

FULLNET COMMUNICATIONS INC

Form 10-Q

November 14, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2013**

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

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

**Commission File Number: 000-27031**

**FULLNET COMMUNICATIONS, INC.**

**(Exact name of registrant as specified in its charter)**

**OKLAHOMA**

**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**

**(Registrant's telephone number)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 14, 2013, 9,118,161 shares of the registrant's common stock, \$0.00001 par value, were outstanding.

**FORM 10-Q**

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**Table of Contents****FullNet Communications, Inc. and Subsidiaries****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>SEPTEMBER 30, 2013 (Unaudited)</b>	<b>DECEMBER 31, 2012</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 18,658	\$ 10,847
Accounts receivable, net	15,088	15,671
Prepaid expenses and other current assets	11,929	6,403
Total current assets	45,675	32,921
PROPERTY AND EQUIPMENT, net	48,993	61,299
OTHER ASSETS	12,426	16,858
TOTAL	\$ 107,094	\$ 111,078
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 117,026	\$ 482,286
Accrued and other current liabilities	481,010	1,077,023
Convertible notes payable, related party - current	39,608	304,206
Deferred revenue	231,254	198,837
Total current liabilities	868,898	2,062,352
CONVERTIBLE NOTES PAYABLE, related party less current portion	242,040	-
Total liabilities	1,110,938	2,062,352
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock — \$.001 par value; authorized, 10,000,000 shares; Series A convertible issued and outstanding, 987,102 and no shares in 2013 and 2012, respectively	987	-

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Common stock — \$.00001 par value; authorized, 40,000,000 and 10,000,000 shares in 2013 and 2012, respectively; issued and outstanding, 9,118,161 shares in 2013 and 2012	91	91
Additional paid-in capital	9,140,597	8,417,050
Accumulated deficit	(10,145,519)	(10,368,415)
Total stockholders' deficit	(1,003,844)	(1,951,274)
TOTAL	\$ 107,094	\$ 111,078

See accompanying notes to unaudited condensed consolidated financial statements.



**Table of Contents****FullNet Communications, Inc. and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>September 30, 2013</b>	<b>September 30, 2012</b>
<b>REVENUES</b>				
Access service revenues	\$ 29,640	\$ 36,580	\$ 95,936	\$ 127,901
Co-location and other revenues	391,881	364,687	1,128,891	1,077,214
<b>Total revenues</b>	<b>421,521</b>	<b>401,267</b>	<b>1,224,827</b>	<b>1,205,115</b>
<b>OPERATING COSTS AND EXPENSES</b>				
Cost of access service revenues	27,817	28,547	83,825	98,971
Cost of co-location and other revenues	90,816	83,077	267,693	258,407
Selling, general and administrative expenses	343,556	302,805	612,645	926,314
Depreciation and amortization	6,969	8,409	22,372	26,055
<b>Total operating costs and expenses</b>	<b>469,158</b>	<b>422,838</b>	<b>986,535</b>	<b>1,309,747</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(47,637)</b>	<b>(21,571)</b>	<b>238,292</b>	<b>(104,632)</b>
<b>INTEREST EXPENSE</b>	<b>(4,289)</b>	<b>(5,641)</b>	<b>(15,396)</b>	<b>(17,047)</b>
<b>INCOME (LOSS) before income taxes</b>	<b>(51,926)</b>	<b>(27,212)</b>	<b>222,896</b>	<b>(121,679)</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (51,926)</b>	<b>\$ (27,212)</b>	<b>\$ 222,896</b>	<b>\$ (121,679)</b>
Preferred stock dividends	(2,468)	-	(3,290)	-
<b>Net income (loss) available to common stockholders</b>	<b>(54,394)</b>	<b>(27,212)</b>	<b>219,606</b>	<b>(121,679)</b>

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Net income (loss) per share —basic	\$	(.01)	\$	(.00)	\$	.02	\$	(.01)
Net income (loss) per share — assuming dilution	\$	(.01)	\$	(.00)	\$	.02	\$	(.01)
Weighted average shares outstanding — basic		9,118,161		9,118,161		9,118,161		9,077,566
Weighted average shares outstanding — assuming dilution		9,118,161		9,382,745		11,610,390		9,166,888

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****FullNet Communications, Inc. and Subsidiaries****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	<b>Nine Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 222,896	\$ (121,679)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	22,372	26,055
Stock options compensation	45,880	2,433
Warrants issued for services	6,182	-
Provision for uncollectible accounts receivable	15,453	10,577
(Gain) on Series A convertible preferred stock issued in exchange for indebtedness	(401,004)	-
Net (increase) decrease in		
Accounts receivable	(14,870)	11,169
Prepaid expenses and other current assets	(5,526)	10,407
Net increase (decrease) in		
Accounts payable	25,081	27,127
Accrued and other liabilities	82,122	50,496
Deferred revenue	32,417	5,571
 Net cash provided by operating activities	 31,003	 22,156
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(5,634)	(8,669)
 Net cash used in investing activities	 (5,634)	 (8,669)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on borrowings under notes payable	(17,558)	(17,770)
Proceeds from exercise of stock options	-	420
 Net cash used in financing activities	 (17,558)	 (17,350)
 Net increase (decrease) in cash	 7,811	 (3,863)
Cash at beginning of period	10,847	10,987
 Cash at end of period	 \$ 18,658	 \$ 7,124

SUPPLEMENTAL DISCLOSURES OF CASH FLOW  
INFORMATION

Cash paid for interest	\$	14,005	\$	17,137
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NON-CASH FINANCING ACTIVITIES

Series A convertible preferred stock issued for settlement of debt and accrued interest	\$	2,386	\$	-
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Series A convertible preferred stock issued for settlement of accounts payable	\$	12,179	\$	-
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Series A convertible preferred stock issued for settlement of deferred compensation	\$	656,133	\$	-
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Reclassification of accounts payable to convertible debt – related party	\$	50,000	\$	-
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See accompanying notes to the unaudited condensed consolidated financial statements.

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**FullNet Communications, Inc. and Subsidiaries**

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**1.**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

The unaudited condensed consolidated financial statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying unaudited condensed consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto for the year ended December 31, 2012.

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, 2013. Certain reclassifications have been made to prior period balances to conform to the presentation for the current period.

**2.**

**MANAGEMENT'S PLANS**

At September 30, 2013 current liabilities exceed current assets by \$823,223. The Company does not have a line of credit or credit facility to serve as an additional source of liquidity. Historically the Company has relied on shareholder loans as an additional source of funds. These factors raise substantial doubts about the Company's ability to continue as a going concern.

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

in existence.

The Company's business plan includes, among other things, expansion through mergers and acquisitions and the development of its web hosting, co-location, traditional telephone services and advanced voice and data solutions. Execution of the Company's business plan will require significant capital to fund capital expenditures, working capital needs and debt service. Current cash balances will not be sufficient to fund the Company's current business plan beyond the next few months. As a consequence, the Company is currently focusing on revenue enhancement and cost cutting opportunities as well as working to sell non-core assets and to extend vendor payment terms. The Company continues to seek additional convertible debt or equity financing as well as the placement of a credit facility to fund the Company's liquidity. There can be no assurance that the Company will be able to obtain additional capital on satisfactory terms, or at all, or on terms that will not dilute the shareholder's interests.

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**Table of Contents****3.****CONVERTIBLE NOTES PAYABLE RELATED PARTY**

## Schedule of Notes Payable

	September 30, 2013	December 31, 2012
Convertible promissory note; interest at 12.5% of face amount, payable		
quarterly; this note is unsecured and matured in November 2003 (convertible into approximately 107,843 shares at December 31, 2012) (1)	\$ -	\$ 55,000
Secured promissory note from a shareholder; interest at 6%, required monthly installments of interest only through December 30, 2010, then required monthly installments of \$3,301 including principal and interest; matured at December 30, 2011; secured by all tangible and intangible assets of the Company (2)	-	249,206
Secured convertible promissory note from a shareholder; interest rate of 6% through December 31, 2014, 7% through December 31, 2015, 8% through December 31, 2016, 8.5% through December 31, 2017, and 9% through May 31, 2018, with fixed monthly payments of \$3,300.64 through the Maturity Date, at which time the remaining balance of principal and all accrued interest shall be due and payable; matures May 31, 2018; secured by all tangible and intangible assets of the Company (2)(3)	231,648	-
Secured convertible promissory note; interest at 6%, requires monthly installments of interest only through May 31, 2014, then requires monthly installments of \$600 including principal and interest; matures May 31, 2023; secured by certain equipment of the Company (4)	50,000	-
	281,648	304,206
Less current portion	39,608	304,206

\$ 242,040 \$ -

- (1) This convertible promissory note matured in November 2003. On June 3, 2013, the Company issued 59,634 shares of its Series A Convertible Preferred Stock, in complete satisfaction of the outstanding principal and accrued interest due on this note of \$59,634 and \$57,248 was recognized as gain on settlement of debt for the nine months ended September 30, 2013.
- (2) This secured promissory note matured on December 30, 2011. The Company continued to make monthly principal and interest payments. At May 31, 2013, the outstanding principal and accrued interest of the secured promissory note was \$239,504.
- (3) On May 31, 2013, the Company issued this secured convertible promissory note in exchange for the existing secured promissory note with a balance due, including accrued interest, of \$239,504, which had matured on December 30, 2011. The secured convertible promissory note extended the maturity date to May 31, 2018 and increased the interest rate as noted above. The note holder has the right to convert the note, in its entirety or in part, into common stock of the Company at the rate of \$1.00 per share.

The Company analyzed the modification of the term under ASC 470-60 "Trouble Debt Restructurings" and ASC 470-50 "Extinguishment of Debt". The Company determined the creditor has not granted a concession and the modification of the embedded conversion options does not fall in the scope of ASC 470-50.

- (4) On May 31, 2013, the Company issued this secured convertible promissory note and on June 3, 2013, issued 203,169 shares of its Series A convertible preferred stock, in complete satisfaction of the balance due in the amount of \$253,169 on an operating lease for certain equipment which was leased from one of its shareholders whose parent company holds a \$231,648 secured convertible promissory note. The Company recognized \$195,042 as gain on settlement of accounts payable for the nine months ended September 30, 2013.

The Company had been unable to make all of the required payments pursuant to the terms of the September 2007 agreement. This secured convertible promissory note is secured by the equipment leased by the Company pursuant to the aforementioned operating lease. Upon payment of the balance due on this secured convertible promissory note title of the equipment will be transferred to the Company free and clear of all liens and encumbrances.

The note holder has the right to convert the note, in its entirety or in part, into common stock of the Company at the rate of \$1.00 per share. The Company analyzed the conversion option for derivative accounting and beneficial conversion features consideration under ASC 815-15 “Derivatives and Hedging” and ASC 470-20 “Convertible Securities with Beneficial Conversion Features” and noted none.

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**Table of Contents****4.****COMMON STOCK OPTIONS AND WARRANTS**

## Schedule of Employee Stock Option Activity

	Nine Months Ended		Weighted Average Exercise Price
	September 30, 2013		
Options outstanding, beginning of the period	1,404,550	\$	.034
Options granted during the period	2,790,348		.031
Options canceled, expired and forfeited during the period	(879,848)		.039
Options outstanding, end of the period	3,315,050	\$	.030

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

All employee stock options granted during the nine months ended September 30, 2013 were nonqualified stock options. Stock-based compensation is measured at the grant date, based on the calculated fair value of the option, and is recognized as an expense on a straight-line basis over the requisite employee service period (generally the vesting period of the grant).

During the nine months ended September 30, 2013, 2,790,348 options were issued and the fair values are estimated at the date of grant using the Black-Scholes option pricing model. Stock-based compensation expense for the three and nine months ended September 30, 2013 was \$23,759 and \$45,880, respectively. Stock-based compensation expense for the three and nine months ended September 30, 2012 was \$842 and \$2,434, respectively.

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The Black-Scholes option pricing model was used with the following weighted-average assumptions for options granted during the nine months ended September 30, 2013:

Risk-free interest rate 0.72% – 1.66%

Expected option life 5 years

Expected volatility 186% - 243%

Expected dividend yield 0%

Schedule of Common Stock Purchase Warrant and Non-employee Stock Option Activity

	Nine Months Ended September 30, 2013	Weighted Average Exercise Price
Warrants and non-employee stock options outstanding, beginning of the period	565,000	\$ .005
Warrants and non-employee stock options granted during the period	250,000	.003
Warrants and non-employee stock options outstanding, end of the period	815,000	.004

During the nine months ended September 30, 2013, 250,000 warrants were issued for consulting services. The fair value of the granted warrants are estimated at the date of grant using the Black-Scholes option pricing model and \$6,182 of warrants expense was recognized for the nine months ended September 30, 2013.

The Black-Scholes option pricing model was used with the following weighted-average assumptions for warrants granted during the nine months ended September 30, 2013:

Risk-free interest rate 1.36%

Expected warrant life 3 years

Expected volatility 243%

Expected dividend yield 0%

5.

### **SERIES A CONVERTIBLE PREFERRED STOCK**

On June 3, 2013, pursuant to shareholder authorization, the Company issued 987,102 shares of its Series A convertible preferred stock and \$401,004 was recognized as gain on Series A convertible preferred stock issued in exchange for indebtedness for the nine months ended September 30, 2013. See breakdown below:

The Company issued 59,634 and 203,169 of its series A convertible preferred to settle debt, accrued interest and accounts payable. See Note 3.

Members of the Company's management and board of directors accounted for 609,507 shares of the shares issued in exchange for \$609,507 and \$46,626 of the Company's deferred compensation and accrued payroll taxes. Participation of the Company's management and board of directors in this exchange was approved by a majority of the Company's shareholders.

Also, accounts payable of \$114,792 was exchanged for 114,792 of series A convertible preferred stock. The Company recognized \$110,200 as gain on settlement of accounts payable for the nine months ended September 30, 2013. An additional \$38,514 of gain netted against \$9,694 of professional fees was recognized as the Company wrote off additional accounts payables and deferred compensation due to the applicable Statute of Limitations.

The shares of Series A convertible preferred stock are convertible into common shares of the Company at the rate of one share of common stock per share of Series A convertible preferred stock.

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

The Series A convertible preferred stock is non-voting except that in the event that the Company fails, for any reason, to make a dividend payment as set forth above, then each share of Series A convertible preferred stock shall thereafter be entitled to two votes upon any matter that the holders of the common stock of the Company are entitled to vote upon.

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

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

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



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### **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion is qualified in its entirety by the more detailed information in our 2012 Annual Report on Form 10-K and the financial statements contained therein, including the notes thereto, and our other periodic reports filed with the Securities and Exchange Commission since December 31, 2012 (collectively referred to as the “Disclosure Documents”). Certain forward-looking statements contained in this Report and in the Disclosure Documents regarding our business and prospects are based upon numerous assumptions about future conditions which may ultimately prove to be inaccurate and actual events and results may materially differ from anticipated results described in such statements. Our ability to achieve these results is subject to certain risks and uncertainties, including those inherent risks and uncertainties generally in the Internet service provider and competitive local exchange carrier industries, the impact of competition and pricing, changing market conditions, and other risks. Any forward-looking statements contained in this Report represent our judgment as of the date of this Report. We disclaim, however, any intent or obligation to update these forward-looking statements. As a result, the reader is cautioned not to place undue reliance on these forward-looking statements. References to us in this report include our subsidiaries: FullNet, Inc. (“FullNet”), FullTel, Inc. (“FullTel”), FullWeb, Inc. (“FullWeb”) and CallMultiplier, Inc. (“CallMultiplier”).*

### **Overview**

We are an integrated communications provider 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, traditional telephone services as well as advanced voice and data solutions.

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

### **Company History**

We were founded in 1995 as CEN-COM of Oklahoma, Inc., an Oklahoma corporation, to bring dial-up Internet access and education to rural locations in Oklahoma that did not have dial-up Internet access. We changed our name to FullNet Communications, Inc. in December 1995. Today we are a total solutions provider to individuals and companies seeking a “one-stop shop” in Oklahoma.

Our current business strategy is to become a successful integrated communications provider in Oklahoma. We expect to grow through the acquisition of additional customers for our carrier-neutral co-location space, traditional telephone services and advanced voice and data solutions.

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 facility is Telco-grade and provides customers a high level of operative reliability and security. We offer flexible space arrangements for customers and 24-hour onsite support with both battery and generator backup.

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

design, connectivity, domain and Web hosting businesses; and traditional telephone services as well as advanced voice and data solutions. At September 30, 2013 FullTel provided us with local telephone access in approximately 232 cities.

Our common stock trades on the OTC QB marketplace under the symbol FULO. While our common stock trades on the OTC QB marketplace, 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.



**Table of Contents****Results of Operations**

The following table sets forth certain statement of operations data as a percentage of revenues for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended				Nine Months Ended			
	September 30, 2013 Amount	September 30, 2013 Percent	September 30, 2012 Amount	September 30, 2012 Percent	September 30, 2013 Amount	September 30, 2013 Percent	September 30, 2012 Amount	September 30, 2012 Percent
Revenues:								
Access service revenues	\$ 29,640	7.0	\$ 36,580	9.1	\$ 95,936	7.8 %	\$ 127,901	10.6 %
Co-location and other revenues	391,881	93.0	364,687	90.9	1,128,891	92.2	1,077,214	89.4
Total revenues	421,521	100.0	401,267	100.0	1,224,827	100.0	1,205,115	100.0
Cost of access service revenues	27,817	6.6	28,547	7.1	83,825	6.8	98,971	8.2
Cost of co-location and other revenues	90,816	21.5	83,077	20.7	267,693	21.9	258,407	21.4
Selling, general and administrative expenses	343,556	81.5	302,805	75.5	612,645	50.0	926,314	76.9
Depreciation and amortization	6,969	1.7	8,409	2.1	224,372	1.8	26,055	2.2
Total operating costs and expenses	469,158	111.3	422,838	105.4	986,535	80.5	1,309,747	108.7
Income (loss) from operations	(47,637)	(11.3)	(21,571)	(5.4)	238,292	19.5	(104,632)	(8.7)
Interest expense	(4,289)	(1.0)	(5,641)	(1.4)	(15,396)	(1.3)	(17,047)	(1.4)
Income (loss) before income taxes	(51,926)	(12.3)	(27,212)	(6.8)	222,896	18.2	(121,679)	(10.1)

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Net income (loss)	\$ (51,926)	(12.3)%	\$ (27,212)	(6.8)%	\$ 222,896	18.2 %	\$ (121,679)	(10.1)%
Preferred stock dividends	(2,468)	(0.6)	-	-	(3,290)	(0.3)	-	-
Net income (loss) available to common stockholders	\$ (54,394)	(12.9)%	\$ (27,212)	(6.8)%	\$ 219,606	17.9 %	\$ (121,679)	(10.1)%

**Three Months Ended September 30, 2013 (the “2013 3rd Quarter”) Compared to Three Months Ended September 30, 2012 (the “2012 3rd Quarter”)**

*Revenues*

Access service revenues decreased \$6,940 or 19.0% to \$29,640 for the 2013 3rd Quarter from \$36,580 for the same

period in 2012 primarily due to a decline in number of customers.

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Co-location and other revenues increased \$27,194 or 7.5% to \$391,881 for the 2013 3rd Quarter from \$364,687 for the same period in 2012. This increase was primarily attributable to the net addition of new customers and the sale of additional services to existing customers.

#### *Operating Costs and Expenses*

Cost of access service remained relatively the same at \$27,817 for the 2013 3rd Quarter and \$28,547 for the same period in 2012. Cost of access service revenues as a percentage of access service revenues increased to 93.8% during the 2013 3rd Quarter, compared to 78.0% during the same period in 2012.

Cost of co-location and other revenues increased \$7,739 or 9.3% to \$90,816 for the 2013 3rd Quarter from \$83,077 for the same period in 2012. This increase was primarily attributable to increases in costs of servicing our advanced voice and data solutions customers due to an increase in the number of customers utilizing those services. The increase was offset by reductions in costs of servicing our traditional phone service customers due to a reduction in the number of customers utilizing that service. Cost of co-location and other revenues as a percentage of co-location and other revenues increased to 23.2% during the 2013 3rd Quarter, compared to 22.8% during the same period in 2012.

Selling, general and administrative expenses increased \$40,751 or 13.5% to \$343,556 for the 2013 3rd Quarter compared to \$302,805 for the same period in 2012 primarily related to increases in employee costs of \$50,910. The increase in employee costs included \$22,917 of expenses related to employee stock options, \$16,877 related to annual wage increases and the timing of the replacement of two full-time employees and \$10,399 in employee insurance costs. These increases were offset primarily by reductions in agent commission of \$7,941. Selling, general and administrative expenses as a percentage of total revenues increased to 81.5% during the 2013 3rd Quarter from 75.5% during the same period in 2012.

Depreciation and amortization expense decreased \$1,440 or 17.1% to \$6,969 for the 2013 3rd Quarter compared to \$8,409 for the same period in 2012 primarily related to several assets reaching full depreciation.

#### *Interest Expense*

Interest expense decreased \$1,352 or 24.0% to \$4,289 for the 2013 3<sup>rd</sup> Quarter compared to \$5,641 for the same period in 2012 primarily related to a decrease in notes payable.

**Nine Months Ended September 30, 2013 (the “2013 Period”) Compared to Nine Months Ended September 30, 2012 (the “2012 Period”)**

*Revenues*

Access service revenues decreased \$31,965 or 25.0% to \$95,936 for the 2013 Period from \$127,901 for the 2012 Period primarily due to a decline in our number of customers.

Co-location and other revenues increased \$51,677 or 4.8% to \$1,128,891 for the 2013 Period from \$1,077,214 for the 2012 Period. This increase was primarily attributable to the net addition of new customers and the sale of additional services to existing customers.

*Operating Costs and Expenses*

Cost of access service revenues decreased \$15,146 or 15.3% to \$83,825 for the 2013 Period from \$98,971 for the 2012 Period. This decrease was primarily due to reductions in recurring costs associated with our network. Cost of access service revenues as a percentage of access service revenues increased to 87.4% during the 2013 Period, compared to 77.4% during the 2012 Period.

Cost of co-location and other revenues increased \$9,286 or 3.6% to \$267,693 for the 2013 Period from \$258,407 for the 2012 Period. This increase was primarily attributable to increases in costs of servicing our advanced voice and data

solutions customers due to an increase in the number of customers utilizing those services. The increase was offset by reductions in costs of servicing our traditional phone service customers due to a reduction in the number of customers utilizing that service. Cost of co-location and other revenues as a percentage of co-location and other revenues decreased to 23.7% during the 2013 Period compared to 24.0% during the 2012 Period.

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Selling, general and administrative expenses decreased \$313,669 or 33.9% to \$612,645 for the 2013 Period compared to \$926,314 for the 2012 Period. On June 3, 2013, pursuant to shareholder authorization, we issued 987,102 shares of our Series A Convertible Preferred Stock in exchange for \$987,102 of our indebtedness, pursuant to which we recorded a credit to selling, general and administrative expense of \$394,822. Members of our management and board of directors accounted for 609,507 shares of the shares issued and \$609,507 of our indebtedness exchanged.

Participation of our management and board of directors in this exchange was approved by a majority of our shareholders. Accounts payable of \$114,792 was exchanged for 114,792 of the shares issued. Employee costs, advertising and bad debt expense increased \$86,049, \$7,942 and \$6,480, respectively. The increase in employee costs included \$43,446 of expenses related to employee stock options, \$31,430 related to annual wage increases and \$9,568 in employee insurance costs. There was a reduction in agent commissions of \$16,678. Selling, general and administrative expenses as a percentage of total revenues decreased to 50.0% during the 2013 Period from 76.9% during the 2012 Period.

Depreciation and amortization expense decreased \$3,683 or 14.1% to \$22,372 for the 2013 Period compared to \$26,055 for the 2012 Period primarily related to several assets reaching full depreciation.

### *Interest Expense*

Interest expense decreased \$1,651 or 9.7% to \$15,396 for the 2013 Period compared to \$17,047 for the 2012 Period primarily related to a decrease in notes payable.

## **Liquidity and Capital Resources**

As of September 30, 2013, we had \$18,658 in cash and \$868,898 in current liabilities, including \$231,254 of deferred revenues that will not require settlement in cash.

At September 30, 2013 and December 31, 2012, we had a working capital deficit of \$823,223 and \$2,029,431, respectively. We do not have a line of credit or credit facility to serve as an additional source of liquidity. Historically we have relied on shareholder loans as an additional source of funds.



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As of September 30, 2013, of the \$117,026 we owed to our trade creditors \$96,810 which was past due. We have no formal agreements regarding payment of these amounts.

In addition, during the three and nine months ended September 30, 2013, we had one customer that comprised approximately 9% of total revenues. During the three and nine months ended September 30, 2012, this customer comprised approximately 11% and 10% of total revenues, respectively.

Cash flow for the nine-month periods ending September 30, 2013 and 2012 consist of the following.

	For the Nine-Month Periods Ended September 30,	
	2013	2012
Net cash flows provided by operations	\$ 31,003	\$ 22,156
Net cash flows used in investing activities	(5,634)	(8,669)
Net cash flows used in financing activities	(17,558)	(17,350)

Cash used for the purchase of equipment was \$5,634 and \$8,669, respectively, for the nine months ended June 30, 2013 and 2012.

Cash used for principal payments on notes payable was \$17,558 and \$17,770, respectively, for the nine months

ended September 30, 2013 and 2012. Cash provided by the exercise of options was \$420 for the nine months ended September 30, 2012.

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

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

Because our cost of developing new networks and services, funding other strategic initiatives, and operating our business depend on a variety of factors (including, among other things, the number of customers and the service for which they subscribe, the nature and penetration of services that may be offered by us, regulatory changes, and actions taken by competitors in response to our strategic initiatives), it is almost certain that actual costs and revenues will materially vary from expected amounts and these variations are likely to increase our future capital requirements. Our current cash balances will not be sufficient to fund our current business plan beyond a few months. As a consequence, we are currently focusing on revenue enhancement and cost cutting opportunities as well as working to sell non-core assets and to extend vendor payment terms. We continue to seek additional convertible debt or equity financing as well as the placement of a credit facility to fund our liquidity needs. There is no assurance that we will be able to obtain additional capital on satisfactory terms or at all or on terms that will not dilute our shareholders' interests.

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

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

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

## **Financing Activities**

We have a secured convertible promissory note from a shareholder which requires monthly installments of \$3,301 including principal and interest and is secured by all of our tangible and intangible assets (see Note 3 — Notes Payable to our financial statements, above). At September 30, 2013, the outstanding principal and accrued interest of the secured exchange promissory note was \$231,648.

We have a secured convertible promissory note from a shareholder which requires monthly installments of interest only through May 31, 2014 then monthly installments of \$600 including principal and interest and is secured by certain equipment (see Note 3 — Notes Payable to our financial statements, above). At September 30, 2013, the outstanding principal and accrued interest of the secured exchange promissory note was \$50,000.



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### **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 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.

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

We began billing AT&T (formerly SBC) reciprocal compensation (fees for terminating AT&T customer's local calls onto our network) during 2004, and have billed for the periods of March 2003 through June 2006. AT&T failed to pay and is disputing approximately \$183,700. 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. We do not expect reciprocal compensation to be a significant or a long-term revenue source.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

**Item 4. Controls and Procedures**

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.

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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

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- 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
- 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 Executive Officer and Chief Financial Officer conducted their evaluation using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework. 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, they 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.





**Table of Contents****PART II—OTHER INFORMATION****Item 1. Legal Proceedings**

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

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

None.

**Item 5. Other Information**

During the three months ended September 30, 2013 all events reportable on Form 8-K were reported.

**Item 6. Exhibits**

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

<i>Exhibit Number</i>	<i>Exhibit</i>	
3.1	Certificate of Incorporation, as amended (filed as Exhibit 2.1 to Registrant’s Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference).	#
3.2	Bylaws (filed as Exhibit 2.2 to Registrant’s Registration Statement on Form 10-SB, file number 000-27031 and incorporated herein by reference)	#
3.3	Amended and Restated Certificate of Incorporation of FullNet Communications, Inc.	#
4.1	Specimen Certificate of Registrant’s Common Stock (filed as Exhibit 4.1 to the Company’s Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference).	#

4.2 Certificate of Correction to the Amended Certificate of Incorporation and the Ninth Section of the Certificate of Incorporation (filed as Exhibit 2.1 to Registrant's Registration Statement on form 10-SB, file number 000-27031 and incorporated by reference). #

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<i>Exhibit Number</i>	<i>Exhibit</i>	
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).	#

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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).	#
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)	#
4.18	Certificate of Designations, Preferences, and Rights of Series A Convertible Preferred Stock of FullNet Communications, Inc.	#
10.1	Financial Advisory Services Agreement between the Company and National Securities Corporation, dated September 17, 1999 (filed as Exhibit 10.1 to Registrant's Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference).	#



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<i>Exhibit Number</i>	<i>Exhibit</i>	<i>#</i>
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).	#

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|-------|---|---|
| 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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<i>Exhibit Number</i>	<i>Exhibit</i>	
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).	#

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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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<i>Exhibit Number</i>	<i>Exhibit</i>	
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	#
10.42	Letter from Grant Thornton LLP to the Securities and Exchange Commission dated January 30, 2003	#
10.43	Form 8-K dated January 30, 2003 reporting the change in certifying accountant	#
10.44	Form 8-K dated September 20, 2005 reporting the change in certifying accountant	#
10.45	Secured Promissory Note and Security Agreement dated December 30, 2009, issued to High Capital Funding, LLC	#
10.46	Employment Agreement with Jason Ayers dated January 1, 2011	#
10.47	Form 8-K dated May 9, 2013 reporting expansion of the Board of Directors and the election of Jason C. Ayers to the Board of Directors	#
10.48	Schedule 14C Definitive Information Statement dated May 15, 2013 reporting Notice of Action by Written Consent of Shareholders	#
10.49	Form 8-K dated June 3, 2013 reporting the Shareholder Consent to Action in Lieu of a Meeting approving the Amendment and Restatement of the Company's Certificate of Incorporation, the re-election of the Board of Directors, the authorization of Series A Convertible Preferred Stock, the authorization of the Exchange Offer and the issuance of Series A Convertible Preferred Stock	#
10.50	Form of Exchange Offer Acceptance Agreement	#
10.51	Secured Exchange Promissory Note and Security Agreement dated May 31, 2013, issued to High Capital Funding, LLC	*
10.52	Secured Exchange Promissory Note and Security Agreement dated May 31, 2013, issued to High Capital Funding, LLC	*
22.1	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	*

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

# Incorporated by reference.

\* Filed herewith.

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



**Table of Contents**

**SIGNATURES**

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

**REGISTRANT:**

**FULLNET COMMUNICATIONS, INC.**

Date: November 14, 2013

By: /s/ TIMOTHY J. KILKENNY  
Timothy J. Kilkenny  
Chief Executive Officer

Date: November 14, 2013

By: /s/ ROGER P. BARESEL  
Roger P. Baresel  
President and Chief Financial and  
Accounting Officer







EXHIBIT 10.51

SECURED EXCHANGE PROMISSORY NOTE

\$239,503.86

Atlanta, GA

May 31, 2013

FOR VALUE RECEIVED, the undersigned FullNet Communications, Inc. an Oklahoma corporation (Borrower), promises to pay to the order of High Capital Funding, LLC, a Delaware limited liability company and assigns (Lender) at 333 Sandy Springs Circle, Suite 230, Atlanta, GA 30328, or at such other place as might be designated in writing by the Lender, the principal sum of \$239,503.86 in lawful money of the United States of America, on May 31, 2018, (Maturity Date), together with interest on the unpaid principal balance of said principal sum at the rates set out herein.

The terms and conditions contained herein supplant the terms and conditions of the restructured Secured Promissory Note and the Security Agreement dated December 30, 2009, which had secured the repayment of this loan.

This Note will have an interest rate of 6% through December 31, 2014, 7% through December 31, 2015, 8% through December 31, 2016, 8.5% through December 31, 2017, and 9% through May 31, 2018, with fixed monthly payments of \$3,300.64 through the Maturity Date, at which time the remaining balance of principal and all accrued interest shall be due and payable.

This Note shall be secured by a lien on all of the tangible and intangible assets of Borrower, as more fully set forth in the Security Agreement attached as Exhibit 1 hereto and made a part hereof. The Lender has the right at any time and from time to time to convert the then outstanding balance of principal and interest into Borrower's unregistered common stock at the rate of \$1.00 per share, provided the conversion would not make Lender's (including any affiliates) common stock ownership in Borrower exceed 9.95% of the issued and outstanding shares of common stock.

The Borrower will have the right at any time and from time to time to prepay the unpaid principal balance of this Note in whole or in part without penalty with interest on the unpaid principal balance accrued to the date of prepayment; and, the Lender has agreed that prior to any sale or assignment of this promissory note at a discount pursuant to a bona fide offer from a third party, Borrower or its written assignee of this right shall have the right of first refusal to match

the offer and purchase this promissory note.

This Note shall be governed and construed in accordance with the internal laws of the State of Georgia without regard to the principles of conflict of laws. Borrower consents to the jurisdiction of the Superior Court of the State of Georgia, Fulton County and/or any Federal District court located in the State of Georgia for any suit brought under this Note.

The Borrower agrees that a facsimile of this Note signed on behalf of Borrower shall constitute an enforceable obligation against Borrower. If suit is brought for the collection of this Note, borrower shall not be entitled to raise as a defense that a facsimile of this Note and not an original has been placed in evidence.

The Borrower agrees that if, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the Lender's rights under this Note, the Borrower will pay the Lender's reasonable attorneys' fees, all court costs and all other expenses incurred by the Lender in connection therewith.

IN WITNESS WHEREOF, the Borrower has executed this instrument effective the date first above written.

FullNet Communications, Inc.

By: \_\_\_\_\_

Timothy J. Kilkenny, CEO

By: \_\_\_\_\_

Roger Baresel, President & CFO



**SECURITY AGREEMENT**

THIS SECURITY AGREEMENT, (“Agreement”) is made as of this 31st day of May, 2013, by and among, FullNet Communications, Inc. an Oklahoma corporation (hereinafter “Borrower”) and HIGH CAPITAL FUNDING, LLC (the “Lender”).

WHEREAS, this Agreement is given to secure performance of the obligations (“Obligations”) under the Secured Exchange Promissory Note dated May 31, 2013 (“Secured Note”), executed by Borrower, in favor of Lender in the principal amount of \$239,503.86, together with interest thereon as provided for in the Secured Note.

NOW, THEREFORE, in consideration of the loan made by the Lender to Borrower, and further consideration of the covenants and promises contained in this Agreement, and for other good and valuable consideration, the parties agree as follows:

1.

Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

(a)

“Collateral” has the meaning set forth in paragraph 3 hereof.

(b)

“PTO” means the United States Patent and Trademark Office.

(c)

“UCC” means the Uniform Commercial Code as in effect in the State of Oklahoma.

(d)

Terms Defined in UCC. Where applicable in the context of this Agreement and except as otherwise defined herein, terms used in this Agreement shall have the meanings assigned to them in the UCC.

(e)

Construction. In this Agreement, the following rules of construction and interpretation shall be applicable: (i) no reference to “proceeds” in this Agreement authorizes any sale, transfer, or other disposition of any Collateral by Borrower; (ii) “includes” and “including” are not limiting; (iii) “or” is not exclusive; and (iv) “all” includes “any” and “includes “all.”

2.

Exchange. The terms and conditions contained herein supplant the terms and conditions of the restructured Secured Promissory Note and the Security Agreement dated December 30, 2009, which had secured the repayment of this loan.

3.

Security Interest.

(a)

Grant of Security Interest. As security for the payment and performance of the Obligations, Borrower hereby assigns, transfers and conveys to Lender, and grants to Lender, a security interest in and to all of Borrower’s right, title and interest in, to and under the following property, in each case whether now or hereafter existing or arising or in which Borrower now has or hereafter owns, acquires or develops an interest and wherever located (collectively, the “Collateral”):

(i)

Accounts;

(ii)

Chattel Paper and Electronic Chattel Paper;

(iii)

Fixtures;

(iv)

Goods;

(v)

Inventory;

(vi)

Software;

(vii)

all patents, trademark, patent applications and trademark applications, domestic or foreign, all licenses relating to any of the foregoing and all income and royalties with respect to any licenses, all rights to sue for

past, present or future infringement thereof, all rights arising therefrom and pertaining thereto and all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof;

(viii)

all General Intangibles and all intangible intellectual or other similar property of Borrower of any kind or nature, associated with or arising out of any of the aforementioned properties and assets and not otherwise described above; and

(ix)

all Proceeds of any and all of the foregoing Collateral (including license royalties, rights to payment, accounts and proceeds of infringement suits) and, to the extent not otherwise included, all payments under insurance (whether or not Lender is the loss payee thereof) or any indemnity, warranty or guaranty payable by reason of loss or damage to or otherwise with respect to the foregoing Collateral.

(b)

Continuing Security Interest. Borrower agrees that this Agreement shall create a continuing security interest in the Collateral which shall remain in effect until terminated in accordance herewith.

(c)

Termination of Security Interest. Lender hereby agrees that upon the timely payment by Borrower to Lender of all amounts due under the Secured Note and/or conversion of the debt secured by this Security Agreement, this Security Agreement shall terminate and shall be of no further force or effect. Lender does hereby agree to execute and deliver a release of this Security Interest within (5) days after the final payment. If Lender fails to execute and deliver the release required herein within the allowed time period, Borrower is hereby authorized to execute, file and record in Lender's stead an instrument terminating this security interest.

1.

Collateral Free of Other Security Interests. Borrower warrants that no financing statement covering any of the Collateral or its proceeds is on file in any public office at this date or will be on file with respect to the Collateral at the time the Collateral becomes subject to this Agreement (except as set forth on Schedule 1). No other material security affects the Collateral at this date, and no arrangement exists whereby the Collateral will in the future become subject to a security interest senior to the lien of this Security Agreement.



Borrower authorizes Lender at its option and its sole discretion to discharge any taxes, charges, assessments, liens or other security interests or other encumbrances to which the Collateral may become subject. Lender may pay amounts to preserve and maintain the Collateral, if Borrower fails to do so. Borrower agrees to reimburse Lender within 10 days after demand for any payment made or any expense incurred by Lender pursuant to the foregoing authorization, together with interest on the amount expended at the rate of 8% per annum from the date of the payment. Any such amounts shall be secured by and under this Agreement.

2.

Fees and Taxes. Borrower will use reasonably commercial efforts to timely pay any and all license fees, taxes, assessments and public charges, general and special, that may at any time be levied or assessed upon or against Collateral.

3.

Maintenance of Collateral. Borrower will, at Borrower's expense, maintain and keep the tangible Collateral at its present location (or will provide Lender with reasonable advance written notice if any such Collateral is to be moved) in good order and repair, ordinary wear and tear excepted, and shall not, without the prior written consent of Lender, sell, dispose of or substantially alter the Collateral, except dispositions or alterations in the ordinary course of Borrower's business.

Borrower will not use the Collateral in material violation of any ordinance or state or federal statute or any administrative rules or regulation of law.

Borrower will use reasonably commercial efforts to avoid the Collateral from being attached or seized by any legal process. Borrower will defend and indemnify Lender from all expense and liability of every kind to any person or to the property of any person by reason of or in connection with the delivery, possession or use of the Collateral.

4.

Further Acts. On a continuing basis, Borrower shall make, execute, acknowledge and deliver, and file and record in the proper filing and recording places, all such instruments and documents, and take all such action as may be necessary or advisable or may be requested by Lender to carry out the intent and purposes of this Agreement, or for assuring, confirming or protecting the grant or perfection of the security interest granted or purported to be granted hereby, to ensure Borrower's compliance with this Agreement or to enable Lender to exercise and enforce its rights and remedies hereunder with respect to the Collateral, including any documents for filing with the PTO or any applicable state office. Lender may record this Agreement, an abstract thereof, or any other document describing Lender's interest in the Collateral with the PTO, at the expense of Borrower. In addition, Borrower authorizes Lender to file financing statements describing the Collateral in any



UCC filing office deemed appropriate by Lender. If the Borrower shall at any time hold or acquire a commercial tort claim arising with respect to the Collateral, the Borrower shall immediately notify Lender in a writing signed by the Borrower of the brief details thereof and grant to the Lender in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance satisfactory to the Lender.

5.

Authorization to Supplement. If Borrower shall obtain rights to any new patentable inventions or become entitled to the benefit of any patent application or patent for any reissue, division, or continuation, of any patent or trademark, the provisions of this Agreement shall automatically apply thereto. Borrower shall give prompt notice in writing to Lender with respect to any such new patent or trademark rights.

6.

Additional Parties and Collateral. In the event that the Company forms or acquires an interest in any entity that becomes a subsidiary of the Company prior to payment in full of the Secured Notes, Borrower agrees that it will cause any such subsidiary to become a signatory to this Agreement and further agrees that as a result of such action, the tangible and intangible assets of any such subsidiary shall become Collateral pursuant to this Agreement to the same extent as if any such subsidiary had executed this Agreement as an original signatory and its tangible and intangible assets had been included in Section 3(a) above, *provided, however*, that with respect to any acquired entity, the existence and continuance of security agreements of any such entity in effect at the time of such acquisition shall not constitute a breach of this agreement. Borrower expressly acknowledges that a failure to comply with the provisions of this Section 9 shall constitute a default under this Agreement.

7.

Default. The breach or failure of any term, agreement or covenant of this Agreement, the occurrence of an event of default upon any term contained in the Secured Note, or the occurrence of any event of default specified below, shall constitute a default hereunder.

(a)

Borrower fails to make any payment hereunder when due, which failure has not been cured within Ten (10) days following such due date.

(b)

Any defined event of default occurs under any contract or instrument pursuant to

which Borrower has incurred any liability for borrowed money in excess of twenty-five thousand dollars (\$25,000.00), which event of default has not been waived within Five

(5) business days following such occurrence, and which event of default is reasonably likely to materially affect the Company's business.

(c)

A petition to take advantage of any insolvency act is filed by or against Borrower; Borrower makes an assignment for the benefit of its creditors; a proceeding for the appointment of a receiver, trustee, liquidator or conservator of Borrower of a whole or any substantial part of Borrower's property is filed by or against Borrower; a petition or answer seeking reorganization or arrangement or similar relief under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state is filed by or against Borrower.

(d)

A court of competent jurisdiction enters an order, judgment or decree appointing a custodian, receiver, trustee, liquidator or conservator of Borrower or of the whole or any substantial part of its properties, or approves a petition filed by or against Borrower seeking reorganization or arrangement or similar relief under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state; or if, under

the provision of any other law for the relief or aid of debtors, a court of competent jurisdiction assumes custody or control of Borrower or of the whole or any substantial part of its properties; or there is commenced by or against Borrower any proceeding for any of the foregoing relief and such proceeding or petition remains undismissed for a period of thirty (30) days; or if Borrower by any act indicates its consent to or approval of any such proceeding or petition.

(e)

If (i) any judgment remaining unpaid, unstayed or undismissed for a period of Sixty (60) days is rendered against Borrower which by itself or together with all other such judgments rendered against Borrower remaining unpaid, unstayed or undismissed for a period of Sixty (60) days, is in excess of Twenty-Five Thousand Dollars (\$25,000.00), or (ii) there is any attachment or execution against Borrower's properties remaining unstayed or undismissed for a period of Sixty (60) days which by itself or together with all other attachments and executions against Borrower's properties remaining unstayed or undismissed for a period of Sixty (60) days is for an amount in excess of Twenty-Five Thousand Dollars (\$25,000.00).

8.

Remedies. Upon the occurrence of any default as defined above, Lender will have the right at its option to enforce and to exercise any or all of its rights under this Agreement or otherwise. In addition to all other rights and remedies, Lender



shall have the remedies of a secured party under the UCC. In exercising these remedies, Lender and Borrower agree as follows:

(a)

Lender may at its option require Borrower to assemble the Collateral and make it available to Lender at a place to be designated by Lender which is reasonably convenient to both parties. In the event Borrower fails or refuses to assemble the Collateral, Lender shall have the right, and Borrower hereby authorize and empowers Lender, to enter the premises upon which the Collateral is located in order to remove the same.

(b)

Lender will give Borrower reasonable notice of the time and place of any public sale of the Collateral, or of the time after which any private sale or other intended disposition of the Collateral is to be made, unless the Collateral is perishable, threatens to decline speedily in value, or is of a type customarily sold on a recognized market. The requirement of reasonable notice shall be met if a written notice is mail to Borrower postage prepaid, to the address of Borrower last known to Lender, at least 10 days prior to the date of the sale or disposition.

(c)

Borrower agrees to surrender possession of the Collateral to Lender in the event Lender elects to foreclose this security interest. Borrower waives any notice of the exercise of any and all options reserved to Lender by this Agreement.

(d)

Borrower will, upon Lender's request, deliver to Lender all original invoices, bills, charge or credit card receipts, books and records and other documents evidencing or describing any of the account receivable constituting a part of the Collateral. Borrower will also execute and deliver to Lender an assignment of the right to receive payments under all such Accounts. The parties recognize, however, that in the event of default such Accounts shall be deemed assigned to Lender, whether or not the assignments described above are actually delivered.

(e)

Lender shall have the right and are hereby authorized to collect all amounts due under the Accounts; sue or take other actions to collect the same in its own name or as assignee of or in the name of Borrower compromise or give acquittance for amounts due; and use such other measures as Lender may in its sole discretion deem appropriate for collection of the Accounts. All such actions shall be taken at the sole expense of Borrower who agrees to reimburse Lender for all reasonable amounts expended (including a reasonable attorney's fee), together with interest thereon from the date of expenditure at the rate then applicable under the Secured Notes.

(f)

This Agreement constitutes a direction to and full authority to any Account debtor to pay directly to Lender any such accounts. No proof of default shall be required. Any such debtor is hereby irrevocably and unconditionally authorized to rely upon and comply with any notice from Lender. The debtor shall not be liable to Borrower or any person claiming under Borrower for making any payment or rendering any performance to Lender. The debtor shall have no obligation or right to inquire whether any default has occurred or is then existing. By its execution of this Agreement, Borrower irrevocably and unconditionally joins in, authorizes and consents to the above instructions.

(g)

The proceeds of any sale of the Collateral shall be applied to the following items in the following order: (a) the reasonable expenses of repossessing the Collateral and preparing for the holding the sale, including without limitation all reasonable attorney's fees incurred by Lender; (b) interest and principal then due (by acceleration or otherwise) under the Secured Note and any other debts specifically secured by the Agreement; (c) interest and principal then due (by acceleration or otherwise) under any other debts of Borrower to Lender (to be applied in whatever order Lender may in its sole discretion determine); (d) indebtedness of Borrower to other secured parties, provided written notice of demand therefore is received by Lender before the sale (to be applied in the order Lender receives the requires); and (e) the balance, if any, to Borrower.

9.

Set-off. Upon default by Borrower under this Agreement, Lender (or the holder or owner of any debt secured by this Agreement) shall immediately have the right without further notice to Borrower to set off against the Secured Note and any other debts secured by this Agreement all debts of Lender (or such holder or owner) to Borrower, whether or not then due.

10.

Notice. All notices, requests, certificates or other communications permitted or required hereunder ("notices") shall be conclusively deemed to have been received and shall be effective (i) on the day on which delivered by hand, email or telecopier to the respective party; (ii) if sent by registered or certified mail, return receipt requested, postage prepaid; (iii) on the third Business Day after the day on which mailed, addressed to the respective party; or (iv) if sent by overnight courier, the next business day after being sent by overnight courier. Notices may be delivered as follows:

To the Company:

FullNet Communications, Inc.

201 Robert S. Kerr Avenue, Suite 210





Oklahoma City, OK 73102

Attn: Roger P. Baresel, President & CFO

Tel: (405) 232-0958x102

Fax:

(405) 236-8201

E-mail:

rbaresel@fullnet.net

**To the Lender:**

**High Capital Funding, LLC**

**333 Sandy Springs Circle, Suite 230**

**Atlanta, GA 30328**

**Attn: Frank E. Hart, President**

**Profit Concepts, Ltd., Manager**

**Tel: (404) 257-9150**

**Fax: (404) 257-9125**

**Email: ldowd@highcapus.com**

1.

Miscellaneous. The following provisions are additional terms of this Agreement:

(a)

Lender has no duty to maintain, repair or protect the Collateral.

(b)

No waiver by Lender of any default shall operate as a waiver of any other default or of the same default on a future occasion.

(c)

All rights and remedies of Lender are cumulative and may be exercised successively or concurrently, and shall inure to the benefit of Lender's assigns.

(d)

All obligations of Borrower shall bind his trustees, custodians, general partners, successors and assigns.

(e)

The captions of the sections of this Agreement are inserted for convenience only and shall not be used in the interpretation or construction of any provisions hereof.

(f)

If any provisions of this Agreement is held invalid or unenforceable, the holding shall affect only the provision in question and all other provisions on this Agreement shall remain in full force and effect.

(g)

This Agreement supersedes all prior oral and/or written agreements concerning the subject matter hereof.

IN WITNESS WHEREOF, Borrower has executed this Agreement the day and year first above written.

**FULLNET COMMUNICATIONS, INC.**



By: \_\_\_\_\_

Timothy J. Kilkenny, CEO

By: \_\_\_\_\_

Roger P. Baresel, President

**HIGH CAPITAL FUNDING, LLC**

By:

Its:

**SCHEDULE 1**

**EXISTING SECURITY INTERESTS**

**\$50,000 Note Payable and Associated Security Interest**

**in favor of High Capital Funding, LLC**

**dated May 31, 2013**



EXHIBIT 10.52

SECURED EXCHANGE PROMISSORY NOTE

\$50,000.00

Atlanta, GA

May 31, 2013

FOR VALUE RECEIVED, the undersigned FullNet Communications, Inc. an Oklahoma corporation (Borrower), promises to pay to the order of High Capital Funding, LLC, a Delaware limited liability company and assigns (Lender) at 333 Sandy Springs Circle, Suite 230, Atlanta, GA 30328, or at such other place as might be designated in writing by the Lender, the principal sum of \$50,000.00 in lawful money of the United States of America, on May 31, 2023. (Maturity Date), together with interest on the unpaid principal balance of said principal sum at the rate of six per cent (6%) per annum (computed on the basis of a 365 day year) payable monthly in arrears from the date hereof until such principal sum is fully paid: *provided, however*, Borrower shall make interest only payments for the first 12 months, then equal monthly payments thereafter sufficient to fully amortize the liability through maturity.

The terms and conditions contained herein supplant the terms and conditions of the Lease Agreement dated November 21, 2001, covering certain telecommunications equipment also referred to by the parties as the "Lightwave" lease.

This Note shall be secured by a lien on the Lightwave Equipment of Borrower, as more fully set forth in the Security Agreement attached as Exhibit 1 hereto and made a part hereof. The Lender has the right at any time and from time to time to convert the then outstanding balance of principal and interest into Borrower's unregistered common stock at the rate of \$1.00 per share, provided the conversion would not make Lender's (including any affiliates) common stock ownership in Borrower exceed 9.95% of the issued and outstanding shares of common stock.

The Borrower will have the right at any time and from time to time to prepay the unpaid principal balance of this Note in whole or in part without penalty with interest on the unpaid principal balance accrued to the date of prepayment; and, the Lender has agreed that prior to any sale or assignment of this promissory note at a discount pursuant to a bona fide offer from a third party, Borrower or its written assignee of this right shall have the right of first refusal to match the offer and purchase this promissory note.

Upon repayment and/or conversion of the debt secured by this Secured Exchange Promissory Note, clear title to the collateral for this loan, identified in Exhibit A of the attached Exhibit 1, shall be transferred to Borrower where is and as is with no other warranties whatsoever.

This Note shall be governed and construed in accordance with the internal laws of the State of Georgia without regard to the principles of conflict of laws. Borrower consents to the jurisdiction of the Superior Court of the State of Georgia, Fulton County and/or any Federal District court located in the State of Georgia for any suit brought under this Note.

The Borrower agrees that a facsimile of this Note signed on behalf of Borrower shall constitute an enforceable obligation against Borrower. If suit is brought for the collection of this Note, borrower shall not be entitled to raise as a defense that a facsimile of this Note and not an original has been placed in evidence.

The Borrower agrees that if, and as often as, this Note is placed in the hands of an attorney for collection or to defend or enforce any of the Lender's rights under this Note, the Borrower will pay the Lender's reasonable attorneys' fees, all court costs and all other expenses incurred by the Lender in connection therewith.

IN WITNESS WHEREOF, the Borrower has executed this instrument effective the date first above written.

FullNet Communications, Inc.

By: \_\_\_\_\_

Timothy J. Kilkenny, CEO



By: \_\_\_\_\_

Roger Baresel, President & CFO

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT, (“Agreement”) is made as of this 31st day of May, 2013, by and among, FullNet Communications, Inc. an Oklahoma corporation (hereinafter “Borrower”) and HIGH CAPITAL FUNDING, LLC (the “Lender”).

WHEREAS, this Agreement is given to secure performance of the obligations (“Obligations”) under the Secured Exchange Promissory Note dated May 31, 2013 (“Secured Note”), executed by Borrower, in favor of Lender in the principal amount of \$50,000.00, together with interest thereon as provided for in the Secured Note.

NOW, THEREFORE, in consideration of the loan made by the Lender to Borrower, and further consideration of the covenants and promises contained in this Agreement, and for other good and valuable consideration, the parties agree as follows:

2.

Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

(a)

“Collateral” has the meaning set forth in paragraph 3 hereof.

(b)

“PTO” means the United States Patent and Trademark Office.

(c)

“UCC” means the Uniform Commercial Code as in effect in the State of Oklahoma.

(d)

Terms Defined in UCC. Where applicable in the context of this Agreement and except as otherwise defined herein, terms used in this Agreement shall have the meanings assigned to them in the UCC.

(e)

Construction. In this Agreement, the following rules of construction and interpretation shall be applicable: (i) no reference to “proceeds” in this Agreement authorizes any sale, transfer, or other disposition of any Collateral by Borrower; (ii) “includes” and “including” are not limiting; (iii) “or” is not exclusive; and (iv) “all” includes “any” and “includes” all.”

3.

Exchange. The terms and conditions contained herein supplant the terms and conditions of the Lease Agreement dated November 21, 2001, covering certain telecommunications equipment also referred to by the parties as the “Lightwave” lease.

4.

Security Interest.

(a)

Grant of Security Interest. As security for the payment and performance of the Obligations, Borrower hereby assigns, transfers and conveys to Lender, and grants to Lender, a security interest in and to all of Borrower’s right, title and interest in, to and under the following property, in each case whether now or hereafter existing or arising or in which Borrower now has or hereafter owns, acquires or develops an interest and wherever located (collectively, the “Collateral”):

(i)

The Lightwave Equipment, more specifically identified on Exhibit A attached hereto; and

(ii)

all Proceeds of any and all of the foregoing Collateral (including license royalties, rights to payment, accounts and proceeds of infringement suits) and, to the extent not otherwise included, all payments under insurance (whether or not Lender is the loss payee thereof) or any indemnity, warranty or guaranty payable by reason of loss or damage to or otherwise with respect to the foregoing Collateral.

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(b)

Continuing Security Interest. Borrower agrees that this Agreement shall create a continuing security interest in the Collateral which shall remain in effect until terminated in accordance herewith.

(c)

Termination of Security Interest & Transfer of Title.

(i)

Lender hereby agrees that upon the timely payment by Borrower to Lender of all amounts due under the Secured Note and/or conversion of the debt secured by this Security Agreement, this Security Agreement shall terminate and shall be of no further force or effect. Lender does hereby agree to execute and deliver a release of this Security Interest within (5) days after the final payment. If Lender fails to execute and deliver the release required herein within the allowed time period, Borrower is hereby authorized to execute, file and record in Lender's stead an instrument terminating this security interest; and

(ii)

Upon repayment and/or conversion of the debt secured by this Security Agreement, clear title to the collateral for this loan, identified in Exhibit A, shall be transferred to Borrower where is and as is with no other warranties whatsoever.

1.

Collateral Free of Other Security Interests. Borrower warrants that no financing statement covering any of the Collateral or its proceeds is on file in any public office at this date or will be on file with respect to the Collateral at the time the Collateral becomes subject to this Agreement except as set forth on Schedule 1. No other material security affects the Collateral at this date, and no arrangement exists whereby the Collateral will in the future become subject to a security interest senior to the lien of this Security Agreement except as set forth on Schedule 1.

Borrower authorizes Lender at its option and its sole discretion to discharge any taxes, charges, assessments, liens or other security interests or other encumbrances to which the Collateral may become subject. Lender may pay amounts to preserve and maintain the Collateral, if Borrower fails to do so. Borrower agrees to reimburse Lender within 10 days after demand for any payment made or any expense incurred by Lender pursuant to the foregoing authorization, together with interest on the amount expended at the rate of 8% per annum from the date of the payment. Any such amounts shall be secured by and under this Agreement.

2.

Fees and Taxes. Borrower will use reasonably commercial efforts to timely pay any and all license fees, taxes, assessments and public charges, general and special, that may at any time be levied or assessed upon or against Collateral.

3.

Maintenance of Collateral. Borrower will, at Borrower's expense, maintain and keep the tangible Collateral at its present location (or will provide Lender with reasonable advance written notice if any such Collateral is to be moved) in good order and repair, ordinary wear and tear excepted, and shall not, without the prior written consent of Lender, sell, dispose of or substantially alter the Collateral, except dispositions or alterations in the ordinary course of Borrower's business.

Borrower will not use the Collateral in material violation of any ordinance or state or federal statute or any administrative rules or regulation of law.

Borrower will use reasonably commercial efforts to avoid the Collateral from being attached or seized by any legal process. Borrower will defend and indemnify Lender from all expense and liability of every kind to any person or to the property of any person by reason of or in connection with the delivery, possession or use of the Collateral.

4.

Further Acts. On a continuing basis, Borrower shall make, execute, acknowledge and deliver, and file and record in the proper filing and recording places, all such instruments and documents, and take all such action as may be necessary or advisable or may be requested by Lender to carry out the intent and purposes of this Agreement, or for assuring, confirming or protecting the grant or perfection of the security interest granted or purported to be granted hereby, to ensure Borrower's compliance with this Agreement or to enable Lender to exercise and enforce its rights and remedies hereunder with respect to the Collateral, including any documents for filing with the PTO or any applicable state office. Lender may record this Agreement, an abstract thereof, or any other document describing Lender's interest in the Collateral with the PTO, at the expense of Borrower. In addition, Borrower authorizes Lender to file financing statements describing the Collateral in any UCC filing office deemed appropriate by Lender. If the Borrower shall at any time hold or acquire a commercial tort claim arising with respect to the Collateral, the Borrower shall immediately notify Lender in a writing signed by the Borrower of the brief details thereof and grant to the Lender in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance satisfactory to the Lender.

5.



Authorization to Supplement. If Borrower shall obtain rights to any new patentable inventions or become entitled to the benefit of any patent application or patent for any reissue, division, or continuation, of any patent or trademark, the provisions of this Agreement shall automatically apply thereto. Borrower shall give prompt notice in writing to Lender with respect to any such new patent or trademark rights.

6.

Additional Parties and Collateral. In the event that the Company forms or acquires an interest in any entity that becomes a subsidiary of the Company prior to payment in full of the Secured Notes, Borrower agrees that it will cause any such subsidiary to become a signatory to this Agreement and further agrees that as a result of such action, the tangible and intangible assets of any such subsidiary shall become Collateral pursuant to this Agreement to the same extent as if any such subsidiary had executed this Agreement as an original signatory and its tangible and intangible assets had been included in Section 3(a) above, *provided, however*, that with respect to any acquired entity, the existence and continuance of security agreements of any such entity in effect at the time of such acquisition shall not constitute a breach of this agreement. Borrower expressly acknowledges that a failure to comply with the provisions of this Section 9 shall constitute a default under this Agreement.

7.

Default. The breach or failure of any term, agreement or covenant of this Agreement, the occurrence of an event of default upon any term contained in the Secured Note, or the occurrence of any event of default specified below, shall constitute a default hereunder.

(a)

Borrower fails to make any payment hereunder when due, which failure has not been cured within Ten (10) days following such due date.

(b)

Any defined event of default occurs under any contract or instrument pursuant to

which Borrower has incurred any liability for borrowed money in excess of twenty-five thousand dollars (\$25,000.00), which event of default has not been waived within Five

(5) business days following such occurrence, and which event of default is reasonably likely to materially affect the Company's business.

(c)

A petition to take advantage of any insolvency act is filed by or against Borrower; Borrower makes an assignment for the benefit of its creditors; a proceeding for the appointment of a receiver, trustee, liquidator or conservator of Borrower of a whole or any substantial part of Borrower's property is filed by or against Borrower; a petition or answer seeking reorganization or arrangement or similar relief under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state is filed by or against Borrower.

(d)

A court of competent jurisdiction enters an order, judgment or decree appointing a custodian, receiver, trustee, liquidator or conservator of Borrower or of the whole or any substantial part of its properties, or approves a petition filed by or against Borrower seeking reorganization or arrangement or similar relief under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state; or if, under

the provision of any other law for the relief or aid of debtors, a court of competent jurisdiction assumes custody or control of Borrower or of the whole or any substantial part of its properties; or there is commenced by or against Borrower any proceeding for any of the foregoing relief and such proceeding or petition remains undismissed for a period of thirty (30) days; or if Borrower by any act indicates its consent to or approval of any such proceeding or petition.

(e)

If (i) any judgment remaining unpaid, unstayed or undismissed for a period of Sixty (60) days is rendered against Borrower which by itself or together with all other such judgments rendered against Borrower remaining unpaid, unstayed or undismissed for a period of Sixty (60) days, is in excess of Twenty-Five Thousand Dollars (\$25,000.00), or (ii) there is any attachment or execution against Borrower's properties remaining unstayed or undismissed for a period of Sixty (60) days which by itself or together with all other attachments and executions against Borrower's properties remaining unstayed or undismissed for a period of Sixty (60) days is for an amount in excess of Twenty-Five Thousand Dollars (\$25,000.00).

8.

Remedies. Upon the occurrence of any default as defined above, Lender will have the right at its option to enforce and to exercise any or all of its rights under this Agreement or otherwise. In addition to all other rights and remedies, Lender shall have the remedies of a secured party under the UCC. In exercising these remedies, Lender and Borrower agree as follows:

(a)





Lender may at its option require Borrower to assemble the Collateral and make it available to Lender at a place to be designated by Lender which is reasonably convenient to both parties. In the event Borrower fails or refuses to assemble the Collateral, Lender shall have the right, and Borrower hereby authorize and empowers Lender, to enter the premises upon which the Collateral is located in order to remove the same.

(b)

Lender will give Borrower reasonable notice of the time and place of any public sale of the Collateral, or of the time after which any private sale or other intended disposition of the Collateral is to be made, unless the Collateral is perishable, threatens to decline speedily in value, or is of a type customarily sold on a recognized market. The requirement of reasonable notice shall be met if a written notice is mail to Borrower postage prepaid, to the address of Borrower last known to Lender, at least 10 days prior to the date of the sale or disposition.

(c)

Borrower agrees to surrender possession of the Collateral to Lender in the event Lender elects to foreclose this security interest. Borrower waives any notice of the exercise of any and all options reserved to Lender by this Agreement.

(d)

Borrower will, upon Lender's request, deliver to Lender all original invoices, bills, charge or credit card receipts, books and records and other documents evidencing or describing any of the account receivable constituting a part of the Collateral. Borrower will also execute and deliver to Lender an assignment of the right to receive payments under all such Accounts. The parties recognize, however, that in the event of default such Accounts shall be deemed assigned to Lender, whether or not the assignments described above are actually delivered.

(e)

Lender shall have the right and are hereby authorized to collect all amounts due under the Accounts; sue or take other actions to collect the same in its own name or as assignee of or in the name of Borrower compromise or give acquittance for amounts due; and use such other measures as Lender may in its sole discretion deem appropriate for collection of the Accounts. All such actions shall be taken at the sole expense of Borrower who agrees to reimburse Lender for all reasonable amounts expended (including a reasonable attorney's fee), together with interest thereon from the date of expenditure at the rate then applicable under the Secured Notes.

(f)

This Agreement constitutes a direction to and full authority to any Account debtor to pay directly to Lender any such accounts. No proof of default shall be required. Any such debtor is hereby irrevocably and unconditionally authorized to rely upon and comply with any notice from Lender. The debtor shall not be liable to Borrower or any person

claiming under Borrower for making any payment or rendering any performance to Lender. The debtor shall have no obligation or right to inquire whether any default has occurred or is then existing. By its execution of this Agreement, Borrower irrevocably and unconditionally joins in, authorizes and consents to the above instructions.

(g)

The proceeds of any sale of the Collateral shall be applied to the following items in the following order: (a) the reasonable expenses of repossessing the Collateral and preparing for the holding the sale, including without limitation all reasonable attorney's fees incurred by Lender; (b) interest and principal then due (by acceleration or otherwise) under the Secured Note and any other debts specifically secured by the Agreement; (c) interest and principal then due (by acceleration or otherwise) under any other debts of Borrower to Lender (to be applied in whatever order Lender may in its sole discretion determine); (d) indebtedness of Borrower to other secured parties, provided written notice of demand therefore is received by Lender before the sale (to be applied in the order Lender receives the requires); and (e) the balance, if any, to Borrower.

9.

Set-off. Upon default by Borrower under this Agreement, Lender (or the holder or owner of any debt secured by this Agreement) shall immediately have the right without further notice to Borrower to set off against the Secured Note and any other debts secured by this Agreement all debts of Lender (or such holder or owner) to Borrower, whether or not then due.

10.

Notice. All notices, requests, certificates or other communications permitted or required hereunder ("notices") shall be conclusively deemed to have been received and shall be effective (i) on the day on which delivered by hand, email or telecopier to the respective party; (ii) if sent by registered or certified mail, return receipt requested, postage prepaid; (iii) on the third Business Day after the day on which mailed, addressed to the respective party; or (iv) if sent by overnight courier, the next business day after being sent by overnight courier. Notices may be delivered as follows:

To the Company:

FullNet Communications, Inc.

201 Robert S. Kerr Avenue, Suite 210

Oklahoma City, OK 73102



Attn: Roger P. Baresel, President & CFO

Tel: (405) 232-0958x102

Fax:

(405) 236-8201

E-mail:

rbaresel@fullnet.net

**To the Lender:**

**High Capital Funding, LLC**

**333 Sandy Springs Circle, Suite 230**

**Atlanta, GA 30328**

**Attn: Frank E. Hart, President**

**Profit Concepts, Ltd., Manager**

**Tel: (404) 257-9150**

**Fax: (404) 257-9125**

**Email: ldowd@highcapus.com**

1.

Miscellaneous. The following provisions are additional terms of this Agreement:

(a)

Lender has no duty to maintain, repair or protect the Collateral.

(b)

No waiver by Lender of any default shall operate as a waiver of any other default or of the same default on a future occasion.

(c)

All rights and remedies of Lender are cumulative and may be exercised successively or concurrently, and shall inure to the benefit of Lender's assigns.

(d)

All obligations of Borrower shall bind his trustees, custodians, general partners, successors and assigns.

(e)

The captions of the sections of this Agreement are inserted for convenience only and shall not be used in the interpretation or construction of any provisions hereof.

(f)

If any provisions of this Agreement is held invalid or unenforceable, the holding shall affect only the provision in question and all other provisions on this Agreement shall remain in full force and effect.

(g)

This Agreement supersedes all prior oral and/or written agreements concerning the subject matter hereof.

IN WITNESS WHEREOF, Borrower has executed this Agreement the day and year first above written.

**FULLNET COMMUNICATIONS, INC.**

By: \_\_\_\_\_



Timothy J. Kilkenny, CEO

By: \_\_\_\_\_

Roger P. Baresel, President

**HIGH CAPITAL FUNDING, LLC**

By:

Its:



**SCHEDULE 1**

**EXISTING SECURITY INTERESTS**

**NONE**



EXHIBIT 31.1

CERTIFICATIONS

I, Timothy J. Kilkenny, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2013 of FullNet Communications, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2013

/s/ Timothy J. Kilkenny

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Roger P. Baresel, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2013 of FullNet Communications, Inc.;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2013

/s/ Roger P. Baresel,

President and Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Executive Officer of FullNet Communications, Inc. (the “Company”), hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2013 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2013

/s/ Timothy J. Kilkenny,  
Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned President and Chief Financial and Accounting Officer of FullNet Communications, Inc. (the “Company”), hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2013 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2013

/s/ Roger P. Baresel,  
President and Chief Financial and  
Accounting Officer