FULLNET COMMUNICATIONS INC
Form 10-K
March 31, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

o **TRANSITION REPORT UNDER 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.
(Name of small business issuer in its Charter)

OKLAHOMA	**73-1473361**
(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
(Issuer s telephone number)
Securities registered under Section 12(b) of the Act: None
Securities registered under 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 þ No o

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

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 during the past 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 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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filed, a non-accelerated file, or a small 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

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 29, 2007) of registrant s completed second quarter was $221,678.
As of March 28, 2008, 7,425,565 shares of the registrant s common stock, $0.00001 par value, were outstanding.

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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. K 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, we cannot promise that our expectations will prove to be correct. Our actual results could be materially different from our expectations, including the following:

We may fail to negotiate an acceptable replacement interconnection agreement with AT&T (formerly SBC);

We may fail to prevail against AT&T on various disputed back billings that total in excess of $7,900,000;

We may lose subscribers or fail to grow our subscriber base;

We may not successfully integrate new subscribers or assets obtained through acquisitions;

We may fail to compete with existing and new competitors;

We may not be able to sustain our current growth;

We may not adequately respond to technological developments impacting the Internet;

We may experience a major system failure;

We may not be able to find 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.

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PART I

Item 1. Business

General

We are an integrated communications provider offering integrated communications and Internet connectivity to individuals, businesses, organizations, educational institutions and government agencies. Through our subsidiaries, we provide high quality, reliable and scalable Internet access, web hosting, equipment co-location and traditional telephone services. Our overall strategy is to become the dominant integrated communications provider for residents and small to medium-sized businesses in Oklahoma.

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 an Internet site on the World Wide Web (WWW) at www.fullnet.net. Information contained on our Website 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, and shifted our focus from offering dial-up services to providing wholesale and private label network connectivity and related services to other Internet service providers.

Our current business strategy is to become the dominant integrated communications provider in Oklahoma. We expect to grow through the acquisition of additional customers for our carrier-neutral co-location space and traditional telephone services, as well as through the acquisition of Internet service providers.

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 network operations center is Telco-grade and provides customers a high level of operative reliability and security. We offer flexible space arrangements for customers, 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. At December 31, 2007 FullTel provided us with local telephone access in approximately 232 cities.

Our common stock trades on the OTC Bulletin Board under the symbol FULO. While our common stock trades on the OTC Bulletin Board, 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.

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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 Internet 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 as follows:

Target Strategic Acquisitions

The goal of our acquisition strategy is to accelerate market penetration by acquiring Internet service providers in Oklahoma communities and to acquire strategic Internet service providers in Oklahoma City and Tulsa. Additionally, we will continue to build upon our core competencies and expand our technical, customer service staff and sales force in Oklahoma communities. We evaluate acquisition candidates based on their compatibility with our overall business plan of penetrating rural and outlying markets as well as Oklahoma City and Tulsa. When a candidate is acquired, we will integrate our existing Internet, network connectivity and value-added services with the services offered by the acquired company and use either the local sales force or install our own dealer sales force to continue to increase market share. The types of acquisitions targeted by us include Internet service providers located in markets into which we want to expand or to which we may already provide private-label Internet connectivity. Other types of targeted acquisitions include local business-only Internet service providers in markets where we have established points of presence and would benefit from the acquired company s local sale and network solutions sales and technical staff and installed customer base through the potential increase in our network utilization. When assessing an acquisition candidate, we focus on the following criteria:

- Potential revenue and subscriber growth;
- Low subscriber turnover or churn rates;
- Density in the market as defined by a high ratio of subscribers to points of presence (POPs);
- Favorable competitive environment;
- Low density network platforms that can be integrated readily into our backbone network; and
- Favorable consolidation savings.

Generate Internal Sales Growth

We intend to expand our customer base by increasing our marketing efforts. At December 31, 2007, our direct sales force consisted of one individual in our Oklahoma City office coordinating all our business-to-business solutions sales. We currently have independent re-sellers responsible for their individual markets. Our sales force is supported in its efforts by technical engineers and our senior management. We intend to increase our phone directory advertising to include all cities in which we provide local telephone access. In addition, we are exploring other strategies to increase our sales, including other marketing partners such as electric cooperatives. We currently have one of the 20 local Oklahoma electric cooperatives as a marketing partner.

Grow Subscriber Base

We intend to grow our subscriber base through a combination of internal and acquisition driven growth. We anticipate that this growth will increase the density of our subscriber base within a service area utilizing our available network operations, customer support, back office functions and management overhead without further cost increase or with minimal cost increase. We expect our local markets to generate internal subscriber growth primarily by enhancing subscribers online experience, providing a sense of a national presence while maintaining local community content and developing a consumer recognized regional FullNet brand.

Increase Rural Area Market Share

We believe that the rural areas of Oklahoma are underserved by Internet service providers, and that significant profitable growth can be achieved in serving these markets by providing reliable Internet connectivity at a reasonable cost to the residents and businesses located in these areas. We believe we can obtain a significant Internet service provider and business-to-business market share in Oklahoma. To that end, through our wholly-owned subsidiary, FullTel, we became a licensed competitive local exchange carrier in Oklahoma. Since March 2003 when we installed our telephone switch, FullTel, as a competitive local exchange carrier, have provided local telephone numbers for

Internet access.

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Enhance Subscribers Online Experience

We intend to maximize our subscriber retention and add new subscribers by enhancing our services in the following ways:

Ease of Use During the first quarter of 2001, we implemented a common, easy to use CD-ROM based software package that automatically configures all of the individual Internet access programs after a one-time entry by the user of a few required fields of information such as, name, user name and password.

New Products and Services Offer subscribers new products and services. We recently began offering call waiting modem on hold, Postini e-mail spam and virus protection and a dial-up accelerator.

Internet Access Services

Our core business is the sale of Internet access services to individual and small business subscribers 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:

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

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 subscribers 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 2,500 subscribers at December 31, 2007. 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.

We intend to expand our subscriber base through a marketing campaign and through acquisitions. We are focusing our acquisition efforts on companies with forward-looking sales and marketing, high-quality customer service and solid local market dominance. See Item 1. Business Company History. Additionally, we are expanding our phone directory advertising in an effort to increase our subscriber base in the markets in which we currently operate.

Currently, we offer the following two types of Internet connections:

Dial-Up Connections

The simplest connection to the Internet is the dial-up account. This method of service connects the user to the Internet through the use of a modem and standard telephone line. Currently, FullNet users can connect via dial-up at speeds up to 56 Kbps. We support these users through the use of sophisticated modem banks located in our facility in Oklahoma City that send data through a router and out to the Internet. We support the higher speed 56K, V.92 MOH and Integrated Services Digital Network connections with state-of-the-art digital modems. With a dial-up connection, a user can gain access to the Internet for e-mail, the World Wide Web, file transfer protocol, news groups, and a variety of other useful applications.

Leased Line Connections

Many businesses and some individuals have a need for more bandwidth to the Internet to support a network of users or a busy Website. We have the capacity to sell a leased line connection to users. This method of connection gives the user a full-time high-speed (up to 1.5 mbps) connection to the Internet. The leased line solution comes at greater expense to the user. These lines are leased through the telephone companies at a high installation and monthly fee.

We believe that our Internet access services provide customers with the following benefits:

Fast and Reliable Internet Access-We have implemented a network architecture providing exceptional quality and consistency in Internet services, making us one of the recognized backbone leaders in the Oklahoma Internet service provider industry. We offer unlimited, unrestricted and reliable Internet access at a low monthly price. We have designed our network such that our users never have to worry about busy signals due to a lack of available modems. Dial-up access is available for the following modem speeds: 14.4K, 28.8K, 33.6K, K56Flex, 56K V.90, v.92 MOH, ISDN 64K and ISDN 128K. Our dial-up access supports all major platforms and operating systems, including MS

Windows, UNIX(R), Mac OS, OS/2 and LINUX. This allows simplified access to all Internet applications, including the World Wide Web, email, and news and file transfer protocol.

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Cost-Effective Access-We offer high quality Internet connectivity and enhanced business services at price points that are generally lower than those charged by other Internet service providers with national coverage. Additionally, we offer pre-bundled access services packages under monthly or prepaid plans.

Superior Customer Support-We provide superior customer service and support, with customer care and technical personnel available by telephone and on-line 24 hours per day, 365 days per year.

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 (formerly SBC), 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 began offering 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. We intend to build our own network infrastructure, which we believe will reduce our current reliance upon the infrastructures of the ILECs. We believe that our CLEC status, combined with the efficiencies inherent in operating our own network, should result in lower overhead costs and a more predictable infrastructure, both of which should be to the benefit of our customers.

While Internet access is the core focus of growth for us, we plan to also provide traditional telephone service throughout Oklahoma.

A core piece of our marketing strategy is the cross pollination between our Internet activities and FullTel s local dial-up service. By organizing and funding FullTel, we expect to gain local dial-up Internet access to approximately 80% of Oklahoma. In return, FullTel will gain immediate access to our entire Internet service provider customer base. 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 which we will 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 service. At December 31, 2007, 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.

Sales and Marketing

Although we expect that the bulk of our new subscribers will come through acquisition of Internet service providers, our expanded local sales system is also an integral part of our growth plan. We believe local sales and marketing will develop further recognition of our name brand that will lead to increased subscriber revenues.

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.

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 communications 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, such as Cox Communications and AT&T (formerly SBC). 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).

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 America Online, Incorporated, 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.

However, America Online s merger with Time-Warner, its acquisition of Netscape Communications Corporation and related strategic alliance with Sun Microsystems enable it to offer a broader array of Internet -based services and products that could significantly enhance its ability to appeal to the business marketplace and, as a result, compete more directly with Internet service providers like us. CompuServe has also announced that it will target Internet connectivity for the small to medium sized business market.

We believe that our ability to attract business customers and to market value-added services is a key to our future success. 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.

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Moreover, there can be 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.

Both the provision of Internet access service and the provision of 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, such as phone-to-phone Internet telephony, may be functionally indistinguishable from traditional telecommunications service offerings, and their non-regulated status may have to be reexamined.

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 recently focused attention on acquiring telecommunications assets and facilities, which is a regulated activity. Fulltel, our subsidiary, has received competitive local exchange carrier or CLEC certification in Oklahoma, and an important part of our growth strategy is obtaining CLEC certification in certain other states. 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.

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 Supreme Court. Until all of these proceedings are concluded, the impact of this order, if any, on our CLEC operations cannot be determined.

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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. We have billed, collected and are continuing to bill reciprocal compensation. However, continuance of this revenue stream is subject to ongoing regulation. 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.

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 Obtaining an Acceptable Successor Interconnection Agreement. We are dependent upon obtaining certain services from AT&T (formerly SBC) pursuant to our interconnection agreement with them. We along with many other telecommunications companies in Oklahoma are currently a party to one or more proceedings before the Oklahoma Corporation Commission (the OCC) relating to the terms of our interconnection agreements with AT&T and an anticipated successor to these interconnection agreements. Failure to obtain an acceptable successor interconnection agreement would have a material adverse effect on our business prospects, financial condition and results of operation.

Necessity of Prevailing Against AT&T on Disputed Back Billings. AT&T (formerly SBC) has recently back billed us for various amounts that total in excess of $7,900,000. We believe that AT&T has no basis for these charges, are currently reviewing them with our attorneys and plan to vigorously dispute them. However, failure to prevail in the dispute of these back billings would have a material adverse effect on our business prospects, financial condition and results of operation.

Limited Operating History. We have a relatively limited operating history upon which an evaluation of our prospects can be made. Consequently, the likelihood of our success must be considered in view of all of the risks, expenses and delays inherent in the establishment and growth of a new business including, but not limited to, expenses, complications and delays which cannot be foreseen when a business is commenced, initiation of marketing activities, the uncertainty of market acceptance of new services, intense competition from larger more established competitors and other factors. Our ability to achieve profitability and growth will depend on successful development and commercialization of our current and proposed services. No assurance can be given that we will be able to introduce our proposed services or market our services on a commercially successful basis.

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 an initial 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 such pursuit.

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.

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 commercial use. Remedying such errors could delay our plans and cause us to incur substantial additional costs.

New Concept; Uncertainty of Market Acceptance and Commercialization Strategy. As is typical in the case of a new business concept, demand and market acceptance for a newly introduced product or service is subject to a high level of uncertainty. Achieving market acceptance for this new concept will require significant efforts and expenditures by us to create awareness and demand by consumers. Our marketing strategy and preliminary and future marketing plans may be unsuccessful and are subject to change as a result of a number of factors, including progress or delays in our marketing efforts, changes in market conditions (including the emergence of potentially significant related market segments for applications of our technology), the nature of possible license and distribution arrangements which may or may not become available to us in the future and economic, regulatory and competitive factors. There can be no assurance that our strategy will result in successful product commercialization or that our efforts will result in initial or continued market acceptance for our proposed products.

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 can be 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.

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 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 bodies or the legal outcomes of other contested interconnection agreements that are similar to agreements to which we are a party. The results of any of these proceedings 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, Messrs. 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.

Limited Public Market. During February 2000, our common stock began trading on the OTC Bulletin Board under the symbol FULO. While our common stock continues to trade on the OTC Bulletin Board, 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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No Payment of Dividends on Common Stock. We have not paid any dividends on our common stock. For the foreseeable future, we anticipate that all earnings, if any, which may be generated from our operations, will be used to finance our growth and that cash dividends will not be paid to holders of the common stock.

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 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 such 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.

Employees

As of December 31, 2007, we had 13 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.

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 $10.20 per square foot. These premises are occupied pursuant to a ten-year lease that expires December 31, 2009.

Item 3. 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 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

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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 Bulletin Board 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 Bulletin Board.

	Common Stock Closing Sale Prices High	Low
2007 Calendar Quarter Ended:		
March 31	$ .19	$ .03
June 30	.08	.03
September 30	.05	.03
December 31	.06	.03
2006 Calendar Quarter Ended:		
March 31	$ .08	$ .08
June 30	.06	.06
September 30	.04	.04
December 31	.03	.03

Number of stockholders

The number of beneficial holders of record of our common stock as of the close of business on March 28, 2008 was approximately 109.

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, 2007, 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.

Plan Category	**Number of Shares Underlying Unexercised Options and Warrants**	**Weighted-Average Exercise Price of Outstanding Options and Warrants**	**Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans(1)**

Equity compensation plans approved by our shareholders:				
None	Not Applicable		Not Applicable	Not Applicable
Equity compensation plans not approved by our shareholders:				
Stock option grants to non-employee directors		$		
Stock options granted to employees	3,132,134	$	.42	
Warrants and certain stock options issued to non-employees	376,000	$	.41	
Total	3,508,134	$	.42	

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Recent Sales of Unregistered Securities

Warrants exercisable for the purchase of 18,000 shares of our common stock were exercised in January 2006 for $180. These common stock shares were offered and sold pursuant to Rule 506 of Regulation D of the Securities Act, and no commissions and fees were paid. With respect to the foregoing common stock transaction, we relied on Sections 4(2) and 3(b) of the Securities Act of 1933 and applicable registration exemptions of Rules 504 and 506 of Regulation D and applicable state securities laws.

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 offering integrated communications and Internet connectivity to individuals, businesses, organizations, educational institutions and government agencies. Through our subsidiaries, we provide high quality, reliable and scalable Internet access, web hosting, equipment co-location, and traditional telephone service.

Our overall strategy is to become the dominant integrated communications provider for residents and small to medium-sized businesses in Oklahoma. We believe that the rural areas of Oklahoma are underserved by Internet service providers, and that significant profitable growth can be achieved in serving these markets by providing reliable Internet connectivity and value-added services at a reasonable cost to the residents and businesses located in these areas. We believe we can obtain a significant Internet service provider and business-to-business market share in Oklahoma. Our wholly-owned subsidiary, FullTel, is a licensed competitive local exchange carrier or CLEC and provides local telephone numbers for Internet access.

The market for Internet connectivity and related services is extremely competitive. We anticipate that competition will continue to intensify. 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 that a reliable network, knowledgeable sales people 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.

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.

AT&T has recently back billed us for various amounts that total in excess of $7,900,000. We believe that AT&T has no basis for these charges, are currently reviewing them with our attorneys and plan to vigorously dispute them. However, failure to prevail in the dispute of these back billings would have a material adverse effect on our business prospects, financial condition and results of operation.

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Results of Operations

The following table sets forth certain statement of operations data as a percentage of revenues for the years ended December 31, 2007 and 2006:

	For the Years Ended December 31, 2007		2006	
	Amount	Percentage of revenues	Amount	Percentage of revenues
Revenues:				
Access service revenues	$ 643,155	33.9%	$ 741,017	41.9%
Co-location and other revenues	1,252,413	66.1	1,028,054	58.1
Total revenues	1,895,568	100.0	1,769,071	100.0
Operating costs and expenses:				
Cost of access service revenues	233,931	12.3	214,339	12.1
Cost of co-location and other revenues	322,922	17.0	268,530	15.2
Selling, general and administrative expenses	1,334,285	70.4	1,369,228	77.4
Depreciation and amortization	297,176	15.7	309,893	17.5
Impairment expense	13,032	.7		
Total operating costs and expenses	2,201,346	116.1	2,161,990	122.2
Loss from operations	(305,778)	(16.1)	(392,919)	(22.2)
Gain on debt forgiveness	54,795	2.9	19,925	1.1
Interest expense	(96,668)	(5.1)	(106,309)	(6.0)
Net loss	$ (347,651)	(18.3)%	$ (479,303)	(27.1)%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues

Access service revenues decreased $97,862 or 13.2% to $643,155 for the year 2007 from $741,017 for the year 2006 primarily due to a decline in the number of customers.

Co-location and other revenues increased $224,359 or 21.8% to $1,252,413 for the year 2007 from $1,028,054 for the year 2006. This increase was primarily attributable to the addition of new customers and the sale of additional services to existing customers. During 2007 we did not record reciprocal compensation revenue (fees for terminating AT&T (formerly SBC) customers local calls onto our network). During 2006 we recorded approximately $7,800 in reciprocal compensation revenue. We began billing AT&T during 2004, and have billed for the periods of March 2003 through June 2006. AT&T failed to pay and is disputing approximately $166,700. We are pursuing AT&T for all balances due, however there is significant uncertainty as to whether or not we will be successful. Upon the ultimate resolution of AT&T s challenge, we will recognize the associated revenue, if any. On a going-forward basis it is uncertain at what rate or if any reciprocal compensation will be allowed in our successor interconnection agreement with AT&T.

Operating Costs and Expenses

Cost of access service revenues increased $19,592 or 9.1% to $233,931 for the year 2007 from $214,339 for the year 2006. This increase was primarily due to recurring costs associated with expansion and support of our network. Cost of access service revenues as a percentage of access service revenues increased to 36.4% for the year 2007 from 28.9% for the year 2006 primarily due to the decrease in revenues.

Cost of co-location and other revenues increased $54,392 or 20.3% to $322,922 for the year 2007 from $268,530 for the year 2006. This increase was primarily due to increases to recurring costs related to increased customers on traditional phone services. Cost of co-location and other revenues as a percentage of co-location and other revenues decreased to 25.8% for the year 2007 from 26.1% for the year 2006.

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Selling, general and administrative expenses decreased $34,943 or 2.6% to $1,334,285 for the year 2007 from $1,369,228 for the year 2006 primarily due to a nonrecurring provision for bad debts of approximately $58,000 associated with the reciprocal compensation estimate. During the year 2006 we recorded approximately $7,800 in reciprocal compensation revenue (fees for terminating AT&T (formerly SBC) customers local calls onto our network). We began billing AT&T during 2004, and have billed for the periods of March 2003 through June 2006. AT&T failed to pay and is disputing approximately $166,700. During the fourth quarter of 2006, based upon a review of recent reciprocal compensation correspondence management concluded a change in estimate was appropriate and increased the provision for bad debts approximately $58,000. We are pursuing AT&T for all balances due, however there is significant uncertainty as to whether or not we will be successful. Upon the ultimate resolution of AT&T s challenge, we will recognize the associated revenue, if any. On a going-forward basis it is uncertain at what rate or if any reciprocal compensation will be allowed in our successor interconnection agreement with AT&T. We also had decreases in employee costs and taxes of $9,517 and $7,340, respectively. These decreases were offset primarily by increases in agent commissions related to sales of traditional phone service, supplies and rent of $18,449, $12,381 and $11,393, respectively. Selling, general and administrative expenses as a percentage of total revenues decreased to 70.4% during 2007 from 77.4% during 2006.

Depreciation and amortization expense decreased $12,717 or 4.1% to $297,176 for the year 2007 from $309,893 for the year 2006 primarily due to several of our intangible assets reaching full amortization. In January 2002, upon initially applying Statement of Financial Account Standards 142, *Goodwill and Intangible Assets* (SFAS 142), we reassessed useful lives and we began amortizing our intangible assets over their estimated useful lives and in direct relation to any decreases in the acquired customer bases to which they relate. Amortization expense for the years ended 2007 and 2006 relating to intangible assets was $23,082 and $43,652, respectively.

During 2007, we recorded an impairment expense of $13,032 on property held for sale. We recorded no impairment expense in 2006.

Gain on Debt Forgiveness

During 2007, we negotiated and settled the following liabilities for less than their carrying values.

	Carrying Value	Settlement Amount	Gain
Accounts payable trade	$ 54,795	$ 0	$ 54,795

During 2006, we negotiated and settled the following liabilities for less than their carrying values.

	Carrying Value	Settlement Amount	Gain
Accounts payable	$ 21,380	$ 1,455	$ 19,925

Interest Expense

Interest expense decreased $9,641 or 9.1% to $96,668 for the year 2007 from $106,309 for the year 2006. This decrease was primarily attributable to the lower note balances from the payment of principal on the notes.

Liquidity and Capital Resources

As of December 31, 2007, we had $15,369 in cash and $1,892,047 in current liabilities, including $112,586 of deferred revenues that will not require settlement in cash.

At December 31, 2007, we had a working capital deficit of $1,788,439, while at December 31, 2006 we had a deficit working capital of $2,374,575. 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 December 31, 2007, $172,657 of the $176,014 we owed to our trade creditors was past due. We have no formal agreements regarding payment of these amounts. At December 31, 2007, $270,142 payable under a matured lease obligation to a related party was outstanding and we had outstanding principal and interest owed on matured notes totaling $1,396,394. We have not made payment or negotiated an extension of the notes and the lenders have not made any payment demands. We are currently developing a plan to satisfy these notes on terms acceptable to the note holders.

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During September 2005, we received a back billing from AT&T (formerly SBC) of approximately $230,000. Since then, we have received a number of additional back billings from AT&T that total in excess of $7,900,000. We believe AT&T has no basis for these charges, are currently reviewing these billings with our attorneys and plan to vigorously dispute the charges. Therefore, we have not recorded any expense or liability related to these billings.

	For the Years Ended December 31,	
	2007	2006
Net cash flows provided by operations	$ 165,503	$ 185,551
Net cash flows used in investing activities	(83,844)	(91,915)
Net cash flows used in financing activities	(82,297)	(92,603)

Cash used for the purchases of equipment was $82,934 and $76,412, respectively, for the years ended December 31, 2007 and 2006. Cash used for the acquisition of assets was $910 and $15,503, respectively, for 2007 and 2006.

Cash used for principal payments on notes payable and capital lease obligations was $82,297 and $92,783, respectively, for the years ended December 31, 2007 and 2006.

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 subscribers 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 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.

In the event that we are unable to obtain additional capital or to obtain it on acceptable terms or in sufficient amounts, we will be required to delay the further development of our network or take other actions. This could have a material adverse effect on our business, operating results and financial condition and our ability to achieve sufficient cash flows to service debt requirements.

Our ability to fund the capital expenditures and other costs contemplated by our business plan and to make scheduled payments with respect to bank 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 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.

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As of December 31, 2007, our material contractual obligations and commitments were:

	Payments Due By Period				
	Total	Less than 1 Year	1 3 Years	3 5 Years	More than 5 Years
Long-term debt (a)	$ 830,636	$ 580,236	$ 69,600	$ 69,600	$ 111,200
Operating leases	386,229	189,853	196,376		
Other agreements (b)	270,142	5,988	5,988	5,988	252,178
Total contractual cash obligations	$ 1,487,007	$ 776,077	$ 271,964	$ 75,588	$ 363,378

(a) Included in this item are required principal and interest payments under a $320,000 note payable to a related party. Also included are convertible promissory notes totaling $510,636 that were matured at December 31, 2007. The convertible promissory notes are included in the Less than One Year total. We have not made payment or negotiated an extension of the convertible promissory notes, and the lenders have not made any demands. We are currently developing a plan to satisfy these notes subject to the approval of each individual note holder.

(b) This item represents the required payments on a matured lease obligation to a related party.

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 our accounting principles, we must often make individual estimates and assumptions regarding expected outcomes or uncertainties. As you might expect, 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 such cash flows and fair value, however, could affect the calculation and result in additional impairment charges in future periods.

We review loss contingencies and evaluate the events and circumstances related to these contingencies. In accordance with Statement of Financial Accounting Standard No. 5 *Accounting for 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.

During September 2005, we received a back billing from AT&T (formerly SBC) of approximately $230,000. Since then, we have received a number of additional back billings from AT&T that total in excess of $7,900,000. We believe AT&T has no basis for these charges, are currently reviewing these billings with our attorneys and plan to vigorously dispute the charges. Therefore, we have not recorded any expense or liability related to these billings.

We recognize revenue in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* . 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 and traditional telephone services are recognized on a monthly basis over the life of the contract as services are provided. Revenue that is billed 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.

During 2006 we recorded approximately $7,800 in reciprocal compensation revenue (fees for terminating AT&T (formerly SBC) customers local calls onto our network). We began billing AT&T during 2004, and have billed for the periods of March 2003 through June 2006. AT&T failed to pay and is disputing approximately $166,700. We are pursuing AT&T for all balances due, however there is significant uncertainty as to whether or not we will be successful. Upon the ultimate resolution of AT&T s challenge, we will recognize the associated revenue, if any. On a going-forward basis it is uncertain at what rate or if any reciprocal compensation will be allowed in our successor interconnection agreement with AT&T.

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Certain Accounting Matters

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 was effective for fiscal years beginning after December 15, 2006. We adopted the provisions of FIN 48 on January 1, 2007.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. We are assessing the impact of the adoption of this Statement.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS 159 on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 141R, *Business Combinations* (SFAS 141R) which is a revision of Statement No. 141, *Business Combinations*. SFAS 141R will apply to all business combinations and will require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value at the acquisition date. SFAS 141R will also require transaction-related costs to be expensed in the period incurred, rather than capitalizing these costs as a component of the respective purchase price. SFAS 141R is effective for acquisitions completed after January 1, 2009 and early adoption is prohibited. We are assessing the impact of the adoption of this Statement.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), an amendment of ARB No. 51. SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We are assessing the impact that SFAS 160 may have on our financial position, results of operations, and cash flows.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). This statement will require enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are assessing the impact of the adoption of this Statement.

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 Supplementary Data.

Our financial statements, prepared in accordance with Regulation S-B, are set forth in this Report beginning on page F-1.

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

During 2007 and 2006, we did not have disagreements with our principal independent accountants.

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Item 9A. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer are responsible primarily for establishing and maintaining disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the U.S. Securities and Exchange Commission. These controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Furthermore, our Chief Executive Officer and Chief Financial Officer are responsible for the design and supervision of our internal controls over financial reporting that are then effected by and through our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These policies and procedures

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our Chief Executive Officer and Chief Financial Officer, based upon their evaluation of the effectiveness of our disclosure controls and procedures and the internal controls over financial reporting as of the last day of the period covered by this Report, concluded that our disclosure controls and procedures and internal controls over financial reporting were fully effective during and as of the last day of the period covered by this Report and reported to our auditors and the audit committee of our board of directors that no change in our disclosure controls and procedures and internal control over financial reporting occurred during the period covered by this Report that would have materially affected or is reasonably likely to materially affect our disclosure controls and procedures or internal control over financial reporting. In conducting their evaluation of our disclosure controls and procedures and internal controls over financial reporting, these executive officers did not discover any fraud that involved management or other employees who have a significant role in our disclosure controls and procedures and internal controls over financial reporting. Furthermore, there were no significant changes in our disclosure controls and procedures, internal controls over financial reporting, or other factors that could significantly affect our disclosure controls and procedures or internal controls over financial reporting subsequent to the date of their evaluation. Because no significant deficiencies or material weaknesses were discovered, no corrective actions were necessary or taken to correct significant deficiencies and material weaknesses in our internal controls and disclosure controls and procedures.

Item 9A(T). Controls and Procedures.

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

Item 9B. Other Information

During the three months ended December 31, 2007 we did not have any events reportable on Form 8-K that were not reported.

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PART III

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

The following information is furnished as of March 30, 2008 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 two 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.

Name	Age	Position
Timothy J. Kilkenny	49	Chairman of the Board of Directors and CEO
Roger P. Baresel	52	Director, President, Chief Financial Officer and Secretary
Jason C. Ayers	33	Vice President of Operations
Patricia R. Shurley	51	Vice President of Finance
Michael D. Tomas	35	Vice President of Technology

Timothy J. Kilkenny has served as our Chief Executive Officer and Chairman of the Board of Directors since our inception in May 1995. 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 one of our directors and our Chief Financial Officer on November 9, 2000, and our President on October 13, 2003. Mr. Baresel is an accomplished senior executive and consultant who has served at a variety of companies. While serving as President and CFO of Advantage Marketing Systems, Inc., a publicly-held company engaged in the multi-level marketing of healthcare and dietary supplements, from June 1995 to May 2000, annual sales increased from $2.5 million to in excess of $22.4 million and annual earnings increased from $80,000 to more than $l.2 million. Also, during this period Advantage successfully completed two public offerings, four major acquisitions and its stock moved from the over the counter bulletin board to the American Stock Exchange.

Mr. Baresel has the following degrees from Central State University 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 has been our Vice President of Operations since December 8, 2000 and prior to that served as President of Animus, a privately-held web hosting company which we acquired on April 1, 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 has been our Vice President of Finance since May 2001. Prior to that, she served for three years as the Controller for Advantage Marketing Systems, Inc., a publicly-held company engaged in the multi-level marketing of healthcare and dietary supplements. Prior to that she was self-employed and owned an accounting practice. She graduated from the University of Central Oklahoma in Edmond, Oklahoma with a BS degree in Accounting and is a certified public accountant.

Michael D. Tomas has been our Vice President of Technology since September 2003. Prior to that, he was our Information Systems Manager since June 1999 and our employee since July 1996. Mr. Tomas has formal training with Cisco, Win 3.1, Win95/98, and Windows NT 4.0 as well as LAN/WAN setup, including experience with wireless networking and is Lucent certified.

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Audit Committee Financial Expert

Because our board of directors only consists of two 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 President and Chief Financial Officer qualifies as a financial expert. This determination was based upon Mr. Baresel s

- 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 2007 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. A copy of the portion of this code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions may be obtained by written request addressed to Mr. Roger P. Baresel, Corporate Secretary, Fullnet Communications, Inc., 201 Robert S. Kerr, Suite 210, Oklahoma City, Oklahoma 73102.

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Item 11. Executive Compensation

The following table sets forth, for the last three fiscal years, the cash compensation paid by us to our Chairman and Chief Executive Officer (the Named Executive Officer). None of our executive officers earned annual compensation in excess of $100,000 during 2007.

Name and Principal Position	Fiscal Year	Annual Compensation Salary	Annual Compensation Other Compensation	Long-Term Compensation Securities Underlying Options and Warrants (#) (1)
Timothy J. Kilkenny	2007	$ 115,161(2)	$ 20,946(5)	
Chairman and CEO	2006	$ 103,516(3)	$ 19,130(6)	
	2005	$ 117,125(4)	$ 21,954(7)	

(1) Options are granted with an exercise price equal to the fair market value of our common stock on the date of the grant.

(2) Includes $40,121 of deferred compensation.

(3) Includes $32,948 of deferred compensation.

(4) Includes $40,075 of deferred compensation.

(5) Represents $8,400 of expense reimbursement for business use of Mr. Kilkenny s

automobile, $1,800 of expense reimbursement for Mr. Kilkenny s Internet connection and cell phone, and $10,746 of insurance premiums paid by us for the benefit of Mr. Kilkenny.

(6) Represents $7,700 of expense reimbursement for business use of Mr. Kilkenny s automobile, $1,649 of expense reimbursement for Mr. Kilkenny s Internet connection and cell phone, and $9,781 of insurance premiums paid by us for the benefit of Mr. Kilkenny.

(7) Represents $8,400 of expense reimbursement for business use of Mr. Kilkenny s automobile, $1,909 of expense reimbursement for

Mr. Kilkenny s Internet connection and cell phone, and $11,645 of insurance premiums paid by us for the benefit of Mr. Kilkenny.

Stock Options Granted

We do not have a written stock option plan. However, the Board of Directors granted to our employees stock options exercisable for the purchase of 48,000 shares of our common stock during 2007. No stock options were granted to Mr. Kilkenny during 2007.

All options granted during 2007 are nonqualified stock options. During 2007, an aggregate of 48,000 options were granted outside of a formal plan to employees. 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.

2007 Year End Option Values

The following table sets forth information related to the exercise of stock options during 2007 and the number and value of options held by the following Named Executive Officer at December 31, 2007. During 2007, the Named Executive Officer did not exercise any options, nor did we reprice any outstanding options. For the purposes of this table, the value of an option is the difference between the estimated fair market value at December 31, 2007 of the shares of common stock subject to the option and the aggregate exercise price of such option.

	Number of Unexercised Options at December 31, 2007		Value of Unexercised In-the-Money Options at December 31, 2007 (1)	
Name	Exercisable	Unexercisable	Exercisable	Unexercisable
Timothy J. Kilkenny Chairman and CEO	714,000		$	$

(1) Based on the December 31, 2007 estimated fair value of our common stock of $.04 per share.

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Aggregate Stock Option Exercise

The following table sets forth information related to the number of stock options held by the named executive officer at December 31, 2007. During 2007, no options to purchase our common stock were exercised by the named executive officers.

Outstanding Equity Awards at December 31, 2007
Stock Option Awards

Name	Number of Common Stock Underlying Options Exercisable	Number of Common Stock Underlying Options Unexercisable	Option Exercise Price(1)	Option Expiration Date
Timothy J. Kilkenny	120,000		$ .04	10/09/13
Chairman and CEO	150,000		$ .04	10/09/13
	182,000		$ .04	10/09/13
	80,000		$ .05	03/18/12
	32,000		$ .11	11/16/11
	50,000		$ .70	07/18/11
	100,000		$ 1.00	12/08/10

(1) The closing sale price of our common stock as reported on the OTC Bulletin Board on December 31, 2007 was $0.04.

Director Compensation

During the fiscal year ended December 31, 2007, our directors did not receive any compensation for serving in such capacities.

Employment Agreements and Lack of Keyman Insurance

On July 31, 2002, we entered into employment agreements with Timothy J. Kilkenny and Roger P. Baresel. Each agreement is effective January 1, 2002, and has a term of two years; however, the term is automatically extended for additional one-year terms, unless we or the employee gives six-month advance notice of termination. These agreements provide, among other things, (i) an annual base salary of at least $75,000 for Mr. Kilkenny (of which he has voluntarily agreed to defer $25,000) and $65,000 for Mr. Baresel (of which he has voluntarily agreed to defer $15,000), (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.

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

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

Security Ownership

The following table sets forth information as of March 30, 2008, concerning the beneficial ownership of our Common Stock by each person (other than our directors and executive officers) who is known by us to own more than 5% of the outstanding shares of our Common Stock. The 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.

	Common Stock	
Beneficial Owner (1)	Number of Shares	Percent of Class (1)
Generation Capital Associates (2)		
1085 Riverside Trace, Atlanta, Georgia 30328	778,108	9.9%
Karen Gustafson & Greg Kusnick (3)		
P.O. Box 22443, Seattle, Washington 98112	410,231	5.4%
Greg Lowney & Maryanne Snyder (4)		
15207 N.E. 68th Street, Redmond, Washington 98052	410,231	5.4%
Laura L. Kilkenny (5)		
3160 Long Drive, Newcastle, Oklahoma 73065	465,000	6.3%

(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 7,425,565 outstanding shares of common stock as of March 30, 2008.

(2) Generation Capital Associates holds 267,608 shares of our common stock. The number of shares includes 345,000 shares of our common stock that are subject to currently exercisable common stock purchase warrants. Amounts shown do not include 54,500 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 an operating lease and an interim loan with Generation Capital (see Item. 13 Certain Relationships and Related Transactions, and Director Independence).

(3) Ms. Gustafson & Mr. Kusnick hold 155,129 shares of our common stock. The number of shares includes 255,102 shares of our common stock that are subject to a currently convertible promissory note.

(4) Mr. Lowney & Ms. Snyder hold 155,129 shares

of our common stock. The number of shares includes 255,102 shares of our common stock that are subject to a currently convertible promissory note.

(5) Ms. Kilkenny is the former-wife of Timothy J. Kilkenny, our Chairman of the Board and Chief Executive Officer. Ms. Kilkenny holds 415,000 shares of our common stock. The number of shares includes 50,000 shares of our common stock that are subject to currently exercisable common stock purchase options.

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The following table sets forth information as of March 30, 2008, 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. There are no family relationships amongst our executive officers and directors. Unless otherwise indicated, the beneficial owner has sole voting and investment power with respect to such stock.

	Common Stock Beneficially Owned	
Beneficial Owner (1)	Number of Shares	Percent of Class (1)
Timothy J. Kilkenny* (2)(3)	1,729,000	21.3%
Roger P. Baresel* (2)(4)	575,362	7.4%
Jason C. Ayers (2)(5)	405,795	5.5%
Patricia R. Shurley (2)(6)	292,000	3.9%
Michael D. Tomas (2)(7)	260,000	3.5%
All executive officers and directors as a group (5 persons)	3,262,157	41.6%

* 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 7,425,565 shares being outstanding at March 30, 2008.

(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 915,000 and 100,000 shares of our common stock, respectively. The number of shares includes 714,000 shares of our common stock that are subject to currently

exercisable stock options held by Mr. Kilkenny.

(4) Roger P. Baresel and Judith A. Baresel, husband and wife, hold 34,408 and 92,659 shares of our common stock, respectively. They hold 31,250 shares of our common stock as joint tenants. The number of shares includes 198,745 shares of our common stock subject to currently exercisable stock options held by Mr. Baresel, and 218,300 shares of our common stock subject to currently exercisable stock options held by Mrs. Baresel.

(5) Jason C. Ayers holds 323,295 shares of our common stock. The number of shares includes 82,500 shares of our common stock that are subject to currently

exercisable common stock options held by Mr. Ayers.

(6) Patricia R. Shurley holds 209,500 shares of our common stock. The number of shares includes 82,500 shares of our common stock that are subject to currently exercisable common stock purchase options held by Ms. Shurley.

(7) Michael D. Tomas holds 177,500 shares of our common stock. The number of shares includes 82,500 shares of our common stock that are subject to currently exercisable common stock purchase options held by Mr. Tomas.

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

We have an operating lease for certain equipment which is leased from one of our significant shareholders who also holds a $320,000 interim loan (see Note E Notes Payable). The terms of the original lease, dated November 21, 2001, requires rental payments of $6,088 per month for 12 months with a fair market purchase option at the end of the lease. Upon default on the lease, we were allowed to continue leasing the equipment on a month-to-month basis at the same monthly rate as the original lease. We have been unable to make the month-to-month payments. In January and November 2006, we agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants for the lessor in return for a credit of $17,960 and $3,940, respectively, on the operating lease. In September 2007, the lessor agreed to cease the monthly lease payments effective January 1, 2007 which generated a total of $54,795 of forgiveness of debt income. The lessor also agreed to accept payments of $499 per month on the balance owed. At December 31, 2007 we had recorded $270,142 in unpaid lease payments. The loss of this equipment would have a material adverse effect on our business, financial condition and results of operations.

Item 14. Principal Accountant Fees and Services

The following table sets forth the aggregate fees, including expenses, billed to us for the years ended December 31, 2007 and 2006 by our principal accountant.

	2007	2006
Audit Fees Murrell, Hall, McIntosh & Co., PLLP	$ 35,500	$ 34,000
Audit Related Fees		
Tax Fees		
All Other Fees		

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 two 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.

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Item 15. Exhibits, Financial Statement Schedules.
(a) The following exhibits are filed as part of 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).	#
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).	#
4.4	Form of Warrant Agreement for Interim Financing in the amount of $505,000 (filed as Exhibit 4.1 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.5	Form of Warrant Certificate for Florida Investors for Interim Financing in the amount of $505,000 (filed as Exhibit 4.2 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.6	Form of Promissory Note for Florida Investors for Interim Financing in the amount of $505,000 (filed as Exhibit 4.3 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.7	Form of Warrant Certificate for Georgia Investors for Interim Financing in the amount of $505,000 (filed as Exhibit 4.4 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.8	Form of Promissory Note for Georgia Investors for Interim Financing in the amount of $505,000 (filed as Exhibit 4.5 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.9	Form of Warrant Certificate for Illinois Investors for Interim Financing in the amount of $505,000 (filed as Exhibit 4.6 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.10	Form of Promissory Note for Illinois Investors for Interim Financing in the amount of $505,000 (filed as Exhibit 4.7 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#

4.11	Form of Warrant Agreement for Interim Financing in the amount of $500,000 (filed as Exhibit 4.8 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.12	Form of Warrant Certificate for Interim Financing in the amount of $500,000 (filed as Exhibit 4.9 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.13	Form of Promissory Note for Interim Financing in the amount of $500,000 (filed as Exhibit 4.10 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended March 31, 2000 and incorporated herein by reference).	#
4.14	Form of Convertible Promissory Note for September 29, 2000, private placement (filed as Exhibit 4.13 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000 and incorporated herein by reference).	#
4.15	Form of Warrant Agreement for September 29, 2000, private placement (filed as Exhibit 4.13 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000 and incorporated herein by reference).	#

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Exhibit Number	*Exhibit*	
4.16	Form of 2001 Exchange Warrant Agreement (filed as Exhibit 4.16 to Registrant s Form 10-QSB for the quarter ended June 30, 2001 and incorporated herein by reference).	#
4.17	Form of 2001 Exchange Warrant Certificate (filed as Exhibit 4.17 to Registrant s Form 10-QSB for the quarter ended June 30, 2001 and incorporated herein by reference).	#
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).	#
10.4	Stock Purchase Agreement between the Company and Animus Communications, Inc. (filed as Exhibit 6.2 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).	#
10.6	Master License Agreement For KMC Telecom V, Inc., dated June 20, 2000, by and between FullNet Communications, Inc. and KMC Telecom V, Inc. (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-QSB for the Quarter ended June 30, 2000 and incorporated herein by reference).	#
10.7	Domain Registrar Project Completion Agreement, dated May 10, 2000, by and between FullNet Communications, Inc., FullWeb, Inc. d/b/a FullNic and Think Capital (filed as Exhibit 10.2 to Registrant s Quarterly Report on Form 10-QSB for the Quarter ended June 30, 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 June 30, 2000 and incorporated herein by reference).	#
10.9	Asset Purchase Agreement dated June 2, 2000, by and between FullNet of Nowata and FullNet Communications, Inc. (filed as Exhibit 99.1 to Registrant s Form 8-K filed on June 20, 2000 and incorporated herein by reference).	#

10.10	Asset Purchase Agreement dated February 4, 2000, by and between FullNet of Bartlesville and FullNet Communications, Inc. (filed as Exhibit 2.1 to Registrant s Form 8-K filed on February 18, 2000 and incorporated herein by reference).	#
10.11	Agreement and Plan of Merger Among FullNet Communications, Inc., FullNet, Inc. and Harvest Communications, Inc. dated February 29, 2000 (filed as Exhibit 2.1 to Registrant s Form 8-K filed on March 10, 2000 and incorporated herein by reference).	#
10.12	Asset Purchase Agreement dated January 25, 2000, by and between FullNet of Tahlequah, and FullNet Communications, Inc. (filed as Exhibit 2.1 to Registrant s Form 8-K filed on February 9, 2000 and incorporated herein by reference).	#
10.13	Promissory Note dated August 2, 2000, issued to Timothy J. Kilkenny (filed as Exhibit 10.13 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.14	Warrant Agreement dated August 2, 2000, issued to Timothy J. Kilkenny (filed as Exhibit 10.14 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.15	Warrant Certificate dated August 2, 2000 issued to Timothy J. Kilkenny (filed as Exhibit 10.15 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.16	Stock Option Agreement dated December 8, 2000, issued to Timothy J. Kilkenny (filed as Exhibit 10.16 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#

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Exhibit Number	*Exhibit*	
10.17	Warrant Agreement dated November 9, 2000, issued to Roger P. Baresel (filed as Exhibit 10.17 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.18	Warrant Agreement dated December 29, 2000, issued to Roger P. Baresel (filed as Exhibit 10.18 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.19	Stock Option Agreement dated February 29, 2000, issued to Wallace L Walcher (filed as Exhibit 10.19 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.20	Stock Option Agreement dated February 17, 1999, issued to Timothy J. Kilkenny (filed as Exhibit 3.1 to Registrant s Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference).	#
10.21	Stock Option Agreement dated October 19, 1999, issued to Wesdon C. Peacock (filed as Exhibit 10.21 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.22	Stock Option Agreement dated April 14, 2000, issued to Jason C. Ayers (filed as Exhibit 10.22 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.23	Stock Option Agreement dated May 1, 2000, issued to B. Don Turner (filed as Exhibit 10.23 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.24	Form of Stock Option Agreement dated December 8, 2000, issued to Jason C. Ayers, Wesdon C. Peacock, B. Don Turner and Wallace L. Walcher (filed as Exhibit 10.24 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.25	Warrant Certificate Dated November 9, 2000, issued to Roger P. Baresel (filed as Exhibit 10.25 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.26	Warrant Certificate Dated November 9, 2000, issued to Roger P. Baresel (filed as Exhibit 10.26 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.27	Warrant Certificate Dated December 29, 2000, issued to Roger P. Baresel (filed as Exhibit 10.27 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.28	Stock Option Agreement dated October 13, 2000, issued to Roger P. Baresel (filed as Exhibit 10.28 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.29	Stock Option Agreement dated October 12, 1999, issued to Travis Lane (filed as Exhibit 10.29 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.30	Promissory Note dated January 5, 2001, issued to Generation Capital Associates (filed as Exhibit 10.30 to Registrant s Form 10-KSB for the fiscal year ended December 31, 2000).	#
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).	
10.32	Promissory Note dated January 25, 2000, issued to Fullnet of Tahlequah, Inc.	#
10.33	Promissory Note dated February 7, 2000, issued to David Looper	#
10.34	Promissory Note dated February 29, 2000, issued to Wallace L. Walcher	#
10.35	Promissory Note dated June 2, 2000, issued to Lary Smith	#
10.36	Promissory Note dated June 15, 2001, issued to higganbotham.com L.L.C.	#
10.37	Promissory Note dated November 19, 2001, issued to Northeast Rural Services	#
10.38	Promissory Note dated November 19, 2001, issued to Northeast Rural Services	#

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Exhibit Number	*Exhibit*	
10.39	Form of Convertible Promissory Note dated September 6, 2002	#
10.40	Employment Agreement with Timothy J. Kilkenny dated July 31, 2002	#
10.41	Employment Agreement with Roger P. Baresel dated July 31, 2002	#
21.1	Subsidiaries of the Registrant	#
31.1	Certification pursuant to Rules 13a-14(a) and 15d-14(a) of Timothy J. Kilkenny	*
31.2	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 Timothy J. Kilkenny	*
32.2	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	*

Incorporated by reference.

* Filed herewith.

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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: March 31, 2008	By: /s/ TIMOTHY J. KILKENNY Timothy J. Kilkenny Chief Executive Officer
Date: March 31, 2008	By: /s/ ROGER P. BARESEL Roger P. Baresel President and Chief Financial and Accounting Officer

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: March 31, 2008	By: /s/ TIMOTHY J. KILKENNY Timothy J. Kilkenny, Chairman of the Board and Director
Date: March 31, 2008	By: /s/ ROGER P. BARESEL Roger P. Baresel, Director

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Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of FullNet Communications, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders deficit, and cash flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FullNet Communications, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the results of its consolidated operations and its consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company s current liabilities exceed its current assets by $1,788,439 as of December 31, 2007. The Company also had disputed back billings from one of its access providers. The Company disputes this claim and has not recorded any liability related to this claim as of December 31, 2007. An adverse outcome regarding this claim could have a materially adverse effect on the Company s ability to continue as a going concern. These matters, among others as discussed in Note A to the financial statements, raise substantial doubt about the ability of the Company to continue as a going concern. Management s plans in regard to these matters are described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Murrell, Hall, McIntosh & Co., PLLP
March 28, 2008 Oklahoma City, Oklahoma

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FullNet Communications, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash	$ 15,369	$ 16,007
Accounts receivable, net	25,968	24,407
Prepaid expenses and other current assets	62,271	95,452
Total current assets	103,608	135,866
PROPERTY AND EQUIPMENT, net	507,968	699,128
INTANGIBLE ASSETS, net	25,553	47,725
OTHER ASSETS	5,250	18,282
TOTAL	$ 642,379	$ 901,001
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable trade	$ 176,014	$ 185,949
Accounts payable related party, current portion	5,988	270,142
Accrued and other current liabilities	1,017,223	848,783
Accrued interest related party, current portion	34,800	184,197
Notes payable, current portion	510,636	592,933
Notes payable related party, current portion	34,800	320,000
Deferred revenue	112,586	108,437
Total current liabilities	1,892,047	2,510,441
ACCOUNTS PAYABLE related party, less current portion	264,154	
ACCRUED INTEREST related party, less current portion	181,397	
NOTES PAYABLE, less current portion	285,200	
OTHER LIABILITIES	44,452	67,927
Total liabilities	2,667,250	2,578,368
STOCKHOLDERS DEFICIT		
	68	68

Common stock $.00001 par value; authorized, 10,000,000 shares; issued and outstanding, 6,670,878 shares in 2007 and 2006		
Common stock issuable, 70,257 shares in 2007 and 2006	57,596	57,596
Additional paid-in capital	8,350,254	8,350,107
Accumulated deficit	(10,432,789)	(10,085,138)
Total stockholders deficit	(2,024,871)	(1,677,367)
TOTAL	$ 642,379	$ 901,001

See accompanying notes to financial statements.

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FullNet Communications, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31, 2007	2006
REVENUES		
Access service revenues	$ 643,155	$ 741,017
Co-location and other revenues	1,252,413	1,028,054
Total revenues	1,895,568	1,769,071
OPERATING COSTS AND EXPENSES		
Cost of access service revenues	233,931	214,339
Cost of co-location and other revenues	322,922	268,530
Selling, general and administrative expenses	1,334,285	1,369,228
Depreciation and amortization	297,176	309,893
Impairment expense	13,032	
Total operating costs and expenses	2,201,346	2,161,990
LOSS FROM OPERATIONS	(305,778)	(392,919)
GAIN ON DEBT FORGIVENESS	54,795	19,925
INTEREST EXPENSE	(96,668)	(106,309)
NET LOSS	$ (347,651)	$ (479,303)
Net loss per common share		
Basic	$ (.05)	$ (.07)
Assuming dilution	$ (.05)	$ (.07)
Weighted average number of common shares outstanding		
Basic	6,741,135	6,740,985
Assuming dilution	6,741,135	6,740,985

See accompanying notes to financial statements.

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FullNet Communications, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT
Years ended December 31, 2007 and 2006

	Common stock		Common stock	Additional paid-in	Accumulated	
	Shares	Amount	issuable	capital	deficit	Total
Balance at January 1, 2006	6,652,878	$ 66	$ 57,596	$ 8,328,004	$ (9,605,835)	$ (1,220,169)
Warrant exercise	18,000	2		178		180
Warrant extension granted in settlement of liabilities				21,900		21,900
Stock compensation expense				25		25
Net loss					(479,303)	(479,303)
Balance at December 31, 2006	6,670,878	$ 68	$ 57,596	$ 8,350,107	$ (10,085,138)	$ (1,677,367)
Stock compensation expense				147		147
Net loss					(347,651)	(347,651)
Balance at December 31, 2007	6,670,878	$ 68	$ 57,596	$ 8,350,254	$ (10,432,789)	$ (2,024,871)

See accompanying notes to financial statements.

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FullNet Communications, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (347,651)	$ (479,303)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	297,176	309,893
Gain on bad debt recovery		
Gain on debt forgiveness	(54,795)	(19,925)
Impairment expense	13,032	
Stock compensation	147	25
Provision for uncollectible accounts receivable	94	19,628
Net (increase) decrease in		
Accounts receivable	(1,655)	78,581
Prepaid expenses and other current assets	33,181	13,179
Net increase (decrease) in		
Accounts payable trade	(9,935)	44,876
Accounts payable related party	54,795	73,060
Accrued and other liabilities	144,965	125,884
Accrued interest related party	32,000	32,000
Deferred revenue	4,149	(12,347)
Net cash provided by operating activities	165,503	185,551
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(82,934)	(76,412)
Acquisition of assets	(910)	(15,503)
Net cash used in investing activities	(83,844)	(91,915)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on borrowings under notes payable	(82,297)	(92,783)
Proceeds from exercise of warrants		180
Net cash used in financing activities	(82,297)	(92,603)
NET INCREASE (DECREASE) IN CASH	(638)	1,033
Cash at beginning of year	16,007	14,974
Cash at end of year	$ 15,369	$ 16,007

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest	$	13,456	$	19,375
Warrant extension granted in settlement of liabilities				21,900

See accompanying notes to financial statements.

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FullNet Communications, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A ORGANIZATION AND NATURE OF OPERATIONS

FullNet Communications, Inc. and Subsidiaries (the Company) is an integrated communications provider (ICP) offering integrated communications, Internet connectivity and data storage to individuals, businesses, organizations, educational institutions and governmental agencies. Through its subsidiaries, FullNet, Inc., FullTel, Inc. and FullWeb, Inc., the Company provides high quality, reliable and scalable Internet 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 co-location;
- Web page hosting;
- Equipment co-location; and
- Traditional telephone services.

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.

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, 2007 current liabilities exceeded current assets by $1,788,439 and total liabilities exceeded total assets by $2,024,871. In addition, during September 2005, the Company received a back billing from AT&T (formerly SBC) of approximately $230,000. Since then, the Company has received a number of additional back billings from AT&T that total in excess of $7,900,000. The Company believes AT&T has no basis for these charges, is currently reviewing these billings with its attorneys and plans to vigorously dispute the charges. Therefore, the Company has not recorded any expense or liability related to these billings. An adverse outcome regarding this claim could have a materially adverse effect on the Company s ability to continue as a going concern.

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 of its Internet access services through mergers and acquisitions and the development of its web hosting, co-location and traditional telephone services. 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.

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NOTE B SUMMARY OF ACCOUNTING POLICIES

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

1. Consolidation

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

2. Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* . 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 and traditional telephone services are recognized on a monthly basis over the life of the contract as services are provided. Revenue that is billed 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.

During 2006 the Company recorded approximately $7,800 in reciprocal compensation revenue (fees for terminating AT&T (formerly SBC) customers local calls onto our network). The Company began billing AT&T during 2004, and has billed for the periods of March 2003 through June 2006. AT&T failed to pay and is disputing approximately $166,700. The Company is pursuing AT&T for all balances due, however there is significant uncertainty as to whether or not the Company will be successful. Upon the ultimate resolution of AT&T s challenge, the Company will recognize the associated revenue, if any. On a going-forward basis it is uncertain at what rate or if any reciprocal compensation will be allowed in the Company s successor interconnection agreement with AT&T.

3. Accounts Receivable

Accounts receivable consist of the following as of December 31:

	2007	2006
Accounts receivable	$ 213,716	$ 212,061
Less allowance for doubtful accounts	(187,748)	(187,654)
	$ 25,968	$ 24,407

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 as follows:

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

4. 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

5. Intangible Assets
Intangible assets consist primarily of acquired customer bases and covenants not to compete and are carried net of accumulated amortization. Upon initial application of Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Intangible Assets* (SFAS No. 142), as of January 1, 2002, the Company reassessed useful lives and began amortizing these intangible assets over their estimated useful lives and in direct relation to any decreases in the acquired customer bases to which they relate. Management believes that such amortization reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise utilized.
6. Long-Lived Assets
The Company follows the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets* in determining impairment losses on long-term 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. 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 an impairment has occurred through the use of an undiscounted cash flows analysis of the asset. If an impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the estimated value of the asset. The Company recorded an impairment expense of $13,032 on property held for sale during the year ended December 31, 2007. The Company recorded no impairments during the year ended December 31, 2006.
7. Accrued and Other Current Liabilities
Accrued and other current liabilities consist of the following as of December 31:

	2007	2006
Accrued interest	$ 349,561	$ 294,995
Accrued deferred compensation	506,990	435,669
Accrued other liabilities	160,672	118,119
	$ 1,017,223	$ 848,783

Accrued net deferred compensation consists of the following as of December 31, 2007:

Accrued in:	
2007	$ 71,321
2006	81,752
2005	48,831
2000-2005	305,086
	$ 506,990

All of the Company s executive officers have voluntarily agreed to defer a portion of their compensation. This compensation is vested.
Accrued other liabilities includes $68,548 and $51,363 for unused vacation and sick leave at December 31, 2007 and 2006, respectively.
8. Income Taxes
The Company follows the liability method of accounting for income taxes. Under the liability method, deferred income taxes are provided on temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements and carry forwards that will result in taxable or deductible amounts in

future years. Deferred income tax assets or liabilities are determined by applying the presently enacted tax rates and laws. Additionally, the Company provides a valuation allowance on deferred tax assets if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 was effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on January 1, 2007.

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, 2007. The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions and is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004.

9. 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 (loss) per share assuming dilution is calculated by dividing net income (loss) 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.

	2007	2006
Numerator:		
Net loss	$ (347,651)	$ (479,303)
Denominator:		
Weighted average shares and share equivalents outstanding basic	6,741,135	6,740,985
Effect of dilutive stock options		
Effect of dilutive warrants		
Effect of dilutive convertible promissory notes		
Weighted average shares and share equivalents outstanding assuming dilution	6,741,135	6,740,985
Net loss per share basic	$ (.05)	$ (.07)
Net loss per share assuming dilution	$ (.05)	$ (.07)

Basic and diluted loss per share were the same for the years ended December 31, 2007 and 2006 because there was a net loss for the year.

Stock options exercisable for the purchase of 3,085,134 and 3,083,034 common stock shares at exercise prices ranging from $.01 to $3.00 per share were outstanding for the years ended December 31, 2007 and 2006, respectively, but were not included in the calculation of income per share - assuming dilution because there was a net loss for the year.

Warrants exercisable for the purchase of 641,000 and 667,000 common stock shares at exercise prices ranging from $.01 to $1.00 per share were outstanding for the years ended December 31, 2007 and 2006, respectively, but were not included in the calculation of income per share assuming dilution because there was a net loss for the year.

Convertible promissory notes convertible into 1,003,659 common stock shares at a conversion prices ranging from $.49 to $.51 per share (see Note E Notes Payable) were outstanding for the year ended December 31, 2007 but were not included in the calculation of income per share assuming dilution because there was a net loss for the year.

Convertible promissory notes convertible into 1,036,992 common stock shares at conversion prices ranging from $.15 to $.51 per share (see Note E Notes Payable) were outstanding for the year ended December 31, 2006 but were not included in the calculation of income per share assuming dilution because there was a net loss for the year.

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10. Stock Options and Warrants

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes *Accounting Principles Board* (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company adopted SFAS No. 123(R) on January 1, 2006 using the modified prospective method as described in the standard. Under the modified prospective method, the Company is required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion at time of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. As of January 1, 2006, the Company had no unvested outstanding awards and as a result, the adoption of SFAS No. 123(R) had no impact on the Company s consolidated financial statements or consolidated results of operations.

The Company s common stock trades on the OTC Bulletin Board under the symbol FULO. The fair values of the granted options have been estimated at the date of grant using the Black-Scholes option pricing model.

The following weighted average assumptions were used:

	2007	2006
Risk free interest rate	4.4%	4.4%
Expected lives (in years)	5	5
Expected volatility	138%	118%
Dividend yield	0%	0%

The following table summarizes the Company s employee stock option activity for years ended December 31, 2007 and 2006:

	2007	Weighted Average Exercise Price	2006	Weighted Average Exercise Price
Options outstanding, beginning of year	3,122,034	$ .42	3,083,034	$ .45
Options granted during the year	48,000	.04	39,000	.09
Options exercised during the year				
Options cancelled during the year	(37,900)	.09		
Options outstanding, end of year	3,132,134	$ .42	3,122,034	$ .42
Options exercisable at end of year	3,085,134	$ .43	3,083,034	$ .43
Weighted average fair value of options granted during the year		$ .04		$ .07

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The following table summarizes information about employee stock options outstanding at December 31, 2007:

	Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life		Weighted-average exercise price	Number exercisable at		Weighted-average exercise price
\$0.01 - \$0.70	2,336,711	5.45 years	\$	0.12	2,289,711	\$	0.12
\$1.00-\$1.50	671,290	2.85 years	\$	1.07	671,290	\$	1.07
\$1.81-\$3.00	124,133	2.32 years	\$	2.62	124,133	\$	2.62
	3,132,134	4.77 years	\$	0.42	3,085,134	\$	0.43

Common Stock Warrants and Certain Stock Options - A summary of common stock purchase warrant and certain stock option activity for the years ended December 31, 2007 and 2006 follows:

Warrants for 18,000 shares of the Company s common stock were exercised in January 2006 for \$180.

In January and November 2006, the Company agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants for a related party lessor in return for a credit of \$17,960 and \$3,940, respectively, on the operating lease.

Common stock warrants and certain stock options exercisable for 26,000 shares of common stock expired during 2007 (weighted average exercise price \$.07 per share).

Common stock warrants and certain stock options exercisable for 794,306 shares of common stock expired during 2006 (weighted average exercise price \$1.16 per share).

Outstanding common stock purchase warrants and certain stock options issued to non-employees outstanding at December 31, 2007 are as follows:

Number of shares	Exercise price	Expiration year
50,000	.01	2008
275,000	1.00	2009
70,000	.13	2009
220,000	.01	2009
14,000	.10	2012
12,000	.08	2012
641,000		

The following table summarizes the Company s common stock purchase warrant and certain stock option activity for the years ended December 31, 2007 and 2006:

	2007	Weighted Average Exercise Price	2006	Weighted Average Exercise Price

Warrants and certain stock options outstanding, beginning of year	667,000	$ .44	1,479,306	$ .82
Warrants and certain stock options issued during the year				
Warrants and certain stock options exercised during the year			(18,000)	.01
Warrants and certain stock options expired during the year	(26,000)	.07	(794,306)	1.16
Warrants and certain stock options outstanding, end of year	641,000	$ .45	667,000	$ .44

11. 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, 2007 and 2006 was $30,029 and $33,361, respectively.
12. 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.
13. Recently Issued Accounting Standards
In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 was effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on January 1, 2007.
In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of this Statement.
In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.
In December 2007, the FASB issued Statement No. 141R, *Business Combinations* (SFAS 141R) which is a revision of Statement No. 141, *Business Combinations*. SFAS 141R will apply to all business combinations and will require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value at the acquisition date. SFAS 141R will also require transaction-related costs to be expensed in the period incurred, rather than capitalizing these costs as a component of the respective purchase price. SFAS 141R is effective for acquisitions completed after January 1, 2009 and early adoption is prohibited. Management is assessing the impact of the adoption of this Statement.
In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), an amendment of ARB No. 51. SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The Company is assessing the impact that SFAS 160 may have on its financial position, results of operations, and cash flows.
In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). This statement will require enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management is assessing the impact of the adoption of this Statement.

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14. Reclassifications
Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation.

NOTE C PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2007	2006
Computers and equipment	$ 1,420,177	$ 1,340,246
Leasehold improvements	965,864	962,861
Software	57,337	57,337
Furniture and fixtures	28,521	28,521
	2,471,899	2,388,965
Less accumulated depreciation	(1,963,931)	(1,689,837)
	$ 507,968	$ 699,128

Depreciation expense for the years ended December 31, 2007 and 2006 was $274,094 and $266,241, respectively.

NOTE D INTANGIBLE ASSETS

Intangible assets consist primarily of acquired customer bases and covenants not to compete and relate to the purchases of certain business operations as follows:

	December 31, 2007	December 31, 2006
InterCorp acquisition	$ 4,119	$ 4,119
Talihina acquisition	21,017	20,107
CWIS acquisition	105,638	105,638
LAWTONNET acquisition	65,000	65,000
SONET acquisition	42,547	42,547
IPDatacom acquisition	137,849	137,849
FOT acquisition	93,649	93,649
FOB acquisition	194,780	194,780
FON acquisition	139,650	139,650
Harvest merger	2,009,858	2,009,858
Animus acquisition	318,597	318,597
Tulsa acquisition	70,000	70,000
	3,202,704	3,201,794
Less accumulated amortization	(3,177,151)	(3,154,069)
	$ 25,553	$ 47,725

The Company s previously recognized intangible assets consist primarily of customer bases and covenants not to compete relating to those customer bases. Upon initial application of SFAS No. 142 as of January 1, 2002, the Company reassessed useful lives and began amortizing these intangible assets over their estimated useful lives and in direct relation to any decreases in the acquired customer bases to which they relate. Management believes that such amortization reflects the pattern in which the economic benefits of the intangible asset are consumed or otherwise used.

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Amortization expense for the years ended December 31, 2007 and 2006 relating to intangible assets was $23,082 and $43,652, respectively.

NOTE E NOTES PAYABLE

Notes payable consist of the following:

	December 31, 2007	December 31, 2006
Notes payable to a bank, payable in monthly installments of $8,768, including interest of 9.5%, maturing September 2008; collateralized by property and equipment, accounts receivable and Company common stock owned by the founder and CEO of the Company; guaranteed by the founder and CEO of the Company; partially guaranteed by the Small Business Administration	$	$ 77,297
Interim loan from a related party, interest at 10%, requires payments equal to 50% of the net proceeds received by the Company from its private placement of convertible promissory notes, matured December 2001; unsecured (1)	320,000	320,000
Convertible promissory notes; interest at 12.5% of face amount, payable quarterly; these notes are unsecured and are matured at December 31, 2006 (convertible into approximately 1,003,659 shares at December 31, 2007 and December 31, 2006) (2)	510,636	510,636
Other notes payable		5,000
	830,636	912,933
Less current portion	545,436	912,933
	$ 285,200	$

(1) In September 2007, the lender agreed to accept monthly payments of $5,800 beginning December 1, 2007 to be allocated 50% to principal and 50% to interest. At December 31, 2007, the outstanding principal and

interest of the interim loan was $536,197.

(2) During 2000 and 2001, the Company issued 11% convertible promissory notes or converted other notes payable or accounts payable to convertible promissory notes in an amount totaling $2,257,624. The terms of the Notes were 36 months with limited prepayment provisions. Each of the Notes may be converted by the holder at any time at $1.00 per common stock share and by the Company upon registration and when the closing price of the Company s common stock has been at or above $3.00 per share for three consecutive trading days. Additionally, the Notes were accompanied by warrants exercisable for the purchase of the number of shares of Company s common stock

equal to the number obtained by dividing 25% of the face amount of the Notes purchased by $1.00. These warrants were exercisable at any time during the five years following issuance at an exercise price of $.01 per share. Under the terms of the Notes, the Company was required to register the common stock underlying both the Notes and the detached warrants by filing a registration statement with the Securities and Exchange Commission within 45 days following the Final Expiration Date of the Offering (March 31, 2001). On May 31, 2001, the Company exchanged 2,064,528 shares of its common stock and warrants (exercisable for the purchase of 436,748 shares of common stock at $2.00 per share) for convertible promissory notes in the principal amount of $1,746,988 (recorded at $1,283,893) plus accrued interest of $123,414. The warrants expired on May 31, 2006. This exchange was accounted for as an induced debt conversion and a debt conversion expense of $370,308 was recorded.

Pursuant to the provisions of the convertible promissory notes, the conversion price was reduced from $1.00 per share on January 15, 2001 to $.49 per share on December 31, 2003 for failure to register under the Securities Act of 1933, as amended, the common stock underlying the convertible promissory notes and underlying warrants on February 15, 2001. Reductions in conversion price were recognized at the date of reduction by an increase to additional paid-in capital and an increase in the discount on the convertible promissory notes. Furthermore, the interest rate was increased to 12.5% per annum from 11% per annum because the registration statement was not filed before March 1, 2001. At December 31, 2007, the outstanding principal and interest of the convertible promissory notes was $860.197.

On January 1, 2002, the Company recorded 11,815 shares of common stock issuable in payment of $11,815 accrued interest on a portion of the Company s convertible promissory notes.

In November and December 2003 and March 2004, $455,000, $50,000 and $5,636, respectively, of these convertible promissory notes matured. The Company has not made payment or negotiated an extension of these notes, and the lenders have not made any demands. The Company is currently developing a plan to satisfy these notes subject to the approval of each individual note holder.

Aggregate future maturities of notes payable at December 31, 2007 are as follows:

Year ending December 31		
2008	$	545,436
2009		34,800
2010		34,800
2011		34,800
2012 and thereafter		180,800
	$	830,636

NOTE F COMMITMENTS

Operating Leases

The Company leases certain office facilities used in its operations under non-cancelable operating leases expiring in 2009. Future minimum lease payments required at December 31, 2007 under non-cancelable operating leases that have initial lease terms exceeding one year are presented in the following table:

Year ending December 31		
2008	$	189,853
2009		196,376
2010		
2011		
	$	386,229

Rental expense for all operating leases for the years ended December 31, 2007 and 2006 was approximately $194,986 and $176,807, 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 has recorded a deferred credit of $53,463 and $70,411 at December 31, 2007 and 2006, respectively, which is reflected in Other Long-term 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.

NOTE G INCOME TAXES

The Company s effective income tax rate on net loss differed from the federal statutory rate of 34% as follows at December 31:

	2007	2006
Income taxes at federal statutory rate	$ (120,000)	$ (163,000)
State income taxes	(15,000)	(22,000)
Change in valuation allowance	(50,000)	202,000
Nondeductible expenses	3,000	2,000
Other	182,000	(19,000)
Total tax expense	$	$

The components of deferred income tax assets were as follows at December 31:

	2007	2006
Deferred income tax assets		
Basis difference in property and equipment and intangible assets	$ 334,000	$ 302,000
Deferred revenue	43,000	42,000
Net operating loss	1,070,000	1,037,000
Deferred compensation and other	259,000	375,000
Valuation allowance	(1,706,000)	(1,756,000)
Net deferred income tax asset		
Change in valuation allowance	$ (50,000)	$ 202,000

A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. At December 31, 2007, the Company has a net operating loss carry forward of approximately $2,700,000 that will expire at various dates through 2027. As such carry forward can only be used to offset future taxable income of the Company, management has provided a valuation allowance until it is more likely than not that taxable income will be generated.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN 48 was effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on January 1, 2007.

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, 2007. The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions and is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2004.

NOTE H STOCKHOLDERS DEFICIT

Common Stock - Warrants for 18,000 shares of the Company s common stock were exercised in January 2006 for $180.

NOTE I RELATED PARTY TRANSACTIONS

The Company has an operating lease for certain equipment which is leased from one of its significant shareholders who also holds a $320,000 interim loan (see Note E Notes Payable). The original lease was dated November 21, 2001 and the terms were $6,088 per month for 12 months with a fair market purchase option at the end of the lease. Upon default on the lease, the Company was allowed to continue leasing the equipment on a month-to-month basis at the same monthly rate as the original lease. The Company has been unable to make the month-to-month payments. In January and November 2006, the Company agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants for the lessor in return for a credit of $17,960 and $3,940, respectively, on the operating lease. In September 2007, the lessor agreed to cease the monthly lease payments effective January 1, 2007 which generated a total of $54,795 of forgiveness of debt income. The lessor also agreed to accept payments of $499 per month on the balance owed. At December 31, 2007 we had recorded $270,142 in unpaid lease payments. The loss of this equipment would have a material adverse effect on our business, financial condition and results of operations.

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NOTE J CREDITOR SETTLEMENTS AND DEBT FORGIVENESS

During the year ended December 31, 2007, the Company negotiated and settled the following liabilities for less than their carrying values. The basic and diluted per share amount of the aggregate gain on debt forgiveness for the year ended December 31, 2007 was $.01.

	Carrying Value	Settlement Amount	Gain
Accounts payable related party	$ 54,795	$ 0	$ 54,795

During the year ended December 31, 2006, the Company negotiated and settled the following liabilities for less than their carrying values. The basic and diluted per share amount of the aggregate gain on debt forgiveness for the year ended December 31, 2006 was zero.

	Carrying Value	Settlement Amount	Gain
Accounts payable	$ 21,380	$ 1,455	$ 19,925

NOTE K ACQUISITION

On July 30, 2004, the Company purchased approximately 1,300 of the dial-up Internet access customers of CWIS Internet Services, Inc. (CWIS), an Oklahoma corporation. In addition to paying $25,000 at closing, the Company paid CWIS an amount based upon the future collected revenues received from all active CWIS customers transferred at the time of closing for eighteen months following the closing. The aggregate purchase price has been allocated to the underlying net assets purchased, including an intangible asset, which consists of the acquired customer base, based on their estimated fair values at the acquisition date. The intangible asset is being amortized based on decreases of the acquired customer base. During 2006, an additional $4,090 was paid and the eighteen month payout was completed. As of December 31, 2006 $95,115 had been paid based on additional revenues and was recorded as an increase to the intangible asset.

NOTE L CONTINGENCIES

During September 2005, the Company received a back billing from AT&T (formerly SBC) of approximately $230,000. Since then, the Company has received a number of additional back billings from AT&T that total in excess of $7,900,000. The Company believes AT&T has no basis for these charges, is currently reviewing these billings with its attorneys and plans to vigorously dispute the charges. Therefore, the Company has not recorded any expense or liability related to these billings.

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.

EXHIBIT INDEX

Exhibit Number	*Exhibit*	
31.1	Certification pursuant to Rules 13a-14(a) and 15d-14(a) of Timothy J. Kilkenny	*
31.2	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 Timothy J. Kilkenny	*
32.2	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	*