

FULLNET COMMUNICATIONS INC
Form 10-Q
August 13, 2012

Table of Contents

**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 June 30, 2012

**○ 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 August 10, 2012, 8,578,161 shares of the registrant's common stock, \$0.00001 par value, were outstanding.

FORM 10-Q

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets – June 30, 2012 (Unaudited) and December 31, 2011 (Derived from Audited Statements)</u>	3
<u>Condensed Consolidated Statements of Operations – Three and Six months ended June 30, 2012 and 2011 (Unaudited)</u>	4
<u>Condensed Consolidated Statement of Stockholders – Deficit – Six months ended June 30, 2012 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Six months ended June 30, 2012 and 2011 (Unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	22
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	22
<u>Item 3. Defaults Upon Senior Securities</u>	22
<u>Item 5. Other Information</u>	22

<u>Item 6. Exhibits</u>	22
<u>Signatures</u>	27
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

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

	JUNE 30, 2012 (Unaudited)	DECEMBER 31, 2011 (Derived from Audited Statements)
ASSETS		
CURRENT ASSETS		
Cash	\$ 7,403	\$ 10,987
Accounts receivable, net	25,892	79,537
Prepaid expenses and other current assets	10,021	14,294
Total current assets	43,316	104,818
PROPERTY AND EQUIPMENT, net	69,503	78,141
OTHER ASSETS	5,573	5,912
TOTAL	\$ 118,392	\$ 188,871
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable, current portion	\$ 424,386	\$ 395,201
Accrued and other current liabilities, current portion	1,027,138	1,008,899
Notes payable, current portion	316,320	328,078
Deferred revenue	160,916	173,954
Total current liabilities	1,928,760	1,906,132
ACCRUED AND OTHER LIABILITIES, less current portion	22,832	23,484
Total liabilities	1,951,592	1,929,616
STOCKHOLDERS DEFICIT	91	90

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-Q

Common stock \$.00001 par value; authorized, 10,000,000 shares;
issued and outstanding, 9,118,161 and 8,978,161 shares in 2012
and 2011, respectively

Additional paid-in capital	8,411,956	8,409,945
Accumulated deficit	(10,245,247)	(10,150,780)
Total stockholders' deficit	(1,833,200)	(1,740,745)
TOTAL	\$ 118,392	\$ 188,871

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
REVENUES				
Access service revenues	\$ 42,039	\$ 56,644	\$ 91,321	\$ 121,490
Co-location and other revenues	330,699	411,936	712,527	795,117
Total revenues	372,738	468,580	803,848	916,607
OPERATING COSTS AND EXPENSES				
Cost of access service revenues	29,604	46,014	68,614	88,613
Cost of co-location and other revenues	89,267	93,119	177,140	184,582
Selling, general and administrative expenses	297,411	290,446	623,509	602,196
Depreciation and amortization	8,716	14,069	17,646	24,788
Total operating costs and expenses	424,998	443,648	886,909	900,179
INCOME (LOSS) FROM OPERATIONS	(52,260)	24,932	(83,061)	16,428
INTEREST EXPENSE	(5,605)	(6,010)	(11,406)	(12,216)
INCOME (LOSS) before income taxes	(57,865)	18,922	(94,467)	4,212
Income tax expense (benefit)	-	-	-	-
NET INCOME (LOSS)	\$ (57,865)	18,922	\$ (94,467)	\$ 4,212

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-Q

Net income (loss) per share basic	\$	(.01)	.00	\$	(.01)	\$.00
Net income (loss) per share assuming dilution	\$	(.01)	.00	\$	(.01)	\$.00
Weighted average shares outstanding basic		8,978,161	8,235,697		9,057,155		8,043,010
Weighted average shares outstanding assuming dilution		8,978,161	8,445,895		9,057,461		8,696,270

9

See accompanying notes to condensed consolidated financial statements.

Table of Contents**FullNet Communications, Inc. and Subsidiaries****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT (UNAUDITED)****Six Months Ended June 30, 2012**

	Common stock			Additional		Accumulated		Total
	Shares	Amount		Paid In		Deficit		
Balance at January 1, 2012	8,978,161	\$ 90	\$	8,409,945	\$	(10,150,780)	\$	(1,740,745)
Stock compensation expense				1,592				1,592
Stock options exercise	140,000	1		419				420
Net loss						(94,467)		(94,467)
Balance at June 30, 2012	9,118,161	\$ 91	\$	8,411,956	\$	(10,245,247)	\$	(1,833,200)

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended	
	June 30, 2012	June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (94,467)	\$ 4,212
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	17,646	24,788
Stock compensation	1,592	1,163
Provision for uncollectible accounts receivable	4,821	(4,693)
Net (increase) decrease in		
Accounts receivable	48,824	(549)
Prepaid expenses and other current assets	4,273	(6,272)
Net increase (decrease) in		
Accounts payable	29,185	(44,067)
Accrued and other liabilities	17,587	(10,942)
Deferred revenue	(13,038)	63,786
 Net cash provided by operating activities	 16,423	 27,426
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(8,669)	(14,353)
Acquisition of business	-	(10,056)
 Net cash used in investing activities	 (8,669)	 (24,409)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on borrowings under notes payable	(11,758)	(11,758)
Proceeds from exercise of stock options	420	7,256
 Net cash used in financing activities	 (11,338)	 (4,502)
 Net decrease in cash	 (3,584)	 (1,485)
Cash at beginning of period	10,987	10,856

Cash at end of period	\$	7,403	\$	9,371
-----------------------	----	-------	----	-------

SUPPLEMENTAL DISCLOSURES OF CASH FLOW
INFORMATION

Cash paid for interest	\$	11,513	\$	11,512
------------------------	----	--------	----	--------

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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, 2011.

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, 2012. Certain reclassifications have been made to prior period balances to conform with the presentation for the current period.

2.

MANAGEMENT S PLANS

At June 30, 2012, current liabilities exceed current assets by \$1,885,444. 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. The Company is in default on a secured promissory note and a convertible promissory note (see Note 8 Notes Payable). 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.

Table of Contents

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

3.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

«VLPZ0AG8»]

4.

INCOME (LOSS) PER SHARE

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-Q

Income (loss) per share basic is calculated by dividing net income (loss) by the weighted average number of shares of stock outstanding during the period, including shares issuable without additional consideration. Income per share assuming dilution is calculated by dividing net income by the weighted average number of shares outstanding during the period adjusted for the effect of dilutive potential shares calculated using the treasury stock method.

[«ULPZJK5|Level=3|Label=Schedule of Income (Loss) Per Share|Abstract=us-gaap:TableTextBlock|Tag=us-gaap:ScheduleOfEarningsPerShareBasicAndDilutedTableTextBlock»

Schedule of Income (Loss) Per Share

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Numerator:				
Net income (loss)	\$ (57,865)	\$ 18,922	\$ (94,467)	\$ 4,212
Denominator:				
Weighted average shares outstanding basic	8,978,161	8,235,697	9,057,155	8,043,010
Effect of dilutive stock options	-	43,161	306	230,823
Effect of dilutive warrants	-	167,037	-	422,437
Weighted average shares outstanding assuming dilution	8,978,161	8,445,895	9,057,461	8,696,270
Net income (loss) per share basic	\$ (.01)	\$.00	\$ (.01)	\$.00
Net income (loss) per share assuming dilution	\$ (.01)	\$.00	\$ (.01)	\$.00

Basic and diluted income (loss) per share were the same for the three and six months ended June 30, 2012 because there was a net loss for each period. Potentially dilutive securities not included in the calculation of diluted net income (loss) per share because to do so would be anti-dilutive for the period are as follows:

Schedule of Antidilutive Securities Excluded from Computation of Income (Loss) Per Share

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Stock options	1,187,116	646,365	1,187,116	1,632,381
Warrants and non-employee stock options	579,000	371,000	579,000	371,000
Convertible promissory note	107,843	107,843	107,843	107,843
	1,978,959	1,125,208	1,978,959	2,111,224

5.

ACCOUNTS RECEIVABLE

Schedule of Accounts Receivable

	June 30, 2012	December 31, 2011
Accounts receivable	\$ 232,269	\$ 281,094
Less allowance for doubtful accounts	(206,377)	(201,557)
	\$ 25,892	\$ 79,537

«VLPZDFZS»]

Table of Contents

6.

PROPERTY AND EQUIPMENT

Schedule of Property and Equipment

	June 30, 2012		December 31, 2011
Computers and equipment	\$ 1,524,949	\$	1,516,280
Leasehold improvements	991,749		991,749
Software	57,337		57,337
Furniture and fixtures	28,521		28,521
	2,602,556		2,593,887
Less accumulated depreciation	(2,533,053)		(2,515,746)
	\$ 69,503	\$	78,141

Depreciation expense for the three months ended June 30, 2012 and 2011 was \$8,376 and \$10,709, respectively.

Depreciation expense for the six months ended June 30, 2012 and 2011 was \$17,307 and \$21,401, respectively.

«VJPZ7TZW»]

[«VLPZ7UF9|Level=1|Label=7. Accrued and Other Current Liabilities|Tag=us-gaap:AccountsPayableAccruedLiabilitiesAndOtherLiabilitiesDisclosureCurrentTextBlock»

7.

ACCRUED AND OTHER CURRENT LIABILITIES

Schedule of Accrued and Other Current Liabilities

	June 30, 2012		December 31, 2011
Accrued interest	\$ 2,345	\$	2,451
Accrued deferred compensation	831,829		832,897
Accrued unused vacation and sick leave	114,235		110,044
Accrued other liabilities	101,561		86,991
	1,049,970		1,032,383
Less current portion	1,027,138		1,008,899
	\$ 22,832	\$	23,484

The Company's top three executive officers have employment agreements which contain a Change in Control provision which provides for the immediate lump sum payment of their accrued deferred compensation in the event of a qualifying event. Accrued deferred compensation subject to this provision totaled approximately \$610,121 and \$609,691 at June 30, 2012 and December 31, 2011, respectively.

Table of Contents**8.****NOTES PAYABLE**

Schedule of Notes Payable

	June 30, 2012	December 31, 2011
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 June 30, 2012 and December 31, 2011) (1)«1NJ05THF»]	\$ 55,000	\$ 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 December 30, 2011; secured by all tangible and intangible assets of the Company (2)	261,320	273,078
	316,320	328,078
Less current portion	316,320	328,078
	\$ -	\$ -

(1) This convertible promissory note matured in November 2003. The Company has been unable to pay this note and has been making quarterly interest payments. The Company has not negotiated an extension of this note and the lender has not made any demands for payment of the principal amount of this note. The Company is currently developing a plan to satisfy this note. At June 30, 2012, the outstanding principal and accrued interest of the convertible promissory note was \$56,733.

(2) The Company agreed to issue additional shares of stock to this note holder in the event that any additional shares are issued at less than \$.50 per share, excluding employee stock options,

prior to the payment in full of the secured promissory note.

In December 2011, the Company agreed to extend the expiration date on 150,000 and 275,000 common stock purchase warrants with exercise prices of \$.01 and \$1.00, respectively, from January 2, 2012 to January 2, 2015 and adjusted the exercise prices to \$.003 in return for a credit of \$1,113 on the outstanding principal balance of the secured promissory note.

This secured promissory note matured on December 30, 2011. The Company continues to make monthly principal and interest payments. The note holder has not made any demands for payment of the outstanding principal balance of this note. At June 30, 2012, the outstanding principal and accrued interest of the secured promissory note was \$261,964.

«VLPZDVL0»]

9.

COMMON STOCK OPTIONS AND WARRANTS

Schedule of Employee Stock Option Activity

	Three Months Ended		Six Months Ended	
	June 30, 2012		June 30, 2012	
		Weighted Average		Weighted Average
Options outstanding, beginning of the period	1,292,116	\$.038	1,462,783	\$.040
Options granted during the period	~	~	143,000	.003
Options exercised during the period	~	~	(140,000)	.003
Options expired during the period	~	~	(173,667)	.051
Options outstanding, end of the period	1,292,116	\$.038	1,292,116	\$.038

Table of Contents

The Company records compensation cost for new and modified awards over the related vesting period of such awards prospectively.

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

	Three Months Ended June 30, 2012	Weighted Average Exercise Price	Six Months Ended June 30, 2012	Weighted Average Exercise Price
Warrants and non-employee stock options outstanding, beginning of the period	591,000	\$.023	591,000	\$.023
Warrants and non-employee stock options expired during the period	(12,000)	.080	(12,000)	.080
Warrants and non-employee stock options outstanding, end of the period	579,000	.022	579,000	.022

10.**COMMON STOCK**

Stock options for

140,000 shares of the Company's common stock were exercised in March 2012 for \$420.

On December 29, 2009 the Company converted \$248,578 of accrued interest on an interim loan from a shareholder into 497,156 restricted shares of the Company's common stock valued at \$.50 per share. These shares were equal to approximately 6.8% of the total number of shares outstanding and were issued on January 20, 2010. During the fourth quarter of 2009 this transaction was accounted for as a troubled debt restructuring and a gain on debt forgiveness of \$235,663 was recorded. In connection with the conversion, the Company also agreed to issue additional shares of stock to the holder of a secured promissory note in the event that any additional shares are issued at less than \$.50 per share, excluding employee stock options, prior to the payment in full of the secured promissory note (see Note 8 Notes Payable). During the six months ended June 30, 2012, no shares other than employee stock options shares were issued by the Company at less than \$.50 per share.

11.

FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820-10 requires that an entity disclose the fair value of financial instruments for which it is practicable to estimate the value. The Company considers the carrying value of certain financial instruments on the balance sheets, including cash, accounts receivable, and other assets to be reasonable estimates of fair value. At June 30, 2012 and December 31, 2011, the carrying amount of the Company's liabilities for corporate borrowings and other obligations was [«VRPWY8J5/Tag=us-gaap:Liabilities/Label=Liabilities/Time=2012-06-30/Precision=INF»\$1,951,592 and \$1,929,616, respectively, and the fair value was estimated to be approximately \$118,000 and \$189,000, respectively. These amounts are based on the present value of estimated future cash outflows which is discounted based on the risk of nonperformance due to the uncertainty of the Company's ability to continue as a going concern.

«VJPV3WHE»]

Table of Contents

12.

CERTAIN RELATIONSHIPS

The Company has an operating lease for certain equipment which is leased from one of its shareholders whose parent company holds a \$261,320 secured promissory note (see Note 8 – Notes Payable). The original lease was dated November 21, 2001 and the terms were \$6,088 per month for 12 months with a fair market purchase option at the end of the lease. Upon default on the lease, the Company was allowed to continue leasing the equipment on a month-to-month basis at the same monthly rate as the original lease. The Company has been unable to make the month-to-month payments. In January and November 2006, the Company agreed to extend the expiration date on common stock purchase warrants exercisable for the purchase of 425,000 common stock shares and a credit of \$17,960 and for the purchase of 140,000 common stock shares and a credit of \$3,940, respectively, on the operating lease. In September 2007, the lessor agreed to cease the monthly lease payments effective January 1, 2007 which generated a total of \$54,795 of forgiveness of debt income. The lessor also agreed to accept payments of \$499 per month on the balance owed. In January and December 2009, the Company agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants exercisable for the purchase of 425,000 common stock shares and a credit of \$3,445 and for the purchase of 140,000 common stock shares and a credit of \$773, respectively, on the operating lease. At June 30, 2012 and December 31, 2011 the Company had recorded \$256,443 in unpaid lease payments. The loss of this equipment would have a material adverse effect on the Company's business, financial condition and results of operations. The Company has been unable to make all of the required payments pursuant to the terms of the September 2007 agreement. The lessor has not made any formal demands for payment or instituted collection action; however the Company is in discussions with the lessor to restructure this liability.

13.

CONCENTRATIONS

During the six months ended June 30, 2012, the Company had two customers that each comprised approximately [«75J5VUCH|Tag=fil:RevenueConcentrationCustomer1|Type=percent|Period=duration|Label=Revenue Concentration Customer1|Time=2012-01-01~2012-06-30» 12% and 10% of total revenues, respectively. During the three months ended June 30, 2012, these two customers each comprised approximately [«77J45DDR|Tag=fil:RevenueConcentrationCustomer1|Type=percent|Period=duration|Label=Revenue Concentration Customer1|Time=2012-04-01~2012-06-30» 13% and 9% of total revenues, respectively. During the six months ended June 30, 2011, the Company had two customers that each comprised approximately 14% and 9% of total

revenues, respectively. During the three months ended June 30, 2011, these two customers each comprised approximately 13% and 10% of total revenues, respectively.

14.

EMPLOYEE BENEFIT PLANS

The Company offers a SIMPLE IRA plan for all eligible employees. Employees meeting certain eligibility requirements can participate in the plan. Under the plan, the Company matches employee contributions to the plan up to 1% of the employee's salary. The Company made matching contributions of \$910 and \$800, respectively, during the quarters ended June 30, 2012 and 2011. The Company made matching contributions of \$1,764 and \$1,704, respectively, during the six months ended June 30, 2012 and 2011.

«VLPZ3CU1»]

15.

CONTINGENCIES

As a provider of telecommunications, the Company is affected by regulatory proceedings in the ordinary course of its business at the state and federal levels. These include proceedings before both the Federal Communications Commission and the Oklahoma Corporation Commission (OCC). In addition, in its operations the Company relies on obtaining many of its underlying telecommunications services and/or facilities from incumbent local exchange carriers or other carriers pursuant to interconnection or other agreements or arrangements. In January 2007, the Company concluded a regulatory proceeding pursuant to the Federal Telecommunications Act of 1996 before the OCC relating to the terms of its interconnection agreement with Southwestern Bell Telephone, L.P. d/b/a AT&T, which succeeds a prior interconnection agreement. The OCC approved this agreement in May 2007. This agreement may be affected by regulatory proceedings at the federal and state levels, with possible adverse impacts on the Company. The Company is unable to accurately predict the outcomes of such regulatory proceedings at this time, but an unfavorable outcome could have a material adverse effect on the Company's business, financial condition or results of operations.

Table of Contents

16.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the time of filing these financial statements with the Securities and Exchange Commission

Table of Contents

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 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, 2010 (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) and FullWeb, Inc. (FullWeb).

Overview

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

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

Company History

We were founded in 1995 as CEN-COM of Oklahoma, Inc., an Oklahoma corporation, to bring dial-up Internet access and education to rural locations in Oklahoma that did not have dial-up Internet access. We changed our name to FullNet Communications, Inc. in December 1995. Today we are 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 and traditional telephone services, as well as through the acquisition of Internet service providers.

We market our carrier neutral co-location solutions in our network operations center to other competitive local exchange carriers, Internet service providers and web-hosting companies. Our co-location facility is carrier neutral, allowing customers to choose among competitive offerings rather than being restricted to one carrier. Our network operations center is Telco-grade and provides customers a high level of operative reliability and security. We offer flexible space arrangements for customers and 24-hour onsite support with both battery and generator backup.

Table of Contents

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. At June 30, 2012 FullTel provided us with local telephone access in approximately 232 cities.

Our common stock trades on the OTC Bulletin Board under the symbol FULO. While our common stock trades on the OTC Bulletin Board, it is very thinly traded, and there can be no assurance that our stockholders will be able to sell their shares should they so desire. Any market for the common stock that may develop, in all likelihood, will be a limited one, and if such a market does develop, the market price may be volatile.

Results of Operations

The following table sets forth certain statement of operations data as a percentage of revenues for the three and six months ended June 30, 2012 and 2011:

	Three Months Ended				Six Months Ended			
	June 30, 2012		June 30, 2011		June 30, 2012		June 30, 2011	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Revenues:								
Access service revenues	\$ 42,039	11.3 %	\$ 56,644	12.1 %	\$ 91,321	11.4 %	\$ 121,490	13.3 %
Co-location and other revenues	330,699	88.7	411,936	87.9	712,527	88.6	795,117	86.7
Total revenues	372,738	100.0	468,580	100.0	803,848	100.0	916,607	100.0
Cost of access service revenues	29,604	7.9	46,014	9.8	68,614	8.5	88,613	9.7
Cost of co-location and other revenues	89,267	23.9	93,119	19.9	177,140	22.0	184,582	20.1
Selling, general and administrative expenses	297,411	79.8	290,446	62.0	623,509	77.6	602,196	65.7
Depreciation and amortization	8,716	2.3	14,069	3.0	17,646	2.2	24,788	2.7
	424,998	114.0	443,648	94.7	886,909	110.3	900,179	98.2

Total
operating costs
and expenses

Income (loss)
from
operations

(52,260)	(14.0)	24,932	5.3	(83,061)	(10.3)	16,428	1.8
----------	--------	--------	-----	----------	--------	--------	-----

Interest
expense

(5,605)	(1.5)	(6,010)	(1.3)	(11,406)	(1.4)	(12,216)	(1.3)
---------	-------	---------	-------	----------	-------	----------	-------

Income (loss)
before income
taxes

(57,865)	(15.5)	18,922	4.0	(94,467)	(11.7)	4,212	0.5
----------	--------	--------	-----	----------	--------	-------	-----

Income tax
(benefit)

-	-	-	-	-	-	-	-
---	---	---	---	---	---	---	---

Net income
(loss)

\$ (57,865)	(15.5)%	\$ 18,922	4.0 %	\$ (94,467)	(11.7)%	\$ 4,212	0.5 %
-------------	---------	-----------	-------	-------------	---------	----------	-------

Three Months Ended June 30, 2012 (the 2012 2nd Quarter) Compared to Three Months Ended June 30, 2011 (the 2011 2nd Quarter)

Revenues

Access service revenues decreased \$14,605 or 25.8% to \$42,039 for the 2012 2nd Quarter from \$56,644 for the same period in

2011 primarily due to a decline in number of customers.

Co-location and other revenues decreased \$81,237 or 19.7% to \$330,699 for the 2012 2nd Quarter from \$411,936 for the same period in 2011. This decrease was primarily attributable to reductions in services to existing customers in addition to a decline in the number of traditional phone service customers.

Operating Costs and Expenses

Cost of access service decreased \$16,410 or 35.7% to \$29,604 for the 2012 2nd Quarter from \$46,014 for the same period in 2011. 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 decreased to 70.4% during the 2012 2nd Quarter, compared to 81.2% during the same period in 2011.

Table of Contents

Cost of co-location and other revenues decreased \$3,852 or 4.1% to \$89,267 for the 2012 2nd Quarter from \$93,119 for the same period in 2011 primarily related to 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 27.0% during the 2012 2nd Quarter, compared to 22.6% during the same period in 2011.

Selling, general and administrative expenses increased \$6,965 or 2.4% to \$297,411 for the 2012 2nd Quarter compared to \$290,446 for the same period in 2011 primarily related to advertising expenses. Selling, general and administrative expenses as a percentage of total revenues increased to 79.8% during the 2012 2nd Quarter from 62.0% during the 2011 2nd Quarter.

Depreciation and amortization expense decreased \$5,353 or 38.1% to \$8,716 for the 2012 2nd Quarter compared to \$14,069 for the 2011 2nd Quarter primarily related to several assets reaching full depreciation.

Interest Expense

Interest expense decreased \$405 or 6.7% to \$5,605 for the 2012 2nd Quarter compared to \$6,010 for the same period in 2011 primarily due to a decrease in notes payable.

Six Months Ended June 30, 2012 (the 2012 Period) Compared to Six Months Ended June 30, 2011 (the 2011 Period)

Revenues

Access service revenues decreased \$30,169 or 24.8% to \$91,321 for the 2012 Period from \$121,490 for the 2011 Period primarily due to a decline in our number of customers.

Co-location and other revenues decreased \$82,590 or 10.4% to \$712,527 for the 2012 Period from \$795,117 for the 2011 Period. This decrease was primarily attributable to reductions in services to existing customers in addition to a decline in the number of traditional phone service customers.

Operating Costs and Expenses

Cost of access service revenues decreased \$19,999 or 22.6% to \$68,614 for the 2012 Period from \$88,613 for the 2011 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 75.1% during the 2012 Period, compared to 72.9% during the 2011 Period.

Cost of co-location and other revenues decreased \$7,442 or 4.0% to \$177,140 for the 2012 Period from \$184,582 for the 2011 Period primarily related to 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 24.9% during the 2012 Period compared to 23.2% during the 2011 Period.

Selling, general and administrative expenses increased \$21,313 or 3.5% to \$623,509 for the 2012 Period compared to \$602,196 for the 2011 Period. This increase was primarily related to increases in advertising and employee costs.

Selling, general and administrative expenses as a percentage of total revenues increased to 77.6% during the 2012 Period from 65.7% during the 2011 Period.

Table of Contents

Depreciation and amortization expense decreased \$7,142 or 28.8% to \$17,646 for the 2012 Period compared to \$24,788 for the 2011 Period primarily related to several assets reaching full depreciation.

Interest Expense

Interest expense decreased \$810 or 6.6% to \$11,406 for the 2012 Period compared to \$12,216 for the 2011 Period primarily related to a decrease in notes payable.

Liquidity and Capital Resources

As of June 30, 2012, we had \$7,403 in cash and \$1,928,760 in current liabilities, including \$160,916 of deferred revenues that will not require settlement in cash.

At June 30, 2012 and December 31, 2011, we had a working capital deficit of \$1,885,444 and \$1,801,314, respectively. We do not have a line of credit or credit facility to serve as an additional source of liquidity. Historically we have relied on shareholder loans as an additional source of funds.

As of June 30, 2012, of the \$167,943 we owed to our trade creditors \$107,496 was past due. We have no formal agreements regarding payment of these amounts. At June 30, 2012, \$256,443 payable under a matured lease obligation was outstanding. The lessor has not made any formal demands for payment or instituted collection action; however we are in discussions with the lessor to restructure this liability. At June 30, 2012, we had outstanding principal and accrued interest owed on a matured convertible promissory note totaling \$56,733. We have been making quarterly interest payments on this note and the lender has not made any demands for payment of the principal. At June 30, 2012 we had outstanding principal and accrued interest owed on a matured secured promissory note totaling \$261,964. We have been making monthly principal and interest payments on this note and the lender has not made any demands for payment of the outstanding balance of this note.

In addition, during the six months ended June 30, 2012, we had two customers that each comprised approximately 12% and 10% of total revenues, respectively. During the three months ended June 30, 2012, these two customers each comprised approximately 13% and 9% of total revenues, respectively. During the six months ended June 30, 2011, we had two customers that each comprised approximately 14% and 9% of total revenues, respectively. During the three months ended June 30, 2011, these two customers each comprised approximately 13% and 10% of total revenues, respectively.

Table of Contents

Cash flow for the six-month periods ending June 30, 2012 and 2011 consist of the following.

	For the Six-Month Periods Ended	
	June 30,	
	2012	2011
Net cash flows provided by operations	\$ 16,423	\$ 27,426
Net cash flows used in investing activities	(8,669)	(24,409)
Net cash flows used in financing activities	(11,338)	(4,502)

Cash used for the purchase of equipment was \$8,669 and \$14,353, respectively, for the six months ended June 30, 2012 and 2011. Cash used for the acquisition of a business was \$10,056 for the six months ended June 30, 2011.

Cash used for principal payments on notes payable was \$11,758 for the six months ended June 30, 2012 and 2011. Cash provided by the exercise of options was \$420 and \$7,256 for the six months ended June 30, 2012 and 2011, respectively.

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

mergers and acquisitions and

further development of operations support systems and other automated back office systems

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

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 promissory note from a shareholder which requires monthly installments of interest only through December 30, 2010 then monthly installments of \$3,301 including principal and interest which matured December 30, 2011 and is secured by all of our tangible and intangible assets (see Note 8 Notes Payable to our financial statements, above). We agreed to issue additional shares of stock to the shareholder in the event that any additional shares are issued at less than \$.50 per share, excluding employee stock options, prior to the payment in full of the secured promissory note. At June 30, 2012, the outstanding principal and interest of the secured promissory note was \$261,964.

Table of Contents

We have an operating lease for certain equipment which is leased from one of our shareholders whose parent company holds a \$261,320 secured promissory note (see Note 8 Notes Payable to our financial statements, above). The original lease was dated November 21, 2001 and the terms were \$6,088 per month for 12 months with a fair market purchase option at the end of the lease. Upon default on the lease, we were allowed to continue leasing the equipment on a month-to-month basis at the same monthly rate as the original lease. We have been unable to make the month-to-month payments. In January and November 2006, we agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants for the lessor in return for a credit of \$17,960 and \$3,940, respectively, on the operating lease. In September 2007, the lessor agreed to cease the monthly lease payments effective January 1, 2007 which generated a total of \$54,795 of forgiveness of debt income. The lessor also agreed to accept payments of \$499 per month on the balance owed. In January and December 2009, we agreed to extend the expiration date on 425,000 and 140,000, respectively, of common stock purchase warrants for the lessor in return for a credit of \$3,445 and \$773, respectively, on the operating lease. At June 30, 2012 and December 31, 2011 we had recorded \$256,443 in unpaid lease payments. The loss of this equipment would have a material adverse effect on our business, financial condition and results of operations. We have been unable to make all of the required payments pursuant to the terms of the September 2007 agreement. The lessor has not made any formal demands for payment or instituted collection action; however we are in discussions with the lessor to restructure this liability.

We have a convertible promissory note that matured in November 2003. We have been unable to pay this note and have been making quarterly interest payments. The lender has not made any demands for payment of the principal. At June 30, 2012, the outstanding principal and accrued interest of the convertible promissory note was \$56,733.

Table of Contents

Critical Accounting Policies and Estimates

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

We periodically review the carrying value of our 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 and traditional telephone 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.

Table of Contents

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 3. Defaults Upon Senior Securities

We are in default on a secured promissory note that matured in December 2011. This note bears interest at 6% and is secured by all of our tangible and intangible assets. We have been unable to pay this note and have been making monthly principal and interest payments. The lender has not made any demands for payment of the balance. At June 30,, 2012, the outstanding principal and accrued interest of the secured promissory note was \$261,964.

We are in default on a convertible promissory note that matured in November 2003. This note bears interest at 12.5% per annum and is convertible into approximately 107,843 shares of our common stock. We have been unable to pay this note and have been making quarterly interest payments. The lender has not made any demands for payment of the principal. At June 30, 2012, the outstanding principal and accrued interest of the convertible promissory note was \$56,733.

Item 5. Other Information

During the three months ended June 30, 2012 all events reportable on Form 8-K were reported.

Item 6. Exhibits

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-Q

(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)	#
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).	#

Table of Contents

<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).	#
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		#

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-Q

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) | # |
| 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). | # |

Table of Contents

<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).	#
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).	#

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-Q

- | | | |
|-------|---|---|
| 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). | # |

Table of Contents

<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		#

Edgar Filing: FULLNET COMMUNICATIONS INC - Form 10-Q

Warrant Certificate Dated December 29, 2000, issued to Roger P. Baresel (filed as Exhibit 10.27 to Registrant's Form 10-KSB for the fiscal year ended December 31, 2000).

10.28	Stock Option Agreement dated October 13, 2000, issued to Roger P. Baresel (filed as Exhibit 10.28 to Registrant's Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.29	Stock Option Agreement dated October 12, 1999, issued to Travis Lane (filed as Exhibit 10.29 to Registrant's Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.30	Promissory Note dated January 5, 2001, issued to Generation Capital Associates (filed as Exhibit 10.30 to Registrant's Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.31	Placement Agency Agreement dated November 8, 2000 between FullNet Communications, Inc. and National Securities Corporation (filed as Exhibit 10.31 to Registrant's Form 10-KSB for the fiscal year ended December 31, 2000).	#
10.32	Promissory Note dated January 25, 2000, issued to Fullnet of Tahlequah, Inc.	#
10.33	Promissory Note dated February 7, 2000, issued to David Looper	#
10.34	Promissory Note dated February 29, 2000, issued to Wallace L. Walcher	#
10.35	Promissory Note dated June 2, 2000, issued to Lary Smith	#
10.36	Promissory Note dated June 15, 2001, issued to higganbotham.com L.L.C.	#
10.37	Promissory Note dated November 19, 2001, issued to Northeast Rural Services	#
10.38	Promissory Note dated November 19, 2001, issued to Northeast Rural Services	#

Table of Contents

<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	#
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	*
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: August 13, 2012

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

Date: August 13, 2012

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

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 June 30, 2012 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: August 13, 2012

/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 June 30, 2012 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: August 13, 2012

/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 June 30, 2012 (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: August 13, 2012

/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 June 30, 2012 (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: August 13, 2012

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