

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2020

OR

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 001-14015

**APPLIED ENERGETICS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**77-0262908**

(IRS Employer  
Identification Number)

**2480 W Ruthrauff Road, Suite 140 Q  
Tucson, Arizona**

(Address of Principal Executive Offices)

**85705**

(Zip Code)

Registrant's telephone number, including area code (520) 628-7415

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), (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 or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer:   
Non-accelerated filer:

Accelerated filer:   
Smaller reporting company:   
Emerging growth company

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	AERG	OTCQB

As of August 11, 2020, there were 212,143,146 shares of the issuer's common stock, par value \$.001 per share, outstanding.

**APPLIED ENERGETICS, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
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**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

APPLIED ENERGETICS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

	<b>June 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 446,976	\$ 88,415
Other receivable	2,879	2,880
Other assets	<u>159,101</u>	<u>52,686</u>
Total current assets	608,956	143,981
Long-term assets		
Long-term receivable	582,377	582,377
Property and equipment - net	28,017	36,568
Deferred compensation	1,666,667	2,083,334
Total long-term assets	<u>2,277,061</u>	<u>2,702,279</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,886,017</u></b>	<b><u>\$ 2,846,260</u></b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>		
Current liabilities		
Accounts payable	\$ 422,015	\$ 472,868
Accrued officer compensation	206,000	206,000
Notes payable including accrued interest of \$233,541 at June 30, 2020 and \$119,218 at December 31, 2019	3,956,972	3,467,890
Due to related parties	50,000	50,000
Accrued expenses	55,526	23,588
Accrued dividends	48,079	48,079
Deferred revenues	66,368	-
Total current liabilities	<u>4,804,960</u>	<u>4,268,425</u>
Long-term liabilities		
Long-term notes payable	<u>1,132,760</u>	<u>1,500,000</u>
Total liabilities	<u>5,937,720</u>	<u>5,768,425</u>
Commitments and contingencies		
Stockholders' (deficit)		
Series A Convertible Preferred Stock, \$.001 par value, 2,000,000 shares authorized; 13,602 shares issued and outstanding at June 30, 2020 and at December 31, 2019	14	14
Common stock, \$.001 par value, 500,000,000 shares authorized; 212,143,146 and 206,569,063 shares issued and outstanding at June 30, 2020 and at December 31, 2019, respectively	212,143	206,569
Additional paid-in capital	88,412,212	85,907,523
Accumulated deficit	(91,676,072)	(89,036,271)
Total stockholders' (deficit)	<u>(3,051,703)</u>	<u>(2,922,165)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>	<b><u>\$ 2,886,017</u></b>	<b><u>\$ 2,846,260</u></b>

See accompanying notes to condensed consolidated financial statements (unaudited).

APPLIED ENERGETICS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	<b>For the three months ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Operating expenses		
General and administrative	\$ 1,128,324	\$ 610,446
Selling and marketing	71,840	53,999
Research and development	65,317	95,890
	<u>1,265,481</u>	<u>760,335</u>
Total operating expenses	1,265,481	760,335
Operating loss	(1,265,481)	(760,335)
Other income (expense)		
Interest (expense)	(109,229)	(26,485)
Total other (expense)	(109,229)	(26,485)
	<u>(1,374,710)</u>	<u>(786,820)</u>
Net loss	(1,374,710)	(786,820)
Preferred stock dividends	(8,501)	(8,501)
Net loss attributable to common stockholders	<u>\$ (1,383,211)</u>	<u>\$ (795,321)</u>
Net loss per common share – basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding, basic and diluted	<u>212,319,137</u>	<u>203,814,063</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

APPLIED ENERGETICS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	<b>For the six months ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
Revenue	\$ 10,000	\$ -
Gross profit	10,000	-
Operating expenses		
General and administrative	2,218,744	1,067,165
Selling and marketing	153,526	106,333
Research and development	122,796	168,550
Total operating expenses	<u>2,495,066</u>	<u>1,342,048</u>
Operating loss	(2,485,066)	(1,342,048)
Other income/(expense)		
Other income	15,833	-
Interest (expense)	(170,568)	(30,925)
Total other income	<u>(154,735)</u>	<u>(30,925)</u>
Net loss	(2,639,801)	(1,372,973)
Preferred stock dividends	<u>(17,003)</u>	<u>(17,003)</u>
Net loss attributable to common stockholders	<u>\$ (2,656,804)</u>	<u>\$ (1,389,976)</u>
Net loss per common share – basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding, basic and diluted	<u>208,765,721</u>	<u>204,006,788</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

APPLIED ENERGETICS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
For the six months ended June 30, 2020  
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance as of December 31, 2019	13,602	\$ 14	206,569,062	\$ 206,569	\$ 85,907,523	\$ (89,036,271)	\$ (2,922,165)
Stock-based compensation	-	-	-	-	439,956	-	439,956
Common stock issued on exercise of stock option and warrant	-	-	25,000	25	1,725	-	1,750
Sale of common stock	-	-	3,710,000	3,710	1,109,290	-	1,113,000
Net loss for the quarter ended March 31, 2020	-	-	-	-	-	(1,265,091)	(1,265,091)
Balance as of March 31, 2020	13,602	\$ 14	210,304,062	\$ 210,304	\$ 87,458,494	\$ (90,301,362)	\$ (2,632,550)
Stock-based compensation	-	-	-	-	344,430	-	344,430
RSA-based non-cash compensation	-	-	18,750	19	6,508	-	6,527
Common stock issued on exercise of stock option and warrant	-	-	1,050,000	1,050	72,450	-	73,500
Sale of common stock	-	-	1,770,334	1,770	529,330	-	531,100
Cancellation of common stock	-	-	(1,000,000)	(1,000)	1,000	-	-
Net loss for the quarter ended June 30, 2020	-	-	-	-	-	(1,374,710)	(1,374,710)
	<u>13,602</u>	<u>\$ 14</u>	<u>212,143,146</u>	<u>\$ 212,143</u>	<u>\$ 88,412,212</u>	<u>\$ (91,676,072)</u>	<u>\$ (3,051,703)</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

APPLIED ENERGETICS, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
For the six months ended June 30, 2019  
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance as of December 31, 2018	13,602	\$ 14	201,697,396	\$ 201,697	\$ 82,637,749	\$ (83,479,931)	\$ (640,471)
Stock-based compensation expense	-	-	-	-	122,950	-	122,950
Sale of common stock	-	-	2,500,000	2,500	147,500	-	150,000
Net loss for the quarter ended March 31, 2019	-	-	-	-	-	(586,155)	(586,155)
Balance as of March 31, 2019	13,602	\$ 14	204,197,396	\$ 204,197	\$ 82,908,199	\$ (84,066,086)	\$ (953,676)
Stock-based compensation expense	-	-	-	-	386,318	-	386,318
Net loss for the quarter ended June 30, 2019	-	-	-	-	-	(786,820)	(786,820)
Balance as of June 30, 2019	13,602	\$ 14	204,197,396	\$ 204,197	\$ 83,294,517	\$ (84,852,906)	\$ (1,354,178)

See accompanying notes to condensed consolidated financial statements (unaudited).

APPLIED ENERGETICS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	<b>For the six months ended</b>	
	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	(2,639,801)	\$ (1,372,974)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash stock based compensation expense	790,913	509,268
Amortization of future compensation payable	416,667	-
Depreciation and amortization	8,551	6,481
Amortization of prepaid expenses	98,183	-
Interest expense	-	30,925
Changes in assets and liabilities:		
Accounts receivable	9,888	-
Other receivable	-	60,000
Customer deposits	66,368	-
Prepays and deposits	(106,422)	(17,871)
Long term receivables - net	-	(141,182)
Accounts payable	(57,097)	(75,200)
Accrued interest	120,568	-
Accrued expenses and compensation	31,939	(377,855)
Net cash used in operating activities	<u>(1,260,243)</u>	<u>(1,378,408)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net cash used in investing activities	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	132,760	1,150,000
Proceeds from issuance of common stock	1,644,100	150,000
Repayment on notes payable	(233,306)	-
Proceeds from the exercise of stock options and warrants	75,250	-
Net cash provided by financing activities	<u>1,618,804</u>	<u>1,300,000</u>
Net increase (decrease) in cash and cash equivalents	358,561	(78,408)
Cash and cash equivalents, beginning of period	<u>88,415</u>	<u>178,552</u>
Cash and cash equivalents, end of period	<u>\$ 446,976</u>	<u>\$ 100,144</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 21,869	\$ 1,320
Cash paid for taxes	\$ -	\$ -

See accompanying notes to condensed consolidated financial statements (unaudited).



APPLIED ENERGETICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2020  
(Unaudited)

**1. BASIS OF PRESENTATION AND GOING CONCERN**

The accompanying interim unaudited condensed consolidated financial statements include the accounts of Applied Energetics, Inc. and its wholly owned subsidiary North Star Power Engineering, Inc. as of June 30, 2020 (collectively, "company," "Applied Energetics," "we," "our" or "us"). All intercompany balances and transactions have been eliminated. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented have been made. The results for the six-month period ended June 30, 2020, may not be indicative of the results for the entire year. The interim unaudited condensed consolidated financial statements should be read in conjunction with the company's audited consolidated financial statements contained in our Annual Report on Form 10-K.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the six months ended June 30, 2020, the company incurred a net loss of approximately \$2,640,000, had negative cash flows from operations of \$1,260,000 and may incur additional future losses due to the reduction in government contract activity. Additionally, as of June 30, 2020, the company had a working capital deficit (current liabilities less current assets) of \$4,196,000. These matters raise substantial doubt as to the company's ability to continue as a going concern. The ongoing COVID-19 pandemic contributes to this uncertainty.

The company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing its business and raising capital and there can be no assurance that the company's efforts will be successful. No assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying consolidated financial statements do not include any adjustments that might result should the company be unable to continue as a going concern for one year from the date the financials are issued.

In order to improve the company's liquidity, the company's management is actively pursuing additional equity financing through discussions with investment bankers and private investors. There can be no assurance that the company will be successful in its effort to secure additional equity financing.

The financial statements do not include any adjustments relating to the recoverability of assets and the amount or classification of liabilities that might be necessary should the company be unable to continue as a going concern.

**LIQUIDITY AND MANAGEMENT'S PLAN**

The accompanying unaudited financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the six months ended June 30, 2020, the company incurred a net loss of approximately \$2,640,000, had negative cash flows from operations of approximately \$1,260,000 and conducted financing activities yielding \$1,644,000 in proceeds from the issuance of common stock, proceeds from notes payable of \$133,000, proceeds from the exercise of options and warrants of \$75,000, partially offset by payments on notes payable of \$233,000 and expects to incur additional future losses due to the reactivation of its business activities. These matters raise substantial doubt as to the company's ability to continue as a going concern unless the company is able to obtain additional financing for its continuing operations. The financial statements do not include any adjustments relating to the recoverability of assets and the amount or classification of liabilities that might be necessary should the company be unable to continue as a going concern.

As of June 30, 2020, the company had approximately \$447,000 in cash and cash equivalents.

APPLIED ENERGETICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2020  
(Unaudited)

**USE OF ESTIMATES**

The preparation of consolidated financial statements in conformity with United States Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management bases its assumptions on historical experiences and on various other estimates that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In addition, management considers the basis and methodology used in developing and selecting these estimates, the trends in and amounts of these estimates, specific matters affecting the amount of and changes in these estimates, and any other relevant matters related to these estimates, including significant issues concerning accounting principles and financial statement presentation. Such estimates and assumptions could change in the future, as more information becomes known which could materially impact the amounts reported and disclosed herein. Significant estimates include measurements of income tax assets and liabilities.

Multiple contract proposals have been submitted to various government agencies in 2019 and 2020. Due to the COVID-19-related closures of multiple agencies and work-from-home orders across various regions of the United States, we anticipate that reviews and funding decisions on these proposals might be delayed longer than anticipated as resources are focused on other matters within the government.

**REVENUE RECOGNITION**

A majority of revenue under long-term government contracts is recorded under the percentage of completion method. Revenue, billable monthly under cost-plus-fixed-fee contracts, is recorded as costs are incurred and includes estimated earned fees in the proportion that costs incurred to date bear to total estimated costs. Costs include direct labor, direct materials, subcontractor costs and manufacturing and administrative overhead allowable under the contract. General and administrative expenses allowable under the terms of contracts are allocated per contract, depending on its direct labor and material proportion to total direct labor and material of all contracts. As contracts can extend over one or more accounting periods, revisions in earnings estimated during the course of work are reflected during the accounting period in which the facts become known. When the current contract estimate indicates a loss, a provision is made for the total anticipated loss in the current period. We do not generally provide an allowance for returns from our government customers because our customer agreements do not provide for a right of return.

Revenue for other products and services is recognized when such products and services are delivered or performed and, in connection with certain sales to government agencies, when the products and services are accepted, which is normally negotiated as part of the initial contract. Revenue from commercial, non-governmental, customers is based on fixed price contracts where the sale is recognized upon acceptance of the product or performance of the service and when payment is probable. Contract costs are deferred in the same manner as inventory costs and are charged to operations as the related revenue from contracts is recognized. When a current contract estimate indicates a loss, a provision is made for the total anticipated loss in the period in which such facts become evident.

**DEFERRED REVENUE**

Deferred revenue represents customer deposits on a project

**RECENT ACCOUNTING PRONOUNCEMENTS**

The company has reviewed issued accounting pronouncements and plans to adopt those that are applicable to it. The company does not expect the adoption of any other pronouncements to have an impact on its results of operations or financial position.

APPLIED ENERGETICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2020  
(Unaudited)

**2. SHARE-BASED COMPENSATION**

Share-Based Compensation

For the six months ended June 30, 2020 and 2019, share-based compensation expense totaled approximately \$791,000 and \$509,000, respectively. For the three months ended June 30, 2020 and 2019, share-based compensation expense totaled approximately \$351,000 and \$272,000, respectively.

We determine the fair value of option grant share-based awards at their grant date, using a Black-Scholes-Merton Option-Pricing Model applying the assumptions in the following table:

	<b>six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>
Expected life (years)	N/A	5.50-6.75
Dividend yield	N/A	-
Expected volatility	N/A	232%
Risk free interest rates	N/A	2.47%
Weighted average fair value of options at grant date	N/A	\$ 0.35

For the six months ended June 30, 2020, options to purchase 900,000 shares of common stock were exercised, no options to purchase stock were granted, no options were forfeited or expired, and no restricted stock awards were granted; no restricted stock units were granted, vested or forfeited. At June 30, 2020, options to purchase 30,500,000 shares of common stock were outstanding with a weighted average exercise price of \$0.147, a weighted average remaining contract term of approximately 6.1 years with an aggregate intrinsic value of \$4,484,000. At June 30, 2020, options to purchase 22,075,000 shares of common stock were exercisable.

As of June 30, 2020, there was approximately \$1,259,000 of unrecognized compensation cost related to unvested stock options granted and outstanding, net of estimated forfeitures. The cost is expected to be recognized on a weighted average basis over a period of approximately two years.

**3. NET LOSS PER SHARE**

Basic net loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period before giving effect to stock options, stock warrants, restricted stock agreements, restricted stock units and convertible securities outstanding, which are considered to be dilutive common stock equivalents. Diluted net loss per common share is calculated based on the weighted average number of common and potentially dilutive shares outstanding during the period after giving effect to convertible preferred stock, stock options, warrants and restricted stock units. Contingently issuable shares are included in the computation of basic loss per share when issuance of the shares is no longer contingent. Due to the losses from continuing operations for the three months ended June 30, 2020 and 2019, basic and diluted loss per common share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

Potentially dilutive securities not included in the diluted loss per share calculation, due to net losses from continuing operations, were as follows:

	<b>Six months ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
Options to purchase common shares	30,500,000	32,750,000
Warrants to purchase common shares	3,500,000	950,000
Unvested restricted stock agreements	31,250	68,750
Convertible preferred stock	48,174	44,632
<b>Total potentially dilutive securities</b>	<b>34,079,424</b>	<b>33,813,382</b>

APPLIED ENERGETICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2020  
(Unaudited)

**4. DIVIDENDS**

Dividends on Preferred Stock are accrued when the amount and kind of dividend is determined and are payable quarterly on the first day of February, May, August and November, in cash or shares of common stock. The holders of shares of Series A Convertible Preferred Stock are entitled to receive dividends at the initial rate of 6.5% of the liquidation preference per share (the "Initial Dividend Rate"), payable, at the option of the corporation, in (i) cash, (ii) shares of our common stock (valued for such purpose at 95% of the weighted average of the last sales prices of our common stock for each of the trading days in the ten trading day period ending on the third trading day prior to the applicable dividend payment date) provided that the issuance and/or resale of all such shares of our common stock are then covered by an effective registration statement or (iii) any combination of the foregoing. If the company fails to pay dividends in the five business days following a dividend payment date (a "Payment Default"), the dividend rate shall immediately and automatically increase to 7.5% of the liquidation preference per share for as long as such Payment Default continues (or return to the Initial Dividend Rate at such time as such Payment Default no longer continues), and if a Payment Default shall occur on two consecutive Dividend Payment Dates, the dividend rate shall immediately and automatically increase to 10% of the Liquidation Preference for as long as such Payment Default continues and shall immediately and automatically return to the Initial Dividend Rate at such time as the Payment Default is no longer continuing.

As of June 30, 2020, we had 13,602 shares of our 6.5% Series A Convertible Preferred Stock outstanding. The company has not paid the dividends commencing with the quarterly dividend due August 1, 2013. Dividend arrearages as of June 30, 2020 was approximately \$238,000. Our Board of Directors suspended the declaration of the dividend, commencing with the dividend payable as of February 1, 2015 since we did not have a surplus (as such term is defined in the Delaware General Corporation Law) as of December 31, 2014, until such time as we have a surplus or net profits for a fiscal year. Our Series A Preferred Stock has a liquidation preference of \$25.00 per Share.

**5. OTHER ASSETS**

Other assets primarily represents prepaid assets for insurance premiums and deposits with attorneys as well as the current portion of deferred compensation.

**6. LONG TERM RECEIVABLE**

In our litigation, the company was required to place a bond with a surety. The company does not have access to these funds and it is out of our control to use them (refer note 11).

**7. DEFERRED COMPENSATION**

Deferred compensation represents the remaining amortization of the note payable issued in the acquisition of Applied Optical Sciences.

**8. NOTES PAYABLE**

During the six months ended June 30, 2020, the company entered into a premium financing agreement to finance its director and officer insurance policy. The principal is approximately \$108,000, with nine monthly payments of \$12,498 and an interest rate of 9.7%. The balance at June 30, 2020 is \$60,000 included in current notes payable.

On April 28, 2020, the Company entered into a loan agreement with Alliance Bank of Arizona, N.A. for a loan in the amount of \$133,000 pursuant to the Paycheck Protection Program (the "PPP") under the Coronavirus Aid, Relief, and Economic Security Act enacted on March 27, 2020 (the "CARES Act"). This loan is evidenced by a promissory note dated April 27, 2020 and matures two years from the disbursement date. This loan bears interest at a rate of 1.00% per annum, with the first six months of interest deferred. Principal and interest are payable monthly commencing six months after the disbursement date and may be prepaid by the Company at any time prior to maturity with no prepayment penalties. This loan contains customary events of default relating to, among other things, payment defaults or breaches of the terms of the loan. Upon the occurrence of an event of default, the lender may require immediate repayment of all amounts outstanding under the note.

APPLIED ENERGETICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2020  
(Unaudited)

Following the end of the quarter, in July and August, 2020, we received \$4,049,000 in bridge funding pursuant to 10% Convertible Promissory Notes. These notes are convertible into shares of our common stock at a conversion price of \$0.30 per share, as negotiated with the holders based on the prevailing market price of the common stock leading up to the issuance of the notes. At any time after October 15, 2020 until July 15, 2021, the date of maturity, (i) each investor may elect to convert these notes into shares of our common stock, at a conversion price of \$0.30 per share and (ii) the company may elect to prepay, either in cash or in shares of common stock at a price of \$0.30 per share, at the option of the holder, the amount of principal and interest then outstanding under each note. In the event we elect to prepay the notes, we will notify the holders, each of whom will then have five business days to notify the company if they prefer to receive such prepayment in cash or stock. These notes are payable in full at maturity. In lieu of repayment of the principal and interest on the notes at maturity, the Company may elect to convert the amounts due into shares of Common Stock at a price of \$0.15 per share.

During the six months ended June 30, 2019, the company received \$1,150,000 from eight non-affiliated individuals based on 10% promissory notes. The notes mature September 1, 2019. The notes are accompanied by a Common Stock Purchase Warrant entitling the holder to purchase one share of the company's common stock, par value \$0.001 per share, for each \$2.00 of Note principle, at an exercise price of \$0.07 per share, for two years from the date of issuance.

The following reconciles notes payable as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Notes payable	\$ 5,175,154	\$ 4,934,329
Accrued interest	233,541	119,218
Payments on notes payable	(318,963)	(85,657)
Total	5,089,732	4,967,890
Less-Notes payable - current	(3,956,972)	(3,467,890)
Notes payable - non-current	\$ 1,132,760	\$ 1,500,000

Of the notes payable at June 30, 2020, \$1,099,000 were due September 1, 2019, \$1,297,000 were due December 1, 2019, \$60,000, payable monthly over eight monthly payments, is due December 12, 2020, \$133,000 were due April 28, 2022 and \$2,500,000 is payable in \$500,000 semi-annual payments is due May 24, 2022. The notes due on September 1, 2019 and December 31, 2019 have an interest rate of 10%, the note due on December 12, 2020 has an interest rate of 9.7%, the note due on April 28, 2022 has an interest rate of 1.0% and the note due on May 24, 2022 has interest rate of 0%. All notes are unsecured and not convertible. Interest expense on these notes was \$55,000 for the quarter ended June 30, 2020 and \$19,000 for the quarter ended June 30, 2019. Interest expense on these notes was \$121,000 for the six months ended June 30, 2020 and \$31,000 for the six months ended June 30, 2019. Interest expense includes a \$50,000 penalty interest for not making the first \$500,000 payment on the note payable for the AOS acquisition.

## 9. DUE TO RELATED PARTIES

It came to the board's attention that on July 31, 2018, our now deceased CEO deposited \$50,000 into the company's account. Although it has been suggested that the funds may have been intended for use toward Mr. Dearmin's healthcare, the board does not know for certain what the purpose of the funds were or the nature of any intended investment. Accordingly, the board is investigating the appropriate disposition of the funds which will likely be to the estate of Mr. Dearmin. Until such a determination is made, the board does not intend to use these funds for any corporate purpose. For reporting purposes, the company has treated the deposit as a Due to related parties as reported on the balance sheet.

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**10. STOCKHOLDERS DEFICIT**

On January 13, 2020, the company received \$45,000 from an individual based on a subscription agreement with the company for which the company issued 150,000 shares of its common stock.

On January 13, 2020, the company received \$60,000 from two individuals based on a subscription agreement with the company for which the company issued 200,000 shares of its common stock.

On January 15, 2020, the company received \$30,000 from two individuals based on a subscription agreement with the company for which the company issued 100,000 shares of its common stock.

On January 22, 2020, the company received \$204,000 from an individual based on a subscription agreement with the company for which the company issued 680,000 shares of its common stock.

On January 23, 2020, the company received \$204,000 from an individual based on a subscription agreement with the company for which the company issued 680,000 shares of its common stock.

On January 24, 2020, the company received \$60,000 from an individual based on a subscription agreement with the company for which the company issued 200,000 shares of its common stock.

On January 30, 2020, the company received \$1,750 from an individual based on the exercise of a warrant for which the company issued 25,000 shares of its common stock.

On February 19, 2020, the company received \$510,000 from an individual based on a subscription agreement with the company for which the company issued 1,700,000 shares of its common stock.

Series A Convertible Preferred Stock, \$0.001 par value, 2,000,000 shares authorized; 13,602 shares issued and outstanding at June 30, 2020 and at December 31, 2019.

The \$351,000 stock-based compensation for the quarter ended June 30, 2020 was comprised of \$177,000 option expense and \$167,000 was the amortization of 5,000,000 shares of stock valued at \$0.4014 over three years for the acquisition of Applied Optical Sciences as well as the recognition of \$7,000 for the restricted stock agreements, partially offset by a reversal of \$1,000 for the cancellation of 1,000,000 shares.

On April 8, 2020, the company received \$11,000 from an individual based on a warrant exercise for which the company issued 150,000 shares of its common stock.

On April 8, 2020, the company received \$63,000 from an individual based on an option exercise for which the company issued 900,000 shares of its common stock.

On April 8, 2020, the company received \$60,000 from an individual based on a subscription agreement with the company for which the company issued 200,000 shares of its common stock.

On April 23, 2020, the company received \$71,000 from an individual based on a subscription agreement with the company for which the company issued 237,000 shares of its common stock.

On April 29, 2020, the company received \$400,000 from an individual based on a subscription agreement with the company for which the company issued 1,333,333 shares of its common stock.

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We have entered into a Mutual Release and Hold Harmless Agreement with a stockholder resolving claims related to the issuance of 1,000,000 shares of our common stock, par value \$0.001 per share, to that stockholder, as directed by prior company CEO George Farley, as compensation for valuation services. The shares have been returned and cancelled.

In June 2020, we issued 18,750 shares of common stock based on a restricted stock agreement with a contractor. The closing price of our common stock on grant date was \$0.35 a share.

During January 2019, the company received \$150,000 from three individuals based on subscription agreements with the company for which the company issued 2,500,000 shares of its common stock.

## 11. LEGAL PROCEEDINGS

As previously reported, on July 3, 2018, we commenced a lawsuit in the Court of Chancery of the State of Delaware against the company's former director and principal executive officer George Farley and AnneMarieCo LLC ("AMC").

The lawsuit alleges to the following six causes of action:

1. Breach of Fiduciary Duty of Loyalty against George Farley
2. Breach of Fiduciary Duty of Care against George Farley
3. Aiding and Abetting Breach of Fiduciary Duty against AMC
4. Conversion against George Farley
5. Fraudulent Transfer against George Farley and AMC
6. Injunctive Relief against George Farley and AMC

This report provides an update on the progress of the litigation.

In connection with the lawsuit, the company requested a temporary restraining order prohibiting Mr. Farley and AMC from selling their 25 million shares of the company's common stock which the company alleges were improperly issued. On July 20, 2018, the Delaware Court of Chancery, Vice Chancellor Tamika Montgomery-Reeves presiding, entered a "status quo" order upon the stipulation of the parties, whereby Mr. Farley and AMC agreed not to transfer, alienate or sell any of their shares pending a ruling on the company's motion for a preliminary injunction.

On July 26, 2018, the Delaware Court of Chancery entered a scheduling order setting dates and deadlines for, among other matters, a hearing and briefing schedule on the amount of the bond the company would be required to post to maintain the "status quo" order through the preliminary injunction hearing, a hearing and briefing schedule on the motion for a preliminary injunction, and a discovery schedule.

Also, in connection with the lawsuit, on August 8, 2018, the company filed a motion to disqualify Mr. Farley's attorney, Ryan Whalen, who had previously represented the company.

On August 14, 2018, the Delaware Court of Chancery issued an order requiring the company to post a bond in the total amount of \$200,446.52. On August 21, 2018, the company posted the bond via Atlantic Specialty Insurance company acting as surety. Pursuant to the contract between the company and Atlantic Specialty Insurance company, the company deposited \$200,446.52 in cash as collateral for the surety agreement.

On August 23, 2018, the Delaware Court of Chancery court extended the hearing date on the company's motion for a preliminary injunction to October 23, 2018, and simultaneously ordered an increase in the bond amount of \$55,446.52. On August 30, 2018, the company posted the increased bond amount, again with Atlantic Specialty Insurance Company acting as surety, and deposited the additional \$55,446.52 in cash with the surety.

On September 7, 2018, the Delaware Court of Chancery entered an order setting a briefing schedule on the company's motion to disqualify Mr. Whalen.

On September 10, 2018, the Delaware Court of Chancery entered an order governing the production and exchange of confidential documents and information among the parties in discovery.

In another Current Report on Form 8-K filed September 13, 2018, the company updated the status of the litigation to include events that occurred up to that date. This report further updates the progress of the litigation.

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On October 16, 2018, the Delaware Court of Chancery entered a scheduling order continuing the hearing date on the company's motion for a preliminary injunction against defendants George Farley and AMC to December 14, 2018.

The October 16, 2018 order also required the company to increase its bond amount by an additional \$185,301.86 (\$80,301.86 for AMC and \$105,000.00 for Mr. Farley) to account for the continued hearing date. On October 24, 2018, the company posted the additional bond amount of \$185,301.86.

On October 16, 2018, the Delaware Court of Chancery issued an order denying the company's motion to disqualify Mr. Whalen.

On January 23, 2019, the Delaware Court of Chancery issued a Memorandum Opinion, granting a preliminary injunction prohibiting Mr. Farley and AMC from selling their 25 million shares of the company's common stock, which the company alleges were improperly issued. On January 24, 2019, the Delaware Court of Chancery issued a revised Memorandum Opinion correcting calculations regarding the increased bond amount.

In granting the preliminary injunction, the Court found that the company met "its considerable burden" of demonstrating it was likely to win its lawsuit against Mr. Farley and AMC. Specifically, the Court found it was "reasonably probable" Mr. Farley had unlawfully issued the 25 million shares without proper authorization, Mr. Farley had breached his duty of loyalty to the company, Mr. Farley was unlikely to prove the stock issuance was procedurally or substantively "fair" to the company, and Mr. Farley had fraudulently transferred 20 million of the shares to AMC. Finally, the Court ruled because Farley and AMC's 25 million shares represented approximately one eighth of the company's outstanding ownership, the injunction was necessary to protect the company's capital structure, ability to attract new investors, ability to raise new capital and continue deployment of its plans now underway to revitalize its business.

In its Memorandum Opinion, the Court also required that the company post additional bond money, bringing the total cash collateral for the surety agreement to \$582,377.26. The company posted the additional bond amount, and deposited the additional cash amount with the surety, on January 29, 2019.

On March 4, 2019, the company filed an amended complaint adding claims against Mr. Farley concerning loans Mr. Farley caused the company take from PowerUp Lending Group Ltd. and Auctus Fund LLC from September 2017 through March 2018. Mr. Farley responded to the amended complaint by filing a motion to dismiss the lawsuit based on Delaware Court of Chancery Rules 12(b)(3) and 12(b)(7). On September 28, 2019, the Delaware Chancery Court denied this motion.

On July 7, 2019, the company filed a motion to reduce or eliminate the cash bond requirement. As previously reported, the cash bond was required by the Delaware Chancery Court. On September 30, 2019, the Delaware Chancery Court denied the motion.

On July 19, 2019, Mr. Farley and AMC filed answers and amended counter claims in response to the Company's amended complaint. The amended counter claims add claims under Delaware General Corporate Law section 205, seeking to validate the stock issuances at issue in the litigation.

On July 29, 2019, the Delaware Chancery Court entered a scheduling order which, among other deadlines, rescheduled the trial date to begin on January 21, 2020. However, the judge presiding in the case, Vice Chancellor Montgomery-Reeves, was subsequently appointed and confirmed to the Delaware Supreme Court.

The case was reassigned to Vice Chancellor J. Travis Laster. On January 14, 2020, Vice Chancellor Laster held a scheduling conference. On January 29, 2020, the Delaware Chancery Court entered a scheduling order setting the trial date for July 20, 2020. On June 2, 2020, the Delaware Chancery Court issued a scheduling order setting dates for pre-trial motion practice, hearings and conferences leading up to a trial date of September 21-24, 2020.



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On September 26, 2019, the company filed a motion for partial summary judgment concerning the issuance of company stock to Mr. Farley without having been authorized by a quorum of the board of directors. The previous hearing date of November 20, 2019, was postponed while the case awaited a new judge assignment. The motion was heard on July 23, 2020, by Vice Chancellor Laster.

On August 3, 2020, in our ongoing litigation against George Farley, the company's former CEO, and AnneMarieCo., LLC, the Chancery Court of the State of Delaware issued an Opinion granting in part and denying in part the company's Motion for Partial Summary Judgment. The Court granted the company's motion in the following respect: "Farley could not validly take action as the sole remaining director between February 10, 2016, and March 9, 2018. The stock that he issued to himself is invalid, as is the compensation that he attempted to grant to himself. The shares that he gifted to AnneMarieCo remain invalid, notwithstanding their transfer to AnneMarieCo." The court denied the motion in all other respects, rejecting the company's argument that Section 205 of the Delaware General Corporation Law is unavailable for the defendants to petition the court cure the invalidity of the stock and compensation, leaving open the possibility for the court to reinstate the shares and/or compensation in whole or in part under Section 205. The trial is now scheduled for September 21-23, 2020.

In a related matter, on February 8, 2019, the company filed a complaint against Stein Riso Mantel McDonough, LLP ("Stein Riso"), its former counsel, in the United States District Court for the Southern District of New York alleging the following:

1. breach of fiduciary duty;
2. legal malpractice;
3. aiding and abetting a breach of fiduciary duty;
4. avoidance of fees under New York Rules of Professional Conduct 1.8;
5. violation of New York Rule of Professional Conduct 1.5;
6. securities fraud;
7. breach of contract; and
8. unjust enrichment.

The complaint against Stein Riso followed the issuance, on January 23, 2019, of a Memorandum Opinion granting the company's motion for a preliminary injunction by the Delaware Court of Chancery in the case against George Farley and AMC. Stein Riso has responded to the complaint by filing a motion to dismiss the complaint pursuant to Federal Rule of Civil Procedure 12(b)(6). The company amended its complaint in response. On July 31, 2019, Stein Riso responded to the company's amended complaint by filing another motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6). The company filed an opposition to this motion on August 14, 2019. Stein Riso filed a reply brief on September 13, 2019.

On May 31, 2020, the United States District Court issued an opinion and order denying in part and granting in part the motion of Stein Riso to dismiss the company's complaint. The court rejected Stein Riso's arguments that the allegations in the company's complaint did not adequately allege Stein Riso committed malpractice and aided and abetted breaches of fiduciary duties by George Farley, the company's former CEO and the defendant in a related action in the Delaware Chancery Court. The court dismissed a separate cause of action which the company had pled for "rescission and restitution" for Stein Riso's alleged violations of the New York Rules of Professional Conduct, finding it was "duplicative" of our professional malpractice cause of action. The court also dismissed the company's cause of action against Stein Riso for securities fraud.

On June 25, 2020, the United States District Court issued a civil case management plan and scheduling order. On July 24, 2020, the company filed a motion to amend its complaint to add Dennis Stein and Ivan Dreyer, individual attorneys at Stein Riso, as defendants. The United States District Court has ordered the parties to appear at a mediation on August 13, 2020.

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On July 3, 2019, Gusrae, Kaplan & Nusbaum and its partner, Ryan Whalen, counsel for defendants, George Farley and AnneMarie Co. LLC, in the litigation brought by the company and pending in Delaware, filed a claim in the District Court for the Southern District of New York against the company its directors, officers, attorneys and a consultant. The action alleges libel, securities fraud and related claims. The company believes that this suit lacks merit and intends to dispute these allegations. The company filed a motion to dismiss the complaint on October 24, 2019. On December 13, 2019, Gusrae Kaplan and Mr. Whalen filed an opposition to the Company's motion. On January 10, 2020, the company filed a reply brief. The United States District Court has not yet ruled on the motion.

As with any litigation, the company cannot predict the outcome with certainty, but the company expects to provide further updates on the status of the litigation as circumstances warrant.

We may, from time to time, be involved in legal proceedings arising from the normal course of business.

## **12. SUBSEQUENT EVENTS**

Following the end of the quarter, in July and August, 2020, we received \$4,049,000 in bridge funding pursuant to 10% Convertible Promissory Notes. These notes are convertible into shares of our common stock at a conversion price of \$0.30 per share, as negotiated with the holders based on the prevailing market price of the common stock leading up to the issuance of the notes. At any time after October 15, 2020 until July 15, 2021, the date of maturity, (i) each investor may elect to convert these notes into shares of our common stock, at a conversion price of \$0.30 per share and (ii) the company may elect to prepay, either in cash or in shares of common stock at a price of \$0.30 per share, at the option of the holder, the amount of principal and interest then outstanding under each note. In the event we elect to prepay the notes, we will notify the holders, each of whom will then have five business days to notify the company if they prefer to receive such prepayment in cash or stock. These notes are payable in full at maturity. In lieu of repayment of the principal and interest on the notes at maturity, the Company may elect to convert the amounts due into shares of Common Stock at a price of \$0.15 per share.

The company's management has evaluated subsequent events occurring after June 30, 2020, the date of our most recent balance sheet, through the date our financial statements were issued.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related disclosures included elsewhere herein and in the Management's Discussion and Analysis of Financial Condition and Results of Operations included as part of our Annual Report on Form 10-K for the year ended December 31, 2019 and Quarterly Report on Form 10-Q for the three months ended March 31, 2020.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the securities laws. Forward-looking statements include all statements that do not relate solely to the historical or current facts and can be identified by the use of forward-looking words such as "may", "believe", "will", "would", "could", "should", "expect", "project", "anticipate", "estimates", "possible", "plan", "strategy", "target", "prospect" or "continue" and other similar terms and phrases. These forward-looking statements are based on the current plans and expectations of our management and are subject to a number of uncertainties and risks that could significantly affect our current plans and expectations, as well as future results of operations and financial condition and may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause our actual results to differ materially from our expectations are described in Item 1A (Risk Factors) of our Annual Report on Form 10-K, for the year ended December 31, 2019. Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. We do not assume any obligation to update these forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting such forward-looking statements.

Applied Energetics, Inc., (the "Company") is a corporation organized and existing under the laws of the State of Delaware. Our executive office is located at 2480 W Ruthrauff Road, Suite 140 Q, Tucson, Arizona, 85705; (520) 628-7415. [www.aergs.com](http://www.aergs.com)

Applied Energetics, Inc., specializes in the development and manufacture of advanced high-performance lasers, high voltage electronics, advanced optical systems, and integrated guided energy systems for defense, aerospace, industrial, and scientific customers worldwide.

### Technology and Patents

AERG has developed, successfully demonstrated and holds all crucial intellectual property rights to a dynamic Directed Energy technology called Laser Guided Energy ("LGE<sup>TM</sup>") and Laser Induced Plasma Channel ("LIPC<sup>TM</sup>"). LGE and LIPC are technologies that can be used in a new generation of high-tech weapons. The Department of Defense (DOD) previously recognized two key types of Directed Energy Weapon ("DEW") technologies, High Energy Lasers ("HEL"), and High-Power Microwave ("HPM"). Neither HEL nor HPM is owned by a single entity. The DOD then designated a third DEW technology, LGE. Applied Energetics's LGE and LIPC technologies are wholly owned by Applied Energetics and patent protected with 26 current patents and an additional 11 Government Sensitive Patent Applications ("GSPA"). These GSPA's are held under secrecy orders of the US government and allow the company greatly extended protection rights.

Applied Energetics technology is vastly different from conventional directed energy weapons, i.e. HEL, and HPM. LGE uses Ultra-Short Pulse (USP) laser technology to combine the speed and precision of lasers with the overwhelming impact on targeted threats with high-voltage electricity. This unique directed energy solution allows extremely high peak power and energy, with target and effects tenability, and is effective against a wide variety of potential targets. A key element of LGE is its novel ability to offer selectable and tunable properties that can help protect non-combatants and combat zone infrastructure.

As Applied Energetics moves toward the future, our corporate strategic roadmap builds upon the significant value of the company's USP capabilities and key intellectual property, including LGE and LIPC, to offer our prospective partners, co-developers and system integrators a variety of next-generation Ultra Short-Pulse and frequency-agile optical sources from the ultraviolet to the far infrared portion of the electromagnetic spectrum to address numerous challenges within the military, medical device, and advanced manufacturing market sectors.

## **Key Relationships and Business Development**

Gregory Quarles joined Applied Energetics, to serve as its Chief Executive Officer and a member of the board of directors, effective May 6, 2019. He leads the company in its development of next generation advanced defense technologies based on compact ultra-short pulse optical systems and laser guided energy. Dr. Quarles is an experienced CEO, board member and renowned physicist with over 30 years of experience driving cutting-edge laser, optics, and photonics technology development and operations within advanced industrial companies. Additionally, Dr. Quarles is a globally recognized leader for his strategic partnerships with the Department of Defense and his innovative work in the progression of global materials research, specifically developing new laser and integrated photonic devices for a variety of military, medical, and industrial applications.

Pursuant to a Consulting Agreement, dated as of May 24, 2019, with SWM Consulting, LLC, an entity owned by Stephen W. McCahon. Dr. McCahon serves as our Chief Scientist. This relationship gives us the technical and industry knowhow to utilize the company's intellectual property in the development of a next generation of Ultra-Short Pulse Lasers. The Consulting Agreement provides for a combination of cash and equity compensation, as we have previously disclosed, for which Dr. McCahon leads Applied Energetics' scientific efforts including: leading the scientific team, developing new intellectual property, assisting with business development, transferring legacy knowledge to new team members, recruiting and training talent, working with executives on corporate strategy, assisting in budget development for R&D, meeting with clients on technical concepts, attending conferences, and producing thought leadership for the company. Dr. McCahon works closely with Dr. Quarles on the company's research and development activities and in the proposal and fulfilment of research and development contracts for branches of the Department of Defense, agencies of the federal government and other defense contractors and in other internal research and development activities relating to lasers and advanced optical sources.

We have also reorganized the company's Scientific Advisory Board and, effective April 30, 2019, AERG entered into a Scientific Advisory Board Agreement with Charles Hale. This agreement provides for Mr. Hale's service on the Scientific Advisory Board for compensation consisting of a non-qualified stock option to purchase 1,500,000 shares of Company's common stock at an exercise price equal to \$0.369 per share. The option is subject to vesting annually over three years with the first installment twelve months from the date of the agreement. The option expires ten (10) years from the date of the Agreement. Prior to entering into the agreement, Applied Energetics and Mr. Hale agreed that he would forfeit options to purchase 1,500,000 shares at an exercise price of \$0.25 per share which had been granted under his prior Consulting Agreement.

Pursuant to our July 16, 2018, Master Services Agreement, Westpark Advisors, LLC assists the company in its comprehensive sales and marketing strategy for the greater Washington DC area and broader Department of Defense markets. Westpark Advisors focuses on the company's next generation USP laser technologies, along with Laser Guided Energy and the company's other novel laser technologies and is to provide business development, program management and strategy consulting services, including sales and marketing of the company's product line. Westpark Advisors' Managing Director, Patrick Williams provides full-time support to the company under this agreement.

Under our February 15, 2019, Consulting and Advisory Services Agreement, WCCventures, LLC provides advice and guidance to management including business strategy, marketing and capital needs.

AERG also retains corporate communications firm Cameron Associates ("CA"), to provide investor relations services on behalf of the company including counselling, management on appropriate investor communications, preparing and distributing press releases and other public documents, orchestrating conference calls and responding to investor inquiries.

Effective April 29, 2019, AERG established its Board of Advisors and appointed Christopher Donaghey as its first member. Chris Donaghey currently serves as the senior vice president and head of corporate development for Science Applications International Corporation ("SAIC"), a \$6.5 billion revenue defense and government agency technology integrator. As an executive of SAIC, Donaghey works closely with SAIC's senior management to support the development and implementation of SAIC's strategic plan with an emphasis on M&A to complement organic growth strategies and value creation. In his role on Applied Energetics' Board of Advisors, Mr. Donaghey has significant input into the strategic direction of the company and provides assistance in building lasting relationships in our defense markets.

#### **Recent Developments**

As of March 4, 2020, AERG executed a contract agreement having a value of \$165,919.77 with the US Army under their STTR program for a 90-day Phase 1 research program to investigate Standoff Electronic Denial systems using ultrashort pulse lasers. The Army anticipates funding one (1) STTR Phase II for each of seven (7) "special topics" and Phase II contracts are limited to a maximum of \$1,100,000 over a period between 6 and 18 months. Sequential/Subsequent Phase II funding, as well as non-SBIR/STTR funding, may also be available. The final report for this Phase I contract was submitted on July 3, 2020 and the US Army subsequently accepted the Phase I Final Report and invited AERG to participate in the Phase II process through the submission of a Phase II proposal no later than August 11, 2020. The Applied Energetics Phase II STTR proposal was submitted and accepted on August 10, 2020, and we await the review of this proposed technological advance for the US Army Standoff Electronic Denial topic.

On April 28, 2020 AERG was awarded a loan for \$132,760 through the Small Business Administration (SBA) Paycheck Protection Program (PPP). The terms of this loan were twenty four months with a 1% annual interest rate. These funds were issued to cover payroll costs over 8 weeks of May and June 2020. Through the utilization of this PPP loan, AERG was able to keep all employees fully engaged during these two months of the pandemic. Our strategy is to follow the guidelines set forth by the SBA on the PPP program which will allow AERG to apply for a waiver of the loan because of this full employment retention, and have the loan convert to a grant.

Multiple proposals have been submitted to various government agencies in 2019 and 2020. Due to the closures of multiple agencies and work-from-home orders across various regions of the United States, we anticipate that reviews and funding decisions on these proposals might be delayed longer than anticipated as resources are focused on other matters within the government.

On August 3, 2020, in our ongoing litigation against George Farley, the company's former CEO, and AnneMarieCo., LLC, the Chancery Court of the State of Delaware issued an Opinion granting in part and denying in part the company's Motion for Partial Summary Judgment. The Court granted the company's motion in the following respect: "Farley could not validly take action as the sole remaining director between February 10, 2016, and March 9, 2018. The stock that he issued to himself is invalid, as is the compensation that he attempted to grant to himself. The shares that he gifted to AnneMarieCo remain invalid, notwithstanding their transfer to AnneMarieCo." The court denied the motion in all other respects, rejecting the company's argument that Section 205 of the Delaware General Corporation Law is unavailable for the defendants to petition the court cure the invalidity of the stock and compensation, leaving open the possibility for the court to reinstate the shares and/or compensation in whole or in part under Section 205. Following assignment of a new vice chancellor in the case, we were awaiting a July 20, 2020 trial date based on the Delaware Chancery's January 29, 2020 scheduling order. However, because of delays due to the Coronavirus, the trial is now scheduled for September 21-23, 2020. We cannot be certain whether the Coronavirus will further affect the timing of the trial. For a more detailed discussion of this litigation, see "Legal Proceedings" elsewhere in this Form 10-Q.

### **Path Forward**

We believe that USP optical sources, LGE and LIPC are the cornerstone to AERG's future and remain the key areas of our R&D focus for the near term. We plan to continue building our management team with highly qualified individuals, including possibly an additional director. We also intend to recruit additional personnel, including in the areas of R&D, marketing and finance. We have worked to align key innovations with our roadmap to encourage and enable internal filing for a broad, strategic and robust portfolio of IP and continue surveying the literature for acquisitions of parallel IP to that end. We also intend to pursue strategic corporate acquisitions in related fields and technology. We continue our active pursuit of additional debt and equity financing through discussions with investment bankers and private investors.

Our goal on the AERG Strategic Plan is to increase the energy, peak power and frequency agility of USP optical sources while decreasing the size, weight, and cost of these systems. We are in the process of developing this breadth of very high peak power USP lasers and additional optical sources that have a very broad range of applicability for threat disruption for the Department of Defense, commercial, and medical applications. Although the historical market for AERG's LGE and USP technology is the U.S. Government, the USP technologies are expected to provide numerous platforms for commercial additive and subtractive manufacturing and medical device and imaging markets, creating a substantially larger market for our products to address.

The ongoing Coronavirus Disease 2019 (COVID-19) pandemic does present unique risks and uncertainties that may alter or otherwise affect our path forward. Our management continues to monitor the possible effects of the COVID-19 on the execution of our plan of operations, our prospective contracts, and the availability of financing to fund our strategic and operational plans going forward. Despite these challenges, we have continued to execute our business development plans and to deliver on our government contracts as per the timeline commitments. During the quarter, we submitted multiple proposals and have been engaged in meetings on a daily and weekly basis with various agencies and departments both remotely and in person in Washington, DC and at various other government facilities. Dr. Quarles, our CEO, has traveled to DC on multiple occasions during the quarter, and remains very committed to pursuing this business even in these challenging times. The interest in our technology and applications remains high, and we continue to submit proposals for all appropriate opportunities.

Through our analysis of the market, and in discussions with potential customers, we would also conclude that customers are becoming more receptive and interested in directed energy technologies. According to the Department of Defense fiscal 2019 budget, its directed energy spending grew from approximately \$500 million in 2017 to over \$1 billion in 2019, an increase of 100%. The 2020 budget reflected directed energy spending of \$1.2 billion, an additional increase of 20% over 2019, and from 2017 through 2020, the directed energy budget grew from approximately \$500 million to approximately \$1.2 billion, averaging approximately 40% per year. As a result, we continue to be even more optimistic about our future and the growing opportunities in directed energy applications. As the US Congress finalizes their Appropriations process for the 2021 budget, the AERG team anticipates a continuation of strong funding for the Directed Energy community. With our existing patent portfolio, and through further advancements of our technologies, we believe we have the substantial building blocks needed to become a significant and successful developer in our marketplace.

## Market for Our Technology

### Directed Energy Weapons

Directed energy weapon system means military action involving the use of directed energy to incapacitate, damage, or destroy enemy equipment, facilities, and assets. Previous to LGE, the only two viable directed energy weapon systems were High Energy Laser (HEL), which uses heat to burn targets and High Power Radio Frequency (HP-RF), weapons that use electromagnetic energy at specific frequencies to disable electronic systems.

HEL and HP-RF directed energy technologies have been under development for decades with numerous DoD and other government contractors participating. The unique attributes of directed energy weapon systems—the ability to create precise effects against multiple targets near-instantaneously and at a very low cost per shot—have great potential to help the DoD in addressing future warfare requirements. The DoD invests research and development dollars into directed energy solutions to fill gaps identified by warfighters. For example, in future conflicts with capable enemies possessing large inventories of guided missiles, it may be operationally risky and cost-prohibitive for the U.S. military to continue to rely exclusively on a limited number of kinetic missile interceptors. Such a “missile competition” could allow an adversary to impose costs on U.S. forces by compelling them to intercept each incoming missile with far more expensive kinetic munitions. The DoD has made significant leaps in both performance and maturity as a result of many years of research.

### Laser Guided Energy

AERG’s patented LGE weapon technology works via wireless electrical energy transmission through the atmosphere, to disable vehicles and other threats to our security. AERG has developed the underlying technologies that allow a user to precisely control where the directed energy goes in direction, range, and magnitude. AERG’s LGE technologies are combined to create “laser filaments” as the laser passes through the atmosphere. The filaments in turn create Laser Induced Plasma Channels (“LIPC”) which enable the transmission of electrical energy.

Our development of LGE has led to a third directed energy technology creating a generational opportunity for a completely new weapon system development. The Company uniquely owns the critical intellectual property for LGE. The unique properties and demonstrated target effects of LGE allow for mission areas and applications that are not accessible to either HEL or RF directed energy. Therefore, LGE fills numerous requirements in the urban and asymmetric warfare environment. There is a very broad range of targets and effects that LGE addresses that are uniquely different from HEL and RF directed energy and therefore we do not compete directly within those application spaces.

## Results of Operations

### Comparison of Operations for the Three Months Ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
General and administrative	\$ (1,128,324)	\$ (610,446)
Selling and marketing	(71,840)	(53,999)
Research and development	(65,317)	(95,890)
Interest (expense)	<u>(109,229)</u>	<u>(26,485)</u>
Net loss	<u>\$ (1,374,710)</u>	<u>\$ (786,820)</u>

### **General and Administrative**

General and administrative expenses increased approximately \$518,000 to \$1,128,000 for the three months ended June 30, 2020 compared to \$610,000 for the three months ended June 30, 2019 primarily due to the increase of \$475,000 of professional expenses, an increase in building costs of \$28,000 and an increase in salaries and employee benefits of \$15,000.

### **Selling and Marketing**

Selling and marketing expenses increased approximately \$18,000 to \$72,000 for the three months ended June 30, 2020 compared to \$54,000 for the three months ended June 30, 2019 primarily due to the continuation of business development activities through our Master Services Agreement with Westpark Advisors as well as the addition of other consultants in this field.

### **Research and Development**

Research and development expenses decreased approximately \$31,000 to \$65,000 for the three months ended June 30, 2020 compared to \$96,000 for the three months ended June 30, 2019 primarily due to the allocation of part of management's pay from research and development to consulting expense.

### **Interest Expense**

Interest expense increased approximately \$83,000 to \$109,000 for the three months ended June 30, 2020 compared to \$26,000 for the three months ended June 30, 2019 primarily due to increased levels of debt as well as the \$50,000 penalty interest on the note payable for the AOS acquisition.

### **Net Loss**

Our operations for the three months ended June 30, 2020 resulted in a net loss of approximately \$1,375,000, an increase of approximately \$588,000 compared to the approximately \$787,000 net loss for the three months ended June 30, 2019 primarily due to an increase in professional fees, an increase in building costs, an increase in salaries and employee benefits, an increase in selling and marketing and an increase in interest expense offset by a decrease in research and development costs.

### **Comparison of Operations for the Six Months Ended June 30, 2020 and 2019:**

	<b>2020</b>	<b>2019</b>
Revenue	\$ 10,000	\$ -
General and administrative	\$ (2,218,744)	\$ (1,067,165)
Selling and marketing	(153,526)	(106,333)
Research and development	(122,796)	(168,550)
Other income	15,833	-
Interest (expense)	(170,568)	(30,925)
Net loss	<u>\$ (2,639,801)</u>	<u>\$ (1,372,973)</u>

### **Revenue**

Revenue increased \$10,000 to \$10,000 for the six months ended June 30, 2020 compared to \$-0- for the six months ended June 30, 2019 based on a contract we acquired in the purchase of Applied Optical Sciences.

### **General and Administrative**

General and administrative expenses increased approximately \$1,152,000 to \$2,219,000 for the six months ended June 30, 2020 compared to \$1,067,000 for the six months ended June 30, 2019 primarily due to the increase of \$979,000 of professional expenses, an increase in salaries and employee benefits of \$94,000, an increase in building costs of \$42,000, an increase in travel expense of \$18,000 and an increase in supplies and insurance expense of \$14,000.



### **Selling and Marketing**

Selling and marketing expenses increased approximately \$47,000 to \$154,000 for the six months ended June 30, 2020 compared to \$106,000 for the six months ended June 30, 2019 primarily due to the continuation of business development activities through our Master Services Agreement with Westpark Advisors as well as the addition of other consultants in this field.

### **Research and Development**

Research and development expenses decreased approximately \$46,000 to \$123,000 for the six months ended June 30, 2020 compared to \$169,000 for the six months ended June 30, 2019 primarily due to the allocation of part of management's pay from research and development to consulting expense.

### **Other Income**

Other income increased approximately \$16,000 to \$16,000 for the six months ended June 30, 2020 compared to \$-0- for the six months ended June 30, 2019 to reflect the income from time and effort expenses on the subcontract to the Missile Defense Agency (thru AlionSciences) as a subject matter expert on a series of program reviews.

### **Interest Expense**

Interest expense increased approximately \$140,000 to \$171,000 for the six months ended June 30, 2020 compared to \$31,000 for the six months ended June 30, 2019 primarily due to increased levels of debt as well as the \$50,000 penalty interest on the note payable for the AOS acquisition.

### **Net Loss**

Our operations for the six months ended June 30, 2020 resulted in a net loss of approximately \$2,640,000, an increase of approximately \$1,267,000 compared to the approximately \$1,373,000 net loss for the six months ended June 30, 2019 primarily due to an increase in professional fees, an increase in salaries and employee benefits, an increase in selling and marketing, an increase in supplies and insurance expense and an increase in interest expense offset by a decrease in research and development costs and an increase in other income.

### **Liquidity and Capital Resources**

At June 30, 2020, we had approximately \$447,000 of cash and cash equivalents, an increase of approximately \$359,000 from December 31, 2019. During the first six months of 2020, the net cash outflow from operating activities was approximately \$1,260,000. This amount was comprised primarily of our net loss of \$2,640,000, an increase in prepaid expenses and deposits of \$106,000, a decrease in accounts payable of \$57,000, partially offset by noncash stock based compensation of \$791,000, amortization of future compensation payable of \$417,000, an increase in accrued interest of \$121,000, amortization of prepaid expenses of \$98,000, an increase in customer deposits of \$66,000, an increase in accrued expenses and compensation of \$32,000, a decrease in accounts receivable of \$10,000 and depreciation and amortization of \$9,000. Financing activities reflected \$1,644,000 in proceeds from issuance of common stock, \$133,000 in proceeds from notes payable and proceeds from the exercise of warrants and options of \$75,000, partially offset by the repayment on notes payable of \$233,000 resulting in net cash inflow of approximately \$359,000.

Following the end of the quarter, in July and August, 2020, we received \$4,049,000 in bridge funding pursuant to 10% Convertible Promissory Notes. These notes are convertible into shares of our common stock at a conversion price of \$0.30 per share, as negotiated with the holders based on the prevailing market price of the common stock leading up to the issuance of the notes. At any time after October 15, 2020 until July 15, 2021, the date of maturity, (i) each investor may elect to convert these notes into shares of our common stock, at a conversion price of \$0.30 per share and (ii) the company may elect to prepay, either in cash or in shares of common stock at a price of \$0.30 per share, at the option of the holder, the amount of principal and interest then outstanding under each note. In the event we elect to prepay the notes, we will notify the holders, each of whom will then have five business days to notify the company if they prefer to receive such prepayment in cash or stock. These notes are payable in full at maturity. In lieu of repayment of the principal and interest on the notes at maturity, the Company may elect to convert the amounts due into shares of Common Stock at a price of \$0.15 per share.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the six-months ended June 30, 2020, the company incurred a net loss of approximately \$2,640,000, had negative cash flows from operations of \$1,260,000 and may incur additional future losses due to the reduction in Government contract activity. These matters raise substantial doubt as to the company's ability to continue as a going concern.

The company's existence is dependent upon management's ability to develop profitable operations. Management is devoting substantially all of its efforts to developing its business and raising capital and there can be no assurance that the company's efforts will be successful. No assurance can be given that management's actions will result in profitable operations or the resolution of its liquidity problems. The accompanying consolidated financial statements do not include any adjustments that might result should the company be unable to continue as a going concern.

In order to improve the company's liquidity, the company's management is actively pursuing additional debt and equity financing through discussions with investment bankers and private investors. There can be no assurance that the company will be successful in its effort to secure additional debt and equity financing.

The financial statements do not include any adjustments relating to the recoverability of assets and the amount or classification of liabilities that might be necessary should the company be unable to continue as a going concern.

In their report accompanying our financial statements, our independent auditors stated that our financial statements for the year ended December 31, 2019 were prepared assuming that we would continue as a going concern, and that they have substantial doubt as to our ability to continue as a going concern. Our auditors' have noted that our recurring losses from operations and need to raise additional capital to sustain operations raise substantial doubt about our ability to continue as a going concern.

#### **Backlog of Orders**

At May 12, 2020, we had a backlog (workload remaining on signed contracts) of approximately \$166,000, to be completed within the next twelve months.

#### **ITEM 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2020. Based on that evaluation, our Principal Executive Officer has concluded that our disclosure controls and procedures as of June 30, 2020 are not effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

##### **Changes in Internal Controls Over Financial Reporting**

There was no change in our internal controls over financial reporting that occurred during the period covered by this report, which has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

As previously reported, on July 3, 2018, we commenced a lawsuit in the Court of Chancery of the State of Delaware against the company's former director and principal executive officer George Farley and AnneMarieCo LLC ("AMC").

The lawsuit alleges to the following six causes of action:

1. Breach of Fiduciary Duty of Loyalty against George Farley
2. Breach of Fiduciary Duty of Care against George Farley
3. Aiding and Abetting Breach of Fiduciary Duty against AMC
4. Conversion against George Farley
5. Fraudulent Transfer against George Farley and AMC
6. Injunctive Relief against George Farley and AMC

This report provides an update on the progress of the litigation.

In connection with the lawsuit, the company requested a temporary restraining order prohibiting Mr. Farley and AMC from selling their 25 million shares of the company's common stock which the company alleges were improperly issued. On July 20, 2018, the Delaware Court of Chancery, Vice Chancellor Tamika Montgomery-Reeves presiding, entered a "status quo" order upon the stipulation of the parties, whereby Mr. Farley and AMC agreed not to transfer, alienate or sell any of their shares pending a ruling on the company's motion for a preliminary injunction.

On July 26, 2018, the Delaware Court of Chancery entered a scheduling order setting dates and deadlines for, among other matters, a hearing and briefing schedule on the amount of the bond the company would be required to post to maintain the "status quo" order through the preliminary injunction hearing, a hearing and briefing schedule on the motion for a preliminary injunction, and a discovery schedule.

Also, in connection with the lawsuit, on August 8, 2018, the company filed a motion to disqualify Mr. Farley's attorney, Ryan Whalen, who had previously represented the company.

On August 14, 2018, the Delaware Court of Chancery issued an order requiring the company to post a bond in the total amount of \$200,446.52. On August 21, 2018, the company posted the bond via Atlantic Specialty Insurance company acting as surety. Pursuant to the contract between the company and Atlantic Specialty Insurance company, the company deposited \$200,446.52 in cash as collateral for the surety agreement.

On August 23, 2018, the Delaware Court of Chancery court extended the hearing date on the company's motion for a preliminary injunction to October 23, 2018, and simultaneously ordered an increase in the bond amount of \$55,446.52. On August 30, 2018, the company posted the increased bond amount, again with Atlantic Specialty Insurance Company acting as surety, and deposited the additional \$55,446.52 in cash with the surety.

On September 7, 2018, the Delaware Court of Chancery entered an order setting a briefing schedule on the company's motion to disqualify Mr. Whalen.

On September 10, 2018, the Delaware Court of Chancery entered an order governing the production and exchange of confidential documents and information among the parties in discovery.

In another Current Report on Form 8-K filed September 13, 2018, the company updated the status of the litigation to include events that occurred up to that date. This report further updates the progress of the litigation.

On October 16, 2018, the Delaware Court of Chancery entered a scheduling order continuing the hearing date on the company's motion for a preliminary injunction against defendants George Farley and AMC to December 14, 2018.

The October 16, 2018 order also required the company to increase its bond amount by an additional \$185,301.86 (\$80,301.86 for AMC and \$105,000.00 for Mr. Farley) to account for the continued hearing date. On October 24, 2018, the company posted the additional bond amount of \$185,301.86.

On October 16, 2018, the Delaware Court of Chancery issued an order denying the company's motion to disqualify Mr. Whalen.

On January 23, 2019, the Delaware Court of Chancery issued a Memorandum Opinion, granting a preliminary injunction prohibiting Mr. Farley and AMC from selling their 25 million shares of the company's common stock, which the company alleges were improperly issued. On January 24, 2019, the Delaware Court of Chancery issued a revised Memorandum Opinion correcting calculations regarding the increased bond amount.

In granting the preliminary injunction, the Court found that the company met "its considerable burden" of demonstrating it was likely to win its lawsuit against Mr. Farley and AMC. Specifically, the Court found it was "reasonably probable" Mr. Farley had unlawfully issued the 25 million shares without proper authorization, Mr. Farley had breached his duty of loyalty to the company, Mr. Farley was unlikely to prove the stock issuance was procedurally or substantively "fair" to the company, and Mr. Farley had fraudulently transferred 20 million of the shares to AMC. Finally, the Court ruled because Farley and AMC's 25 million shares represented approximately one eighth of the company's outstanding ownership, the injunction was necessary to protect the company's capital structure, ability to attract new investors, ability to raise new capital and continue deployment of its plans now underway to revitalize its business.

In its Memorandum Opinion, the Court also required that the company post additional bond money, bringing the total cash collateral for the surety agreement to \$582,377.26. The company posted the additional bond amount, and deposited the additional cash amount with the surety, on January 29, 2019.

On March 4, 2019, the company filed an amended complaint adding claims against Mr. Farley concerning loans Mr. Farley caused the company take from PowerUp Lending Group Ltd. and Auctus Fund LLC from September 2017 through March 2018. Mr. Farley responded to the amended complaint by filing a motion to dismiss the lawsuit based on Delaware Court of Chancery Rules 12(b)(3) and 12(b)(7). On September 28, 2019, the Delaware Chancery Court denied this motion.

On July 7, 2019, the company filed a motion to reduce or eliminate the cash bond requirement. As previously reported, the cash bond was required by the Delaware Chancery Court. On September 30, 2019, the Delaware Chancery Court denied the motion.

On July 19, 2019, Mr. Farley and AMC filed answers and amended counter claims in response to the Company's amended complaint. The amended counter claims add claims under Delaware General Corporate Law section 205, seeking to validate the stock issuances at issue in the litigation.

On July 29, 2019, the Delaware Chancery Court entered a scheduling order which, among other deadlines, rescheduled the trial date to begin on January 21, 2020. However, the judge presiding in the case, Vice Chancellor Montgomery-Reeves, was subsequently appointed and confirmed to the Delaware Supreme Court.

The case was reassigned to Vice Chancellor J. Travis Laster. On January 14, 2020, Vice Chancellor Laster held a scheduling conference. On January 29, 2020, the Delaware Chancery Court entered a scheduling order setting the trial date for July 20, 2020. On June 2, 2020, the Delaware Chancery Court issued a scheduling order setting dates for pre-trial motion practice, hearings and conferences leading up to a trial date of September 21-24, 2020.

On September 26, 2019, the company filed a motion for partial summary judgment concerning the issuance of company stock to Mr. Farley without having been authorized by a quorum of the board of directors. The previous hearing date of November 20, 2019, was postponed while the case awaited a new judge assignment. The motion was heard on July 23, 2020, by Vice Chancellor Laster.

On August 3, 2020, in our ongoing litigation against George Farley, the company's former CEO, and AnneMarieCo., LLC, the Chancery Court of the State of Delaware issued an Opinion granting in part and denying in part the company's Motion for Partial Summary Judgment. The Court granted the company's motion in the following respect: "Farley could not validly take action as the sole remaining director between February 10, 2016, and March 9, 2018. The stock that he issued to himself is invalid, as is the compensation that he attempted to grant to himself. The shares that he gifted to AnneMarieCo remain invalid, notwithstanding their transfer to AnneMarieCo." The court denied the motion in all other respects, rejecting the company's argument that Section 205 of the Delaware General Corporation Law is unavailable for the defendants to petition the court cure the invalidity of the stock and compensation, leaving open the possibility for the court to reinstate the shares and/or compensation in whole or in part under Section 205. The trial is now scheduled for September 21-23, 2020.

In a related matter, on February 8, 2019, the company filed a complaint against Stein Riso Mantel McDonough, LLP (“Stein Riso”), its former counsel, in the United States District Court for the Southern District of New York alleging the following:

1. breach of fiduciary duty;
2. legal malpractice;
3. aiding and abetting a breach of fiduciary duty;
4. voidance of fees under New York Rules of Professional Conduct 1.8;
5. violation of New York Rule of Professional Conduct 1.5;
6. securities fraud;
7. breach of contract; and
8. unjust enrichment.

The complaint against Stein Riso followed the issuance, on January 23, 2019, of a Memorandum Opinion granting the company’s motion for a preliminary injunction by the Delaware Court of Chancery in the case against George Farley and AMC. Stein Riso has responded to the complaint by filing a motion to dismiss the complaint pursuant to Federal Rule of Civil Procedure 12(b)(6). The company amended its complaint in response. On July 31, 2019, Stein Riso responded to the company’s amended complaint by filing another motion to dismiss pursuant to Federal Rule of Civil Procedure 12(b)(6). The company filed an opposition to this motion on August 14, 2019. Stein Riso filed a reply brief on September 13, 2019.

On May 31, 2020, the United States District Court issued an opinion and order denying in part and granting in part the motion of Stein Riso to dismiss the company’s complaint. The court rejected Stein Riso’s arguments that the allegations in the company’s complaint did not adequately allege Stein Riso committed malpractice and aided and abetted breaches of fiduciary duties by George Farley, the company’s former CEO and the defendant in a related action in the Delaware Chancery Court. The court dismissed a separate cause of action which the company had pled for “rescission and restitution” for Stein Riso’s alleged violations of the New York Rules of Professional Conduct, finding it was “duplicative” of our professional malpractice cause of action. The court also dismissed the company’s cause of action against Stein Riso for securities fraud.

On June 25, 2020, the United States District Court issued a civil case management plan and scheduling order. On July 24, 2020, the company filed a motion to amend its complaint to add two individual attorneys at Stein Riso as defendants. The United States District Court has ordered the parties to appear at a mediation on August 13, 2020.

On July 3, 2019, Gusrae, Kaplan & Nusbaum and its partner, Ryan Whalen, counsel for defendants, George Farley and AnneMarie Co. LLC, in the litigation brought by the company and pending in Delaware, filed a claim in the District Court for the Southern District of New York against the company its directors, officers, attorneys and a consultant. The action alleges libel, securities fraud and related claims. The company believes that this suit lacks merit and intends to dispute these allegations. The company filed a motion to dismiss the complaint on October 24, 2019. On December 13, 2019, Gusrae Kaplan and Mr. Whalen filed an opposition to the Company’s motion. On January 10, 2020, the company filed a reply brief. The United States District Court has not yet ruled on the motion.

As with any litigation, the company cannot predict the outcome with certainty, but the company expects to provide further updates on the status of the litigation as circumstances warrant.

We may, from time to time, be involved in legal proceedings arising from the normal course of business.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 8, 2020, we received \$60,000 from an individual based on a subscription agreement with the company for which we issued 200,000 shares of its common stock.

On April 23, 2020, we received \$72,000 from an individual based on a subscription agreement with the company for which we issued 240,000 shares of its common stock.

On April 29, 2020, we received \$400,000 from an individual based on a subscription agreement with the company for which we issued 1,333,333 shares of its common stock.

In June 2020, we issued 18,750 shares of common stock based on a restricted stock agreement with a contractor.

## ITEM 6. EXHIBITS

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION</b>
31	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a).</a>
32	<a href="#">Principal Executive Officer and Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**APPLIED ENERGETICS, INC.**

By /s/ Gregory J Quarles  
Gregory J Quarles  
Chief Executive Officer  
(and Principal Financial Officer)

Date: August 12, 2020

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
PRINCIPAL FINANCIAL OFFICER PURSUANT  
TO EXCHANGE ACT RULE 13a-14(a)**

I, Gregory J Quarles, the Chief Executive Officer (and Principal Financial Officer) of Applied Energetics, Inc., certify that:

1. I have reviewed this report on Form 10-Q of Applied Energetics 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 controls 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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.

/s/ Gregory J Quarles  
Gregory J Quarles  
Chief Executive Officer  
(and Principal Financial Officer)

Date: August 12, 2020



**CERTIFICATION OF PRINCIPAL EXECUTIVE  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing by Applied Energetics, Inc. (the "company") of its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (the "Report") I, Gregory J Quarles, Chief Executive Officer (and Principal Financial Officer) of the company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the company.

This certificate is being made for the exclusive purpose of compliance by the principal executive officer of Applied Energetics, Inc. with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be used for any other purposes. A signed original of this written statement required by Section 906 has been provided to Applied Energetics, Inc. and will be retained by Applied Energetics, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Gregory J Quarles  
Gregory J Quarles  
Chief Executive Officer  
(and Principal Financial Officer)

Date: August 12, 2020