FULLNET COMMUNICATIONS INC
Form 10-Q
August 14, 2018

0001092570 --12-31 fulo Yes No No false 2018 Q2 0001092570 2018-01-01 2018-06-30 0001092570 2018-06-30 0001092570 2017-06-30 0001092570 2018-08-14 0001092570 2018-08-14 2018-08-14 0001092570 2018-06-30 2018-06-30 0001092570 2017-12-31 2017-12-31 0001092570 2017-12-31 0001092570 2018-04-01 2018-06-30 0001092570 2017-04-01 2017-06-30 0001092570 2017-01-01 2017-06-30 0001092570 us-gaap:CommonStockMember 2018-01-01 2018-06-30 0001092570 us-gaap:PreferredStockMember 2018-01-01 2018-06-30 0001092570 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-06-30 0001092570 us-gaap:RetainedEarningsMember 2018-01-01 2018-06-30 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:CommonStockMember 2018-06-30 0001092570 us-gaap:PreferredStockMember 2018-06-30 0001092570 us-gaap:AdditionalPaidInCapitalMember 2018-06-30 0001092570 us-gaap:RetainedEarningsMember 2018-06-30 0001092570 2016-12-31 0001092570 fil:ConvertibleNotePayable1Member 2018-01-01 2018-06-30 0001092570 fil:ConvertibleNotePayable1Member 2017-12-31 0001092570 fil:ConvertibleNotePayable1Member 2018-06-30 xbrli:pure iso4217:USD xbrli:shares iso4217:USD xbrli:shares

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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 June 30, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act..

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company þ
Emerging-growth company o			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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 August 14, 2018, 11,871,009 shares of the registrant's common stock, $0.00001 par value, were outstanding.

FORM 10-Q

TABLE OF CONTENTS

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2018 (Unaudited)	**DECEMBER 31, 2017**
ASSETS		
CURRENT ASSETS		
Cash	$119,044	$29,399
Accounts receivable, net	547	8,854
Prepaid expenses and other current assets	30,751	6,110
Assets of discontinued operations, net (Note 8)	4,852	4,472
Total current assets	155,194	48,835
PROPERTY AND EQUIPMENT, net	42,853	39,448
OTHER ASSETS AND INTANGIBLE ASSETS	17,396	21,813
LONG-TERM ASSETS DISCONTINUED OPERATIONS, net (Note 8)	16,987	24,871
TOTAL ASSETS	$232,430	$134,967
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$18,314	$37,371
Accounts payable, related party	5,106	7,982
Accrued and other liabilities	636,221	610,107
Convertible notes payable, related party - current portion	7,203	5,354
Deferred revenue	422,850	397,931
Liabilities of discontinued operations (Note 8)	81,336	140,566
Total current liabilities	1,171,030	1,199,311
CONVERTIBLE NOTES PAYABLE, related party - less current portion	23,402	27,888

LONG-TERM LIABILITIES OF DISCONTINUED OPERATIONS (NOTE 8)	–	53,246
Total liabilities	1,194,432	1,280,445
STOCKHOLDERS' DEFICIT		
Preferred stock - $0.001 par value; authorized, 10,000,000 shares; Series A convertible; issued and outstanding, 987,102 shares in 2018 and 2017	628,762	618,675
Common stock - $0.00001 par value; authorized, 40,000,000 shares; issued and outstanding, 11,871,009 shares in 2018 and 2017	119	119
Additional paid-in capital	8,701,735	8,640,769
Accumulated deficit	(10,292,618)	(10,405,041)
Total stockholders' deficit	(962,002)	(1,145,478)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$232,430	$134,967

See accompanying notes to unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
REVENUES				
Co-location and other revenues	$496,098	$449,144	$992,952	$902,868
Access service revenues	7,095	11,274	17,301	23,133
Total revenues	503,193	460,418	1,010,253	926,001
OPERATING COSTS AND EXPENSES				
Cost of co-location and other revenues	59,487	36,640	105,796	70,628
Cost of access service revenues	2,940	2,915	5,467	5,344
Selling, general and administrative expenses	418,122	399,686	968,479	792,811
Depreciation and amortization	4,095	4,648	8,484	9,421
Total operating costs and expenses	484,644	443,889	1,088,226	878,204
INCOME (LOSS) FROM OPERATIONS	18,549	16,529	(77,973)	47,797
OTHER INCOME	16,605	–	22,605	–
INTEREST EXPENSE	(166)	(363)	(496)	(1,117)
INCOME TAX EXPENSE	(7,334)	–	(12,000)	–
Net income (loss) from continuing operations	27,654	16,166	(67,864)	46,680
Gain from sale of discontinued asset	–	–	233,277	–
Net income (loss) from discontinued operations (NOTE 8)	(21,669)	(31,844)	(52,990)	(57,169)
NET INCOME (LOSS)	$5,985	$(15,678)	$112,423	$(10,489)
Preferred stock dividends	(3,363)	(6,725)	(10,087)	(13,449)
Net income (loss) available to common stockholders	$2,622	$(22,403)	$102,336	$(23,938)
Net income (loss) per share:				
Continuing operations – basic and diluted	0.00	0.00	(0.01)	0.00
	(0.00)	(0.00)	0.02	(0.00)

Discontinued operations – basic and diluted				
Net income (loss) - basic and diluted	$0.00	$(0.00)	$0.01	$(0.00)
Weighted average common shares outstanding:				
Basic	11,871,009	11,871,009	11,871,009	11,871,009
Diluted	14,753,128	14,845,591	11,871,009	14,687,328

See accompanying notes to unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT (UNAUDITED)

Six Months Ended June 30, 2018

	Common stock		Preferred stock		Additional	Accumulated	
	Shares	Amount	Shares	Amount	paid-in capital	deficit	Total
Balance at January 1, 2018	11,871,009	$119	987,102	$618,675	$8,640,769	$(10,405,041)	$(1,145,
Stock options compensation	-	–	–	–	71,053	–	71,053
Amortization of increasing dividend rate preferred stock discount	-	–	–	10,087	(10,087)	–	–
Net income	-	–	–	–	–	112,423	112,423
Balance at June 30, 2018 – (unaudited)	11,871,009	$119	987,102	$628,762	$8,701,735	$(10,292,618)	$(962,00

See accompanying notes to unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended	
	June 30, 2018	**June 30, 2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$112,423	$(10,489)
(Income) loss from discontinued operations	(180,287)	57,169
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	8,484	9,421
Stock options compensation	71,053	3,248
Provision for uncollectible accounts receivable	(7,147)	429
Net (increase) decrease in		
Accounts receivable	15,454	(1,559)
Prepaid expenses and other current assets	(24,641)	(18,583)
Net increase (decrease) in		
Accounts payable	(19,057)	(32,121)
Accounts payable – related party	(2,876)	(13,419)
Accrued and other liabilities	26,114	36,127
Deferred revenue	24,919	29,908
Net cash provided by operating activities	24,439	60,131
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for property and equipment	(7,472)	(1,471)
Net cash used in investing activities	(7,472)	(1,471)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on borrowings under notes payable – related party	(2,637)	(2,484)
Net cash used in financing activities	(2,637)	(2,484)
DISCONTINUED OPERATIONS		
Net cash used in operating activities	(26,246)	(48,645)
Net cash provided by investing activities	218,153	–
Net cash used in financing activities	(116,592)	(13,887)
Net cash provided by (used in) discontinued operations	75,315	(62,532)

NET INCREASE (DECREASE) IN CASH	89,645	(6,356)
Cash at beginning of period	29,399	19,383
Cash at end of period	$119,044	$13,027

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for income tax	$12,000	$–
Cash paid for interest – continuing operations	964	1,116
Cash paid for interest – discontinued operations	51	5,917

NON-CASH INVESTING AND FINANCING ACTIVITIES

Amortization of increasing dividend rate preferred stock discount	$10,087	$13,449

See accompanying notes to the unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. UNAUDITED INTERIM FINANCIAL STATEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (Topic 606) “Revenue from Contracts with Customers.” Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, “revenue Recognition”, and requires entities to recognize revenue when they transfer control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. We adopted Topic 606 as of January 1, 2018. The adoption of Topic 606 did not have a material impact to our consolidated financial statements, including the presentation of revenues in our Consolidated Statements of Income because the revenue of the Company does not include contracts that extend over several periods.

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, 2017.

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 (loss).

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, 2018.

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.

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Schedule of Income (Loss) Per Share

	Three Months Ended		Six Months Ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Net income (loss):				
Income (loss) from continuing operations	$27,654	$16,166	$(67,864)	$46,680
Income (loss) from discontinued operations – See Note 8	(21,669)	(31,844)	180,287	(57,169)
Net income (loss)	$5,985	$(15,678)	$112,423	$(10,489)
Preferred stock dividends	(3,363)	(6,725)	(10,087)	(13,449)
Net income (loss) available to common shareholders	2,622	(22,403)	102,336	(23,938)
Basic income (loss) per share:				
Weighted average common shares outstanding used in income (loss) per share	11,871,009	11,871,009	11,871,009	11,871,009
Basic income (loss) per share:				
Continuing operations	0.00	0.00	(0.01)	0.00
Discontinued operations – See Note 8	(0.00)	(0.00)	0.02	(0.00)
Basic income (loss) per share	0.00	(0.00)	0.01	(0.00)
Diluted income (loss) per share:				
Shares used in diluted income (loss) per share	14,753,128	14,845,591	11,871,009	14,687,328
Diluted income (loss) per share:				
Continuing operations	0.00	0.00	(0.01)	0.00
Discontinued operations – See Note 8	(0.00)	(0.00)	0.02	(0.00)
Diluted income (loss) per share	0.00	(0.00)	0.01	(0.00)
Computation of shares used in income (loss) per share:				
Weighted average shares and share equivalents outstanding – basic	11,871,009	11,871,009	11,871,009	11,871,009
Effect of preferred stock	987,102	987,102	–	987,102
Effect of dilutive stock options	1,670,017	1,752,619	–	1,602,083
Effect of dilutive warrants	225,000	234,861	–	227,134
	14,753,128	14,845,591	11,871,009	14,687,328

Weighted average shares and share
equivalents outstanding – diluted

Schedule of Anti-dilutive Securities Excluded

	Three Months Ended		Six Months Ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Preferred stock	-	-	987,102	-
Stock options	2,043,000	-	4,117,834	-
Warrants	-	-	250,000	-
Convertible promissory notes	30,605	172,411	30,605	166,881
Total anti-dilutive securities excluded	2,073,605	172,411	5,385,541	166,881

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.

2 GOING CONCERN AND MANAGEMENT'S PLANS

At June 30, 2018 current liabilities exceeded current assets by $1,015,836. 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. There can be no assurance that current cash balances will 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, 2017 the Company had a secured convertible promissory note from a shareholder with a balance of $33,242. The interest rate of this note is 6%, 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 six months ended June 30, 2018, the Company made principal and interest payments totaling $3,602, of which $2,637 applied to the principal. The secured convertible promissory note had a balance of $30,605 at June 30, 2018 of which $7,203 is short-term and $23,402 is long-term.

4. STOCK BASED COMPENSATION

The following table summarizes the Company’s employee stock option activity for the six months ended June 30, 2018:

Schedule of Employee Stock Option Activity

	Options	Weighted average exercise price	Weighted average remaining contractual life (yrs)	Aggregate Intrinsic value
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
Options issued during the period	2,010,000	$0.040		
Options expired during the period	3,000	$0.003		
Options outstanding, June 30, 2018	4,117,834	$0.023	8.63	
Options exercisable, June 30, 2018	2,825,167	$0.027	8.55	$ 26,759

During the six months ended June 30, 2018, 2,010,000 nonqualified employee stock options were granted with an exercise price of $.04 per option. 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 $76,895 of which $67,777 was recognized as stock-based compensation expense for the six months ended June 30, 2018. Of these stock options, 1,750,000 of the stock options vested immediately upon grant (February 14, 2018) and 260,000 will vest one-fifth on each annual anniversary date of the grant. The total 2,010,000 will expire ten years from the date of the grant.

Total stock-based compensation expense for the six months ended June 30, 2018 was $71,053 of which $67,777 was related to options issued during the six months ended June 30, 2018 and $3,276 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 six months ended June 30, 2018:

	2018
Risk free interest rate	2.65%
Expected lives (in years)	5
Expected volatility	178%
Dividend yield	0%

5. 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, 2017, on its Series A Convertible Preferred Stock. The Company has never made an annual dividend payment on its Series A convertible preferred stock. As of June 30, 2018, the aggregate outstanding accumulated arrearages of cumulative dividend was $98,926 or if issued in common shares, 3,297,933 shares.

The amortization of the increasing dividend rate preferred stock discount for the six months ended June 30, 2018 was $10,087.

6. PROPERTY AND EQUIPMENT

During the six months ended June 30, 2018, $7,472 was paid for property and equipment. During the three and six months ended June 30, 2018, $1,887 and $4,067 was recorded as depreciation expense, respectively.

7 INTANGIBLE ASSET

During the three and six months ended June 30, 2018, $2,208 and $4,417 was recorded as amortization expense, respectively.

8. 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 competitive local exchange carrier or 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 it’s CLEC subsidiary as held for sale at December 31, 2017.

The Company recognized a gain of $233,277 on the Sale based on total considerations of $264,872 less total basis in the assets sold and transactions costs of $31,595. The assets sold consisted primarily of customers and associated customer premise equipment.

Consideration:	
Cash	$ 246,500
Assumption of deferred revenue	8,366
Waived service obligation for February 2018	10,006
Total consideration	$ 264,872
Total assets sold:	
Customer contracts	$ –
Fiber innerduct	3,248
Fiber strands	–
Customer CPE	–
Total assets	3,248
Transactional costs	28,347
Total basis	$ 31,595
Net gain	$ 233,277

At December 31,2017, the Company had a convertible promissory note from a shareholder with a balance of $116,592, which was secured by all tangible and intangible assets of the Company. The note matured on May 31, 2018, and the Company paid the remaining balance of $116,592 in full on February 1, 2018.

Assets and Liabilities of Discontinued Operations

	June 30, 2018	December 31, 2017
Carrying amounts of assets included in discontinued operations		
Cash	$3,102	$1,801
Prepaid expenses and other current assets	1,750	2,671
Property and equipment, net	16,987	24,871
Total Assets of Discontinued Operations	$21,839	$29,343
Carrying amounts of liabilities included in discontinued operations		
Accounts payable	$59,898	$57,342
Accrued and other liabilities	21,438	19,878
Convertible notes payable, related party – current portion	–	116,592
Convertible notes payable, related party – less current portion	–	–
Total Liabilities of Discontinued Operations	$81,336	$193,812

Operating Results of Discontinued Operations

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues included in discontinued operations				
Total colocation and other revenues	-	$ 34,170	28,091	$ 76,450
Operating costs and expenses included in discontinued operations				
Cost of services	18,660	$ 57,016	72,546	$ 113,412
Selling, general and administrative expenses	691	4,554	3,848	9,216
Depreciation and amortization	2,318	2,537	4,636	5,074
Interest expense	-	1,907	51	5,917
Total operating costs and expenses discontinued operations	$ 21,669	$ 66,014	$ 81,081	$ 133,619
Other Income included in discontinued operations				
Gain on sale of assets	-	-	233,277	-
Net Income (Loss) from Discontinued Operations	$ (21,669)	$ (31,844)	$ 180,287	$ (57,169)
Net Income (Loss) per share from discontinued operations basic	$ (0.00)	$ (0.00)	$ 0.02	$ (0.00)
Net Income (Loss) per share from discontinued operations diluted	$ (0.00)	$ (0.00)	$ 0.02	$ (0.00)

Cash Flows from Discontinued Operations

	June 30,2018	June 30, 2017
Net cash used in operating activities	(26,246)	(48,645)
Net cash provided by investing activities	218,153	-
Net cash used in financing activities	(116,592)	(13,887)
Net cash provided by (used in) discontinued operations	75,315	(62,532)

9. SUBSEQUENT EVENT

On August 7, 2018, the Company executed an asset purchase agreement with EBOX, Inc., a Canadian corporation, pursuant to which the Company will sell a block of excess IPv4 numbers for $68,608. The Company anticipates closing on the sale prior to the end of August 2018, at which time the Company will receive $64,491 in cash after the deduction of $4,117 in selling costs.

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 2017 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, 2017 (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.

Overview

We are an integrated communications provider. Through our subsidiaries, we provide high quality, reliable and scalable Internet access, web hosting, equipment co-location, 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 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.

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; 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 changes in the telecommunications market and deterioration in our ability to effectively compete, we made the decision in the fourth quarter of 2017, to affect 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 voice and text 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.

Results of Operations

The following table, which includes both continuing and discontinued operations (see Note 8 – Discontinued Operations of the financial statement appearing elsewhere in this Report), sets forth certain statement of operations data as a percentage of revenues for the three and six months ended June 30, 2018 and 2017: