

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 September 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 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:

Accelerated filer:

Non-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 November 12, 2020, there were 190,546,073 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

	<u>September 30,</u> 2020	<u>December 31,</u> 2019
	<u>(Unaudited)</u>	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,391,208	\$ 88,415
Other receivable	599,110	2,880
Other assets	102,190	52,686
Total current assets	<u>3,092,508</u>	<u>143,981</u>
Long-term assets		
Long-term receivable	-	582,377
Property and equipment - net	23,741	36,568
Deferred compensation	1,458,333	2,083,334
Total long-term assets	<u>1,482,074</u>	<u>2,702,279</u>
TOTAL ASSETS	<u><u>\$ 4,574,582</u></u>	<u><u>\$ 2,846,260</u></u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current liabilities		
Accounts payable	\$ 330,039	\$ 472,868
Accrued officer compensation	206,000	206,000
Notes payable including accrued interest of \$356,446 at September 30, 2020 and \$119,218 at December 31, 2019	7,515,018	3,467,890
Due to related parties	50,000	50,000
Accrued expenses	591,713	23,588
Accrued dividends	48,079	48,079
Total current liabilities	<u>8,740,849</u>	<u>4,268,425</u>
Long-term liabilities		
Long-term notes payable net of unamortized debt discount	1,133,324	1,500,000
Total liabilities	<u>9,874,173</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 September 30, 2020 and at December 31, 2019	14	14
Common stock, \$.001 par value, 500,000,000 shares authorized; 207,143,146 and 206,569,063 shares issued and outstanding at September 30, 2020 and at December 31, 2019, respectively	207,143	206,569
Additional paid-in capital	87,672,578	85,907,523
Accumulated deficit	(93,179,326)	(89,036,271)
Total stockholders' (deficit)	<u>(5,299,591)</u>	<u>(2,922,165)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)	<u><u>\$ 4,574,582</u></u>	<u><u>\$ 2,846,260</u></u>

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

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

	For the three months ended September 30,	
	2020	2019
Revenue	\$ 165,920	\$ -
Cost of revenue	153,629	-
Gross profit	12,291	-
Operating expenses		
General and administrative	1,133,536	2,467,328
Selling and marketing	72,335	52,562
Research and development	84,465	67,670
Total operating expenses	1,290,336	2,587,560
Operating loss	(1,278,045)	(2,587,560)
Other income (expense)		
Interest (expense)	(225,210)	(46,783)
Total other (expense)	(225,210)	(46,783)
Net loss	(1,503,255)	(2,634,343)
Preferred stock dividends	(8,501)	(8,501)
Net loss attributable to common stockholders	\$ (1,511,756)	\$ (2,642,844)
Net loss per common share – basic and diluted	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding, basic and diluted	210,458,363	204,197,396

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

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

	For the nine months ended September 30,	
	2020	2019
Revenue	\$ 175,920	\$ -
Cost of revenue	153,630	-
Gross profit	22,290	-
Operating expenses		
General and administrative	3,352,280	3,534,493
Selling and marketing	225,861	158,895
Research and development	207,261	236,221
Total operating expenses	3,785,402	3,929,609
Operating loss	(3,763,112)	(3,929,609)
Other income/(expense)		
Other income	15,833	-
Interest (expense)	(395,776)	(77,708)
Total other income	(379,943)	(77,708)
Net loss	(4,143,055)	(4,007,317)
Preferred stock dividends	(25,504)	(25,504)
Net loss attributable to common stockholders	\$ (4,168,559)	\$ (4,032,821)
Net loss per common share – basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding, basic and diluted	208,341,063	204,006,788

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

APPLIED ENERGETICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the nine months ended September 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	-	-	-	-	-	(1,374,709)	(1,374,709)
Balance as of June 30, 2020	13,602	\$ 14	212,143,146	\$ 212,143	\$88,412,212	\$ (91,676,071)	\$ (3,051,702)
Stock-based compensation	-	-	-	-	344,033	-	344,033
RSA-based non-cash compensation	-	-	-	-	3,299	-	3,299
Recognize beneficial conversion feature	-	-	-	-	708,034	-	708,034
Accrual of payment in anticipation of settlement	-	-	-	-	(1,500,000)	-	(1,500,000)
Purchase and cancellation of common stock	-	-	(5,000,000)	(5,000)	(295,000)	-	(300,000)
Net loss for the quarter ended September 30, 2020	-	-	-	-	-	(1,503,255)	(1,503,255)
Balance as of September 30, 2020	13,602	\$ 14	207,143,146	\$ 207,143	\$87,672,578	\$ (93,179,326)	\$ (5,299,591)

See accompanying notes to condensed consolidated financial statements (unaudited)

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

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
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	<u>13,602</u>	<u>\$ 14</u>	<u>204,197,396</u>	<u>\$ 204,197</u>	<u>\$82,908,199</u>	<u>\$ (84,066,086)</u>	<u>\$ (953,676)</u>
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	<u>13,602</u>	<u>\$ 14</u>	<u>204,197,396</u>	<u>\$ 204,197</u>	<u>\$83,294,517</u>	<u>\$ (84,852,906)</u>	<u>\$ (1,354,178)</u>
Stock-based compensation expense	-	-	-	-	1,428,095	-	1,428,095
Net loss for the quarter ended September 30, 2019	-	-	-	-	-	(2,634,343)	(2,634,343)
Balance as of September 30, 2019	<u>13,602</u>	<u>\$ 14</u>	<u>204,197,396</u>	<u>\$ 204,197</u>	<u>\$84,722,612</u>	<u>\$ (87,487,249)</u>	<u>\$ (2,560,426)</u>

See accompanying notes to condensed consolidated financial statements (unaudited)

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

	For the nine months ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,143,055)	\$ (4,007,317)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash stock based compensation expense	1,138,244	1,931,790
Shares issued for services	-	5,573
Amortization of beneficial conversion feature'	114,684	-
Depreciation and amortization	12,827	9,722
Amortization of future compensation payable	625,000	203,333
Amortization of prepaid expenses	184,164	-
Interest expense	-	77,708
Changes in assets and liabilities:		
Accounts receivable	9,888	57,445
Other receivable	-	-
Inventory	5,930	(5,930)
Prepays and deposits	(141,421)	5,433
Long term receivables - net	-	(141,182)
Accounts payable	(150,604)	(48,155)
Accrued interest	231,152	-
Accrued expenses and compensation	68,125	(381,833)
Net cash used in operating activities	<u>(2,045,066)</u>	<u>(2,293,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	-	(4,410)
Net cash used in investing activities	<u>-</u>	<u>(4,410)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	4,456,760	2,150,000
Proceeds from issuance of common stock	1,644,100	150,000
Repayment on notes payable	(528,251)	(31,576)
Cancellation of Stock	(1,300,000)	-
Proceeds from the exercise of stock options and warrants	75,250	-
Net cash provided by financing activities	<u>4,347,859</u>	<u>2,268,424</u>
Net increase (decrease) in cash and cash equivalents	2,302,793	(29,399)
Cash and cash equivalents, beginning of period	<u>88,415</u>	<u>178,552</u>
Cash and cash equivalents, end of period	<u>\$ 2,391,208</u>	<u>\$ 149,153</u>
Supplemental Cash Flow Information		
Cash paid for interest	\$ 53,976	\$ 2,117
Cash paid for taxes	\$ -	\$ -
Schedule of Non-Cash Information		
Discount on note payable on purchase of Applied Optical Sciences	\$ -	\$ 2,500,000
Amortization of discount on note payable	\$ -	\$ (28,333)
Note payable on purchase of Applied Optical Sciences	\$ -	\$ (2,500,000)
Beneficial conversion feature on notes payable	\$ 708,034	\$ -
Non-cash accrual for payment on settlement	\$ 500,000	\$ -

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

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 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 September 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 nine-month period ended September 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 unaudited condensed consolidated 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 nine months ended September 30, 2020, the company incurred a net loss of approximately \$4,143,000, had negative cash flows from operations of \$3,045,000 and may incur additional future losses due to the reduction in government contract activity. Additionally, as of September 30, 2020, the company had a working capital deficit (current liabilities less current assets) of \$5,149,000. 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.

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 unaudited condensed consolidated 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 condensed consolidated 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 nine months ended September 30, 2020, the company incurred a net loss of approximately \$4,143,000, had negative cash flows from operations of approximately \$2,045,000 and conducted financing activities yielding \$1,644,000 in proceeds from the issuance of common stock, proceeds from notes payable of \$4,457,000, proceeds from the exercise of options and warrants of \$75,000, partially offset by payments on notes payable of \$528,000, cancellation of common stock of \$1,300,000 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.

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.

As of September 30, 2020, the company had approximately \$2,391,000 in cash and cash equivalents.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 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. The Company anticipates a majority of revenue to come from long-term government contracts 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
September 30, 2020
(Unaudited)

CORRECTIONS OF IMMATERIAL ERROR TO PREVIOUSLY ISSUED UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to the filing of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019, the Company identified prior period misstatements in the June 30, 2019 financial statements included therein related to stock compensation expense. The misstatements resulted in the understatement of general and administrative expense in the Company's consolidated statements of operations. The Company assessed the materiality of these misstatements both quantitatively and qualitatively and determined the correction of these errors to be immaterial to the prior consolidated financial statements taken. As a result, the Company has corrected the misstatements in the accompanying financial statements. The misstatements had no impact basic and diluted earnings per share or on the net cash flows from operating, investing, or financing activities. The misstatements did not impact assets or liabilities

The following tables summarize the impact of the correction to the prior financial statements

	Three months ended June 30, 2019 (as previously reported)	Adjustments	Three months ended June 30, 2019 (as corrected)
General and administrative	\$ 610,446	\$ 37,511	\$ 647,957
Total operating expenses	760,335	37,511	797,846
Operating loss	(760,335)	(37,511)	(797,846)
Net loss	(786,820)	(37,511)	(824,331)
Net loss attributable to common stockholders	(795,321)	(37,511)	(832,832)
Net loss per common share - basic and diluted	(0.01)	-	(0.01)

	Six months ended June 30, 2019 (as previously reported)	Adjustments	Six months ended June 30, 2019 (as corrected)
General and administrative	\$ 1,067,165	\$ 37,511	\$ 1,104,676
Total operating expenses	1,342,048	37,511	1,379,559
Operating loss	(1,342,048)	(37,511)	(1,379,559)
Net loss	(1,372,973)	(37,511)	(1,410,484)
Net loss attributable to common stockholders	(1,389,976)	(37,511)	(1,427,487)
Net loss per common share - basic and diluted	(0.01)	-	(0.01)

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

	June 30, 2019 (as previously reported)	Adjustments	June 30, 2019 (as corrected)
Common Stock	\$ 204,157		\$ 204,157
Additional paid-in capital	83,294,517	(37,511)	83,257,006
Accumulated deficit	(84,852,906)	(37,511)	(84,890,417)
Total stockholder' (deficit)	(1,354,232)	(75,022)	(1,429,254)

2. SHARE-BASED COMPENSATION

Share-Based Compensation

For the nine months ended September 30, 2020 and 2019, share-based compensation expense totaled approximately \$1,138,000 and \$1,937,000, respectively. For the three months ended September 30, 2020 and 2019, share-based compensation expense totaled approximately \$347,000 and \$1,428,000, 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:

	Nine months ended September 30	
	2020	2019
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	\$0.34

For the nine months ended September 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, 18,750 shares of restricted stock awards were vested, and no restricted stock awards were granted or forfeited; no restricted stock units were granted, vested or forfeited. At September 30, 2020, options to purchase 32,000,000 shares of common stock were outstanding with a weighted average exercise price of \$0.1419, a weighted average remaining contract term of approximately 5.93 years with an aggregate intrinsic value of \$6,079,225. At September 30, 2020, options to purchase 23,575,000 shares of common stock were exercisable.

As of September 30, 2020, there was approximately \$1,090,000 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 and nine months ended September 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.

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

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

	Nine months ended September 30,	
	2020	2019
Options to purchase common shares	32,000,000	32,900,000
Convertible notes	18,171,912	-
Warrants to purchase common shares	3,500,000	3,575,000
Unvested restricted stock agreements	21,875	-
Convertible preferred stock	48,883	46,049
Total potentially dilutive securities	53,742,670	36,521,049

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 September 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 September 30, 2020 was approximately \$247,000. 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 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). Based on a September 24, 2020, Settlement Agreement with George P. Farley, its former CEO, and AnneMarieCo, LLC, on October 2, 2020, all the bond funds, plus \$13,852 earned interest income, were distributed for the benefit of the company. \$500,000 was paid to opposing counsel in anticipation of settlement of purchase of shares from Plaintiff, and the remainder was paid to company counsel for the reduction in company legal fees.

6. OTHER ASSETS

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

7. DEFERRED COMPENSATION

Deferred compensation represents the remaining amortization of the deferred compensation recognized in the acquisition of Applied Optical Sciences.

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

8. NOTES PAYABLE

During the quarter ended September 30, 2020, we received \$4,324,000 in bridge funding pursuant to 10% Convertible Promissory Notes. Also, during the quarter, notes containing a principal balance of \$410,000 with a maturity date of September 1, 2019 and a principal balance of \$620,000 with a maturity date of December 1, 2019 were exchanged into this portfolio of notes payable. 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 quarter ended March 31, 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 September 30, 2020 is \$24,000 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 nine months of interest deferred. Principal and interest are payable monthly commencing nine 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.

During the nine months ended September 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. During the quarter ended September 30, 2020, a note with the principal balance of \$230,000 plus accrued interest was paid off.

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

	September 30, 2020	December 31, 2019
Beginning balance	\$ 4,967,890	\$ -
Notes payable	4,456,760	4,934,329
Transfer from prepaid	108,064	-
Accrued interest	237,229	119,218
Establish beneficial conversion feature	(708,034)	-
Amortize beneficial conversion feature	114,684	-
Payments on notes payable	(528,251)	(85,657)
Total	<u>8,648,342</u>	<u>4,967,890</u>
Less-Notes payable - current	<u>(7,515,018)</u>	<u>(3,467,890)</u>
Notes payable - non-current	<u>\$ 1,133,324</u>	<u>\$ 1,500,000</u>

APPLIED ENERGETICS, INC.
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(Unaudited)

Of the notes payable at September 30, 2020, \$830,000 were due September 1, 2019, \$1,100,000 were due December 1, 2019, \$4,574,000 were due July 15, 2021, \$24,000, payable monthly over two 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, December 31, 2019 and July 15, 2021 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.

The notes due September 1, 2019, December 1, 2019, December 12, 2020, April 28, 2022 and May 24, 2022 are not convertible. The notes due July 15, 2021 are convertible. Interest expense on these notes was \$239,000 for the quarter ended September 30, 2020 and \$47,000 for the quarter ended September 30, 2019. Interest expense on these notes was \$409,000 for the nine months ended September 30, 2020 and \$78,000 for the nine months ended September 30, 2019. Interest expense for the nine months ended September 30, 2020 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.

10. ACCRUED EXPENSES

Effective September 24, 2020, Applied Energetics, Inc. entered into a Settlement Agreement with George P. Farley, its former CEO, and AnneMarieCo, LLC ("AMC") as to which a Stipulation and Final Judgment was entered by the Delaware Court of Chancery on September 28, 2020. Under the agreement, 20,000,000 of the 25,000,000 shares originally issued to Farley (20,000,000 of which were transferred to AMC) were invalidated, the remaining 5,000,000 shares being deemed valid under Section 205 of the Delaware General Corporation Law. The agreement calls for the company to repurchase the remaining 5,000,000 shares at a price of \$0.30 per share for an aggregate purchase price of \$1,500,000 of which \$1,000,000 was paid on September 29, 2020. The \$500,000 was added as an accrual in accrued expenses. The agreement also provides for the release of funds in the amount of \$582,377.26 securing the bond posted by the company in favor of Farley and AMC in connection with the litigation as previously disclosed. The bond, plus accrued interest of \$13,852 was released and returned in October, 2020. The agreement also contains standard mutual general release and confidentiality provisions.

11. 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.

APPLIED ENERGETICS, INC.
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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.

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.

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.

In August 2020, pursuant to a consulting agreement with Stephen W McCahon, the company repurchased 5,000,000 shares of the company's common stock from Mr. McCahon for \$300,000. The shares were removed from outstanding status and were cancelled.

Due to a September 24, 2020 settlement with George Farley and AnneMarieCo, the company paid \$1,000,000 to Mr. Farley's attorney.

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

During the quarter ended September 30, 2020, we received \$4,324,000 in bridge funding pursuant to 10% Convertible Promissory Notes. Also, during the quarter, notes containing a principal balance of \$410,000 with a maturity date of September 1, 2019 and a principal balance of \$620,000 with a maturity date of December 1, 2019 were exchanged into this portfolio of notes payable. 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. All the notes payable were convertible to common stock at a price less than the closing market price of the company's common stock, thus creating approximately \$708,000 in beneficial conversion feature value, to be amortized over the life of the notes.

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

The \$344,000 stock-based compensation for the quarter ended September 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 \$3,000 for the restricted stock agreements.

12. 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 ("Farley") and AnneMarieCo LLC ("AMC"). The parties settled the lawsuit via a written settlement agreement dated September 24, 2020. Under the agreement, 20,000,000 of the 25,000,000 shares originally issued to Farley (20,000,000 of which were transferred to AMC) were invalidated, the remaining 5,000,000 shares being deemed valid under Section 205 of the Delaware General Corporation Law. The agreement calls for the company to repurchase the remaining 5,000,000 shares at a price of \$0.30 per share for an aggregate purchase price of \$1,500,000. The agreement also provided for the release and return to the company of funds in the amount of \$582,377.26, plus interest, securing the bond posted by the company in connection with the preliminary injunction issued in the litigation. The agreement also contains standard mutual general release and confidentiality provisions.

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. The parties settled the lawsuit via a written settlement agreement dated October 2, 2020. Pursuant to the agreement, Stein Riso paid the company three million dollars (\$3,000,000) and returned to the company ten million (10,000,000) shares of the company's common stock, par value \$0.001 per share. Stein Riso entered into the Settlement Agreement without any admission of liability. The parties will be filed a Stipulation of Dismissal with Prejudice as to all claims asserted or which could have been asserted in the lawsuit. The agreement also contains standard mutual general release and confidentiality provisions.

On July 3, 2019, Gusrae, Kaplan & Nusbaum and its partner, Ryan Whalen, counsel for defendants, George Farley and AnneMarie Co. LLC, in the aforesaid Delaware litigation, 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.

On June 15, 2020, Grace A.C. Dearmin, as the Administrator of the Estate of Thomas Carr Dearmin, filed a cross-complaint, against the company, Mr. Barcklow and company director, Bradford Adamczyk, alleging causes of action against them for Breach of Contract and Conversion. The causes of action against the company allege that the company's board of directors voted to compensate its former CEO and director, Thomas Dearmin, as reflected in board meeting minutes dated May 11, 2018, and June 25, 2018, but failed to pay compensation owed to Mr. Dearmin. These causes of action further allege that, if incentive milestones of the company's stock price were reached, Mr. Dearmin's estate is owed up to 5 million shares of company common stock, or the current monetary value of that stock. The company's deadline to respond to the cross-complaint is November 17, 2020.

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.

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

13. SUBSEQUENT EVENTS

Effective October 2, 2020, Applied Energetics, Inc. entered into a Confidential Settlement Agreement and Release in the litigation involving Stein Riso Mantel McDonough, LLP, (now known as Mantel McDonough Riso, LLP) (“Stein Riso”). Pursuant to the agreement, Stein Riso is to pay the company three million dollars (\$3,000,000), and return to the company ten million (10,000,000) shares of the company’s common stock, par value \$0.001 per share both of which occurred in October, 2020. Stein Riso entered into the Settlement Agreement without any admission of liability. The parties will be filing a Stipulation of Dismissal with Prejudice as to all claims asserted or which could have been asserted in the lawsuit. The agreement also contains standard mutual general release and confidentiality provisions.

Effective September 24, 2020, Applied Energetics, Inc. entered into a Settlement Agreement with George P. Farley, its former CEO, and AnneMarieCo, LLC (“AMC”) as to which a Stipulation and Final Judgment was entered by the Delaware Court of Chancery on September 28, 2020. Under the agreement, 20,000,000 of the 25,000,000 shares originally issued to Farley (20,000,000 of which were transferred to AMC) were invalidated, the remaining 5,000,000 shares being deemed valid under Section 205 of the Delaware General Corporation Law. The agreement calls for the company to repurchase the remaining 5,000,000 shares at a price of \$0.30 per share for an aggregate purchase price of \$1,500,000 of which \$1,000,000 was paid on September 29, 2020. The agreement also provides for the release of funds in the amount of \$582,377.26 securing the bond posted by the company in favor of Farley and AMC in connection with the litigation as previously disclosed. The bond, plus accrued interest of \$13,852 was released and returned in October, 2020. The agreement also contains standard mutual general release and confidentiality provisions.

In the first two weeks of October, 2020, we paid off three notes payable with total principal balance of \$650,000.

Effective November 5, 2020, the company and the holders agreed to convert all outstanding principal and interest outstanding on its 2020 10% Promissory Notes into shares of the company’s common stock. The notes were converted at a price per share of \$0.30, resulting in the issuance to the noteholders of 18,386,174 shares in the aggregate. All of these converting noteholders are accredited, sophisticated investors, and neither the issuance of the notes nor their conversion were in connection with any public offering, pursuant to Section 4(a)(2) of the Securities Act of 1933.

Additionally, as of November 5, 2020, the company repaid all principal of \$390,000, plus interest thereon, of the remaining outstanding on its 10% Promissory Notes from 2019.

The company’s management has evaluated subsequent events occurring after September 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 nine months ended September 30, 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

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 (“LGETM”) and Laser Induced Plasma Channel (“LIPCTM”). 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 looks 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 optical 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. Mr. 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 Company completed Phase I of the contract June of 2020 and submitted its Phase II proposal to the Army August of 2020. The company was not selected for Phase II and we await a full debrief on the proposal. While we are disappointed in not being selected for the Phase II award, we continue to believe our advanced technologies can solve critical challenges faced by the U.S. Military. This is a continuing requirement for the U.S. Army, and we are refining our proposed technical approach and engaging the numerous Army organizations that are working to quickly field advanced, directed energy technology solutions for our warfighters. Applied Energetics currently has multiple proposals outstanding for a variety of applications, and our team continues to vigorously pursue new opportunities that leverage our significant intellectual property and core competencies in ultra-short pulse optical sources and lasers.

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. In addition to these delays, the US federal budget for 2021 has not yet been approved by Congress. On September 29, 2020, the House of Representatives passed H.R. 8337, and on September 30, 2020, the Senate passed the same bill, a continuing resolution (CR) to extend federal government funding through December 11, and the President signed it into law (Public Law 116-159) on September 30, 2020 to avoid a government shutdown at the end of the fiscal year 2020. There is some uncertainty as to whether the federal budget will be approved before December 11, and if not, there will either be a second CR or there could be a sequestration and closure of the federal government. This also could drastically impact review of proposals and awards of near-term contracts.

For information on litigation involving the company, see “Legal Proceedings” at Part II, Item 1 elsewhere in this Quarterly Report on 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 continued traveling to the DC area on multiple occasions during the quarter, and remains very committed to briefing our submitted proposals and pursuing this business even in these challenging times.

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 September 30, 2020 and 2019:

	2020	2019
Revenue	\$ 165,920	\$ -
Cost of revenue	(153,629)	-
General and administrative	(1,133,536)	(2,467,328)
Selling and marketing	(72,335)	(52,562)
Research and development	(84,465)	(67,670)
Interest (expense)	(225,210)	(46,783)
Net loss	<u>\$ (1,503,255)</u>	<u>\$ (2,634,343)</u>

Revenue

Revenue increased approximately \$166,000 to \$166,000 for the three months ended September 30, 2020 compared to \$0- for the three months ended September 30, 2019 primarily due to the completion of the STTR phase I project.

Cost of Revenue

Cost of revenue increased approximately \$154,000 to \$154,000 for the three months ended September 30, 2020 compared to \$0- for the three months ended September 30, 2019 primarily due to the completion of the STTR phase I project.

General and Administrative

General and administrative expenses decreased approximately \$1,334,000 to \$1,134,000 for the three months ended September 30, 2020 compared to \$2,467,000 for the three months ended September 30, 2019 primarily due to the decreases of \$1,203,000 of professional expenses, \$154,000 in applied project costs and \$11,000 of travel expenses, partially offset by an increase in salaries and employee benefits of \$16,000, supplies and insurance of \$10,000 and building costs of \$6,000.

Selling and Marketing

Selling and marketing expenses increased approximately \$20,000 to \$72,000 for the three months ended September 30, 2020 compared to \$53,000 for the three months ended September 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 increased approximately \$17,000 to \$84,000 for the three months ended September 30, 2020 compared to \$68,000 for the three months ended September 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 \$178,000 to \$225,000 for the three months ended September 30, 2020 compared to \$47,000 for the three months ended September 30, 2019 primarily due to increased levels of debt and \$115,000 amortization of the beneficial conversion feature of notes payable, 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 September 30, 2020 resulted in a net loss of approximately \$1,503,000, a decrease of approximately \$1,131,000 compared to the approximately \$2,634,000 net loss for the three months ended September 30, 2019 primarily due to an increase in gross margin and decreased general and administrative expense which was partially offset by increases in sales and marketing, research and development and interest expense.

Comparison of Operations for the Nine Months Ended September 30, 2020 and 2019:

	2020	2019
Revenue	\$ 175,920	\$ -
Cost of revenue	(153,630)	-
General and administrative	(3,352,280)	(3,534,493)
Selling and marketing	(225,861)	(158,895)
Research and development	(207,261)	(236,221)
Other income	15,833	-
Interest (expense)	(395,776)	(77,708)
Net loss	<u>\$ (4,143,055)</u>	<u>\$ (4,007,317)</u>

Revenue

Revenue increased approximately \$176,000 to \$176,000 for the nine months ended September 30, 2020 compared to \$-0- for the nine months ended September 30, 2019 primarily due to the completion of the STTR phase I project.

Cost of Revenue

Cost of revenue increased approximately \$154,000 to \$154,000 for the nine months ended September 30, 2020 compared to \$-0- for the nine months ended September 30, 2019 primarily due to the completion of the STTR phase I project.

General and Administrative

General and administrative expenses decreased approximately \$182,000 to \$3,352,000 for the nine months ended September 30, 2020 compared to \$3,534,000 for the nine months ended September 30, 2019 primarily due to the decrease of \$224,000 in professional expenses and applied project costs, partially offset by an increase in salaries and employee benefits of \$110,000, an increase in building costs of \$47,000, an increase in supplies and insurance expense of \$24,000 an increase in travel expense of \$7,000 an increase in miscellaneous of \$5,000 and an increase in depreciation of \$3,000.

Selling and Marketing

Selling and marketing expenses increased approximately \$67,000 to \$226,000 for the nine months ended September 30, 2020 compared to \$159,000 for the nine months ended September 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 \$29,000 to \$207,000 for the nine months ended September 30, 2020 compared to \$236,000 for the nine months ended September 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 nine months ended September 30, 2020 compared to \$-0- for the nine months ended September 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 \$318,000 to \$396,000 for the nine months ended September 30, 2020 compared to \$78,000 for the nine months ended September 30, 2019 primarily due to increased levels of debt and \$115,000 amortization of the beneficial conversion feature of notes payable as well as the \$50,000 penalty interest on the note payable for the AOS acquisition.

Net Loss

Our operations for the nine months ended September 30, 2020 resulted in a net loss of approximately \$4,143,000, an increase of approximately \$136,000 compared to the approximately \$4,007,000 net loss for the nine months ended September 30, 2019 primarily due to an increase in selling and marketing and an increase in interest expense partially offset by gross margin, a decrease in general and administrative and a decrease in research and development costs and other income.

Liquidity and Capital Resources

At September 30, 2020, we had approximately \$2,391,000 of cash and cash equivalents, an increase of approximately \$2,303,000 from December 31, 2019. During the first nine months of 2020, the net cash outflow from operating activities was approximately \$2,045,000. This amount was comprised primarily of our net loss of \$4,143,000, a decrease in accounts payable of \$151,000 and an increase in prepaid expenses and deposits of \$141,000, partially offset by noncash stock based compensation of \$1,138,000, amortization of future compensation payable of \$625,000, an increase in accrued interest of \$231,000, amortization of prepaid expenses of \$184,000, amortization of beneficial conversion feature of \$115,000, an increase in accrued expenses and compensation of \$68,000, depreciation and amortization of \$13,000, a decrease in accounts receivable of \$10,000 and a decrease in inventory of \$6,000.

Financing activities reflected \$4,457,000 proceeds from notes payable, \$1,644,000 in proceeds from issuance of common stock, and proceeds from the exercise of warrants and options of \$75,000, partially offset by the repayment on notes payable of \$528,000 and \$1,300,000 in cancellation of common stock resulting in net cash inflow of approximately \$4,348,000.

During the quarter ended September 30, 2020, we received \$4,324,000 in bridge funding pursuant to 10% Convertible Promissory Notes (the "2020 Notes"). Also, during the quarter, notes containing a principal balance of \$410,000 with a maturity date of September 1, 2019 and a principal balance of \$620,000 with a maturity date of December 1, 2019 were exchanged into this portfolio of notes payable. These notes were convertible into shares of our common stock at a conversion price of \$0.30 per share. At any time after October 15, 2020 until July 15, 2021, the date of maturity, (i) each investor had a right to convert these notes into shares of our common stock, at a conversion price of \$0.30 per share and (ii) the company could 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. Effective November 5, 2020, the Company and the holders of each of these notes agreed to convert all principal and interest on these notes into shares of our common stock at a price of \$0.30 per share. Also effective November 5, 2020, the Company repaid all principal and interest remaining on the notes maturing in September and December of 2019, respectively, which were not exchanged into the 2020 Notes. With the repayment and conversion, respectively, of these notes, the company has now repaid or converted all of its outstanding investor debt. In addition, with the conversion of the 2020 Notes into the 18,386,174 shares and the return or retirement of 46 million shares, the company now has approximately 191 million shares of common stock outstanding.

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 nine-months ended September 30, 2020, the company incurred a net loss of approximately \$4,143,000, had negative cash flows from operations of \$2,045,000 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 \$-0-, 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 September 30, 2020. Based on that evaluation, our Principal Executive Officer has concluded that our disclosure controls and procedures as of September 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 ("Farley") and AnneMarieCo LLC ("AMC"). The parties settled the lawsuit via a written settlement agreement dated September 24, 2020. Under the agreement, 20,000,000 of the 25,000,000 shares originally issued to Farley (20,000,000 of which were transferred to AMC) were invalidated, the remaining 5,000,000 shares being deemed valid under Section 205 of the Delaware General Corporation Law. The agreement calls for the company to repurchase the remaining 5,000,000 shares at a price of \$0.30 per share for an aggregate purchase price of \$1,500,000. The agreement also provided for the release and return to the company of funds in the amount of \$582,377.26, plus interest, securing the bond posted by the company in connection with the preliminary injunction issued in the litigation. The agreement also contains standard mutual general release and confidentiality provisions.

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. The parties settled the lawsuit via a written settlement agreement dated October 2, 2020. Pursuant to the agreement, Stein Riso paid the company three million dollars (\$3,000,000) and returned to the company ten million (10,000,000) shares of the company's common stock, par value \$0.001 per share. Stein Riso entered into the Settlement Agreement without any admission of liability. The parties will be filed a Stipulation of Dismissal with Prejudice as to all claims asserted or which could have been asserted in the lawsuit. The agreement also contains standard mutual general release and confidentiality provisions.

On July 3, 2019, Gusrae, Kaplan & Nusbaum and its partner, Ryan Whalen, counsel for defendants, George Farley and AnneMarie Co. LLC, in the aforesaid Delaware litigation, 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.

On June 15, 2020, Grace A.C. Dearmin, as the Administrator of the Estate of Thomas Carr Dearmin, filed a cross-complaint, against the company, Mr. Barcklow and company director, Bradford Adamczyk, alleging causes of action against them for Breach of Contract and Conversion. The causes of action against the company allege that the company's board of directors voted to compensate its former CEO and director, Thomas Dearmin, as reflected in board meeting minutes dated May 11, 2018, and June 25, 2018, but failed to pay compensation owed to Mr. Dearmin. These causes of action further allege that, if incentive milestones of the company's stock price were reached, Mr. Dearmin's estate is owed up to 5 million shares of company common stock, or the current monetary value of that stock. The company's deadline to respond to the cross-complaint is November 17, 2020.

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

Effective November 5, 2020, the company and the holders agreed to convert all outstanding principal and interest outstanding on its 2020 10% Promissory Notes into shares of the company's common stock. The notes were converted at a price per share of \$0.30, resulting in the issuance to the noteholders of 18,386,174 shares in the aggregate. All of these converting noteholders are accredited, sophisticated investors, and neither the issuance of the notes nor their conversion were in connection with any public offering, pursuant to Section 4(a)(2) of the Securities Act of 1933.

Share Repurchases

<u>Period</u>	<u>Total number of shares repurchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum number of shares that may yet be purchased under the plans or programs</u>
July	-0-	N/A	-0-	N/A
August	5,000,000	\$ 0.06	-0-	N/A
September	5,000,000	\$ 0.30	-0-	N/A

Transactions listed in the foregoing table were each pursuant to individual agreements between the company and the purchasers and not pursuant to any plan or repurchase program.

ITEM 6. EXHIBITS

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
10.1	Confidential Settlement Agreement and Release, dated as of October 2, 2020, by and between the Registrant and Stein Riso Mantel McDonough, LLP.
10.2	Confidential Settlement Agreement and Release, dated as of September 24, 2020, by and between the Registrant and George Farley and AnneMarieCo, LLC.
31	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a).
32	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.
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: November 16, 2020

CONFIDENTIAL**CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE**

This Confidential Settlement Agreement and Release (“Settlement Agreement”) is entered into as of September 24, 2020 (“Effective Date”), by and among Applied Energetics, Inc. (“AE”), George Farley (“Farley”), and AnneMarieCo. LLC (“AMC” and together with AE and Farley, “Parties”).

WHEREAS, in February 2016, while the sole director of AE, Farley approved AE’s issuance of twenty-five million (25,000,000) shares of AE common stock to Farley;

WHEREAS, in April 2016, Farley transferred twenty million (20,000,000) shares to AMC (the “AMC Shares”) and Farley retained five million (5,000,000) shares (the “Farley Shares” and with the AMC Shares, the “Shares”);

WHEREAS, on July 3, 2018, AE filed an action captioned *Applied Energetics, Inc. v. George Farley and AnneMarieCo., LLC*, C.A. No. 2018-0489 (the “Action”) in the Delaware Court of Chancery (the “Court”), and an amended complaint on March 4, 2019, asserting claims for breaches of the duty of loyalty, breaches of the duty of care, and conversion against Farley, aiding and abetting against AMC, fraudulent transfer against Farley and AMC, and seeking to cancel and invalidate the Shares, which claims Farley and AMC deny;

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WHEREAS, on August 3, 2018, Farley filed counterclaims against AE and on July 19, 2019, filed amended counterclaims against AE asserting claims for breach of contract and unjust enrichment relating to his salary, and seeking validation of the Shares under 8 *Del. C.* § 205 (the “Farley Counterclaims”), which claims AE denies;

WHEREAS, on July 19, 2019, AMC filed a counterclaim against AE seeking validation of the AMC Shares under 8 *Del. C.* § 205 (the “AMC Counterclaim” and with the Farley Counterclaims, the “Counterclaims”), which claim AE denies;

WHEREAS, on August 21, 2018, pursuant to an order of the Court, AE posted a bond in favor of Farley and AMC, which was subsequently increased to \$582,377.26 on or about January 29, 2019 (the “Bond”);

WHEREAS, on or about July 8, 2020, Farley made a demand on AE for advancement of attorneys’ fees and expenses arising from the Action under an Indemnification Agreement dated November 9, 2011 (the “Advancement Claim”), which claim AE denies;

WHEREAS, under the Indemnification Agreement and Delaware law, Farley might have indemnification rights relating to the Action (the “Indemnification Claim”), which AE denies;

WHEREAS, on August 3, 2020, the Court issued a memorandum opinion granting AE’s motion for partial summary judgment declaring that the Shares were invalidly issued, but denying AE’s motion on the Counterclaims under 8 *Del. C.* § 205 and the Farley Counterclaims for breach of contract and unjust enrichment;

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WHEREAS, the Parties participated in a confidential mediation before William Johnston, Esq. on September 3, 2020 (“Mediation”), and at the Mediation, agreed in principle to a full and final settlement of their disputes; and

WHEREAS, the Parties, with the advice of competent counsel, have concluded that a full and final settlement of their disputes, including the Action and the Advancement Claim, is in their respective best interests;

NOW, THEREFORE, to give effect to the foregoing and in consideration of the promises contained in this Settlement Agreement, and for other good and valuable consideration, the adequacy and receipt of which hereby is acknowledged, the Parties agree as follows:

1. Shares Validation and Repurchase.

a. On or before September 24, 2020, the Parties shall file a Stipulation and [Proposed] Final Judgment in the Action (the “Stipulated Judgment”), in the form attached hereto as Exhibit A, providing (1) for the validation of one million (1,000,000) of the Farley Shares and four million (4,000,000) of the AMC Shares pursuant to 8 *Del. C.* § 205 (collectively, the “Validated Shares”), (2) for the invalidity of the remaining 20 million (20,000,000) Shares, (3) for the dismissal with prejudice of all claims asserted in the Action, (4) for the release of the Bond and all claims of Farley and AMC to the Bond, and (5) that each side shall bear his/its own costs and attorneys’ fees.

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b. Upon entry by the Court of the Stipulated Judgment, AE may cancel the remaining twenty million (20,000,000) Shares.

c. Upon entry by the Court of the Stipulated Judgment, AE shall purchase, and does hereby purchase, the Validated Shares for the sum of One Million Five Hundred Thousand Dollars (\$1,500,000.00) (the "Settlement Amount").

d. Within three (3) business days of entry by the Court of the Stipulated Judgment, AE shall pay to Farley and AMC the sum of One Million Dollars (\$1,000,000.00) of the Settlement Amount by wire transfer to the following IOLA Trust Account (the "IOLA Account"):

TD Bank
2 Wall Street
New York, NY 10005
(646) 344-4800

IOLA Account
Gusrae Kaplan Nusbaum, PLLC as attorneys – (212) 269-1400
120 Wall Street
New York, NY 10005
ABA # 026013673
Account # 7923153741
Swift Code: NRTHUS33

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e. Counsel for Farley and AMC shall hold the Settlement Amount in trust until AE's receipt of the original share certificates for the Farley Shares and the AMC Shares described in subparagraph f, below.

f. Within three (3) business days of entry of the Stipulated Judgment by the Court, AE shall take all steps necessary to release the funds securing the Bond and cause \$500,000 of the Bond funds to be paid to Farley and AMC in partial payment of the Settlement Amount. If, for whatever reason, the funds securing the Bond are not released and the \$500,000 has not been received by Farley and AMC within thirty (30) days of entry of the Stipulated Judgment, AE shall pay Farley and AMC \$500,000 by wire transfer pursuant to instructions provided by their counsel.

g. Within three (3) business days of AE's payment of the Settlement Amount to Farley and AMC's counsel's IOLA Account, Farley and AMC shall return to AE the original certificates reflecting the Farley Shares and the AMC Shares, signed by each, via hand-delivery or Federal Express with next-day delivery to Continental Stock and Transfer Company, Attn: Henry Farrell, One State Street Plaza, 30th Floor, New York, NY 10004. Continental Stock and Transfer Company's receipt of the original certificates shall be considered receipt by AE of the original stock certificates.

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h. Upon AE's receipt of the original certificates reflecting the Farley Shares and the AMC shares, duly endorsed by each, the receipt of which AE shall promptly notify counsel for Farley and AMC, Farley and AMC's counsel may release the Settlement Amount from the IOLA Account.

2. Releases.

a. Effective upon receipt by Farley and AMC of the full Settlement Amount and AE's receipt of the original certificates reflecting the Farley Shares and the AMC shares, Farley and AMC on one hand and AE on the other hand, for themselves and for each of their past, present, and future assigns, successors, predecessors, indemnitees, indemnitors, agents, attorneys, estates, officers, employees, directors, managers, affiliates, partners, members, limited partners, shareholders, unitholders, direct and indirect parent entities, direct and indirect subsidiary entities, and owners (collectively, the "Global Releasers"), do hereby forever waive, release, and discharge each other and each of their past, present, and future assigns, successors, predecessors, indemnitees, indemnitors, agents, attorneys, estates, officers, employees, directors, managers, affiliates, partners, members, limited partners, shareholders, unitholders, direct and indirect parent entities, direct and indirect subsidiary entities, and owners (collectively, the "Global Releasees") from the Global Claims (as defined below).

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b. Each Global Releasor shall not initiate, cause to be initiated, or assist in initiating any adversarial suit or proceeding against any Global Releasee based upon a Global Claim.

c. For purposes of this Settlement Agreement, the term "Global Claims" shall mean any and all manner of known or unknown claims, actions, causes of action, differences, disputes, demands, discovery requests, debts, liabilities, liens, rights, contracts, agreements, promises, duties, suits, proceedings, restitution, penalties, judgments, damages, losses, reckonings, executions, or other obligations whatsoever of every name and nature, in law or in equity or otherwise, direct or derivative, fixed or contingent, accrued or not, arising from the beginning of time through the Effective Date, including without limitation, claims asserted in the Complaint, the Farley Counterclaims, the AMC Counterclaim, the allegations made in or circumstances underlying the Action, the Advancement Claim, or the Indemnification Claim, but specifically excluding claims relating to the execution, performance, enforcement, or interpretation of this Settlement Agreement. Notwithstanding the foregoing, the Global Claims being released in this Settlement Agreement shall not include the claims asserted in the lawsuit titled *Gusrae Kaplan Nusbaum PLLC et al. v. Applied Energetics, Inc. et al.*, United States District Court, Southern District of New York Case No. 1:19-CV-06200 (DCF) ("Gusrae Kaplan Lawsuit"), any claims by anyone arising out of the filing and prosecution of the Gusrae Kaplan Lawsuit, or any claims AE may have against Gusrae Kaplan Nusbaum, PLLC, or any attorney at Gusrae Kaplan Nusbaum, PLLC, regarding their former representation of AE.

CONFIDENTIAL

3. **Waiver of California Civil Code section 1542 and similar laws.** The Parties understand and agree that all rights under Section 1542 of the Civil Code of California and any similar law of any state or territory of the United States are hereby waived with respect to the releases set forth in Section 2 hereinabove. California Civil Code Section 1542 reads as follows:

A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.

4. **Representations & Warranties.**

a. The Parties represent and warrant that each individual executing this Settlement Agreement possesses the actual authority to bind the Party on whose behalf each individual is executing this Settlement Agreement, including the respective Party's past, present, and future assigns, successors, predecessors, indemnitees, indemnitors, agents, attorneys, estates, officers, employees, directors, managers, affiliates, partners, members, limited partners, shareholders, unitholders, and owners.

CONFIDENTIAL

b. Each Party represents and warrants that such Party has not assigned or otherwise transferred in whole or in part any interest in the Global Claims.

c. Each Party represents and warrants that he/it is unaware of any fact, circumstance, condition, agreement or other factor which would render such Party unable to perform this Settlement Agreement in the manner required of such Party, or otherwise has any reason to believe this Agreement cannot or will not be fully performed by such Party under its terms..

d. AE represents and warrants that it will cause to be issued to Farley and AMC Form 1099s with their respective portions of the Settlement Amount and that it will cause no other or different tax documents to be issued, including a Form W-2.

e. Farley and AMC warrant that they have not sold, transferred, pledged, hypothecated, or encumbered the Shares, or any of them, other than as specified herein. Farley and AMC shall indemnify and hold AE harmless from any and all claims to the Shares or any interest therein from any third party.

CONFIDENTIAL

5. Confidentiality & Non-Disparagement.

a. The Parties acknowledge that AE is required by law to publicly disclose this Settlement Agreement and its material terms in filings with the Securities and Exchange Commission ("SEC"). Specifically, AE is an issuer with a class of securities registered under Section 12 of the Securities Exchange Act (15 U.S.C. § 78a et seq.) and is required by 17 C.F.R § 240.13a-11 to file a Form 8-K for any "material definitive agreement not made in the ordinary course of business[.]" The Parties acknowledge that this Settlement Agreement amounts to a "material definitive agreement not made in the ordinary course of [AE's] business[.]" Moreover, AE is required to publicly file this Settlement Agreement in full with the SEC as an exhibit either in a Form 8-K or in AE's next Form 10-Q, pursuant to Item 601 of Regulation S-K, 17 C.F.R. § 229.601(a)(4). The Parties further agree and acknowledge that no information in this Settlement Agreement may be redacted from public disclosure pursuant to 17 C.F.R. § 229.601(a)(6) as a clearly unwarranted invasion of personal privacy.

b. Excepting AE's reporting obligations to the SEC or as may otherwise be required by law, each Party shall keep strictly confidential the terms of this Settlement Agreement (including without limitation the Settlement Amount); the terms of any term sheet prepared in connection with the Mediation or the Action; the content of any other agreement or document relating to the settlement or this Settlement Agreement (including without limitation any drafts of the Settlement Agreement); or any of the communications, information, or transactions related to the foregoing matters or to the Mediation ("Confidential Information").

CONFIDENTIAL

c. Notwithstanding the preceding subsection b, a Party may properly respond to a legally enforceable subpoena (whether seeking documents or testimony), document request in litigation, government investigation, or other legally enforceable process from a third party seeking Confidential Information, so long as the responding Party has first (1) taken all reasonable steps to designate or otherwise protect the Confidential Information pursuant to a protective order or other formal written assurance of confidentiality; and (2) provided the other Party or Parties with prompt written notice of the third-party request and an opportunity to object to the request. In addition, notwithstanding the preceding subsection b, the Parties may disclose (1) this Settlement Agreement and/or the contents hereof to their spouse, accountants or auditors, financial or tax advisors, tax authorities (including but not limited to the Internal Revenue Service or the tax authorities of any states where the Parties must file state tax returns), and legal counsel for the purpose of obtaining professional advice and (2) Confidential Information to tax advisors, and to tax authorities (including but not limited to the Internal Revenue Service or the tax authorities of any states where the Parties must file state tax returns) to the extent reasonably necessary to substantiate a tax position on or tax treatment of the Settlement Amount in response to inquiries, demands, audits, or litigation initiated by such authorities (such substantiation, the “Permitted Purpose”)—in the cases of both (1) and (2), so long as the producing Party has first taken all reasonable steps to obtain a formal written assurance of confidentiality from the receiving person, entity, or agency, as applicable. Non-confidential statements, in response to press inquiries or otherwise, regarding in any way the Confidential Information, the Action, this Settlement Agreement, or the resolution of the Action shall be limited to a short written or oral statement that the Parties have amicably resolved their disputes on a confidential basis and agreed to dismiss the litigation between the Parties, or words with the same essential substance and effect.

CONFIDENTIAL

d. The Parties shall not, directly or indirectly, in any manner whatsoever, do or communicate (or cause or encourage their agents or representatives to do or communicate) anything regarding, relating to, or arising from the Action, the Settlement Agreement, or the facts and circumstances of the Action's underlying disputes that could reasonably be expected to defame, disparage, denigrate, or injure the business or reputation of any other Party or (to the extent a Party is a natural person) any of a Party's family members.

e. The Parties agree that a violation of this Section 5 cannot be fully compensated by damages or other legal remedy, and that the non-breaching Party or Parties would be irreparably and immediately harmed by such an act. Therefore, the non-breaching Party or Parties shall, in addition to all other remedies, be entitled to receive a declaratory judgment and/or an injunction (including any preliminary, emergency, and/or mandatory relief properly demanded) against any conduct that violates or threatens to violate this Section.

CONFIDENTIAL

6. **No Admissions.** Nothing in the Settlement Agreement or any of the negotiations, communications, or transactions related to it shall be construed or deemed as, or offered as evidence of, an admission of liability, wrongdoing, fault, or other purported facts or legal conclusions by any Party or a Party's representatives; provided that nothing herein shall prevent the Settlement Agreement or any of its terms from being used, offered, or received in evidence in any proceeding to enforce any or all of the terms of this Settlement Agreement.

7. **Entire Agreement; No Reliance on Matters Outside of the Agreement.**

a. This Settlement Agreement contains the complete agreement of the Parties and their counsel, and shall not be modified except in a writing executed by all Parties. The writing requirement contained in the preceding sentence shall also apply to any purported agreement to waive or dispense with such writing requirement.

CONFIDENTIAL

b. This Settlement Agreement merges and supersedes any and all other prior agreements, discussions, negotiations, and communications among the Parties.

c. Each Party agrees, acknowledges, and expressly represents and warrants that he/it has relied solely upon his/its own informed judgment, together with advice of counsel, when deciding whether to enter into this Settlement Agreement. Each Party further agrees, acknowledges, and expressly represents and warrants that he/it will not and has not relied on any statement, omission, promise, representation, warranty, condition, inducement, agreement, or communication made by or on behalf of any other Party (whether oral, written, or implied or made through a course of conduct), unless the matter relied upon is specifically contained within the text of this Settlement Agreement. Each Party agrees, acknowledges, and expressly represents and warrants that he/it: (i) has made such investigation or inquiry as he/it deems necessary or appropriate in connection with the subject matter of this Settlement Agreement, (ii) has been afforded the opportunity to negotiate as to any and all terms hereof, and (iii) is executing this Settlement Agreement voluntarily, free from any undue influence, coercion, duress, or menace of any kind.

8. **Severability.** If at any time after the Effective Date any provision of this Settlement Agreement is held to be illegal, void, or unenforceable, that provision will have no force and effect. However, the illegality or unenforceability of that provision will not have any effect on, and will not impair the enforceability of, any other provision of this Settlement Agreement, unless the illegal or unenforceable provision includes payment of the Settlement Amount or the sale/purchase, return and/or cancellation of the Shares.

CONFIDENTIAL

9. **Successors and Assigns.** This Settlement Agreement shall be binding upon, and shall inure to the benefit of, the Parties and their respective assigns, indemnitees, indemnitors, agents, attorneys, employees, successors, heirs, executors, or administrators.

10. **Choice of Law.** This Settlement Agreement and any dispute or action arising out of or relating to this Settlement Agreement will be governed exclusively by the laws of the State of Delaware (without regard to conflict of law principles).

11. **Jurisdiction.**

a. The Parties agree to the Delaware Court of Chancery's exclusive jurisdiction, including personal jurisdiction, over this Settlement Agreement and any and all disputes arising out of or relating in any way to the Settlement Agreement or its interpretation, negotiation, or effect, whether those disputes arise in contract, law, equity, tort, or otherwise, or if the Delaware Court of Chancery declines to accept jurisdiction over a particular matter any state or federal court within the State of Delaware. The Parties knowingly and irrevocably waive the right to a trial by jury in connection with any such action suit or proceeding. The Parties will not contest the personal and subject matter jurisdiction over proceedings instituted pursuant to this Section 11 of the Court of Chancery (or that of the state or federal courts within the State of Delaware if the Court of Chancery declines to accept jurisdiction), and the Parties waive and agree not to assert by way of motion, defense, or otherwise any claim challenging such jurisdiction. The Parties agree that the Court of Chancery (or the state or federal courts within the State of Delaware if the Court of Chancery declines to accept jurisdiction) is a convenient forum to resolve any such disputes, and the Parties waive and agree not to assert by way of motion, defense, or otherwise any claim (1) that some other forum would be more or equally convenient or appropriate or (2) that any action brought pursuant to this Section 11 should be (A) dismissed on grounds of *forum non conveniens*, (B) transferred or removed to any court other than the above-named court, or (C) stayed by reason of the pendency of some other proceeding in any court other than one the above-named court.

b. Notwithstanding Section 11(a), nothing in this Section 11 shall prevent a Party from enforcing any order of the Delaware Court of Chancery (or the state or federal courts within the State of Delaware if the Court of Chancery declines to accept jurisdiction) relating to this Settlement Agreement by filing an action or other proceeding or seeking other appropriate relief in an appropriate non-Delaware jurisdiction, to the extent such action, proceeding, or relief is necessary to give full effect to or to fully enforce such order of the Delaware Court of Chancery.

CONFIDENTIAL

12. **Fees & Costs.** In the event any Party commences against any other Party or Parties any litigation or other action, arbitration, or similar adjudicatory proceeding (“Proceeding”) arising out of or relating to the Settlement Agreement or its interpretation, negotiation, or effect, the prevailing Party in such Proceeding shall be entitled to recover from the other Party or Parties all reasonable fees, costs, and expenses (including without limitation reasonable attorneys’ fees and litigation expenses) incurred by the prevailing Party in the Proceeding. Except as otherwise expressly set forth in this Section 12, each Party shall bear its own legal and other fees, costs, and expenses incurred in connection with the Action or the Mediation, including such Party’s fees, costs, and expenses incurred in the preparation and performance of this Settlement Agreement.

13. **Construction.** The Parties have participated jointly in the negotiation and drafting of this Settlement Agreement. In the event an ambiguity or question of intent arises, this Settlement Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Settlement Agreement, as the interests of each Party was ably advocated by counsel in conjunction with the drafting and negotiation of this Settlement Agreement.

CONFIDENTIAL

14. **Survival**. All representations, warranties, and agreements set forth in this Settlement Agreement shall be deemed continuing and shall survive the Effective Date.

15. **Waiver**. Any Party's failure to enforce any provision or provisions of this Settlement Agreement shall not in any way be construed as a waiver of any such provision or provisions, nor prevent any Party from thereafter enforcing each and every other provision of this Agreement. Any waiver by any Party of any breach of this Settlement Agreement by any other Party shall not be deemed a waiver of any other prior or subsequent breach of this Settlement Agreement.

16. **Modification**. This Agreement may be supplemented, amended, or modified only by a writing signed by the Party or Parties to be charged.

17. **Reasonable Best Efforts**. The Parties agree to use their reasonable best efforts to carry out and effectuate the terms and purposes of this Settlement Agreement.

18. **Headings**. Any headings used herein are for convenience of reference only and shall not affect the construction of or be taken into consideration in interpreting this Settlement Agreement.

CONFIDENTIAL

19. **Counterparts; Effectiveness.** This Settlement Agreement may be entered into in any number of counterparts and by the Parties to it on separate counterparts, including counterparts that are provided to the other Parties by facsimile or by electronic mail transmission (*i.e.*, in .pdf or .tiff format), each of which when executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

20. **Notice.** All notices pertaining to this Settlement Agreement shall be sent in writing via e-mail and prepaid overnight courier or the equivalent thereof by a recognized delivery service. All such notices and other documents shall be sent to the following addresses:

If to AE

Applied Energetics, Inc.
2480 W Ruthrauff Road, Suite 140Q
Tucson AZ 85705

With copies (which shall not constitute notice) to:

Benjamin P. Pugh, Esq.
Enterprise Counsel Group, ALC
3 Park Plaza, Suite 1400
Irvine, CA 92614

If to Farley and/or AMC

George Farley
89 Highwood Avenue
Tenafly, NJ 07670

CONFIDENTIAL

AnneMarieCo., LLC
505 Ivy Arbor Way
Holly Springs, NC 27540-4813
Attn: Thomas Farley

With copies (which shall not constitute notice) to:

Gusrae Kaplan Nusbaum PLLC
120 Wall Street
New York, NY 10005
Attn: Ryan J. Whalen

IN WITNESS WHEREOF, the Parties have caused this Settlement Agreement to be duly executed by themselves or their respective authorized representatives as of the Effective Date.

Applied Energetics, Inc.

By: /s/ Gregory J Quarles
Printed name: Gregory J Quarles
Title: CEO

George Farley

/s/ George Farley

AnneMarieCo., LLC

By: /s/ Thomas Farley
Printed name: Thomas Farley
Title: Managing Director

EXHIBIT A
IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

APPLIED ENERGETICS, INC.,)	
a Delaware Corporation,)	
)	
Plaintiff/Counterclaim)	
Defendant,)	C.A. No. 2018-0489-JTL
)	
v.)	
)	
GEORGE FARLEY, an individual,)	
and ANNEMARIECO., LLC, a)	
New Jersey limited liability company,)	
)	
Defendants/Counterclaim)	
Plaintiffs.)	

STIPULATION AND
[PROPOSED] ORDER OF FINAL JUDGMENT

WHEREAS, Applied Energetics, Inc. (“AE”) filed a First Amended Verified Complaint on March 4, 2019 (the “Complaint”) (Trans ID 63023572), seeking, among other things, to invalidate and cancel twenty-five million shares of AE’s common stock issued to George Farley in March 2016 (the “Shares”);

WHEREAS, George Farley (“Farley”) filed an Answer and Counterclaims on July 19, 2019 (“Farley Counterclaims”) (Trans ID 63566412), seeking, among other things, to validate the Shares pursuant to 8 *Del. C.* § 205;

WHEREAS, AnneMarieCo. LLC (“AMC”) filed an Answer to the Complaint and Counterclaim on July 19, 2019, (with Farley Counterclaims, the “Counterclaims”) (Trans ID 63565487) seeking, among other things, to validate a portion of the Shares pursuant to 8 *Del. C.* § 205;

WHEREAS, on August 21, 2018, AE posted a bond which was subsequently increased to \$582,377.26 on or about January 29, 2019 (the "Bond");

WHEREAS, on August 3, 2020, the Court issued an Opinion granting AE's motion for partial summary judgment declaring that the Shares were invalidly issued, but denying AE's motion on the Counterclaims under 8 *Del. C.* § 205 and the Farley Counterclaims for breach of contract and unjust enrichment;

WHEREAS, the parties have agreed to resolve all their disputes in this action; NOW THEREFORE IT IS HEREBY STIPULATED AND AGREED, subject to Court approval, that:

1. Pursuant to 8 *Del. C.* § 205, the AE board's decision and approval to issue five million (5,000,000) Shares to Farley is declared a valid corporate act. The remaining 20 million (20,000,000) of the Shares are void.
2. Pursuant to 8 *Del. C.* § 205, one million Shares (1,000,000) held by Farley are deemed to be valid.
3. Pursuant to 8 *Del. C.* § 205, four million Shares (4,000,000) held by AMC are deemed to be valid.
4. Upon entry of this Stipulation and Order of Final Judgment, the Bond, and all claims against the Bond by Farley or AMC, shall be released.

5. All other claims in the Complaint are hereby dismissed with prejudice.

6. All other claims in the Counterclaims are hereby dismissed with prejudice.

7. Each Party shall bear his/its own costs and attorneys' fees.

Dated: September ____, 2020

SMITH, KATZENSTEIN & JENKINS LLP

/s/

Kathleen M. Miller (#2898)

1000 West Street, Suite 1501

Wilmington, DE 19801

(302) 652-8400

Attorney for

George Farley and AnneMarieCo, LLC

MORRIS JAMES LLP

/s/

Patricia A. Winston (#5248)

Ian D. McCauley (#5930)

Kirsten A. Zeberkiewicz (#4573)

500 Delaware Avenue, Suite 1500

Wilmington, DE 19801

(302) 888-6800

and

BAYARD, P.A.

/s/

Jason C. Jowers (#4721)

Elizabeth A. Powers (#5522)

600 N. King Street, Suite 400

P.O. Box 25130

Wilmington, DE 19899

302-655-5000

Attorneys for

Applied Energetics, Inc.

SO ORDERED this __ day of _____, 2020.

J. Travis Laster, Vice Chancellor

CONFIDENTIAL SETTLEMENT AGREEMENT
AND RELEASE OF CLAIMS

THIS CONFIDENTIAL SETTLEMENT AGREEMENT AND RELEASE OF CLAIMS is made on this 2nd day of October, 2020 by and between Applied Energetics, Inc. a Delaware Corporation, (“APPLIED ENERGETICS”) and Stein Riso Mantel McDonough, LLP, (now known as Mantel McDonough Riso, LLP) a New York Limited Liability Partnership (“STEIN RISO”), (collectively with APPLIED ENERGETICS, “the Parties”).

Definitions

- A. **“APPLIED ENERGETICS”** shall mean Applied Energetics, Inc. a Delaware Corporation.
 - B. **“APPLIED ENERGETICS-Related Persons”** shall mean APPLIED ENERGETICS, its predecessors, its successors; assigns; and its current or former attorneys, agents, servants, trustees, representatives, insurers, and employees; consultants to the company and/or to its board of directors; all past and present shareholders, all past and present board members and all others acting for or through APPLIED ENERGETICS.
 - C. **“STEIN RISO-Related Persons”** shall mean STEIN RISO, its predecessors, successors (including but not limited to “Mantel McDonough Riso, LLP”), assigns, subsidiaries, affiliates, and current and former partners (including Dennis L. Stein, Gerard A. Riso, Allan D. Mantel and Kevin M. McDonough), of counsels (including Ivan Dreyer), associates, employees, insurers, agents, attorneys and representatives.
 - D. **“Agreement”** shall mean this Confidential Settlement Agreement and Release of Claims.
 - E. **“Parties”** shall mean APPLIED ENERGETICS and STEIN RISO, each of which is individually a **“Party.”**
 - F. **“Lawsuit”** shall mean the case titled *Applied Energetics Inc., a Delaware Corporation v. Stein Riso Mantel McDonough, LLP*, Case No. 1:19-cv-01232-AJN, filed on or about May 15, 2019 in the United States District Court for the Southern District of New York.
 - G. **“Claims”** shall mean all claims, counterclaims, demands, actions, causes of action, debts, liabilities, damages, costs, fees, expenses, rights, duties, obligations, liens, petitions, suits, losses, controversies, executions, offsets and sums of any kind or nature, whether direct or indirect, liquidated or unliquidated, contingent or actual, in law or equity, known or unknown, asserted or unasserted, suspected or unsuspected or of whatever type or nature from the beginning of time to the present.
-

In consideration of the covenants contained herein, the Parties acknowledge, promise and agree as follows:

1. In exchange for the consideration set forth in Paragraph two (2) below, APPLIED ENERGETICS and APPLIED ENERGETICS-Related Persons, on the one hand, and STEIN RISO and STEIN RISO-Related Persons, on the other hand, (together, the "Released Parties") release each other from the Claims, any and all past and present claims, counterclaims, demands, actions, causes of action, debts, liabilities, damages, costs, fees, expenses, rights, duties, obligations, liens, petitions, suits, losses, controversies, executions, offsets and sums of any kind or nature, whether direct or indirect, liquidated or unliquidated, contingent or actual, in law or equity, known or unknown, suspected or unsuspected or of whatever type or nature.

2. Within thirty (30) days of the fully executed Agreement, STEIN RISO shall (a) cause to be paid to APPLIED ENERGETICS the amount of Three Million Dollars and Zero Cents (\$3,000,000.00) in the form of a check payable to "Enterprise Counsel Group, Client Trust Account" via check to be delivered by APPLIED ENERGETICS' counsel; and (b) cause the return of Ten Million (10,000,000) shares of APPLIED ENERGETICS common stock issued to STEIN RISO on or about March 23, 2016. The date of the return of the original share certificate(s), duly endorsed, shall be deemed to be the date of the delivery of the shares to APPLIED ENERGETICS. APPLIED ENERGETICS will provide counsel for STEIN RISO a fully executed Internal Revenue Service W-9 form providing tax identification for said payee. APPLIED ENERGETICS agrees that it will be responsible for any tax consequences, including the payment of any and all taxes, as a result of entering into this Agreement. The Released Parties make no representations regarding tax consequences, if any, of the payment made pursuant to this Agreement. The Parties shall pay their own costs and attorneys' fees.

3. Within five (5) business days of the date the payment set forth in Paragraph two (2) clears the bank account wherein said check was caused to be deposited by APPLIED ENERGETICS, APPLIED ENERGETICS shall file a stipulation of dismissal with prejudice in the Lawsuit in its entirety against STEIN RISO, in the form annexed hereto at Exhibit A, duly signed by the attorneys for the Parties.

4. This Agreement is the result of compromise, and is entered into in good faith for the purpose of fully and finally settling all disputes arising out of the facts alleged in or capable of being alleged in the Lawsuit, and to avoid the expense and uncertainty of further litigation. APPLIED ENERGETICS acknowledges that the consideration set forth in Paragraph two (2) of this Agreement is valuable and is for, among other things, the purpose of termination of the Lawsuit with prejudice, and obviating further involvement in litigation based upon disputed claims against STEIN RISO raised by APPLIED ENERGETICS in the Lawsuit and is provided without any admission of liability or concession whatsoever by the Released Parties that they engaged in any negligent, actionable, wrongful, tortious or unlawful act, or violated any federal, state or local statute, ordinance, law or regulation, all of which the Released Parties expressly deny.

5. The Parties warrant and represent the following:

- a. That they have read this Agreement and have consulted with an attorney of their own choice regarding the contents and significance of this Agreement;

- b. In executing this Agreement, the Parties do so with full knowledge of any and all rights they may have, and the contents of this Agreement and its meaning, which have been fully explained to the Parties by their selected attorney(s);
- c. The Parties understand the contents and significance of this Agreement and enter into this Agreement freely and voluntarily;
- d. The Parties have executed this Agreement with full knowledge of any and all rights and Claims it is releasing;
- e. The Parties have entered enter into this Agreement freely and voluntarily and without duress of any kind;
- f. The Parties represent that each of the individuals executing this Agreement on its behalf is a duly authorized officer or agent of such entity and has been duly authorized by all necessary corporate or partnership action to execute and deliver this Agreement;
- g. This Agreement has been duly and validly executed and delivered by it and constitutes its valid and binding agreement, enforceable against it in accordance with its terms;
- h. The execution and delivery by it of this Agreement and the performance of its obligations hereunder do not and will not require the consent of any individual or entity that has not been obtained;
- i. That no person or entity not bound by the Parties' Agreement has any interest or right in the matters referred to in the Lawsuit, that the Parties have the sole right and exclusive authority to execute this Agreement on their respective behalves.;
- j. Each is a duly organized and valid entity in good standing under the laws of its jurisdiction of organization and has full authority to conduct its business as presently conducted and to enter into and perform its obligations under this Agreement; and
- k. Each has not sold, assigned, transferred, conveyed or otherwise disposed of any Claim or demand relating to any matter covered by this Agreement.

6. Except as described herein, the terms of this Agreement, its contents and the settlement amount set forth in Paragraph two (2) are confidential and shall not be disclosed by any Party or their counsel except as required by legal process or by regulatory obligations to regulatory bodies. The Parties acknowledge that APPLIED ENERGETICS has represented that it may be required by law to publicly disclose this Agreement and its material terms in filings with the Securities and Exchange Commission (“SEC”). Specifically, APPLIED ENERGETICS may be an issuer with a class of securities registered under Section 12 of the Securities Exchange Act (15 U.S.C. § 78a et seq.) and may be required by 17 C.F.R § 240.13a-11 to file a Form 8-K for any “material definitive agreement not made in the ordinary course of business[.]” APPLIED ENERGETICS represents that this Agreement amounts to a “material definitive agreement not made in the ordinary course of [APPLIED ENERGETICS’s] business[.]” Moreover, APPLIED ENERGETICS may be required to publicly file this Agreement in full with the SEC as an exhibit either in a Form 8-K or in APPLIED ENERGETICS’s next Form 10-Q, pursuant to Item 601 of Regulation S-K, 17 C.F.R. § 229.601(a)(4), without any information in this Settlement Agreement being redacted from public disclosure pursuant to 17 C.F.R. § 229.601(a)(6). STEIN RISO acknowledges these representations and does not object to disclosure of this Agreement in a regulatory filing as set forth in this Paragraph (6) only. The Parties agree not to disclose this agreement on PACER or any other public forum except for the above-referenced regulatory filings. In the event the parties must enforce the agreement, the parties agree to file the Agreement in camera or under seal. However, in the event the court does not accept the agreement in camera and under seal, then and only then may the agreement be publicly filed. The Parties further acknowledge that Hon. Alison J. Nathan maintains a rule as follows: “The Court will not retain jurisdiction to enforce confidential settlement agreements. If the parties wish that the Court retain jurisdiction to enforce the agreement, the parties must place the terms of their settlement agreement on the public record. The parties may either provide a copy of the settlement agreement for the Court to endorse or include the terms of their settlement agreement in their stipulation of settlement and dismissal.” The Parties agree that neither Party shall provide a copy of this Agreement for the Court to endorse or include the terms of this Agreement in a stipulation of settlement and dismissal except, and until, in connection with a motion or application by a Party to enforce the other Party’s performance under, or compliance with, the terms of this Agreement. To the extent APPLIED ENERGETICS is required to disclose the within settlement of this Lawsuit with the SEC (or any other regulatory body) APPLIED ENERGETICS shall include in any such disclosure that the terms of the settlement are confidential; STEIN RISO entered into said settlement without any admission of liability; the Parties filed (or will be filing) with the Court a Stipulation of Dismissal with Prejudice as to all claims asserted or which could have been asserted in the Lawsuit; and the Parties released each other of all Claims. Notwithstanding the foregoing, the Parties shall be allowed to disclose the terms of this Agreement with their respective tax professionals, administrator(s), accountants, actuaries, and attorney(s) engaged to assist and advise the respective Parties. In the event either Party is duly served with a subpoena or other governmental or judicial process seeking to compel the disclosure of this Agreement, its terms or contents, or the negotiations underlying this Agreement, that Party shall promptly notify the other party. The notification must include copies of the subpoena or other discovery request or judicial process and must be sent within five (5) business days of the receiving Party’s receipt of the subpoena or other such process or request.

7. The provisions of this Agreement shall inure to the benefit of, and shall be binding upon successors in interest, assigns and legal representatives of STEIN RISO, STEIN RISO-Related Persons, APPLIED ENERGETICS, and APPLIED ENERGETICS-Related Persons.

8. New York law shall govern the validity and interpretation of this Agreement without regard to its principles on conflicts of laws.

9. This Agreement sets forth the entire understanding and agreement among the Parties with respect to the subject matter hereof and supersedes any prior or contemporaneous oral and/or written agreements or representations.

10. This Agreement is the product of an arms-length negotiation and any rules of construction that it be construed against the Party preparing it shall not apply, but rather it shall be construed as if all Parties jointly prepared this Agreement, and any uncertainty and ambiguity shall not be interpreted against any one party.

11. This Agreement may not be altered or amended in any of its provisions except by the mutual written and signed agreement of the Parties.

12. Should any of the provisions set forth herein be determined to be invalid by any court, agency or any other tribunal of competent jurisdiction, such determination shall not affect the enforceability of the other provisions herein and to this end the provisions of this Agreement are declared severable.

13. In the event that notice to one of the Parties must be provided under the terms of this Agreement, notice is deemed provided by sending the required notice and/or documents and materials via certified U.S. Mail, with postage prepaid, to the respective addresses:

a. For APPLIED ENTERGETICS: ENTERPRISE COUNSEL GROUP
Attn: Benjamin Pugh
3 Park Plaza, Suite 1400,
Irvine, CA 92614-8537

BOND, SCHOENECK & KING, PLLC.
Attn: Jonathan Fellows
One Lincoln Center
Syracuse, New York 13202-1355

b. For STEIN RISO: MANTEL MCDONOUGH RISO LLP
Attn: Gerard Riso
410 Park Ave 17th Floor,
New York, NY 10022

WILSON ELSER MOSKOWITZ EDELMAN &
DICKER LLP
Attn: Joseph L. Francoeur
150 East 42nd Street
New York, NY 10017

14. This Agreement may be executed in counterparts and/or by facsimile or electronic signatures with the same force and effect as if executed in one complete document with the original signature of all parties.

15. This Agreement shall become effective on the date that the last signatory duly executes the Agreement and upon delivery of fully executed Agreement.

[Signatures on following page.]

IN WITNESS WHEREOF, the Parties have duly executed this Agreement effective as of the date first above written, regardless of the date on which such Agreement is signed.

STEIN RISO MANTEL MODONOUGH LLP

By: /s/ Gerard A. Riso
Name: Gerard A. Riso
Title: Partner
Date: October 2, 2020

APPLIED ENERGETICS, INC.

By: /s/ Gregory J. Quarles
Name: Gregory J. Quarles
Title: CEO
Date: October 2, 2020

EXHIBIT A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

APPLIED ENERGETICS, INC., a Delaware

Corporation

Plaintiff,

-against-

STEIN RISO MANTEL MCDONOUGH, LLP,
A New York Limited Liability Partnership,

Defendant.

Case No.: 1:19-cv-01232-AJN

STIPULATION OF
DISCONTINUANCE WITH PREJUDICE

Electronically Filed

IS HEREBY STIPULATED AND AGREED, by and between the undersigned attorneys of record for all the parties to the above-entitled action, that whereas no party hereto is an incompetent person for whom a committee has been appointed and no person not a party has an interest in the subject matter of action, the above entitled action and all claims asserted, or which could have been asserted herein by either party, are hereby discontinued, with prejudice, without costs to either party as against the other. This stipulation may be filed without further notice with the Clerk of the Court.

Dated: October 2, 2020

Jonathan B. Fellows, Esq.
Brendan M. Sheehan, Esq.
BOND, SCHOENECK & KING, PLLC
Attorneys for Plaintiff APPLIED ENERGETICS, INC.
One Lincoln Center
Syracuse, New York 13202-1355

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WILSON ELSER MOSKOWITZ DICKER &
EDELMAN, LLP
Attorneys for Defendant
STEIN RISO MANTEL MCDONOUGH, LLP
150 East 42nd Street
New York, New York 10017-5639
File No. 12036.00137

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: November 16, 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 September 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: November 16, 2020