FULLNET COMMUNICATIONS INC
Form 10-Q
November 14, 2017
0001092570 --12-31 fulo Yes No No false 2017 Q3 0001092570 2017-01-01 2017-09-30 0001092570 2017-09-30 0001092570 2017-11-14 0001092570 2017-11-14 2017-11-14 0001092570 2016-12-31 0001092570 2017-07-01 2017-09-30 0001092570 2016-07-01 2016-09-30 0001092570 2016-01-01 2016-09-30 0001092570 us-gaap:CommonStockMember 2017-01-01 2017-09-30 0001092570 us-gaap:PreferredStockMember 2017-01-01 2017-09-30 0001092570 us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-09-30 0001092570 us-gaap:RetainedEarningsMember 2017-01-01 2017-09-30 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 2017-09-30 0001092570 us-gaap:PreferredStockMember 2017-09-30 0001092570 us-gaap:AdditionalPaidInCapitalMember 2017-09-30 0001092570 us-gaap:RetainedEarningsMember 2017-09-30 0001092570 2015-12-31 0001092570 2016-09-30 0001092570 fil:ConvertibleNotePayable1Member 2017-01-01 2017-09-30 0001092570 fil:ConvertibleNotePayable1Member 2016-12-31 0001092570 fil:ConvertibleNotePayable2Member 2017-01-01 2017-09-30 0001092570 fil:ConvertibleNotePayable2Member 2016-12-31 0001092570 fil:ConvertibleNotePayable2Member 2017-09-30 0001092570 us-gaap:MinimumMember 2017-01-01 2017-09-30 0001092570 us-gaap:MaximumMember 2017-01-01 2017-09-30 xbrli:pure iso4217:USD xbrli:shares iso4217:USD xbrli:shares

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

o **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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

201 Robert S. Kerr Avenue, Suite 210

Oklahoma City, Oklahoma 73102

(Address of principal executive offices)

(405) 236-8200

(Registrant's telephone number)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every 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 þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of November 14, 2017, 11,871,009 shares of the registrant's common stock, $0.00001 par value, were outstanding.

FORM 10-Q

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FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2017 (Unaudited)	DECEMBER 31, 2016
ASSETS		
CURRENT ASSETS		
Cash	$23,958	$20,389
Accounts receivable, net	7,672	6,614
Prepaid expenses and other current assets	19,966	3,061
Total current assets	51,596	30,064
PROPERTY AND EQUIPMENT, net	64,280	77,154
OTHER ASSETS AND INTANGIBLE ASSETS	24,021	30,864
TOTAL ASSETS	$139,897	$138,082
LIABILITIES AND STOCKHOLDERS’ DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$86,342	$135,354
Accounts payable, related party	3,461	13,935
Accrued and other liabilities	632,382	567,643
Convertible notes payable, related party - current portion	131,115	46,811
Deferred revenue	405,727	369,248
Total current liabilities	1,259,027	1,132,991
CONVERTIBLE NOTES PAYABLE, related party - long-term portion	27,328	136,441
Total liabilities	1,286,355	1,269,432
STOCKHOLDERS’ DEFICIT		

Preferred stock — $0.001 par value; authorized, 10,000,000 shares; Series A convertible; issued and outstanding, 987,102 shares in 2017 and 2016	611,950	591,776
Common stock — $0.00001 par value; authorized, 40,000,000 shares; issued and outstanding, 11,871,009 shares in 2017 and 2016	119	119
Additional paid-in capital	8,645,840	8,655,009
Accumulated deficit	(10,404,367)	(10,378,254)
Total stockholders' deficit	(1,146,458)	(1,131,350)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$139,897	$138,082

See accompanying notes to unaudited condensed consolidated financial statements.

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FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
REVENUES				
Access service revenues	$9,759	$14,350	$32,892	$46,151
Co-location and other revenues	492,217	464,248	1,471,535	1,396,626
Total revenues	501,976	478,598	1,504,427	1,442,777
OPERATING COSTS AND EXPENSES				
Cost of access service revenues	11,813	19,353	35,709	58,935
Cost of co-location and other revenues	83,824	78,872	249,312	240,171
Selling, general and administrative expenses	412,040	374,209	1,214,067	1,149,139
Depreciation and amortization	6,693	6,701	21,188	20,740
Total operating costs and expenses	514,370	479,135	1,520,276	1,468,985
LOSS FROM OPERATIONS	(12,394)	(537)	(15,849)	(26,208)
INTEREST EXPENSE	(3,230)	(3,732)	(10,264)	(11,649)
NET LOSS	$(15,624)	$(4,269)	$(26,113)	$(37,857)
Preferred stock dividends	(6,725)	(11,768)	(20,174)	(35,304)
Net loss available to common stockholders	$(22,349)	$(16,037)	$(46,287)	$(73,161)
Net loss per common share				
Basic and diluted	$(0.00)	$(0.00)	$(0.00)	$(0.01)

Weighted average common shares outstanding				
Basic and diluted	11,871,009	9,118,161	11,871,009	9,118,161

See accompanying notes to unaudited condensed consolidated financial statements.

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FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT (UNAUDITED)

Nine Months Ended September 30, 2017

	Common stock		Preferred stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	paid-in capital	deficit	Total
Balance at January 1, 2017	11,871,009	$119	987,102	$591,776	$8,655,009	$(10,378,254)	$(1,131,
Stock options compensation	-	–	–	–	11,005	–	11,005
Amortization of increasing dividend rate preferred stock discount		–		20,174	(20,174)	–	–
Net loss		–		–	–	(26,113)	(26,113)
Balance at September 30, 2017 – (unaudited)	11,871,009	$119	987,102	$611,950	$8,645,840	$(10,404,367)	$(1,146,

See accompanying notes to unaudited condensed consolidated financial statements.

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FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended	
	September 30, 2017	**September 30, 2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(26,113)	$(37,857)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	21,188	20,740
Stock options compensation	11,005	8,679
Provision for uncollectible accounts receivable	262	2,832
Net (increase) decrease in		
Accounts receivable	(1,320)	(5,059)
Prepaid expenses and other current assets	(16,905)	(12,458)
Net increase (decrease) in		
Accounts payable	(59,486)	(10,651)
Accrued and other liabilities	64,739	41,746
Deferred revenue	36,479	22,386
Net cash provided by operating activities	29,849	30,358
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for property and equipment	(1,471)	(6,596)
Net cash used in investing activities	(1,471)	(6,596)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on borrowings under notes payable – related party	(24,809)	(23,460)
Net cash used in financing activities	(24,809)	(23,460)
NET INCREASE (DECREASE) IN CASH	3,569	302
Cash at beginning of period	20,389	16,012
Cash at end of period	$ 23,958	$16,314

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$10,300	$11,649
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Amortization of increasing dividend rate preferred stock discount	$20,174	$35,304

See accompanying notes to the unaudited condensed consolidated financial statements.

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FullNet Communications, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the year ended December 31, 2016.

The information furnished reflects, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results of the interim periods presented. Operating results of the interim period are not necessarily indicative of the amounts that will be reported for the year ending December 31, 2017.

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.

Schedule of Income (Loss) Per Share

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Numerator:				
Net loss available to common shareholders	$(22,349)	$(16,037)	$(46,287)	$(73,161)
Denominator:				
Weighted average shares and share equivalents outstanding – basic	11,871,009	9,118,161	11,871,009	9,118,161
Effect of preferred stock	987,102	987,102	987,102	987,102

Effect of dilutive stock options	1,796,778	2,884,570	1,745,847	2,849,248
Effect of dilutive warrants	232,180	222,727	229,115	220,000
Weighted average shares and share equivalents outstanding – assuming dilution	14,887,069	13,212,560	14,833,074	13,174,511
Net loss per share — basic and diluted	$(0.00)	$(0.00)	$(0.00)	$(0.01)

Basic and diluted loss per share were the same for the three and nine months ended September 30, 2017 and 2016 because there was a net loss for the period.

Schedule of Anti-dilutive Securities Excluded

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Stock options	–	36,000	–	36,000
Convertible promissory notes	158,443	191,376	158,443	191,376
Total anti-dilutive securities excluded	158,443	227,376	158,443	227,376

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.

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2. GOING CONCERN AND MANAGEMENT'S PLANS

At September 30, 2017, current liabilities exceeded current assets by $1,207,431. The Company does not have a line of credit or credit facility to serve as an additional source of liquidity. Historically the Company has relied on shareholder loans as an additional source of funds. These factors raise substantial doubts about the Company's ability to continue as a going concern.

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 co-location 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.

3. CONVERTIBLE NOTES PAYABLE RELATED PARTY

At December 31, 2016 the Company had a secured convertible promissory note from a shareholder with a balance of $144,966. The interest rate of this note was 6% through December 31, 2014 and is 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 and matures May 31, 2018, at which time the remaining balance of principal and all accrued interest shall be due and payable. This convertible promissory note is secured by all tangible and intangible assets of the Company. 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 nine months ended September 30, 2017, the Company made principal and interest payments totaling $29,706. The secured convertible promissory note had a balance of $123,912 at September 30, 2017 which is all short-term.

At December 31, 2016 the Company had a secured convertible promissory note from a shareholder with a balance of $38,286. The interest rate of this note is 6%, required monthly installments of interest only through May 31, 2014, then requires monthly installments of $600 including principal and interest and matures May 31, 2023. This convertible promissory note is secured by certain equipment of the Company. 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 nine months ended September 30, 2017, the Company made principal and interest payments totaling $5,403. The secured convertible promissory note had a balance of $34,531 at September 30, 2017 of which $7,203 is short-term and $27,328 is long-term.

4. STOCK BASED COMPENSATION

The following table summarizes the Company's employee stock option activity for the nine months ended September 30, 2017:

Schedule of Employee Stock Option Activity

	Options	Weighted average exercise price	Weighted average remaining contractual life (yrs)	Aggregate Intrinsic value
Options outstanding, December 31, 2016	514,934	$.005	6.26	
Options exercisable, December 31, 2016	425,934	$.003	5.78	$ 9,350
Options granted during the period	1,623,000	.007		
Options forfeited during the period	(23,000)	.007		
Options expired during the period	(6,000)	.003		
Options outstanding, September 30, 2017	2,108,934	$.006	8.41	
Options exercisable, September 30, 2017	576,934	$.003	6.17	$ 21,326

During the nine months ended September 30, 2017, 850,000, 770,000, and 3,000 nonqualified employee stock options were granted with exercise prices of $.01, $.003, and $.02, respectively; 20,000 of these $.003 options were forfeited, and on September 30, 2017, the vesting requirement on 150,000 employee stock options was waived for a retiring employee. The Company performed an analysis on the waived vesting under ASC 718-20 “stock compensation” and recorded an incremental expense of $5,996. The remaining 1,453,000 stock options will vest one-third on each annual anniversary date of the grant and will expire ten years from the date of the grant. The options were valued using Black-Scholes option pricing model on the respective date of issuance and the fair value of the shares was determined to be $19,257 of which $3,697 was recognized as stock-based compensation expense for the nine months ended September 30, 2017. During the nine months ended September 30, 2017, 3,000 employee stock options were forfeited, and 6,000 employee stock options expired that were related to options granted in prior years.

Total stock-based compensation expense for the three months ended September 30, 2017 was $7,757 of which $7,317 was related to options issued during 2017 and $440 was related to options issued in prior years. Total stock-based compensation expense for the nine months ended September 30, 2017 was $11,005 of which $9,693 was related to options issued during 2017 and $1,312 was related to options issued in prior years.

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 Black-Scholes option pricing model was used with the following weighted-average assumptions for options granted during the nine months ended September 30, 2017:

	2017
Risk free interest rate	1.97% - 2.08 %
Expected lives (in years)	5
Expected volatility	173% - 267 %
Dividend yield	0 %

5. SERIES A CONVERTIBLE PREFERRED STOCK

On March 30, 2017 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 amortization of the increasing dividend rate preferred stock discount for the three and nine months ended September 30, 2017 was

$6,725 and $20,174, respectively.

6. PROPERTY AND EQUIPMENT

During the nine months ended September 30, 2017, $1,471 was paid for property and equipment. During the three and nine months ended September 30, 2017, $4,485 and $14,345 was recorded as depreciation expense, respectively.

7. INTANGIBLE ASSET

During the three and nine months ended September 30, 2017, $2,208 and $6,843 was recorded as amortization expense, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is qualified in its entirety by the more detailed information in our 2016 Annual Report on Form 10-K and the financial statements contained therein, including the notes thereto, and our other periodic reports filed with the Securities and Exchange Commission since December 31, 2016 (collectively referred to as the "Disclosure Documents"). Certain forward-looking statements contained in this Report and in the Disclosure Documents regarding our business and prospects are based upon numerous assumptions about future conditions which may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in such statements. Our ability to achieve these results is subject to certain risks and uncertainties, including those inherent risks and uncertainties generally in the Internet service provider and competitive local exchange carrier industries, the impact of competition and pricing, changing market conditions, and other risks. Any forward-looking statements contained in this Report represent our judgment as of the date of this Report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements. References to us in this report include our subsidiaries: FullNet, Inc. ("FullNet"), FullTel, Inc. ("FullTel"), FullWeb, Inc. ("FullWeb") and CallMultiplier, Inc. ("CallMultiplier").

Overview

We are an integrated communications provider. Through our subsidiaries, we provide high quality, reliable and scalable Internet access, web hosting, equipment co-location, traditional telephone services as well as advanced voice and data solutions.

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, www.fulltel.com and www.callmultiplier.com. Information contained on our Web sites 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.

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.

We market our carrier neutral co-location solutions in our network operations center to other competitive local exchange carriers, Internet service providers and web-hosting companies. Our co-location 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; traditional telephone services as well as advanced voice and data solutions. At September 30, 2017 FullTel provided us with local telephone access in approximately 232 cities.

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

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Results of Operations

The following table sets forth certain statement of operations data as a percentage of revenues for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended				Nine Months Ended		
	September 30, 2017		September 30, 2016		September 30, 2017		September 30, 2
	Amount	Percent	Amount	Percent	Amount	Percent	Amount
Revenues:							
Access service revenues	$9,759	1.9%	$14,350	3.0%	$32,892	2.2%	$46,151
Co-location and other revenues	492,217	98.1	464,248	97.0	1,471,535	97.8	1,396,626
Total revenues	501,976	100.0	478,598	100.0	1,504,427	100.0	1,442,777
Cost of access service revenues	11,813	2.4	19,353	4.0	35,709	2.4	58,935
Cost of co-location and other revenues	83,824	16.7	78,872	16.5	249,312	16.6	240,171
Selling, general and administrative expenses	412,040	82.1	374,209	78.2	1,214,067	80.7	1,149,139
Depreciation and amortization	6,693	1.3	6,701	1.4	21,188	1.4	20,740
Total operating costs and expenses	514,370	102.5	479,135	100.1	1,520,276	101.1	1,468,985
Income (loss) from operations	(12,394)	(2.5)	(537)	(0.1)	(15,849)	(1.1)	(26,208)
Interest expense	(3,230)	(0.6)	(3,732)	(0.8)	(10,264)	(0.7)	(11,649)

Net loss	$(15,624)	(3.1)%	$(4,269)	(0.9)%	$(26,113)	(1.7)%	$(37,857)
Preferred stock dividends	(6,725)	(1.3)	(11,768)	(2.5)	(20,174)	(1.3)	(35,304)
Net loss available to common stockholders	$(22,349)	(4.4)%	$(16,037)	(3.4)%	$(46,287)	(3.1)%	$(73,161)

Three Months Ended September 30, 2017 (the "2017 3rd Quarter") Compared to Three Months Ended September 30, 2016 (the "2016 3rd Quarter")

Revenues

Access service revenues decreased $4,591 or 32.0% to $9,759 for the 2017 3rd Quarter from $14,350 for the same period in 2016 primarily due to a decline in the number of customers.

Co-location and other revenues increased $27,969 or 6.0% to $492,217 for the 2017 3rd Quarter from $464,248 for the same period in 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 decreased $7,540 or 39.0% to $11,813 for the 2017 3rd Quarter from $19,353 for the same period in 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 access service revenues decreased to 121.0% during the 2017 3rd Quarter, compared to 134.9% during the same period in 2016.

Cost of co-location and other revenues increased $4,952 or 6.3% to $83,824 for the 2017 3rd Quarter from $78,872 for the same period in 2016. This increase was primarily related to increases in costs of servicing advanced voice and data solutions customers due to an increase in the number of customers utilizing those services. Cost of co-location and other revenues as a percentage of co-location and other revenues remained at 17.0% during the 2017 3rd Quarter, compared to 17.0% during the period in 2016.

Selling, general and administrative expenses increased $37,831 or 10.1% to $412,040 for the 2017 3rd Quarter compared to $374,209 for the same period in 2016. This increase is primarily related to increases in advertising, employee noncash compensation, and deferred compensation of $25,609, $7,308, and $5,855, respectively. These increases were offset by decreases in professional services of $2,437. In the 2017 3rd Quarter we had non-recurring agent commissions expense of $619. Also in the 2017 3rd Quarter, employee costs increased $13,324, which included $5,996 of stock-based compensation expense due to the waiver of the vesting requirement for a retiring employee’s stock options. Selling, general and administrative expenses as a percentage of total revenues increased to 82.1% during the 2017 3rd Quarter from 78.2% during the same period in 2016.

Depreciation and amortization expense remained relatively the same at $6,693 for the 2017 Period compared to $6,701 for the 2016 Period.

Interest Expense

Interest expense decreased $502, or 13.5% to $3,230 for the 2017 3rd Quarter compared to $3,732 for the same period in 2016 which was related to the decreasing amount of the payment being interest and a greater portion being principal payment in 2017.

Nine Months Ended September 30, 2017 (the “2017 Period”) Compared to Nine Months Ended September 30, 2016 (the “2016 Period”)

Revenues

Access service revenues decreased $13,259 or 28.7% to $32,892 for the 2017 Period from $46,151 for the 2016 Period primarily due to a decline in the number of customers.

Co-location and other revenues increased $74,909 or 5.4% to $1,471,535 for the 2017 Period from $1,396,626 for the 2016 Period. 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 $23,226 or 39.4% to $35,709 for the 2017 Period from $58,935 for the 2016 Period. 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 access service revenues decreased to 108.6% during the 2017 Period, compared to 127.7% during the 2016 Period.

Cost of co-location and other revenues increased $9,141 or 3.8% to $249,312 for the 2017 Period from $240,171 for the 2016 Period. This increase was primarily related to increases in costs of servicing advanced voice and data solutions customers due to an increase in the number of customers utilizing those services. Cost of co-location and other revenues as a percentage of co-location and other revenues decreased to 16.9% during the 2017 Period compared to 17.2% during the 2016 Period.

Selling, general and administrative expenses increased $64,928 or 5.7% to $1,214,067 for the 2017 Period compared to $1,149,139 for the 2016 Period. This increase is primarily related to increases in property taxes, advertising and agent commissions of $13,790, $55,093 and $13,555, respectively. These increases were offset by decreases in employee costs and professional services of $6,062 and $9,664, respectively. In the 2017 Period we had non-recurring agent commissions expense of $13,894. Also in the 2017 3rd Quarter, employee costs increased $13,324, which included $5,996 of stock-based compensation expense due to the waiver of the vesting requirement for a retiring employee’s stock options. Selling, general and administrative expenses as a percentage of total revenues increased to 80.7% during the 2017 Period from 79.6% during the 2016 Period.

Depreciation and amortization expense remained relatively the same at $21,188 for the 2017 Period compared to $20,740 for the 2016 Period.

Interest Expense

Interest expense decreased $1,385 or 11.9% to $10,263 for the 2017 Period compared to $11,649 for the 2016 Period due to a greater portion of the loan payment being applied to principal instead of interest.

Liquidity and Capital Resources

As of September 30, 2017, we had $23,958 in cash and $1,259,027 in current liabilities, including $405,727 of deferred revenues that will not require settlement in cash.

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At September 30, 2017 and December 31, 2016, we had working capital deficits of $1,207,431 and $1,102,927, 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.

As of September 30, 2017, of the $86,342 we owed to our trade creditors $81,518 was past due. We have no formal agreements regarding payment of these amounts.

Cash flow for the nine-month periods ended September 30, 2017 and 2016 consist of the following.

	For the Nine-Month Periods Ended September 30,	
	2017	2016
Net cash flows provided by operations	$29,849	$30,358
Net cash flows used in investing activities	(1,471)	(6,596)
Net cash flows used in financing activities	(24,809)	(23,460)

Cash used for the purchase of property and equipment was $1,471 and $6,596, respectively, for the nine months ended September 30, 2017 and 2016.

Cash used for principal payments on notes payable was $24,809 and $23,460, respectively, for the nine months ended September 30, 2017 and 2016.

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

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 plan 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. 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 (in) 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.

On March 30, 2017 our board of directors made the determination that it was in the best interest of the Company and its stockholders to conserve our working capital at this time and not make the annual dividend payment for the year ending December 31, 2016. The Company has never made an annual dividend payment on its Series A convertible preferred stock.

Financing Activities

We have a secured convertible promissory note from a shareholder which requires monthly installments of $3,301 including principal and interest and is secured by all of our tangible and intangible assets. At September 30, 2017, the outstanding principal of the secured convertible promissory note was $123,912.

We have a secured convertible promissory note from a shareholder which requires monthly installments of interest only through May 31, 2014 then monthly installments of $600 including principal and interest. This note is secured by certain equipment. At September 30, 2017, the outstanding principal of the secured convertible promissory note was $34,531.

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.

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 co-location revenues, traditional telephone services and advanced voice and data 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 3. 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 4. 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

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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 (CEO), who is also our principal financial officer (CFO), evaluated the effectiveness of disclosure controls and procedures as of September 30, 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.

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.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

As 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the nine months ended September 30, 2017, we issued 850,000, 650,000, 3,000, and 120,000 nonqualified employee stock options with exercise prices of $.01, $.003, $.02, and $.003, respectively; 20,000 of these $.003 options were forfeited; 6,000 of these $.003 options expired; and the vesting requirement for 150,000 of these $.003 options was waived for a retiring employee. The remaining 1,453,000 stock options will vest one-third on each annual anniversary date of the grant and will expire ten years from the date of the grant. We do not have a written employee stock option plan. In connection with the issuance of these common stock options, no underwriting discounts or commissions were paid or will be paid. The common stock options were issued without registration under the Securities Act of 1933, as amended, in reliance on the registration exemption afforded by Regulation D and more specifically Rule 506 of Regulation D.

Item 5. Other Information

During the three months ended September 30, 2017 all events reportable on Form 8-K were reported.

Item 6. Exhibits

(a) The following exhibits are either filed as part of or are incorporated by reference in this Report:

Exhibit Number	*Exhibit*	
3.1	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).	#

3.2	Bylaws (filed as Exhibit 2.2 to Registrant's Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference)	#
3.3	Amended and Restated Certificate of Incorporation of FullNet Communications, Inc.	#
4.1	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).	#
4.2	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).	#
4.3	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).	#

Exhibit Number	*Exhibit*	
4.18	Certificate of Designations, Preferences, and Rights of Series A Convertible Preferred Stock of FullNet Communications, Inc.	#
10.1	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).	#
10.2	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).	#
10.3	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).	#
10.5	Registrar Accreditation Agreement effective February 8, 2000, by and between Internet Corporation for Assigned Names and Numbers and FullWeb, Inc. d/b/a FullNic 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).	#
10.8	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 September 30, 2000 and incorporated herein by reference).	#
10.31	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).	#
10.40	Employment Agreement with Timothy J. Kilkenny dated July 31, 2002	#
10.41	Employment Agreement with Roger P. Baresel dated July 31, 2002	#
10.45	Secured Promissory Note and Security Agreement dated December 30, 2009, issued to High Capital Funding, LLC	#
10.46	Employment Agreement with Jason Ayers dated January 1, 2011	#
10.47		#

	Form 8-K dated May 9, 2013 reporting expansion of the Board of Directors and the election of Jason C. Ayers to the Board of Directors	
10.48	Schedule 14C Definitive Information Statement dated May 15, 2013 reporting Notice of Action by Written Consent of Shareholders	#
10.49	Form 8-K dated September 3, 2013 reporting the Shareholder Consent to Action in Lieu of a Meeting approving the Amendment and Restatement of the Company's Certificate of Incorporation, the re-election of the Board of Directors, the authorization of Series A Convertible Preferred Stock, the authorization of the Exchange Offer and the issuance of Series A Convertible Preferred Stock	#
10.50	Form of Exchange Offer Acceptance Agreement	#

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Exhibit Number	*Exhibit*	
10.51	Secured Exchange Promissory Note and Security Agreement dated May 31, 2013, issued to High Capital Funding, LLC	#
10.52	Secured Exchange Promissory Note and Security Agreement dated May 31, 2013, issued to High Capital Funding, LLC	#
10.53	Form 8-K dated September 6, 2016 reporting the appointment of Roger P. Baresel as Chief Executive Officer, the appointment of Jason C. Ayers as President and a modification in the exercise price for all of the outstanding unexercised common stock purchase options previously issued to employees.	#
22.1	Subsidiaries of the Registrant	#
31.1	Certification pursuant to Rules 13a-14(a) and 15d-14(a) of Roger P. Baresel	*
32.1	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	*
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.

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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: November 14, 2017	By:	/s/ ROGER P. BARESEL
		Roger P. Baresel
		Chief Executive Officer and Chief Financial Officer