

FULLNET COMMUNICATIONS, INC.

An Oklahoma Corporation

201 Robert S. Kerr Avenue, Suite 210
Oklahoma City, OK 73102

Telephone: (405) 236-8200

www.fulnet.net

rbaresel@fullnet.net

Primary SIC code: 4813

Quarterly Report

For the period ending: September 30, 2024
(the "Reporting Period")

Outstanding Shares

The number of shares outstanding of our Common Stock was:

19,623,917 as of September 30, 2024 *(Current Reporting Period Date or More Recent Date)*

19,565,087 as of December 31, 2023 *(Most Recent Completed Fiscal Year End)*

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Change in Control

Indicate by check mark whether a Change in Control⁴ of the company has occurred during this reporting period:

Yes: ☐ No: ☒

⁴ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

1) Name and address(es) of the issuer and its predecessors (if any)

In answering this item, provide the current name of the issuer and names used by predecessor entities, along with the dates of the name changes.

FullNet Communications, Inc.

Current State and Date of Incorporation or Registration: Oklahoma, December 1, 1995

Standing in this jurisdiction: (e.g. active, default, inactive): Active

Prior Incorporation Information for the issuer and any predecessors during the past five years:

Incorporated as Cen-Com of Oklahoma, Inc. on May 24, 1995

Name changed to FullNet Communications, Inc. on December 1, 1995

Describe any trading suspension or halt orders issued by the SEC or FINRA concerning the issuer or its predecessors since inception:

None

List any stock split, dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

Address of the issuer's principal executive office:

201 Robert S. Kerr Avenue, Suite 210, Oklahoma City, OK 73102

Address of the issuer's principal place of business:

☒ *Check if principal executive office and principal place of business are the same address:*

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: ☒ Yes: ☐ If Yes, provide additional details below:

2) Security Information

Transfer Agent

Name: Securities Transfer Corp.

Phone: (469) 633-0101

Email: JStackhouse@stctransfer.com

Address: 2901 N. Dallas Parkway, Suite 380, Plano, TX 75093

Publicly Quoted or Traded Securities:

The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.

Trading symbol:	<u>FULO</u>
Exact title and class of securities outstanding:	<u>Common Stock: 40,000,000 authorized</u>
CUSIP:	<u>359851102</u>
Par or stated value:	<u>\$0.00001 per share</u>
Total shares authorized:	<u>40,000,000</u> as of date: <u>9/30/2024</u>
Total shares outstanding:	<u>19,623,917</u> as of date: <u>9/30/2024</u>
Total number of shareholders of record:	<u>126</u> as of date: <u>9/30/2024</u>

Please provide the above-referenced information for all other publicly quoted or traded securities of the issuer.

N/A

Other classes of authorized or outstanding equity securities that do not have a trading symbol:

The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g., preferred shares that do not have a trading symbol). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.

Exact title and class of the security:	<u>Series A Convertible Preferred Stock</u>
Par or stated value:	<u>\$0.001 per share</u>
Total shares authorized:	<u>10,000,000</u> as of date: <u>9/30/2024</u>
Total shares outstanding:	<u>618,257</u> as of date: <u>9/30/2024</u>
Total number of shareholders of record:	<u>3</u> as of date: <u>9/30/2024</u>

Please provide the above-referenced information for all other classes of authorized or outstanding equity securities.

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:

1. For common equity, describe any dividend, voting and preemption rights.

The Issuer's common stock entitles its holder to one vote per share. The common stock has no dividend, liquidation or similar preferences. The common stock has no preemptive rights or contractual transfer restrictions.

2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.

The holders of shares of the Series A convertible preferred stock (the "Series A Preferred") are entitled to receive, when and as declared by our board of directors, dividends in cash in the amount of ten cents per share per annum through December 31, 2022, eleven cents per share per annum through December 31, 2023, and

twelve cents per share per annum thereafter, payable within 90 days following the 31st day of December each year on such date as determined by the board of directors. The dividends are cumulative. Our board of directors may elect to make any required dividend payment with our unregistered common stock in lieu of cash.

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

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

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

3. Describe any other material rights of common or preferred shareholders.

The common stock entitles its holders to the rights provided by statute, such as the right to vote in the election of directors, in amendments to the certificate of incorporation or bylaws, in mergers and consolidations, and in the issuer's dissolution, and to inspect the issuer's books and records. The common stock does not have material rights beyond those afforded by statute. The rights and preferences of the preferred stock are set forth above.

4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.

No material modifications to rights of holders of the company's securities have occurred during the reporting period.

3) Issuance History

*The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period.***

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares for the two most recently completed fiscal years and any subsequent period.

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☐ Yes: ☒ (If yes, you must complete the table below)

Shares Outstanding <u>Opening Balance:</u> Date <u>1/1/22</u> Common: <u>17,146,121</u> Preferred: <u>568,257</u>			*Right-click the rows below and select "Insert" to add rows as needed.						
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to. ***You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
5/18/22	Issuance	200,000	Common Stock	\$0.010	Yes	Jason C. Ayers	Option Exercise	Restricted	Private
5/18/22	Issuance	121,846	Common Stock	\$0.020	Yes	Jason C. Ayers	Option Exercise	Restricted	Private
5/18/22	Issuance	200,000	Common Stock	\$0.010	Yes	Judith A. Baresel	Option Exercise	Restricted	Private
5/18/22	Issuance	136,254	Common Stock	\$0.020	Yes	Judith A. Baresel	Option Exercise	Restricted	Private
5/18/22	Issuance	208,000	Common Stock	\$0.040	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/18/22	Issuance	52,666	Common Stock	\$0.010	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/18/22	Issuance	68,000	Common Stock	\$0.003	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/18/22	Issuance	166,667	Common Stock	\$0.010	Yes	Timothy J. Kilkenny	Option Exercise	Restricted	Private
5/18/22	Issuance	160,528	Common Stock	\$0.020	Yes	Timothy J. Kilkenny	Option Exercise	Restricted	Private
5/25/22	Issuance	3,000	Common Stock	\$0.040	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/25/22	Issuance	36,004	Common Stock	\$0.010	Yes	Staff Employees (1)	Option Exercise	Restricted	Private

5/25/22	Issuance	167,000	Common Stock	\$0.003	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/25/22	Issuance	3,000	Common Stock	\$0.036	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/25/22	Issuance	30,000	Common Stock	\$0.030	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/25/22	Issuance	20,000	Common Stock	\$0.010	Yes	Generation Capital Leverage LLC	Warrant Exercise	Restricted	Private
5/25/22	Issuance	20,000	Common Stock	\$0.010	Yes	High Capital Funding LLC	Warrant Exercise	Restricted	Private
5/25/22	Issuance	250,000	Common Stock	\$0.003	Yes	Insource Insight LLC	Warrant Exercise	Restricted	Private
5/26/22	Issuance	120,334	Common Stock	\$0.003	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
5/26/22	Issuance	73,334	Common Stock	\$0.010	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
12/22/22	Issuance	50,000	Series A Convertible Preferred Stock	\$1.000	No	Judith A. Baresel	Debt Conversion	Restricted	Private
4/6/23	Issuance	100,000	Common Stock	\$0.010	Yes	Jason C. Ayers	Option Exercise	Restricted	Private
4/6/23	Issuance	100,000	Common Stock	\$0.010	Yes	Judith A. Baresel	Option Exercise	Restricted	Private
4/6/23	Issuance	47,000	Common Stock	\$0.010	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
4/6/23	Issuance	52,000	Common Stock	\$0.040	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
4/6/23	Issuance	83,333	Common Stock	\$0.010	Yes	Timothy J. Kilkenny	Option Exercise	Restricted	Private
1/22/24	Issuance	58,830	Common Stock	\$0.010	Yes	Staff Employees (1)	Option Exercise	Restricted	Private
Shares Outstanding on Date of This Report:									
Date <u>9/30/24</u>		Common: <u>19,623,917</u>							
		Preferred: <u>618,257</u>							

Example: A company with a fiscal year end of December 31st 2023, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2022 through December 31, 2023 pursuant to the tabular format above.

*****Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

Footnote (1) – Issued pursuant to employee compensation arrangements and none of the Staff Employees are officers, directors, control persons and/or a relative thereof.

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities :

No: ☒ Yes: ☐ (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance (\$)	Principal Amount at Issuance (\$)	Interest Accrued (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder. *** You must disclose the control person(s) for any entities listed.	Reason for Issuance (e.g. Loan, Services, etc.)
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

*****Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. Ensure that these descriptions are updated on the Company's Profile on www.OTCMarkets.com.

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

We are an integrated communications provider. Through our subsidiaries, we have historically provided high quality, reliable and scalable Internet access, web hosting, local telephone service, equipment colocation, customized live help desk outsourcing services, mass notification services using text messages and automated telephone calls, as well as advanced voice and data solutions. The majority of our focus going forward is on our revenue and customers coming from three primary types of service: 1) Mass notification services using text messages and automated telephone calls, 2) Equipment colocation and related services, and 3) Customized live help desk outsourcing service.

B. List any subsidiaries, parent company, or affiliated companies.

References to us in this Report include our subsidiaries: FullNet, Inc. (“FullNet”), FullTel, Inc. (“FullTel”), FullWeb, Inc. (“FullWeb”), and CallMultiplier, Inc. (“CallMultiplier”).

C. Describe the issuers’ principal products or services.

We are an integrated communications provider primarily focused on providing mass notification services using text messages and automated telephone calls, equipment colocation and related services, and customized live help desk outsourcing service. Our products and services are more fully described in our Form 10-K Annual Report for the year ended December 31, 2023, which was posted through the OTC Markets Disclosure & News Service on June 6, 2024.

5) Issuer’s Facilities

The goal of this section is to provide investors with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer. Describe the location of office space, data centers, principal plants, and other property of the issuer and describe the condition of the properties. Specify if the assets, properties, or facilities are owned or leased and the terms of their leases. If the issuer does not have complete ownership or control of the property, describe the limitations on the ownership.

We maintain our executive office and data center in approximately 8,699 square feet at 201 Robert S. Kerr Avenue, Suite 210 in Oklahoma City, at an effective annual rental rate of \$17.50 per square foot. These premises are occupied pursuant to leases that expire on December 31, 2024.

6) All Officers, Directors, and Control Persons of the Company

Using the table below, please provide information, as of the period end date of this report, regarding all officers and directors of the company, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer’s securities. If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide investors with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial owners.

Names of All Officers, Directors, and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of 5% or more)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity
Timothy J. Kilkenny	Chairperson	Blanchard, OK	4,254,917 (1)	Common Stock	21.5%	N/A
Judith A. Baresel	Shareholder	Oklahoma City, OK	3,724,162 (2)	Common Stock	18.8%	N/A

Jason C. Ayers	Officer	Yukon, OK	3,143,424 (3)	Common Stock	16.0%	N/A
Roger P. Baresel	Officer	Oklahoma City, OK	5,600 (4)	Common Stock	0.0%	N/A

- (1) Includes 315,000 shares of common stock owned by spouse and 240,628 shares of convertible preferred stock (one share of common stock for one share of preferred stock upon conversion).
- (2) Includes 300,000 shares of convertible preferred stock (one share of common stock for one share of preferred stock upon conversion). Excludes 5,600 shares of common stock owned by Roger P. Baresel, the spouse of Judith A. Baresel, for which she disclaims any beneficial ownership.
- (3) Includes 77,629 shares of convertible preferred stock (one share of common stock for one share of preferred stock upon conversion).
- (4) Excludes 3,724,162 shares held by Judith A. Baresel, the spouse of Roger P. Baresel, for which he disclaims any beneficial ownership.

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, log in to www.OTCIQ.com to update your company profile.

7) Legal/Disciplinary History

A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years:

1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

N/A – None.

2. Been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, financial- or investment-related, insurance or banking activities;

N/A – None.

3. Been the subject of a finding, disciplinary order or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, a state securities regulator of a violation of federal or state securities or commodities law, or a foreign regulatory body or court, which finding or judgment has not been reversed, suspended, or vacated;

N/A – None.

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a "yes" answer to part 3 above; or

N/A – None.

5. Been the subject of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

N/A – None.

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.

N/A – None.

- B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party to or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

N/A – None.

8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, update your company profile.

Securities Counsel (must include Counsel preparing Attorney Letters).

Name: Gary Derrick
Firm: Derrick & Briggs, LLP
Address 1: BancFirst Tower, Ste. 2700
Address 2: 101 N. Broadway Ave.
Oklahoma City, OK 73102
Phone: (405) 235-1900
Email: derrick@derrickandbriggs.com

Accountant or Auditor

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

Investor Relations

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

All other means of Investor Communication:

X (Twitter): _____
Discord: _____
LinkedIn: _____
Facebook: _____
[Other]: _____

Other Service Providers

Provide the name of any other service provider(s) that **that assisted, advised, prepared, or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

Name: _____
Firm: _____
Nature of Services: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

9) Disclosure & Financial Information

A. This Disclosure Statement was prepared by (name of individual):

Name: **Carolyn Jones**
Title: **Controller**
Relationship to Issuer: **Employee**

B. The following financial statements were prepared in accordance with:

- ☐ IFRS
☒ U.S. GAAP

C. The following financial statements were prepared by (name of individual):

Name: **Roger P. Baresel**
Title: **CEO & CFO**
Relationship to Issuer: **Employee**

Describe the qualifications of the person or persons who prepared the financial statements:⁵

Mr. Baresel is a certified public accountant and an experienced senior executive who has served at a variety of public and private companies in a number of different industries. His experience includes employment as a CEO, COO, CFO, president, principal accounting officer, controller and certified public accountant. Throughout his career he has been intimately involved with the preparation, auditing and evaluation of financial statements.

Provide the following qualifying financial statements:

⁵ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

- Audit letter, if audited;
- Balance Sheet;
- Statement of Income;
- Statement of Cash Flows;
- Statement of Retained Earnings (Statement of Changes in Shareholders' Equity); and
- Financial Notes

Financial Statement Requirements:

- Financial statements must be published together with this disclosure statement as one document.
- Financial statements must be “machine readable”. Do not publish images/scans of financial statements.
- Financial statements must be presented with comparative financials against the prior FYE or period, as applicable.
- Financial statements must be prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) but are not required to be audited.

10) Issuer Certification

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Jason C. Ayers certify that:

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

November 14, 2024 [Date]

/s/ Jason C. Ayers [President's Signature]

(Digital Signatures should appear as “/s/ [OFFICER NAME]”)

Principal Financial Officer:

I, Roger P. Baresel certify that:

1. I have reviewed this Disclosure Statement for FullNet Communications, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

November 14, 2024 [Date]

/s/ Roger P. Baresel [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")

FullNet Communications, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist in understanding our financial condition at and results of operations as of and for the quarterly period ended September 30, 2024 (“*Third Quarter 2024*”). Our Third Quarter 2024 results are compared to those as of and for the quarterly period ended September 30, 2023 (“*Third Quarter 2023*”). Our Financial Statements (unaudited) and Notes thereto contain detailed information that should be referred to in conjunction with the following discussion. See “*Financial Statements*”. This Third Quarter 2024 Report, should be read in conjunction with our Annual Report for the year ended December 31, 2023.

Summary of Significant Accounting Policies

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

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

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

All of our revenues are recognized over the life of the contract as services are provided. Revenue that is received in advance of the services provided is deferred until the services are provided. Revenue related to set up charges is also deferred and amortized over the life of the contract. We classify certain taxes and fees billed to customers and remitted to governmental authorities on a net basis in revenue.

Results of Operations

The following table sets forth certain statement of operations data as a percentage of revenues for the three months and nine months ended September 30, 2024 and 2023:

	Three Months Ended				Nine Months Ended			
	September 30, 2024		September 30, 2023		September 30, 2024		September 30, 2023	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
REVENUE	\$ 1,197,455	100.0	\$1,040,853	100.0	\$ 3,372,391	100.0	\$ 3,141,594	100.0
COST OF REVENUE	299,810	25.0	274,476	26.4	855,475	25.4	769,764	24.5
Gross Profit	897,645	75.0	766,377	73.6	2,516,916	74.6	2,371,830	75.5
OPERATING EXPENSES								

Sales and marketing	224,547	18.8	190,725	18.3	578,003	17.1	551,844	17.5
General and administrative	448,790	37.5	454,808	43.7	1,405,947	41.7	1,337,151	42.6
Depreciation and amortization	3,988	0.3	4,027	0.4	12,041	0.4	12,570	0.4
Total operating expenses	677,325	56.6	649,560	62.4	1,995,991	59.2	1,901,565	60.5
Income from operations	220,320	18.4	116,817	11.2	520,925	15.4	470,265	15.0
Other income	55,628	4.6	38,161	3.6	130,488	3.9	108,088	3.4
Income tax expense	(69,344)	(5.8)	(39,780)	(3.8)	(179,435)	(5.3)	(147,588)	(4.7)
Net income	206,604	17.2	115,198	11.0	471,978	14.0	430,765	13.7
Preferred stock dividends	(18,548)	(1.5)	(17,002)	(1.6)	(55,643)	(1.7)	(51,006)	(1.6)
Net income available to common shareholders	\$ 188,056	15.7	\$ 98,196	9.4	\$ 416,335	12.3	\$ 379,759	12.1

Three Months Ended September 30, 2024 (the “2024 3rd Quarter”) Compared to Three Months Ended September 30, 2023 (the “2023 3rd Quarter”)

Revenue

Total revenue increased \$156,602 or 15.0% to \$1,197,455 for the 2024 3rd Quarter from \$1,040,853 for the same period in 2023. This increase was primarily attributable to the net addition of new customers and the sale of additional services to existing customers.

In the 2024 3rd Quarter, we had interest income of \$33,628 and other income of \$22,000, consisting of a vendor refund. In the 2023 3rd Quarter, we had interest income of \$38,161. The decrease in interest income was primarily the result of lower cash balances earning interest in the 2024 3rd Quarter.

Cost of Revenue

Cost of revenue increased \$25,334 or 9.2% to \$299,810 for the 2024 3rd Quarter from \$274,476 for the same period in 2023. This increase was primarily due to the increase in total revenue. Cost of revenue as a percentage of total revenue decreased to 25.0% during the 2024 3rd Quarter, compared to 26.4% during the same period in 2023, as a result of increased utilization of lower cost components of our service offerings.

Gross Profit

Gross profit as a percentage of revenue increased to 75.0% for the 2024 3rd Quarter from 73.6% for the same period in 2023. This increase was primarily related to increased utilization of lower cost components of our service offerings.

Operating Expenses

Sales and marketing expenses increased \$33,822 or 17.7% to \$224,547 for the 2024 3rd Quarter from \$190,725 for the 3rd Quarter of 2023. This increase was primarily a result of increases in advertising expense. Sales and marketing expense as a percentage of total revenues increased to 18.8% for the 3rd Quarter of 2024 compared to 18.3% for the 3rd Quarter of 2023.

General and administrative expenses decreased \$6,018 or 1.3% to \$448,790 for the 2024 3rd Quarter compared to \$454,808 for the same period in 2023. This decrease was primarily related to a decrease in employee costs. General and administrative expenses as a percentage of total revenues decreased to 37.5% during the 2024 3rd Quarter from 43.7% during the same period in 2023 due to the increase in total revenue.

Depreciation and amortization expense decreased \$39 or 1.0% to \$3,988 for the 2024 3rd Quarter compared to \$4,027 for the same period in 2023. This decrease was related to several assets reaching full depreciation during the 2024 3rd Quarter.

Income Taxes

In the 2024 3rd Quarter, we had income tax expense of \$69,344. In the 2023 3rd Quarter, we had income tax expense of \$39,780.

Net Income

For the 2024 3rd Quarter, we realized net income of \$206,604 compared to net income of \$115,198 for the same period in 2023. The increase was due primarily to the increase in revenue and the associated gross profit.

Nine Months Ended September 30, 2024 (the “2024 Period”) Compared to Nine Months Ended September 30, 2023 (the “2023 Period”)

Revenue

Total revenue increased \$230,797 or 7.3% to \$3,372,391 for the 2024 Period from \$3,141,594 for the same period in 2023. This increase was primarily attributable to the net addition of new customers and the sale of additional services to existing customers.

In the 2024 Period, we had interest income of \$101,469 and other income of \$29,019. In the 2023 Period, we had interest income of \$101,663 and other income of \$6,425. The decrease in interest income was primarily the result of lower cash balances earning interest, and the increase in other income was primarily due to income from debt extinguishment and a vendor refund.

Cost of Revenue

Cost of revenue increased \$85,711 or 11.1% to \$855,475 for the 2024 Period from \$769,764 for the same period in 2023. This increase was primarily due to the increase in total revenue. Cost of revenue as a percentage of total revenue increased to 25.4% during the 2024 Period, compared to 24.5% during the same period in 2023, as a result of price increases from our vendors combined with increased utilization of higher cost components of our service offerings.

Gross Profit

Gross profit as a percentage of revenue decreased to 74.6% for the 2024 Period from 75.5% for the same period in 2023. This decrease was primarily related to price increases from our vendors combined with increased utilization of higher cost components of our service offerings.

Operating Expenses

Sales and marketing expenses increased \$26,159 or 4.7% to \$578,003 for the 2024 Period from \$551,844 for the 2023 Period. This increase was primarily a result of increases in advertising expense. Sales and marketing expense as a percentage of total revenues decreased to 17.1% for the 2024 Period compared to 17.5% for the 2023 Period.

General and administrative expenses increased \$68,796 or 5.1% to \$1,405,947 for the 2024 Period compared to \$1,337,151 for the 2023 Period. This increase was primarily related to an increase in employee costs. General and administrative expenses as a percentage of total revenues decreased to 41.7% during the 2024 Period from 42.6% during the same period in 2023 due to the increase in total revenue.

Depreciation and amortization expense decreased \$529 or 4.2% to \$12,041 for the 2024 Period compared to \$12,570 for the same period in 2023. This decrease was related to several assets reaching full depreciation during the 2024 period.

Income Taxes

In the 2024 Period, we had income tax expense of \$179,435. In the 2023 Period, we had income tax expense of \$147,588.

Net Income

For the 2024 Period, we realized net income of \$471,978 compared to net income of \$430,765 for the same period in 2023. The increase was due primarily to the increase in total revenue.

Liquidity and Capital Resources

As of September 30, 2024, we had \$2,919,947 in current assets of which \$2,883,871 was cash, and \$1,741,010 in current liabilities. Current liabilities consist primarily of \$1,173,649 in deferred revenue and \$521,703 in accrued and other liabilities. The deferred revenue represents advance payments for services from our customers which will be satisfied by our delivery of services in the normal course of business and will not require direct settlement in cash.

At September 30, 2024 and December 31, 2023, we had positive working capital of \$1,178,937 and \$1,386,252, respectively.

No property and equipment were purchased in the nine months ended September 30, 2024 and 2023.

No intangible assets were purchased in the nine months ended September 30, 2024 and 2023.

On January 3, 2024, we paid the December 27, 2023, preferred stock dividends declared of \$68,008.

Growth of our business and the anticipated continued payment of common stock dividends may require additional capital to fund capital expenditures and working capital needs. These additional capital expenditure requirements could include mergers and acquisitions; improvements of existing services, development of new services; and further development of operations support systems and other automated back-office systems.

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

Our ability to fund these potential capital expenditures and other potential costs in the near term will depend upon, among other things, our ability to generate consistent net income and positive cash flow from operations as well as our ability to seek and obtain additional financing if necessary. 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.

Disclosure Regarding Forward-Looking Statements and Cautionary Statements

Certain forward-looking statements contained in this Report and in the Disclosure Documents regarding our business and prospects are based upon numerous assumptions about future conditions which may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in such statements. 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. Our ability to achieve these results is subject to certain risks and uncertainties, including those inherent risks and uncertainties generally in the Internet service provider and group message delivery industries, the impact of competition and pricing, changing market conditions, and other risks. Any forward-looking statements contained in this Report represent our judgment as of the date of this Report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements.

FullNet Communications, Inc.

Financial Statements

Unaudited

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30,	December 31, 2023
	2024	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,883,871	\$ 3,130,331
Accounts receivable, net	1,129	823
Prepaid expenses and other current assets	34,947	35,690
Total current assets	2,919,947	3,166,844
PROPERTY AND EQUIPMENT, net	58,535	70,577
OTHER ASSETS AND INTANGIBLE ASSETS	18,816	19,910
RIGHT OF USE LEASED ASSET	37,525	145,449
TOTAL ASSETS	\$ 3,034,823	\$ 3,402,780
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 8,133	\$ 13,668
Accrued and other liabilities	521,703	456,304
Dividends payable	-	68,008
Operating lease liability – current portion	37,525	145,449
Deferred revenue	1,173,649	1,097,163
Total current liabilities	1,741,010	1,780,592
OPERATING LEASE LIABILITY – net of current portion	-	-
Total liabilities	1,741,010	1,780,592
SHAREHOLDERS' EQUITY		
Preferred stock - \$.001 par value; authorized, 10,000,000 shares; Series A convertible; issued and outstanding, 618,257 shares in 2024 and 2023, respectively	409,531	409,531
Common stock - \$.00001 par value; authorized, 40,000,000 shares; issued and outstanding, 19,623,917 and 19,565,087 shares in 2024 and 2023, respectively	196	196
Additional paid-in capital	9,128,194	9,122,004
Accumulated deficit	(8,244,108)	(7,909,543)
Total shareholders' equity	1,293,813	1,622,188
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,034,823	\$ 3,402,780

See accompanying notes to unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
REVENUE	\$ 1,197,455	\$ 1,040,853	\$ 3,372,391	\$ 3,141,594
COST OF REVENUE	299,810	274,476	855,475	769,764
Gross profit	897,645	766,377	2,516,916	2,371,830
OPERATING EXPENSES				
Sales and marketing	224,547	190,725	578,003	551,844
General and administrative expenses	448,790	454,808	1,405,947	1,337,151
Depreciation and amortization	3,988	4,027	12,041	12,570
Total operating expenses	677,325	649,560	1,995,991	1,901,565
INCOME FROM OPERATIONS	220,320	116,817	520,925	470,265
OTHER INCOME	55,628	38,161	130,488	108,088
NET INCOME BEFORE INCOME TAX	275,948	154,978	651,413	578,353
Income tax expense	(69,344)	(39,780)	(179,435)	(147,588)
NET INCOME	\$ 206,604	\$ 115,198	\$ 471,978	\$ 430,765
Preferred stock dividends	(18,548)	(17,002)	(55,643)	(51,006)
Net income available to common shareholders	\$ 188,056	\$ 98,196	\$ 416,335	\$ 379,759
Net income per share:				
Basic	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Diluted	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Weighted average common shares outstanding:				
Basic	19,623,917	19,565,087	19,619,392	19,431,552
Diluted	19,747,074	19,744,026	19,741,753	19,611,889

See accompanying notes to unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

Nine Months Ended September 30, 2024

	<u>Common stock</u>		<u>Preferred stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>paid-in capital</u>	<u>deficit</u>	
Balance at January 1, 2024	19,565,087	\$ 196	618,257	\$ 409,531	\$ 9,122,004	\$ (7,909,543)	\$ 1,622,188
Common stock dividends paid	-	-	-	-	-	(806,543)	(806,543)
Stock options expense	-	-	-	-	5,602	-	5,602
Options exercised	58,830	-	-	-	588	-	588
Net income	-	-	-	-	-	471,978	471,978
Balance at September 30, 2024 – (unaudited)	<u>19,623,917</u>	<u>\$ 196</u>	<u>618,257</u>	<u>\$ 409,531</u>	<u>\$ 9,128,194</u>	<u>\$ (8,244,108)</u>	<u>\$ 1,293,813</u>

Nine Months Ended September 30, 2023

	<u>Common stock</u>		<u>Preferred stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>paid-in capital</u>	<u>deficit</u>	
Balance at January 1, 2023	19,182,754	\$ 192	618,257	\$ 409,531	\$ 9,108,410	\$ (8,116,603)	\$ 1,401,530
Common stock dividends paid	-	-	-	-	-	(192,506)	(192,506)
Stock options expense	-	-	-	-	6,243	-	6,243
Stock options exercised	382,333	4	-	-	5,379	-	5,383
Net income	-	-	-	-	-	430,765	430,765
Balance at September 30, 2023 – (unaudited)	<u>19,565,087</u>	<u>\$ 196</u>	<u>618,257</u>	<u>\$ 409,531</u>	<u>\$ 9,120,032</u>	<u>\$ (7,878,344)</u>	<u>\$ 1,651,415</u>

See accompanying notes to unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended	
	September 30, 2024	September 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 471,978	\$ 430,765
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	12,041	12,570
Noncash lease expense	107,924	99,159
Stock options expense	5,602	6,243
Provision for uncollectible accounts receivable	(24,973)	1,190
Changes in operating assets and liabilities		
Accounts receivable	24,667	(562)
Prepaid expenses and other assets	1,837	9,118
Accounts payable	(5,535)	(3,868)
Accrued and other liabilities	65,399	24,524
Deferred revenue	76,487	91,598
Operating lease liability	(107,924)	(99,159)
Net cash provided by operating activities	<u>627,503</u>	<u>571,578</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash paid for property and equipment	-	-
Net cash used in investing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of options	588	5,383
Payment of dividends payable – preferred stock	(68,008)	(61,826)
Payment of dividends payable – common stock	(806,543)	(192,506)
Net cash used in financing activities	<u>(873,963)</u>	<u>(248,949)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(246,460)</u>	<u>322,629</u>
Cash and cash equivalents at beginning of period	3,130,331	2,753,551
Cash and cash equivalents at end of period	<u>\$ 2,883,871</u>	<u>\$ 3,076,180</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

FullNet Communications, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements and related notes of FullNet Communications, Inc. and its subsidiaries (“we”, “our”, collectively, the “Company”) should be read in conjunction with our consolidated financial statements of and notes thereto for the year ended December 31, 2023.

The information furnished reflects, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the results of the interim periods presented. Operating results of the interim period are not necessarily indicative of the amounts that will be reported for the year ending December 31, 2024.

Recently Adopted Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, “*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*,” which requires disclosure of disaggregated income taxes paid, prescribes standard categories for the components of the effective tax rate reconciliation, and modifies other income tax related disclosures. ASU 2023-09 is effective for annual periods beginning after December 15, 2024, and may be applied on a prospective basis. Early adoption is permitted. We are evaluating the impact of the adoption of this guidance on our consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02, “*Codification Improvements – Amendments to Remove References to the Concepts Statements*,” which removes various references to the FASB’s Concepts Statements from the FASB’s Accounting Standards Codification. ASU 2024-02 is effective for annual periods beginning after December 15, 2025, and may be applied on a prospective basis. Early adoption is permitted. We are evaluating the impact of the adoption of this guidance on our consolidated financial statements.

Income Per Share

Income per share – basic is calculated by dividing net income by the weighted average number of shares of stock outstanding during the year, including shares issuable without additional consideration. Income per share, assuming dilution, is calculated by dividing net income by the weighted average number of shares outstanding during the year adjusted for the effect of dilutive potential shares calculated using the treasury stock method for options and the “if converted” method for convertible preferred stock.

The reconciliation of basic and diluted income per share are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net income	\$ 206,604	\$ 115,198	\$ 471,978	\$ 430,765
Preferred stock dividends	(18,548)	(17,002)	(55,643)	(51,006)
Net income available to common shareholders	188,056	98,196	416,335	379,759
Basic income per share:				
Weighted average common shares outstanding used in income per share	19,623,917	19,565,087	19,619,392	19,431,552
Basic income per share	0.01	0.01	0.02	0.02
Net Income	\$ 206,604	\$ 115,198	\$ 471,978	\$ 430,765
Diluted income per share:				
Shares used in diluted income per share	19,747,074	19,744,026	19,741,753	19,611,889
Diluted income per share	0.01	0.01	0.02	0.02

Computation of shares used in income per share:				
Weighted average shares and share equivalents outstanding – basic	19,623,917	19,565,087	19,619,392	19,431,552
Effect of dilutive stock options	123,157	178,939	122,361	180,337
Weighted average shares and share equivalents outstanding – diluted	19,747,074	19,744,026	19,741,753	19,611,889

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Preferred stock	618,257	618,257	618,257	618,257
Total anti-dilutive securities excluded	618,257	618,257	618,257	618,257

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

2. STOCK BASED COMPENSATION

The following table summarizes our employee stock option activity for the nine months ended September 30, 2024:

Schedule of Employee Stock Option Activity

	Options	Weighted average exercise price	Weighted average remaining contractual life (yrs)	Aggregate Intrinsic value
Options outstanding, December 31, 2023	185,997	\$ 0.010	7.52	\$ 16,773
Options exercised during the period	58,830	\$ 0.010		
Options outstanding September 30, 2024	127,167	\$ 0.010	7.01	\$ 35,323
Options exercisable September 30, 2024	50,667	\$ 0.009	5.95	\$ 14,094

During the nine months ended September 30, 2024, no nonqualified employee stock options were granted.

During the nine months ended September 30, 2024, certain employees of ours exercised options to purchase 58,830 restricted shares of our common stock, par value \$0.00001 per share. Proceeds from the exercise of the Options were \$588. The common shares were issued pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, without payment of any form of commissions or other remuneration.

On February 15, 2024, we paid the January 16, 2024 dividends declared on our common stock of \$588,718, to shareholders of record on January 31, 2024.

On March 15, 2024, we paid the February 15, 2024 dividends declared on our common stock of \$72,608, to shareholders of record on February 29, 2024.

On June 15, 2024, we paid the May 15, 2024 dividends declared on our common stock of \$72,609, to shareholders of record on May 15, 2024.

On September 16, 2024, we paid the August 15, 2024 dividends declared on our common stock of \$72,608, to shareholders of record on August 31, 2024.

Total stock-based compensation expense for the nine months ended September 30, 2024 was \$5,602, all of which is related to options issued in prior years. Stock-based compensation is measured at the grant date, based on the calculated fair value of the option, and is recognized as an expense on a straight-line basis over the requisite employee service period (generally the vesting period of the grant).

3. SERIES A CONVERTIBLE PREFERRED STOCK

On January 3, 2024, we paid the December 27, 2023 dividends declared on our Series A Convertible Preferred Stock of \$68,008. As of September 30, 2024, the aggregate outstanding accumulated arrearages of cumulative dividend was \$55,643 or if issued in common shares, 193,541 shares.

4. LEASES

We determine if a contract contains a lease by evaluating the nature and substance of the agreement. The only lease that we have is the real estate lease for our headquarters facility, which was originally executed on December 2, 1999, and which has been extended several times. This lease was renewed for a term of five additional years. We recognize lease expense for this lease on a straight-line basis over the lease term.

We used our incremental borrowing rate (8.5%) in determining the present value of the lease payments over the lease expiration date of December 31, 2024. At September 30, 2024, the remaining future cash payments under our lease total to \$37,525.

For the nine months ended September 30, 2024, we amortized \$107,924 of our operating right-of-use, or ROU, asset and made payments of the associated lease liability for the same amount. At September 30, 2024, an operating ROU asset and liability of \$37,525, each, are included on our condensed consolidated balance sheet.

For the nine months ended September 30, 2024 and 2023, our fixed operating lease cost was \$114,174, which is included within operating costs and expenses in our condensed consolidated statements of operations.

Future minimum lease payments under non-cancellable operating lease as of September 30, 2024, were as follows:

Year ending December 31,		
2024 (three months remaining)	\$	37,525
Total future minimum lease payments		37,525
Present value of discount		-
Current portion lease liability		(37,525)
Long-term lease liability	\$	-