenditure requirements will include:

- mergers and acquisitions and
- further development of operations support systems and other automated back office systems.

Table of Contents

Because our cost of developing new networks and services, funding other strategic initiatives, and operating our business depend on a variety of factors (including, among other things, the number of customers and the service for which they subscribe, the nature and penetration of services that may be offered by us, regulatory changes, and actions taken by competitors in response to our strategic initiatives), it is almost certain that actual costs and revenues will materially vary from expected amounts and these

variations are likely to increase our future capital requirements. Our current cash balances will not be sufficient to fund our current business operations beyond a few months. As a consequence, we are currently focusing on revenue enhancement and cost cutting opportunities as well as working to sell non-core assets and to extend vendor payment terms. We continue to seek additional convertible debt or equity financing as well as the placement of a credit facility to fund our liquidity needs. There is no assurance that we will be able to obtain additional capital on satisfactory terms or at all or on terms that will not dilute our shareholders' interests.

Until we obtain sufficient additional capital, the further development of our network will be delayed or we will be required to take other actions. Our inability to obtain additional capital resources has had and will continue to have a material adverse effect on our business, operating results and financial condition.

Our ability to fund the capital expenditures and other costs contemplated by our business plan and to make scheduled payments with respect to borrowings will depend upon, among other things, our ability to seek and obtain additional financing in the near term. Capital will be needed in order to implement our business plan, deploy our network, expand our operations and obtain and retain a significant number of customers in our target markets. Each of these factors is, to a large extent, subject to economic, financial, competitive, political, regulatory, and other factors, many of which are beyond our control.

There is no assurance that we will be successful in developing and maintaining a level of cash flows from operations sufficient to permit payment of our outstanding indebtedness. If we are unable to generate sufficient cash flows from operations to service our indebtedness, we will be required to modify or abandon our growth plans, limit our capital expenditures, restructure or refinance our indebtedness or seek additional capital or liquidate our assets. There is no assurance that (i) any of these strategies could be effectuated on satisfactory terms, if at all, or on a timely basis or (ii) any of these strategies will yield sufficient proceeds to service our debt or otherwise adequately fund operations.

As of December 31, 2017, our material contractual obligations and commitments were:

	<b>Payments Due By Period</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>3 – 5 Years</b>	<b>More than 5 Years</b>
Long-term debt	<b>\$155,661</b>	<b>\$123,846</b>	<b>\$14,407</b>	<b>\$14,407</b>	<b>\$3,001</b>

Operating leases	<b>443,564</b>	<b>221,782</b>	<b>221,782</b>	<b>-</b>	<b>-</b>
Total contractual cash obligations	<b>\$599,225</b>	<b>\$345,628</b>	<b>\$236,189</b>	<b>\$14,407</b>	<b>\$3,001</b>

### Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect certain reported amounts and disclosures. In applying these accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. As might be expected, the actual results or outcomes are generally different than the estimated or assumed amounts. These differences are usually minor and are included in our consolidated financial statements as soon as they are known. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

We periodically review the carrying value of our intangible assets when events and circumstances warrant such a review. One of the methods used for this review is performed using estimates of future cash flows. If the carrying value of our intangible assets is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the intangible assets exceeds its fair value. We believe that the estimates of future cash flows and fair value are reasonable. Changes in estimates of these cash flows and fair value, however, could affect the calculation and result in additional impairment charges in future periods.

We periodically review the carrying value of our property and equipment whenever business conditions or events indicate that those assets may be impaired. If the estimated future undiscounted cash flows to be generated by the property and equipment are less than the carrying value of the assets, the assets are written down to fair market value and a charge is recorded to current operations. Significant and unanticipated changes in circumstances, including significant adverse changes in business climate, adverse actions by regulators, unanticipated competition, loss of key customers and/or changes in technology or markets, could require a provision for impairment in a future period.

Table of Contents

---

We review loss contingencies and evaluate the events and circumstances related to these contingencies. We disclose material loss contingencies that are possible or probable, but cannot be estimated. For loss contingencies that are both estimable and probable the loss contingency is accrued and expense is recognized in the financial statements.

Access service revenues are recognized on a monthly basis over the life of each contract as services are provided. Contract periods range from monthly to yearly. Carrier-neutral telecommunications colocation revenues and traditional telephone services are recognized on a monthly basis over the life of the contract as services are provided. Revenue that is received in advance of the services provided is deferred until the services are provided by us. Revenue related to set up charges is also deferred and amortized over the life of the contract. We classify certain taxes and fees billed to customers and remitted to governmental authorities on a net basis in revenue.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

As a smaller reporting company, we are not required and have not elected to report any information under this item.

**Item 8. Financial Statements and Supplemental Data.**

Our financial statements, prepared in accordance with Regulation S-K, are set forth in this Report beginning on page 31.

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.**

During 2017 and 2016, we did not have disagreements with our principal independent accountants.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act that are designed to ensure that information required to be disclosed in our reports filed or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that information is accumulated and communicated to our management, including our principal executive and financial officer as appropriate, to allow timely decisions regarding required disclosures.

Our principal executive officer, who is also our principal financial officer, evaluated the effectiveness of disclosure controls and procedures as of December 31, 2017, pursuant to Rule 13a-15(b) under the Exchange Act. Based upon that evaluation, our CEO/CFO concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO/CFO, as appropriate, to allow timely decisions regarding required disclosure.

A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

### **Report of Management on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control system was designed to, in general, provide reasonable assurance to our management and board regarding the preparation and fair presentation of published financial statements, but because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. The framework used by our management in making that assessment was the criteria set forth in the document entitled "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting as of December 31, 2017, was effective.

Table of Contents

---

This annual report does not include an attestation report of our public accounting firm regarding internal control over financial reporting. Our management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission adopted as of September 21, 2010, that permit us to provide only our management's report in this annual report.

**Changes in Internal Control over Financial Reporting**

No change in our system of internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting except as set forth in the following paragraph.

We did not identify the proper accounting treatment for Common Stock Purchase Option Re-Pricing during the fourth quarter of the year ending December 31, 2016. As a result of our subsequent research and identification the appropriate accounting treatment for this transaction, we gained an appropriate level of understanding regarding this type of transaction and do not believe that there will be a recurrence of this failure.

**PART III.**

**Item 10. Directors, Executive Officers, and Corporate Governance.**

The following information is furnished as of April 2, 2018 for each person who serves on our Board of Directors or serves as one of our executive officers. Our Board of Directors currently consists of three members, although we intend to increase the size of the Board in the future. The directors serve one-year terms until their successors are elected. Our executive officers are elected annually by our Board. The executive officers serve terms of one year or until their death, resignation or removal by our Board. There are no family relationships between our directors and executive officers. In addition, there was no arrangement or understanding between any executive officer and any other person pursuant to which any person was selected as an executive officer.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Timothy J. Kilkenny	59	Chairman of the Board of Directors
Roger P. Baresel	62	Chief Executive Officer, Chief Financial Officer and Secretary and Director
Jason C. Ayers	43	President and Director



Patricia R. Shurley      61      Vice President of Finance (Retired September 30, 2017)

Timothy J. Kilkenny has served as our Chairman of the Board of Directors since our inception in May 1995. He served as our Chief Executive Officer from May 1995 until June 6, 2016. Prior to that time, he spent 14 years in the financial planning business as a manager for both MetLife and Prudential. Mr. Kilkenny is a graduate of Central Bible College in Springfield, Missouri.

Roger P. Baresel became our Chief Executive Officer on June 6, 2016. He has been one of our directors and our Chief Financial Officer since November 2000, and our President from October 2003 until June 2016. Mr. Baresel is an experienced senior executive and consultant who has served at a variety of companies in a number of different industries. Mr. Baresel has the following degrees from the University of Central Oklahoma in Edmond, Oklahoma: BA Psychology, BS Accounting and MBA Finance, in which he graduated Summa Cum Laude. Mr. Baresel is also a certified public accountant.

Jason C. Ayers became our President on June 6, 2016. He has been one of our directors since May 2013 and served as our Vice President of Operations from December 2000 until June 2016. Prior to that he served as President of Animus, a privately-held web hosting company which we acquired in April 1998. Mr. Ayers received a BS degree from Southern Nazarene University in Bethany, Oklahoma in May 1996 with a triple major in Computer Science, Math and Physics. Upon graduating, he was a co-founder of Animus.

Patricia R. Shurley served as our Vice President of Finance from May 2001 to September 30, 2017, at which time she retired. She graduated from the University of Central Oklahoma in Edmond, Oklahoma with a BS degree in Accounting and is a certified public accountant.

#### Audit Committee Financial Expert

Because our board of directors only consists of three directors, each of whom does not qualify as an independent director; our board performs the functions of an audit committee. Our board of directors has determined that Roger P. Baresel, our Chief Executive Officer and Chief Financial Officer qualifies as a “financial expert.” This determination was based upon Mr. Baresel’s

Table of Contents

---

understanding of generally accepted accounting principles and financial statements;

ability to assess the general application of generally accepted accounting principles in connection with the accounting for estimates, accruals and reserves;

experience preparing, auditing, analyzing or evaluating financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements, or experience actively supervising one or more persons engaged in such activities;

understanding of internal controls and procedures for financial reporting; and

understanding of audit committee functions.

Mr. Baresel's experience and qualification as a financial expert were acquired through the active supervision of a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions and overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements.

Mr. Baresel is not an independent director. We have been unable to attract a person to serve as one of our directors and that would qualify both as an independent director and as a financial expert because of inability to compensate our directors and provide liability insurance protection.

#### Compliance with Section 16(a) of the Exchange Act, Beneficial Ownership Reporting Requirements

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires our directors and executive officers and any persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission ("SEC") and each exchange on which our securities are listed, reports of ownership and subsequent changes in ownership of our common stock and our other securities. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. Based solely on review of the copies of such reports furnished to us or written representations that no other reports were required, we believe that during 2013 all filing requirements applicable to our officers, directors and greater than 10% beneficial owners were met.

#### Code of Ethics

On March 25, 2003, our board of directors adopted our code of ethics that applies to all of our employees and directors, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. Our code of ethics may be found on our website at [www.fullnet.net](http://www.fullnet.net). We will describe the nature of amendments to the code on our website, except that we may not describe amendments that are purely a technical, administrative, or otherwise non-substantive. We will also disclose on our website any waivers from any provision of the code that we may grant. We will also disclose on our website any violation of the code by our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. Information about amendments and waivers to the code will be available on our website for at least 12 months, and thereafter, the information will be available upon request for five years.

Table of Contents**Item 11. Executive Compensation**

The following table sets forth, for the last three fiscal years, the cash compensation paid by us to our Chairman, Chief Executive Officer and Chief Financial Officer and President (the “Named Executive Officers”). None of our executive officers other than the named executive officers earned annual compensation in excess of \$100,000 during 2017.

Name and Principal Position	Annual Compensation			Long-Term Compensation Securities Underlying Options and Warrants		
	Fiscal Year	Salary	Other Compensation	# (1)		
Timothy J. Kilkenny Chairman	2017	\$83,156	(2)	\$38,128	(3)	250,000
	2016	\$78,720	(4)	\$35,536	(5)	-
	2015	\$74,964	(6)	\$35,580	(7)	-
Roger P. Baresel CEO and CFO	2017	\$73,860	(8)	\$45,697	(9)	300,000
	2016	\$69,480	(10)	\$44,773	(11)	-
	2015	\$69,732	(12)	\$44,662	(13)	-
Jason C. Ayers President	2017	\$100,084	(14)	\$26,292	(15)	300,000
	2016	\$89,730	(16)	\$32,212	(17)	-
	2015	\$86,231	(18)	\$20,853	(19)	-

(1) Options are granted with an exercise price equal to the fair market value of our common stock on the date of the grant and are valued based on the Black-Scholes

option pricing  
model.

- (2) Includes \$27,166 of deferred compensation.

- Represents \$12,873 of expense reimbursement for business use of Mr. Kilkenny's automobile and parking, \$1,799 of expense reimbursement for Mr. Kilkenny's Internet connection and cell phone, \$19,360 of insurance premiums, \$1,719 of post-retirement benefits paid by us for the benefit of Mr. Kilkenny, and \$2,377 of stock options issued to Mr. Kilkenny.
- (3)

- (4) Includes \$23,230 of deferred compensation.

- Represents \$12,623 of expense reimbursement for business use of Mr. Kilkenny's automobile and parking, \$1,799 of expense reimbursement for Mr. Kilkenny's Internet connection and cell phone, \$19,413 of insurance premiums, \$1,701 of post-retirement benefits paid by us for the benefit of Mr. Kilkenny.
- (5)

- (6) Includes \$19,474 of deferred compensation.

- Represents \$13,213 of expense reimbursement for business use of Mr. Kilkenny's automobile and parking, \$1,800 of expense reimbursement for Mr. Kilkenny's Internet connection and cell phone, \$18,868 of insurance premiums, \$1,699 of post-retirement benefits paid by us for the benefit of Mr. Kilkenny.
- (7)

- (8) Includes \$19,849 of deferred compensation.

- Represents \$9,600 of expense reimbursement for business use of Mr. Baresel's automobile and parking, \$5,415 of expense reimbursement for Mr. Baresel's home office and cell phone, \$26,160 of insurance premiums, \$1,670 of post-retirement benefits paid by us for the benefit of Mr. Baresel, and \$2,852 of stock options issued to Mr. Baresel.
- (9)

- (10) Includes

\$16,969 of  
deferred  
compensation.

(11) Represents  
\$9,600 of  
expense  
reimbursement  
for  
business  
use of Mr.  
Baresel's  
automobile  
and  
parking,  
\$5,364 of  
expense  
reimbursement  
for  
Mr. Baresel's  
home  
office and  
cell phone,  
\$28,151 of  
insurance  
premiums,  
\$1,658 of  
post-retirement  
benefits  
paid by us  
for the  
benefit of  
Mr.  
Baresel.

(12) Includes  
\$14,221 of  
deferred  
compensation.

Table of Contents

---

(13) Represents \$9,120 of expense reimbursement for business use of Mr. Baresel's automobile and parking, \$5,316 of expense reimbursement for Mr. Baresel's home office and cell phone, \$28,480 of insurance premiums, \$1,746 of post-retirement benefits paid by us for the benefit of Mr. Baresel.

(14) Includes \$21,965 of deferred compensation.

(15) Represents \$2,100 of expense reimbursement for Mr. Ayer's parking, \$1,500 of expense reimbursement for Mr. Ayer's Internet connection and cell phone, \$17,417 of insurance premiums, \$2,423 of post-retirement



benefits paid by us  
for the benefit of Mr.  
Ayers, and \$2,852 of  
stock options issued  
to Mr. Ayers.

- (16) Includes \$18,941 of deferred compensation.
- (17) Represents \$2,276 of expense reimbursement for Mr. Ayer's parking, \$1,500 of expense reimbursement for Mr. Ayer's Internet connection and cell phone, \$26,136 of insurance premiums, \$2,300 of post-retirement benefits paid by us for the benefit of Mr. Ayers.
- (18) Includes \$20,285 of deferred compensation.
- (19) Represents \$2,276 of expense reimbursement for Mr. Ayer's parking, \$1,500 of expense reimbursement for Mr. Ayer's Internet connection and cell phone, \$14,922 of insurance

premiums,  
\$2,155 of  
post-retirement  
benefits paid by  
us for the benefit  
of Mr. Ayers.

#### Stock Options Granted

All options granted during 2017 are nonqualified stock options. During 2017, an aggregate of 1,626,000 options were granted outside of a formal plan to employees. 250,000 stock options were granted to Mr. Kilkenny, and 300,000 stock options each were granted to Mr. Baresel and Mr. Ayers during 2017.

Options granted generally become exercisable in part after one year from the date of grant and generally have a term of ten years following the date of grant, unless sooner terminated in accordance with the terms of the stock option agreement.

#### 2017 Year End Option Values

Our executive officers (Timothy J. Kilkenny, Chairman of the Board, Roger P. Baresel, Chief Executive Officer and Chief Financial Officer and Jason C. Ayers, President) each held 250,000, 300,000, and 300,000, respectively of outstanding options at December 31, 2017. During 2017, Mr. Kilkenny, Mr. Baresel and Mr. Ayers did not exercise any stock options.

#### Director Compensation

During the fiscal year ended December 31, 2017, our directors did not receive any compensation for serving in such capacities.

#### Employment Agreements and Lack of Keyman Insurance

On July 6, 2011, we entered into employment agreements with Timothy J. Kilkenny, Roger P. Baresel and Jason Ayers. Each agreement is effective July 1, 2011 and continues through December 31, 2017; however, the term is automatically extended for additional three-year terms, unless we or the employee gives a six-month advance notice of termination. These agreements provide, among other things, (i) an annual base salary of at least \$61,656 for Mr. Kilkenny, \$45,012 for Mr. Baresel and \$68,436 for Mr. Ayers, (ii) bonuses at the discretion of the Board of Directors, (iii) entitlement to fringe benefits including medical and insurance benefits as may be provided to our other senior officers; and (iv) eligibility to participate in our incentive, bonus, benefit or similar plans. These agreements require the employee to devote the required time and attention to our business and affairs necessary to carry out his responsibilities and duties. These agreements may be terminated under certain circumstances and upon termination provide for (i) the employee to be released from personal liability for our debts and obligations, and (ii) the payment of any amounts we owe the employee. At December 31, 2017 we owed, including deferred compensation, \$170,020, \$106,595 and \$144,353 to Mr. Kilkenny, Mr. Baresel and Mr. Ayers, respectively.

We do not maintain any keyman insurance covering the death or disability of our executive officers.

---

Table of Contents**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth information as of April 2, 2018, concerning the beneficial ownership of our Common Stock by each of our directors, each executive officer named in the table under the heading “Item 10. Directors and Executive Officers, and Corporate Governance” and all of our directors and executive officers as a group, as well as each person who is known by us to own more than 5% of the outstanding shares of our Common Stock. The non-employee beneficial owner information is based on Schedules 13D or 13G filed by the applicable beneficial owner with the Securities and Exchange Commission or other information provided to us by the beneficial owner or our stock transfer agent. Unless otherwise indicated, the beneficial owner has sole voting and investment power with respect to such stock.

<b>Beneficial Owner (1)</b>	<b>Common Stock</b>	
	<b>Number of</b>	<b>Percent of</b>
	<b>Shares</b>	<b>Class (1)</b>
Timothy J. Kilkenny* (2)(3)	3,352,683	<b>26.8%</b>
Roger P. Baresel* (2)(4)	2,605,384	<b>20.4%</b>
Jason C. Ayers (2)(5)	2,213,424	<b>17.4%</b>
Patricia R. Shurley (2)(6)	667,239	<b>5.6%</b>
All executive officers and directors as a group (4 individuals)	8,838,730	<b>70.2%</b>
High Capital Funding, LLC (7)	1,207,933	<b>9.9%</b>

\* Director

(1) Percent of class for any stockholder listed is calculated without regard to shares of common stock issuable to others upon exercise of outstanding stock options. Any shares a stockholder is deemed to own by having the right to acquire by exercise of an option or warrant are considered to be outstanding solely for the purpose of calculating that stockholder’s ownership percentage. We computed the percentage ownership amounts in accordance with the provisions of Rule 13d-3(d), which includes as beneficially owned all shares of common stock which the person or group has the right to acquire within the next 60 days, based upon 11,871,009 shares being outstanding at April 2, 2018.

(2) Address is c/o 201 Robert S. Kerr Avenue, Suite 210, Oklahoma City, Oklahoma 73102.

- (3) Timothy J. Kilkenny and Barbara J. Kilkenny, husband and wife, hold 3,037,683 and 315,000 shares of our common stock, respectively. The number of shares includes 240,628 shares of our Series A convertible preferred stock held by Mr. Kilkenny that are currently convertible into common stock at the rate of one share of common stock per one share of Series A convertible preferred stock and 433,333 shares of our common stock that are subject to currently exercisable stock options. Amounts shown do not include options held by Mr. Kilkenny to purchase 166,667 shares of our common stock exercisable at \$.01 per share beginning January 9, 2019.
- (4) Roger P. Baresel and Judith A. Baresel, husband and wife, hold 5,600 and 2,599,784 shares of our common stock, respectively. The number of shares held by Mrs. Baresel includes 137,622 shares of our Series A convertible preferred stock that are currently convertible into common stock at the rate of one share of common stock per one share of Series A convertible preferred stock and 800,000 shares of our common stock that are subject to currently exercisable stock options. Amounts shown do not include options held by Mrs. Baresel to purchase 200,000 shares of our common stock exercisable at \$.01 per share beginning January 9, 2019.
- (5) Jason C. Ayers holds 2,213,424 shares of our common stock. The number of shares includes 77,629 shares of our Series A convertible preferred stock that are currently convertible into common stock at the rate of one share of common stock per one share of Series A convertible preferred stock and 800,000 shares of our common stock that are subject to currently exercisable stock options. Amounts shown do not include options to purchase 200,000 shares of our common stock exercisable at \$.01 per share beginning January 9, 2019.
-

Table of Contents

---

- (6) Patricia R. Shurley holds 667,239 shares of our common stock. The number of shares includes 70,239 shares of our Series A convertible preferred stock that are currently convertible into common stock at the rate of one share of common stock per one share of Series A convertible preferred stock and 150,000 shares of our common stock that are subject to currently exercisable stock options. Patricia Shurley retired on September 30, 2017.
- (7) High Capital Funding, LLC, 333 Sandy Springs Circle, Suite 230, Atlanta, Georgia 30328, the parent company of Generation Capital Associates, holds 700,325 shares of our common stock. Generation Capital Associates holds 507,608 shares of our common stock. The number of shares includes 203,169 shares of our Series A convertible preferred stock held by High Capital Funding, LLC that are currently convertible into common stock at the rate of one share of common stock per one share of Series A convertible preferred stock. Amounts shown do not include 10,000 shares of our common stock that are subject to common stock purchase warrants that are not currently exercisable because they contain a provision prohibiting their exercise to the extent that they would increase Generation Capital Associates' percentage ownership beyond 9.9% of our outstanding shares of common stock. We have two secured convertible promissory notes with High Capital Funding, LLC. At December 31, 2017 the outstanding principal and interest of the secured convertible promissory notes were \$116,592 and \$33,242.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

At December 31, 2017 we had a secured convertible promissory note from a shareholder with a balance of \$116,592. This secured convertible promissory note is secured by all of our tangible and intangible assets (see Note C - Convertible Notes Payable Related Party of the financial statements appearing elsewhere in this Report).

The note holder has the right to convert the note, in its entirety or in part, into our common stock at the rate of \$1.00 per share.

At December 31, 2017 we had a secured convertible promissory note from a shareholder with a balance of \$33,242. This secured convertible promissory note is secured by certain equipment (see Note C – Convertible Notes Payable Related Party of the financial statements appearing elsewhere in this Report).

The note holder has the right to convert the note, in its entirety or in part, into our common stock at the rate of \$1.00 per share.

**Item 14. Principal Accounting Fees and Services**

The following table sets forth the aggregate fees, including expenses, billed to us for the years ended December 31, 2017 and 2016 by our principal accountant.

	<b>2017</b>	<b>2016</b>
Audit Fees – Malone Bailey LLP	\$31,250	\$30,000

The audit fees include services rendered by our principal accountant for the audit of our financial statements, review of financial statements included in our quarterly reports and other fees that are normally provided by the accountant in connection with statutory and regulatory filings or engagements. Because our Board of Directors only consists of three directors, each of whom does not qualify as an independent director; our Board of Directors performs the functions of an audit committee. It is our policy that the Board of Directors pre-approve all audit, tax and related services. All of the services described above in this Item 14 were approved in advance by our Board of Directors. No items were approved by the Board of Directors pursuant to paragraph (c)(7)(ii)(C) of Rule 2-01 of Regulation S-X.

Table of Contents**Item 15. Exhibits, Financial Statement Schedules.**

(a) The following exhibits are filed as part of this Report:

<i>Exhibit</i>		
<i>Number</i>	<i>Exhibit</i>	
3.1	<u>Certificate of Incorporation, as amended (filed as Exhibit 2.1 to Registrant's Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference).</u>	#
3.2	<u>Bylaws (filed as Exhibit 2.2 to Registrant's Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference)</u>	#
3.3	Amended and Restated Certificate of Incorporation of FullNet Communications, Inc.	#
4.1	<u>Specimen Certificate of Registrant's Common Stock (filed as Exhibit 4.1 to the Company's Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference).</u>	#
4.2	<u>Certificate of Correction to the Amended Certificate of Incorporation and the Ninth Section of the Certificate of Incorporation (filed as Exhibit 2.1 to Registrant's Registration Statement on form 10-SB, file number 000-27031 and incorporated by reference).</u>	#
4.3	<u>Certificate of Correction to Articles II and V of Registrant's Bylaws (filed as Exhibit 2.1 to Registrant's Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference).</u>	#
4.4	Certificate of Designation, Preferences, and Rights of Series A Convertible Preferred Stock of FullNet Communications, Inc.	#
10.1	<u>Financial Advisory Services Agreement between the Company and National Securities Corporation, dated September 17, 1999 (filed as Exhibit 10.1 to Registrant's Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference).</u>	#
10.2	<u>Lease Agreement between the Company and BOK Plaza Associates, LLC, dated December 2, 1999 (filed as Exhibit 10.2 to Registrant's Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference).</u>	#
10.3	<u>Interconnection agreement between Registrant and Southwestern Bell dated March 19, 1999 (filed as Exhibit 6.1 to Registrant's Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference).</u>	#



Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-K

- 10.4 Registrar Accreditation Agreement effective February 8, 2000, by and between Internet Corporation for Assigned Names and Numbers and FullWeb, Inc. d/b/a FullINic f/k/a Animus Communications, Inc. (filed as Exhibit 10.1 to Registrant's Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference). #
- 10.5 Amendment to Financial Advisory Services Agreement between Registrant and National Securities Corporation, dated April 21, 2000 (filed as Exhibit 10.3 to Registrant's Quarterly Report on Form 10-QSB for the Quarter ended June 30, 2000 and incorporated herein by reference). #
- 10.6 Placement Agency Agreement dated November 8, 2000 between FullNet Communications, Inc. and National Securities Corporation (filed as Exhibit 10.31 to Registrant's Form 10-KSB for the fiscal year ended December 31, 2000). #
- 10.7 Employment Agreement with Timothy J. Kilkenny dated July 31, 2002
- 10.8 Employment Agreement with Roger P. Baresel dated July 31, 2002
- 10.9 Secured Promissory Note and Security Agreement dated December 30, 2009, issued to High Capital Funding, LLC
- 10.10 Employment Agreement with Jason Ayers dated January 1, 2011

Table of Contents

10.11	Employment Agreement with Timothy J. Kilkenny dated July 6, 2011	#
10.12	Employment Agreement with Roger P. Baresel dated July 6, 2011	#
10.13	Employment Agreement with Jason Ayers dated July 6, 2011	#
10.14	Form of Exchange Offer Acceptance Agreement	#
10.15	Secured Exchange Promissory Note and Security Agreement dated May 31, 2013, issued to High Capital Funding, LLC	#
10.16	Secured Exchange Promissory Note and Security Agreement dated May 31, 2013, issued to High Capital Funding, LLC	#
10.17	Replacement of Timothy J. Kilkenny as Chief Executive Officer by Roger P. Baresel and appointment of Jason C. Ayers as President effective June 6, 2016	#
10.18	Unregistered sales of 2,752,848 restricted shares of common stock pursuant to the exercise of previously issued and outstanding common stock purchase options on December 7, 2016 held by various officers and directors of the Company and their family members	#
10.19	<u>Asset Purchase Agreement dated February 1, 2018 between FullTel, Inc. and Dobson Technologies – Transport and Telecom Solutions, LLC, which the Company incorporates by reference to the Company’s Form 8-K filed on February 2, 2018</u>	#
10.20	<u>Issuance of fully-vested and immediately exercisable employee stock options on February 14, 2018, which the Company incorporates by reference to the Company’s Form 8-K filed on February 21, 2018</u>	#
21.1	Subsidiaries of the Registrant	#
31.1	<u>Certification pursuant to Rules 13a-14(a) and 15d-14(a) of Roger P. Baresel</u>	*
31.2	<u>Certification pursuant to Rules 13a-14(a) and 15d-14(a) of Jason C. Ayers</u>	*
32.1	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Roger P. Baresel</u>	*
32.2	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Jason C. Ayers</u>	*

101.INS	XBRL Instance Document	**
101.SCH	XBRL Taxonomy Extension Schema Document	**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	**

# Incorporated by reference.

\* Filed herewith.

\*\* In accordance with Rule 406T of Regulation S-T, the XBRL (Extensible Business Reporting Language) related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except to the extent expressly set forth by specific reference in such filing.

Table of Contents

---

**SIGNATURES**

Pursuant to the requirements of the Exchange Act, the Registrant caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**REGISTRANT:**

**FULLNET COMMUNICATIONS, INC.**

Date: April 2, 2018 By: /s/ ROGER P. BARESEL

Roger P. Baresel

Chief Executive Officer and Chief Financial and Accounting Officer

Date: April 2, 2018 By: /s/ JASON C. AYERS

Jason C. Ayers

President

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: April 2, 2018 By: /s/ TIMOTHY J. KILKENNY

Timothy J. Kilkenny

Chairman of the Board and Director

Date: April 2, 2018 By: /s/ ROGER P. BARESEL

Roger P. Baresel

Director



Table of Contents

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the shareholders and board of directors of

Fullnet Communications, Inc.

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Fullnet Communications, Inc. and its subsidiaries (collectively, the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders’ deficit, and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

***Going Concern Matter***

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Basis for Opinion***

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

*/s/ MaloneBailey, LLP*

[www.malonebailey.com](http://www.malonebailey.com)

We have served as the Company's auditor since 2013.

Houston, Texas

April 2, 2018

Table of Contents**FullNet Communications, Inc. and Subsidiaries**

## CONSOLIDATED BALANCE SHEETS

	<b>DECEMBER 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$29,399	\$19,383
Accounts receivable, net	8,854	6,614
Prepaid expenses and other current assets	6,110	1,541
Total current assets	44,363	27,538
PROPERTY AND EQUIPMENT, net	39,448	46,710
OTHER ASSETS AND INTANGIBLE ASSETS	21,813	30,864
ASSETS OF DISCONTINUED OPERATIONS, net (NOTE I)	[1] 29,343	32,970
<b>TOTAL ASSETS</b>	<b>\$134,967</b>	<b>\$138,082</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$37,371	\$79,816
Accounts payable, related party	7,982	13,935
Accrued and other liabilities	610,107	548,962
Convertible notes payable, related party - current portion	5,354	5,044
Deferred revenue	397,931	369,248
Total current liabilities	1,058,745	1,017,005
CONVERTIBLE NOTES PAYABLE, related party - less current	27,888	33,242



portion

LIABILITIES OF DISCONTINUED OPERATIONS (NOTE I)	[1] <b>193,812</b>	<b>219,185</b>
Total liabilities	<b>1,280,445</b>	<b>1,269,432</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock — \$0.001 par value; authorized, 10,000,000 shares; Series A convertible; issued and outstanding, 987,102 shares in 2017 and 2016	<b>618,675</b>	<b>591,776</b>
Common stock — \$0.00001 par value; authorized, 40,000,000 shares; issued and outstanding, 11,871,009 and 11,871,009 shares in 2017 and 2016, respectively	<b>119</b>	<b>119</b>
Additional paid-in capital	<b>8,640,769</b>	<b>8,655,009</b>
Accumulated deficit	<b>(10,405,041)</b>	<b>(10,378,254)</b>
Total stockholders' deficit	<b>(1,145,478)</b>	<b>(1,131,350)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$134,967</b>	<b>\$138,082</b>

[1] See Note I.

See accompanying notes to consolidated financial statements.

Table of Contents**FullNet Communications, Inc. and Subsidiaries**

## CONSOLIDATED STATEMENTS OF OPERATIONS

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>REVENUES</b>		
Access service revenues	<b>\$45,977</b>	<b>\$60,134</b>
Colocation and other revenues	<b>1,843,636</b>	<b>1,718,492</b>
Total revenues	<b>1,889,613</b>	<b>1,778,626</b>
 <b>OPERATING COSTS AND EXPENSES</b>		
Cost of access service revenues	<b>10,426</b>	<b>38,277</b>
Cost of colocation and other revenues	<b>159,230</b>	<b>123,329</b>
Selling, general and administrative expenses	<b>1,623,242</b>	<b>1,537,543</b>
Depreciation and amortization	<b>17,783</b>	<b>18,382</b>
Total operating costs and expenses	<b>1,810,681</b>	<b>1,717,531</b>
<b>INCOME FROM OPERATIONS</b>	<b>78,932</b>	<b>61,095</b>
<b>INTEREST EXPENSE</b>	<b>(2,160)</b>	<b>(2,453)</b>
Net income from continuing operations	<b>\$76,772</b>	<b>58,642</b>
Net loss from discontinued operations (Note I)	<b>(103,559)</b>	<b>(64,600)</b>
<b>NET LOSS</b>	<b>\$ (26,787)</b>	<b>\$ (5,958)</b>
Preferred stock dividends	<b>(26,899)</b>	<b>(47,073)</b>
Net loss available to common stockholders	<b>\$ (53,686)</b>	<b>\$ (53,031)</b>
Net income (loss) per share:		
Continuing operations - basic	<b>\$0.01</b>	<b>\$0.01</b>
Continuing operations - diluted	<b>0.01</b>	<b>0.01</b>

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-K

Discontinued operations – basic and diluted	\$ (0.01)	\$ (0.01)	
Net loss – basic and diluted	\$ (0.00)		\$ (0.01)
Weighted average shares outstanding: Basic	11,871,009	9,298,676	
Diluted	14,865,058	10,929,224	

See accompanying notes to consolidated financial statements.

---

31

---

Table of Contents**FullNet Communications, Inc. and Subsidiaries**

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

Years ended December 31, 2017 and 2016

	Common stock		Preferred stock		Additional	Accumulated	Total
	Shares	Amount	Shares	Amount	paid-incapital	deficit	
Balance at							
January 1, 2016	9,118,161	\$91	987,102	\$ 544,703	\$ 8,640,542	\$ (10,372,296)	\$ (1,186,960)
Stock options compensation	-	-	-	-	53,309	-	53,309
Stock options exercise	2,752,848	28			8,231		8,259
Amortization of increasing dividend rate preferred stock discount	-	-		47,073	(47,073)	-	-
Net loss	-	-		-	-	(5,958)	(5,958)
Balance at							
December 31, 2016	11,871,009	119	987,102	591,776	8,655,009	(10,378,254)	(1,131,350)

Stock options compensation	-	-	-	-	12,659	-	12,659
Amortization of increasing dividend rate preferred stock discount	-	-	26,899	(26,899)	-	-	-
Net loss	-	-	-	-	(26,787)	(26,787)	(26,787)
Balance at December 31, 2017	11,871,009	<b>\$119</b>	<b>987,102</b>	\$ 618,675	\$ 8,640,769	\$ (10,405,041)	\$ (1,145,478)

See accompanying notes to consolidated financial statements.

Table of Contents**FullNet Communications, Inc. and Subsidiaries**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	<b>Years ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (26,787)	\$ (5,958)
Adjustments to reconcile net loss to net cash provided by operating activities		
Loss from discontinued operations	103,559	64,600
Depreciation and amortization	17,783	18,382
Stock options compensation	12,659	53,309
Provision for uncollectible accounts receivable	480	700
Net (increase) decrease in		
Accounts receivable	(2,720)	(1,006)
Prepaid expenses and other current assets	(4,569)	(647)
Net increase (decrease) in		
Accounts payable	(42,445)	(36,497)
Accounts payable, related party	(5,953)	4,540
Accrued and other liabilities	61,145	39,237
Deferred revenue	28,683	13,703
Net cash provided by operating activities	141,835	150,363
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid for property and equipment	(1,470)	(6,596)
Cash paid for intangible assets	-	(10,500)
Net cash used in investing activities	(1,470)	(17,096)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on borrowings under notes payable – related party	(5,044)	(4,751)
Net cash used in financing activities	(5,044)	(4,751)
<b>DISCONTINUED OPERATIONS</b>		
Net cash used in operating activities	(92,151)	(98,174)
Net cash used in investing activities	(4,780)	-

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-K

Net cash used in financing activities	(28,374)	(26,833)
Net cash used in discontinued operations	(125,305)	(125,007)
<b>NET INCREASE IN CASH – CONTINUING OPERATIONS</b>	<b>10,016</b>	<b>3,509</b>
Cash at beginning of period	19,383	15,874
Cash at end of period	\$29,399	\$19,383

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for income tax	\$–	\$–
Cash paid for interest – continuing operations	\$2,161	\$2,453
Cash paid for interest – discontinued operations – See Note I	\$11,185	\$12,774

NON-CASH INVESTING AND FINANCING ACTIVITIES

Intangible asset purchased on account	\$–	\$16,000
Amortization of increasing dividend rate preferred stock discount	\$26,899	\$47,073
Exercise of options by reducing deferred compensation payable	\$–	\$8,259

See accompanying notes to consolidated financial statements.

Table of Contents

---

**FullNet Communications, Inc. and Subsidiaries**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A — SUMMARY OF ACCOUNTING POLICIES AND NATURE OF OPERATIONS

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

**Nature of Operations**

FullNet Communications, Inc. and Subsidiaries (the Company) is an integrated communications provider offering Internet access, web hosting, equipment colocation, customized live help desk outsourcing services, group text and voice message delivery services, traditional telephone services as well as advanced voice and data solutions to individuals, businesses, organizations, educational institutions and governmental agencies. Through its subsidiaries, FullNet, Inc., FullTel, Inc., FullWeb, Inc. and CallMultiplier, Inc., the Company provides high quality, reliable and scalable Internet based solutions designed to meet customer needs. Services offered include:

Dial-up and direct high-speed connectivity to the Internet through the FullNet brand name;

Backbone services to private label Internet services providers (ISPs) and businesses;

Carrier-neutral telecommunications premise colocation;

Web page hosting;

Equipment colocation;

Customized live help desk outsourcing services;

Group text and voice message delivery services;

Advanced voice and data solutions; and



Traditional telephone services.

### **Consolidation**

The consolidated financial statements include the accounts of FullNet Communications, Inc. and its wholly owned subsidiaries FullNet, Inc., FullTel, Inc., FullWeb, Inc., and CallMultiplier, Inc.. All material inter-company accounts and transactions have been eliminated.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

### **Cash Equivalents**

Cash equivalents are represented by operating accounts or money market accounts maintained with insured financial institutions which consist of highly liquid investments that mature in three months or less from date of purchase.

### **Accounts Receivable**

The Company operates and grants credit, on an uncollateralized basis. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's customer base and their dispersion across different industries as well as the Company's emphasis on obtaining deposits and/or payment in advance for services from the majority of its customers. During the year ended December 31, 2017 the Company had two customers that each comprised approximately 8% of total revenues. During the year ended December 31, 2016 the Company had two customers that comprised approximately 8% and 7% of total revenues, respectively. Due to consolidations resulting from a merger, the customer that comprised approximately 7% of total revenues in 2016, ended their relationship with the Company during the first quarter of 2017.

Table of Contents

---

Accounts receivable, other than certain large customer accounts which are evaluated individually, are considered past due for purposes of determining the allowance for doubtful accounts based on past experience of collectability as follows:

1 – 29 days	1.5 %
30 – 59 days	30 %
60 – 89 days	50 %
> 90 days	100 %

In addition, if the Company becomes aware of a specific customer's inability to meet its financial obligations, a specific reserve is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Total bad debt expense and direct write-off for the years ended December 31, 2017 and 2016 was \$480 and \$700, respectively.

Accounts receivable consist of the following at December 31:

**Schedule of Accounts Receivable**

	<b>2017</b>	<b>2016</b>
Accounts receivable	<b>\$231,866</b>	<b>\$217,678</b>
Less allowance for doubtful accounts	<b>(223,012)</b>	<b>(211,064)</b>
	<b>\$8,854</b>	<b>\$6,614</b>

**Property and Equipment**

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the related assets as follows:

Software	3 years
----------	---------

Computers and equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of estimated life of improvement or the lease term

Property and equipment consist of the following at December 31:

	<b>2017</b>	<b>2016</b>
Computers and equipment	<b>\$1,488,246</b>	<b>\$1,488,246</b>
Leasehold improvements	<b>1,034,842</b>	<b>1,033,372</b>
Software	<b>58,041</b>	<b>58,041</b>
Furniture and fixtures	<b>39,284</b>	<b>39,284</b>
	<b>2,620,413</b>	<b>2,618,943</b>
Less accumulated depreciation	<b>(2,580,965)</b>	<b>(2,572,233)</b>
	<b>\$39,448</b>	<b>\$46,710</b>

Depreciation expense from continuing operations for the years ended December 31, 2017 and 2016 was \$8,732 and \$15,682, respectively. Depreciation expense from discontinued operations for the years ended December 31, 2017 and 2016 was \$10,353 and \$10,148, respectively (see Note I).

### **Long-Lived Assets**

All long-lived assets held and used by the Company, including intangible assets, are reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In accordance with ASC 360-10-35 "Impairment or Disposal of Long-lived Assets", the Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable the Company determines whether impairment has occurred through the use of an undiscounted cash flows analysis of the asset. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the estimated value of the asset. No intangible assets were purchased in 2017. During the year ended December 31, 2016, \$10,500 was paid for an intangible asset and \$16,000 was purchased on account. The Company incurred no impairment expense in 2017 or 2016. Amortization expense for the years ended December 31, 2017 and 2016 was \$9,051 and \$2,700, respectively.

**Revenue Recognition**

---

35

---

Table of Contents

---

Revenues are reported on a monthly basis as services are provided, price is fixed and determinable, persuasive evidence of an arrangement exists and collectability of the resulting receivable is reasonably assured. Revenue that is received in advance of the services provided is deferred until the services are provided by the Company. Revenue related to set up charges is also deferred and amortized over the life of the contract. Revenues are presented net of taxes and fees billed to customers and remitted to governmental authorities.

### **Advertising**

The Company expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place. Advertising expense for the years ended December 31, 2017 and 2016 was \$247,947 and \$159,310, respectively.

### **Income Taxes**

The Company accounts for income taxes utilizing the asset and liability method. Deferred income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities, using enacted statutory tax rates in effect for the year in which the differences are expected to reverse. The effects of future changes in tax laws or rates are not included in the measurement. The Company recognizes the amount of taxes payable or refundable for the current year and recognizes deferred tax liabilities and assets for the expected future tax consequences of events and transactions that have been recognized in the Company's financial statements or tax returns. The Company currently has substantial net operating loss carry forwards. The Company has recorded a 100% valuation allowance against net deferred tax assets due to uncertainty of their ultimate realization. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense and does not believe it has any material unrealized tax benefits at December 31, 2017. The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions.

### **Income (Loss) Per Share**

Income (loss) per share – basic is calculated by dividing net income (loss) by the weighted average number of shares of stock outstanding during the year, including shares issuable without additional consideration. Income per share – assuming dilution is calculated by dividing net income by the weighted average number of shares outstanding during the year adjusted for the effect of dilutive potential shares calculated using the treasury stock method.

Table of Contents

Reconciliation of basic and diluted income (loss) per share (“EPS”) are as follows:

	December 31, 2017	December 31, 2016
<b>Net income (loss):</b>		
Income from continuing operations	\$76,772	\$58,642
Loss from discontinued operations – See Note I	(103,559)	(64,600)
Net loss	(26,787)	(5,958)
Preferred stock dividends	(26,899)	(47,073)
Net loss available to common shareholders	(53,686)	(53,031)
<b>Basic income (loss) per share:</b>		
Weighted-average common shares outstanding used in income (loss) per share computations	11,871,009	9,298,676
<b>Basic income (loss) per share:</b>		
Continuing operations	0.01	0.01
Discontinued operations – See Note I	(0.01)	(0.01)
Basic income (loss) per share	(0.00)	(0.01)
<b>Diluted income (loss) per share:</b>		
Shares used in diluted income (loss) per share computations	14,865,058	10,929,224
<b>Diluted income (loss) per share</b>		
Continuing operations	0.01	0.01
Discontinued operations – See Note I	(0.01)	(0.01)
Diluted income (loss) per share	(0.00)	(0.01)
<b>Computation of shares used in income (loss) per share:</b>		
Weighted average shares and share equivalents outstanding	11,871,009	9,298,676
Effect of preferred stock	987,102	987,102
Effect of dilutive stock options	1,775,872	423,384
Effect of dilutive warrants	231,075	220,062
Weighted average shares and share equivalents outstanding – assuming dilution	14,865,058	10,929,224

**Schedule of Anti-dilutive Securities Excluded :**

December 31, 2017    December 31, 2016

Stock options	3,000	33,000
Convertible promissory notes	183,252	214,835
Total anti-dilutive securities excluded	186,252	247,835

Anti-dilutive securities consist of stock options and convertible promissory notes whose exercise price or conversion price, respectively, was greater than the average market price of the common stock.

### **Stock-Based Compensation**

The Company does not have a written employee stock option plan. The Company has historically granted only employee stock options with an exercise price equal to the market price of the Company's stock at the date of grant, a contractual term of ten years, and a vesting period of three years ratably on the first, second and third anniversaries of the date of grant (with limited exceptions).

All employee stock options granted during 2017 and 2016 were nonqualified stock options. Stock-based compensation is measured at the grant date, based on the calculated fair value of the option, and is recognized as an expense on a straight-line basis over the requisite employee service period (generally the vesting period of the grant).

The fair values of the granted options are estimated at the date of grant using the Black-Scholes option pricing model. See Note F – Common Stock and Stock-Based Compensation for further information on stock-based compensation.



Table of Contents

---

**Beneficial Conversion Features**

The intrinsic value of a beneficial conversion feature inherent to a convertible note payable, which is not bifurcated and accounted for separately from the convertible note payable and may not be settled in cash upon conversion, is treated as a discount to the convertible note payable. This discount is amortized over the period from the date of issuance to the date the note is due using the effective interest method. If the note payable is retired prior to the end of its contractual term, the unamortized discount is expensed in the period of retirement to interest expense. In general, the beneficial conversion feature is measured by comparing the effective conversion price, after considering the relative fair value of detachable instruments included in the financing transaction, if any, to the fair value of the common shares at the commitment date to be received upon conversion.

**Related Parties**

A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

The Company has two secured convertible promissory notes from a shareholder. The note balances at December 31, 2017 were \$116,592 and \$33,242. The note balances at December 31, 2016 were \$144,966 and \$38,286 (see Note C – Convertible Notes Payable Related Party). Additionally, the Company had related party accounts payable to officers and directors for unpaid expense reimbursements in the amounts of \$7,982 and \$13,935 for years ending December 31, 2017 and 2016, respectively.

**Fair Value Measurements**

The Company measures its financial assets and liabilities in accordance with the requirements of FASB ASC 820, “Fair Value Measurements and Disclosures”. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

**Level 1** – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

**Level 2** – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date and includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.

**Level 3** – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09, along with the related updates (“ASC 606”), will replace all current GAAP guidance on this topic and eliminate all industry-specific guidance. ASC 606 provides a unified model to determine how revenue is recognized.

This new standard provides a five-step framework whereby revenue is recognized when promised goods or services are transferred to a customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity’s nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Table of Contents

---

Two adoption methods are permitted: retrospectively to all prior reporting periods presented, with certain practical expedients permitted; or retrospectively with the cumulative effect of initially adopting the ASU recognized at the date of initial application. We adopted ASC 606 on its effective date, January 1, 2018, using the modified retrospective approach and do not expect the adoption of ASC 606 to have a material effect on our consolidated financial statements or disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which will amend current lease accounting to require lessees to recognize (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the least term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model. This standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently reviewing the provisions of this ASU to determine if there will be any impact on our results of operations cash flows or financial condition.

NOTE B — GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has sustained substantial net losses. At December 31, 2017 and 2016, current liabilities exceeded current assets by \$1,014,385 and \$989,467, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. Certain reclassifications have been made to prior period balances to conform with the presentation for the current period. These reclassifications did not impact the net income.

In view of the matters described in the preceding paragraph, the ability of the Company to continue as a going concern is dependent upon continued operations of the Company that in turn is dependent upon the Company's ability to meet its financing requirements on a continuing basis, to maintain present financing, to achieve the objectives of its business plan and to succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

The Company's business plan includes, among other things, expansion through mergers and acquisitions and the development of its colocation and advanced voice and data solutions. Execution of the Company's business plan will require significant capital to fund capital expenditures, working capital needs and debt service. Current cash balances will not be sufficient to fund the Company's current business plan beyond the next few months. As a consequence, the Company is currently focusing on revenue enhancement and cost cutting opportunities as well as working to sell non-core assets and to extend vendor payment terms. The Company continues to seek additional convertible debt or

equity financing as well as the placement of a credit facility to fund the Company's liquidity. There can be no assurance that the Company will be able to obtain additional capital on satisfactory terms, or at all, or on terms that will not dilute the shareholders' interests.

NOTE C — CONVERTIBLE NOTES PAYABLE RELATED PARTY

Notes payable consist of the following:

---

39

---

Table of Contents

Schedule of Notes Payable Related Party	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Secured convertible promissory note from a shareholder; interest rate of 6% through December 31, 2014, 7% through December 31, 2015, 8% through December 31, 2016, 8.5% through December 31, 2017, and 9% through May 31, 2018, with fixed monthly payments of \$3,301 through the Maturity Date, at which time the remaining balance of principal and all accrued interest shall be due and payable; matures May 31, 2018; secured by all tangible and intangible assets of the Company (1)	<b>\$116,592</b>	<b>\$144,966</b>
Secured convertible promissory note from a shareholder; interest at 6%, requires monthly installments of interest only through May 31, 2014, then requires monthly installments of \$600 including principal and interest; matures May 31, 2023; secured by certain equipment of the Company (2)	<b>33,242</b>	<b>38,286</b>
	<b>149,834</b>	<b>183,252</b>
Less current portion – continuing operations	<b>5,354</b>	<b>5,044</b>
Less current portion – discontinued operations	<b>116,592</b>	<b>28,374</b>
Convertible notes payable, related party – continuing operations, less current portion	<b>\$27,888</b>	<b>\$33,242</b>
Convertible notes payable, related party – discontinued operations, less current portion	<b>\$–</b>	<b>\$116,592</b>

(1) The note holder has the right to convert the note, in its entirety or in part, into common stock of the Company at the rate of \$1.00 per share. During the years 2017 and 2016, the Company made principal payments totaling \$28,374 and \$26,833, respectively. The secured convertible promissory note had a balance of \$116,592 at December 31, 2017 which is all short-term.

The Company analyzed the conversion option for derivative accounting and beneficial conversion features consideration under ASC 815-15 “Derivatives and Hedging” and ASC 470-20 “Convertible Securities with Beneficial Conversion Features” and noted none.

(2) The note holder has the right to convert the note, in its entirety or in part, into common stock of the Company at the rate of \$1.00 per share. During the years 2017 and 2016, the Company made principal payments of \$5,044 and \$4,751, respectively. The secured convertible promissory note had a balance of \$33,242 at December 31, 2017 of which \$5,354 is short-term and \$27,888 is long-term.

This secured convertible promissory note is secured by certain equipment of the Company. Upon payment of the balance due on this secured convertible promissory note title of the equipment will be transferred to the Company free and clear of all liens and encumbrances.

The Company analyzed the conversion option for derivative accounting and beneficial conversion features consideration under ASC 815-15 "Derivatives and Hedging" and ASC 470-20 "Convertible Securities with Beneficial Conversion Features" and noted none.

Aggregate future maturities of notes payable at December 31, 2017 are as follows:

2018	<b>\$121,123</b>
2019	<b>5,685</b>
2020	<b>6,036</b>
2021	<b>6,408</b>
2022	<b>6,803</b>
Thereafter	<b>2,956</b>
	<b>\$149,011</b>

---

Table of Contents

---

## NOTE D – COMMITMENTS AND CONTINGENCIES

## COMMITMENTS

## Operating Leases

The Company leases its executive office space under a non-cancelable operating lease, at an effective annual rental rate of \$16.50 per square foot, which will expire December 31, 2019. Future minimum lease payments required at December 31, 2017 under non-cancelable operating leases that have initial lease terms exceeding one year are presented in the following table:

Year ending December 31	
2018	<b>221,782</b>
2019	<b>221,782</b>
	<b>\$443,564</b>

Rental expense for all operating leases for the years ended December 31, 2017 and 2016 was approximately \$297,364 and \$313,675, respectively.

The Company's long-term non-cancelable operating lease includes scheduled base rental increases over the term of the lease. The total amount of the base rental payments is charged to expense on the straight-line method over the term of the lease.

The Company had recorded a deferred credit of \$13,046 at December 31, 2017, which is reflected in Accrued and Other Liabilities on the Balance Sheet to reflect the net excess of rental expense over cash payments since inception of the lease. In addition to the base rent payments the Company pays a monthly allocation of the building's operating expenses.

## CONTINGENCIES

As a provider of telecommunications, the Company is affected by regulatory proceedings in the ordinary course of its business at the state and federal levels. These include proceedings before both the Federal Communications Commission and the Oklahoma Corporation Commission (“OCC”). In addition, in its operations the Company relies on obtaining many of its underlying telecommunications services and/or facilities from incumbent local exchange carriers or other carriers pursuant to interconnection or other agreements or arrangements. In January 2007, the Company concluded a regulatory proceeding pursuant to the Federal Telecommunications Act of 1996 before the OCC relating to the terms of its interconnection agreement with Southwestern Bell Telephone, L.P. d/b/a AT&T, which succeeds a prior interconnection agreement. The OCC approved this agreement in May 2007. This agreement may be affected by regulatory proceedings at the federal and state levels, with possible adverse impacts on the Company. The Company is unable to accurately predict the outcomes of such regulatory proceedings at this time, but an unfavorable outcome could have a material adverse effect on the Company’s business, financial condition or results of operations.

NOTE E — INCOME TAXES

The Company uses the liability method, where deferred tax assets and liabilities are determined based on the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes.

The Company has historically incurred losses from operations and therefore had no tax liability. The net deferred asset generated by the loss carry-forward has been fully reserved. The cumulative net operating loss carry-forward is approximately \$2,999,590 and \$2,989,210 for 2017 and 2016, respectively and will begin expiring in 2023.

Deferred tax assets consist of the tax effect of NOL carry-forwards. The Company has provided a full valuation allowance on the deferred tax assets because of the uncertainty regarding its realizability. Deferred tax assets consist of the following:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Net operating loss carry-forwards	<b>\$ 629, 914</b>	<b>\$ 990, 613</b>
Valuation allowance	<b>( 629, 914)</b>	<b>( 990, 613)</b>
	<b>\$-</b>	<b>\$-</b>

The Tax Cuts and Jobs Act ("TCJA") was signed by the President of the United States and enacted into law on December 22, 2017. The TCJA significantly changes U.S. tax law by reducing the U.S. corporate income tax rate to 21.0% from 35.0%, adopting a territorial tax regime, creating new taxes on certain foreign sourced earnings and imposing a one-time transition tax on the undistributed earnings of certain non-U.S. subsidiaries.





Table of Contents

---

The net change during the year in the total valuation allowance was a decrease of \$360,699 primarily related to the revaluation of deferred tax assets and liabilities at the reduced corporate rate of 21.0%. The reduction of net deferred tax assets due to the rate revaluation also decreased the amount of the valuation allowance by the same amount resulting in no overall net impact to the Company's income tax provision.

NOTE F — COMMON STOCK AND STOCK-BASED COMPENSATION

COMMON STOCK

No employee stock options were exercised during the year 2017. In December 2016, employee stock options for 2,752,848 shares of the Company's common stock were exercised by reducing deferred compensation payable by \$8,259.

STOCK-BASED COMPENSATION

The Company does not have a written employee stock option plan. The Company has historically granted only employee stock options with an exercise price equal to the market price of the Company's stock at the date of grant, a contractual term of ten years, and a vesting period of three years ratably on the first, second and third anniversaries of the date of grant (with limited exceptions).

All employee stock options granted during 2017 and 2016 were nonqualified stock options. Stock-based compensation is measured at the grant date, based on the calculated fair value of the option, and is recognized as an expense on a straight-line basis over the requisite employee service period (generally the vesting period of the grant).

The following table summarizes the Company's employee stock option activity for the years ended December 31, 2017 and 2016:

Schedule of Employee Stock Option Activity

Options	Weighted average	Weighted average	Aggregate
---------	---------------------	------------------	-----------

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-K

		exercise price	remaining contractual life (yrs)	intrinsic value
Options outstanding, December 31, 2015	3,244,882	\$0.028	7.40	
Options exercisable, December 31, 2015	2,477,215	\$0.026	7.26	\$9,089
Options granted during the year	48,000	0.030		
Options exercised during the year	(2,752,848)	0.003		
Options forfeited during the year	(21,000)	0.031		
Options expired during the year	(4,100)	0.026		
Options outstanding, December 31, 2016	514,934	\$0.005	6.26	
Options exercisable, December 31, 2016	425,934	\$0.003	5.78	\$9,350
Options granted during the year	1,626,000	0.007		
Options forfeited during the year	(23,000)	0.007		
Options expired during the year	(7,100)	0.003		
Options outstanding, December 31, 2017	2,110,834	\$0.006	8.18	
Options exercisable, December 31, 2017	626,834	\$0.003	6.03	\$22,902

The following table summarizes the Company's non-vested employee stock option activity for years ended December 31, 2017 and 2016:

Table of Contents

	<b>2017</b>	<b>2016</b>
Non-vested options outstanding, beginning of year	<b>89,000</b>	<b>727,666</b>
Options granted during the year	<b>1,626,000</b>	<b>48,000</b>
Options vested during the year	<b>(208,000)</b>	<b>(665,666)</b>
Options forfeited during the year	<b>(23,000)</b>	<b>(21,000)</b>
Non-vested options outstanding, end of year	<b>1,484,000</b>	<b>89,000</b>

The fair values of the granted options are estimated at the date of grant using the Black-Scholes option pricing model. In addition to the exercise and grant date prices of the options, certain weighted average assumptions that were used to estimate the fair value of stock option grants in the respective periods are listed in the table below:

	<b>2017</b>	<b>2016</b>
Risk free interest rate	1.80%-2.23 %	1.25%-1.29%
Expected lives (in years)	5	5
Expected volatility	173%-267%	200%-204%
Dividend yield	0%	0%

The following table shows total stock options compensation expense included in the Consolidated Statements of Operations and the effect on basic and diluted earnings per share for the years ended December 31:

	<b>2017</b>	<b>2016</b>
Stock options compensation	<b>\$12,659</b>	<b>\$53,309</b>
Impact on income per share:		
Basic and diluted	<b>\$-</b>	<b>\$-</b>

During the year 2017, 1,626,000 employee stock options were granted, of which 1,476,000 will vest one-third on each annual anniversary of the grant date resulting in \$5,167 of stock options compensation. Stock options compensation of \$1,496 recorded in the year 2017 was related to options that were granted in prior years. Stock options compensation of \$5,996 recorded in the year 2017 was related to options on which the vesting requirement was waived for a retiring

employee. The Company performed an analysis on the waived vesting under ASC 718-20 “stock compensation” and recorded this incremental expense. During the year 2017, 20,000 employee stock options were granted and forfeited in the same year. Additionally, 3,000 employee stock options were forfeited that were related to options granted in prior years. At December 31, 2017 there was \$13,512 of unrecognized stock options compensation that is expected to be recognized as an expense over a weighted-average period of 4.9 years.

Also during the year 2017, no employee stock options were exercised, and 7,100 employee stock options expired.

During the year 2016, 33,000 employee stock options were granted which will vest one-third on each annual anniversary of the grant date resulting in \$157 of stock options compensation. Stock options compensation of \$2,067 recorded in the year 2016 was related to options that were granted in prior years. During the year 2016, 15,000 employee stock options were granted and forfeited in the same year. Additionally, 6,000 employee stock options were forfeited that related to options granted in prior years. At December 31, 2016 there was \$2,178 of unrecognized stock options compensation that is expected to be recognized as an expense over a weighted-average period of 3.4 years.

During the year 2016, the exercise price of 2,968,782 employee stock options with exercise prices ranging from \$.01 to \$.065 was reduced to \$.003. The Company performed an analysis under ASC 718-20 “stock compensation” and recorded an incremental expense of \$51,085.

Also during the year 2016, 2,752,848 and 4,100 of employee stock options were exercised and expired, respectively.

***Common Stock Purchase Warrants*** – A summary of common stock purchase warrant activity for the years ended December 31, 2017 and 2016 follows:

Outstanding common stock purchase warrants issued to non-employees outstanding at December 31, 2017 are as follows:

<b>Number</b>		
<b>of shares</b>	<b>Exercise price</b>	<b>Expiration year</b>
250,000	\$ 0.003	2023

The following table summarizes the Company's common stock purchase warrant activity for the years ended December 31:

---

43

---

Table of Contents

		<b>Weighted Average</b>		<b>Weighted Average</b>
	<b>2017</b>	<b>Exercise Price</b>	<b>2016</b>	<b>Exercise Price</b>
Warrants outstanding, beginning of year	250,000	\$ 0.003	250,000	\$ 0.003
Warrants expired during the year	-	-	-	-
Warrants outstanding, end of year	250,000	\$ 0.003	250,000	\$ 0.003

The 250,000 warrants outstanding at December 31, 2017 were issued as equity compensation for consulting services.

No warrants were granted during the years ended December 31, 2017 and 2016.

#### NOTE G — SERIES A CONVERTIBLE PREFERRED STOCK

On March 9, 2018, the Company's board of directors made the determination that it was in the best interest of the Company and its stockholders to conserve the Company's working capital at this time and not make the annual dividend payment for the year ending December 31, 2016, on its Series A convertible preferred stock. The Company has never made an annual dividend payment on its Series A convertible preferred stock.

The holders of shares of the Series A convertible preferred stock are entitled to receive, when and as declared by the Company's board of directors, dividends in cash in the amount of one cent per share per annum through December 31, 2016, five cents per share per annum through December 31, 2017, six cents per share per annum through December 31, 2018, seven cents per share per annum through December 31, 2019, eight cents per share per annum through December 31, 2020, nine cents per share per annum through December 31, 2021, ten cents per share per annum through December 31, 2022, eleven cents per share per annum through December 31, 2023, and twelve cents per share per annum thereafter, payable within 90 days following the 31st day of December each year on such date as determined by the board of directors. The dividends are cumulative and beginning January 1, 2017, the board of directors of the Company may elect to make any required dividend payment with the Company's unregistered common stock in lieu of cash.

Due to the unstated dividend cost arising from the gradually increasing dividends on the Series A convertible preferred stock, the Company calculated a discount on the Series A convertible preferred stock at the time of issuance as the present value of the difference between (i) the dividends that are payable in the periods preceding commencement of the perpetual twelve cents per share per annum dividend; and (ii) the perpetual twelve cents per

share per annum dividend for a corresponding number of periods; discounted at a market rate of 12% totaling \$309,337. The Series A convertible preferred stock was valued at the market price on the respective date of issuance for a total value of \$672,472. The discount will be amortized over the periods preceding commencement of the perpetual dividend, by charging imputed dividend cost against retained earnings and increasing the carrying amount of the Series A convertible preferred stock by a corresponding amount. The discount amortization for the years ended December 31, 2017 and 2016 was \$26,899 and \$47,073, respectively. The discount amortization per share for the years 2017 and 2016 was \$0.03 and \$0.05, respectively. As of December 31, 2017, the aggregate outstanding accumulated arrearages of cumulative dividend was \$88,839 or if issued in common shares, 2,220,980 shares.

The Series A convertible preferred stock was originally issued as non-voting and provided that in the event that the Company failed, for any reason, to make a dividend payment as set forth above, then each share of the Series A convertible preferred stock shall thereafter be entitled to two votes upon any matter that the holders of the common stock of the Company are entitled to vote upon. On March 31, 2014, the Company's board of directors made the determination that it was in the best interest of the Company and its stockholders to conserve the Company's working capital at that time and not make the annual dividend payment for the year ending December 31, 2013. As a result each share of the Series A convertible preferred stock became thereafter entitled to two votes upon any matter that the holders of the common stock of the Company are entitled to vote upon.

The Series A convertible preferred stock may be redeemed at the option of the Company's board of directors for one dollar per share plus all accrued and unpaid dividends thereon at the date of redemption. In addition, at any time after a change of control of the Company, the holders of the Series A convertible preferred stock shall have the right, at the election of a majority of the holders, to require the Company to redeem all of the Series A convertible preferred stock for one dollar per share plus all accrued and unpaid dividends thereon at the date of redemption.

The Series A convertible preferred stock has a liquidation preference of one dollar per share plus all accrued and unpaid dividends thereon in the event of liquidation, dissolution or winding up of the Company.

The Company analyzed the embedded conversion option for derivative accounting consideration under ASC 815-15 "Derivatives and Hedging" and determined that the conversion option should be classified as equity.

The Company analyzed the conversion option for beneficial conversion features consideration under ASC 470-20 "Convertible Securities with Beneficial Conversion Features" and noted none.



Table of Contents**NOTE H – PROPERTY AND EQUIPMENT**

During the years ended December 31, 2017 and 2016, \$1,470 and \$6,596 was paid for property and equipment, respectively. Depreciation expense from continuing operations for the years ended December 31, 2017 and 2016 was \$8,732 and \$15,682, respectively.

**NOTE I – DISCONTINUED OPERATIONS**

In response to the changes in the telecommunications market and deterioration in the Company's ability to effectively compete, the Company made the decision to exit the CLEC business. On October 27, 2017, the Company's board of directors adopted a plan to exit the CLEC business as soon as possible through the sale of its wholly owned CLEC subsidiary and/or substantially all of its CLEC subsidiary's operating assets. The Company was in negotiations with a potential buyer at December 31, 2017, which buyer subsequently purchased substantially all of its CLEC subsidiary's operating assets pursuant to an asset purchase agreement which was executed and closed on February 1, 2018, (the "Sale").

The Company determined that the Sale represented a strategic shift that will have a major effect on the Company's operations and financial results since it represented a complete exit from the CLEC business and, therefore, classified its CLEC subsidiary as held for sale at December 31, 2017.

**Assets and Liabilities of Discontinued Operations**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Carrying amounts of assets included in discontinued operations</b>		
Cash	\$1,801	\$1,006
Prepaid expenses and other current assets	2,671	1,520
Property and equipment, net	24,871	30,444
<b>Total Assets of Discontinued Operations</b>	<b>\$29,343</b>	<b>\$32,970</b>
<b>Carrying amounts of liabilities included in discontinued operations</b>		
Accounts payable	\$57,342	\$55,538
Accrued and other liabilities	19,878	18,681
Convertible notes payable, related party – current portion	116,592	28,374

Convertible notes payable, related party – less current portion	–	116,592
<b>Total Liabilities of Discontinued Operations</b>	<b>\$193,812</b>	<b>\$219,185</b>

### Operating Results of Discontinued Operations

	December 31, 2017	December 31, 2016
<b>Revenues included in discontinued operations</b>		
Total colocation and other revenues	\$155,614	\$168,825
<b>Operating costs and expenses included in discontinued operations</b>		
Cost of services	\$221,653	\$190,557
Selling, general and administrative expenses	15,981	19,946
Depreciation and amortization	10,353	10,148
Interest expense	11,186	12,774
<b>Net Loss from Discontinued Operations</b>	<b>\$ (103,559)</b>	<b>\$ (64,600)</b>
<b>Net Loss per share from discontinued operations basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>

### Cash Flows from Discontinued Operations

	December 31, 2017	December 31, 2016
Net cash used in operating activities	(92,151)	(98,174)
Net cash used in investing activities	(4,780)	-
Net cash used in financing activities	(28,374)	(26,833)
<b>Net cash used in discontinued operations</b>	<b>(125,305)</b>	<b>(125,007)</b>

Table of Contents

---

NOTE J – SUBSEQUENT EVENTS

The Company sold substantially all of its CLEC subsidiary's operating assets pursuant to an asset purchase agreement which was executed and closed on February 1, 2018, for \$246,500. The Company used \$113,342 of the proceeds to repay in full the secured convertible promissory note from a shareholder secured by all of the tangible and intangible assets of the Company.

In February 2018, the Company granted 2,010,000 employee stock options to four employees with an exercise price of \$.04. 1,750,000 of the stock options are exercisable immediately and shall not be subject to a vesting period. The remaining 260,000 stock options will vest one-fifth each year starting from February 14, 2019 and shall expire on February 14, 2028.

---