

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, 2022

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)

**9070 S. Rita Road, Suite 1500
Tucson, Arizona**

(Address of Principal Executive Offices)

77-0262908

(IRS Employer
Identification Number)

85747

(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:	<input type="checkbox"/>	Accelerated filer:	<input type="checkbox"/>
Non-accelerated filer:	<input type="checkbox"/>	Smaller reporting company:	<input checked="" type="checkbox"/>
		Emerging growth company:	<input type="checkbox"/>

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 8, 2022, there were 207,817,878 shares of the issuer's common stock, par value \$.001 per share, outstanding.

APPLIED ENERGETICS, INC.
QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>		
ITEM 1.	<u>Condensed Consolidated Unaudited Financial Statements</u>	1
	<u>Condensed Consolidated Balance Sheets as of September 30, 2022 (Unaudited) and December 31, 2021</u>	1
	<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2022 and 2021 (Unaudited)</u>	2
	<u>Condensed Consolidated Statements of Stockholders’ Equity for the nine months ended September 30, 2022 and 2021 (Unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021 (Unaudited)</u>	4
	<u>Notes to Condensed Consolidated Unaudited Financial Statements</u>	5
ITEM 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
ITEM 4.	<u>Controls and Procedures</u>	23
<u>PART II – OTHER INFORMATION</u>		
ITEM 1.	<u>Legal Proceedings</u>	24
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
ITEM 6.	<u>Exhibits</u>	25
	<u>SIGNATURES</u>	26

PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**APPLIED ENERGETICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2022	December 31, 2021
	<u>(Unaudited)</u>	<u></u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,155,349	\$ 3,662,615
Accounts receivable	219,618	-
Other assets	117,728	43,391
Total current assets	<u>1,492,695</u>	<u>3,706,006</u>
Long-term assets		
Property and equipment - net	220,765	206,810
Deferred compensation	-	416,666
Right of use asset - operating	460,705	544,670
Security deposit	17,004	17,004
Total long-term assets	<u>698,474</u>	<u>1,185,150</u>
Total assets	<u>\$ 2,191,169</u>	<u>\$ 4,891,156</u>
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable	\$ 249,880	\$ 195,381
Notes payable	738,985	1,000,001
Notes payable CARES Act PPP Loan	-	24,189
Due to related parties	50,000	50,000
Operating lease liability - current	104,117	76,227
Accrued expenses	10,807	21,870
Accrued dividends	48,079	48,079
Subscription payable	585,000	-
Total current liabilities	<u>1,786,868</u>	<u>1,415,747</u>
Long-term liabilities		
Operating lease liability - non-current	425,339	507,188
Total long-term liabilities	<u>425,339</u>	<u>507,188</u>
Total liabilities	<u>2,212,207</u>	<u>1,922,935</u>
Stockholders' Equity (Deficit)		
Series A convertible preferred stock, \$.001 par value, 2,000,000 shares authorized and 13,602 shares issued and outstanding at September 30, 2022 and December 31, 2021 (Liquidation preference \$340,050 and \$340,050, respectively)	14	14
Common stock, \$.001 par value, 500,000,000 shares authorized; 207,817,878 and 207,562,461 shares issued and outstanding at September 30, 2022 and at December 31, 2021, respectively	207,817	207,562
Additional paid-in capital	101,728,483	100,452,862
Accumulated deficit	(101,957,353)	(97,692,217)
Total Stockholders' Equity (Deficit)	<u>(21,038)</u>	<u>2,968,221</u>
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 2,191,169</u>	<u>\$ 4,891,156</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,		For The Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	\$ 572,766	\$ -	\$ 763,688	\$ -
Cost of revenue	127,668	-	142,835	-
Gross profit	445,098	-	620,853	-
Operating expenses				
General and administrative	1,249,132	1,304,875	4,365,823	3,412,603
Selling and marketing	56,416	83,173	231,528	235,897
Research and development	65,364	61,968	286,365	192,783
Total operating expenses	1,370,912	1,450,016	4,883,716	3,841,283
Operating loss	(925,813)	(1,450,016)	(4,262,863)	(3,841,283)
Other income/(expense)				
Other income	637	-	637	81,218
Interest expense	(1,227)	(1,794)	(2,910)	(3,542)
Total other income/(expense)	(590)	(1,794)	(2,273)	77,676
Net Loss before provision for income taxes	(926,404)	(1,451,810)	(4,265,136)	(3,763,607)
Provision for income taxes	-	-	-	-
Net loss	(926,404)	(1,451,810)	(4,265,136)	(3,763,607)
Preferred stock dividends	(8,501)	(8,502)	(25,504)	(25,504)
Net loss attributable to common stockholders	\$ (934,905)	\$ (1,460,312)	\$ (4,290,640)	\$ (3,789,111)
Net loss attributable to common stockholders per common share - basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding	207,794,526	203,857,408	207,726,711	198,786,305

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

APPLIED ENERGETICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021
(Unaudited)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' (Deficit) Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2021	13,602	\$ 14	207,562,461	\$ 207,562	\$ 100,452,862	\$ (97,692,217)	\$ 2,968,221
RSU restricted Stock	-	-	130,417	130	(130)	-	-
Stock-based compensation	-	-	-	-	554,877	-	554,877
Net loss for the quarter ended March 31, 2022	-	-	-	-	-	(1,781,190)	(1,781,190)
Balance at March 31, 2022	13,602	14	207,692,878	207,692	101,007,609	(99,473,407)	1,741,908
Stock-based compensation	-	-	-	-	449,508	-	449,508
Common stock issued on exercise of option	-	-	100,000	100	12,900	-	13,000
Net loss for the quarter ended June 30, 2022	-	-	-	-	-	(1,557,542)	(1,557,542)
Balance at June 30, 2022	13,602	\$ 14	207,792,878	\$ 207,792	\$ 101,470,017	\$ (101,030,949)	\$ 646,874
Stock-based compensation	-	-	-	-	257,241	-	257,241
Common stock issued on exercise of warrants	-	-	25,000	25	1,225	-	1,250
Net loss for the quarter ended September 30, 2022	-	-	-	-	-	(926,404)	(926,404)
Balance at September 30, 2022	13,602	14	207,817,878	\$ 207,817	\$ 101,728,483	\$ (101,957,353)	\$ (21,038)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' (Deficit) Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2020	13,602	\$ 14	190,529,320	\$ 190,529	\$ 93,778,591	\$ (92,266,764)	\$ 1,702,370
RSU restricted Stock	-	-	31,250	31	4,519	-	4,550
Stock-based compensation	-	-	-	-	170,029	-	170,029
Common stock issued on cashless exercise of options and warrant	-	-	1,005,682	1,006	(1,006)	-	-
Common stock issued on exercise of options and warrant	-	-	600,000	600	41,400	-	42,000
Common stock issued on exercise of convertible note	-	-	158,329	158	47,340	-	47,498
Sale of common stock	-	-	7,056,250	7,056	2,250,944	-	2,258,000
Net loss for the three months ended March 31, 2021	-	-	-	-	-	(1,086,438)	(1,086,438)
Balance at March 31, 2021	13,602	14	199,380,821	199,380	96,291,817	(93,353,202)	3,138,010
Stock-based compensation	-	-	-	-	318,818	-	318,818
Common stock issued on cashless exercise of options and warrant	-	-	259,741	260	(260)	-	-
Common stock issued on exercise of options and warrant	-	-	450,010	450	28,550	-	29,000
Net loss for the three months ended June 30, 2021	-	-	-	-	-	(1,225,360)	(1,225,360)
Balance at June 30, 2021	13,602	\$ 14	200,090,572	\$ 200,090	\$ 96,638,926	\$ (94,578,562)	\$ 2,260,468
Stock-based compensation	-	-	-	-	354,880	-	354,880
Common stock issued on cashless exercise of options and warrant	-	-	957,143	957	(957)	-	-
Common stock issued on exercise of stock options and warrants	-	-	600,000	600	36,400	-	37,000
Sale of common stock	-	-	4,054,665	4,054	3,036,946	-	3,041,000
Net loss for the quarter ended September 30, 2021	-	-	-	-	-	(1,451,810)	(1,451,810)
Balance as of September 30, 2021	13,602	\$ 14	205,702,380	\$ 205,701	\$ 100,066,194	\$ (96,030,372)	\$ 4,241,539

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,	
	2022	2021
Cash Flows from Operating Activities		
Net loss	\$ (4,265,136)	\$ (3,763,607)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash stock-based compensation expense	1,261,626	848,277
Amortization of ROU assets	83,965	-
Depreciation and amortization	50,499	18,021
PPP loan forgiveness	-	(81,550)
Amortization of future compensation payable	416,666	625,000
Amortization of prepaid assets	162,760	122,660
Loss on disposal of equipment	14,540	-
Changes in assets and liabilities:		
Accounts receivable	(219,618)	-
Other assets	-	2,880
ROU liabilities	(53,959)	24,216
Prepays and deposits	(237,097)	(48,218)
Accounts payable	53,863	(28,051)
Accrued interest	-	696
Accrued expenses and compensation	(11,063)	29
Net cash used in operating activities	<u>(2,742,953)</u>	<u>(2,279,649)</u>
Cash Flows from Investing Activities		
Purchase of equipment	(78,996)	(206,198)
Net cash used in investing activities	<u>(78,996)</u>	<u>(206,198)</u>
Cash Flows from Financing Activities		
Repayment on note payable	(460,002)	(1,102,113)
Proceeds from sale of common stock	-	5,299,000
Proceeds from note payable	175,435	-
Proceeds from subscription payable	585,000	-
Proceeds from exercise of stock options and warrants	14,250	108,000
Net cash provided by financing activities	<u>314,682</u>	<u>4,304,887</u>
Net change in cash and cash equivalents	(2,507,267)	1,819,042
Cash and cash equivalents, beginning of year	3,662,615	3,323,290
Cash and cash equivalents, end of period	<u>\$ 1,155,349</u>	<u>\$ 5,142,332</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 1,683	\$ 1,421
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities		
Insurance financing for prepaid insurance	<u>\$ 175,435</u>	<u>\$ 117,209</u>
Implementation of ASC 842	<u>\$ -</u>	<u>\$ 617,569</u>
Forgiveness of PPP loan	<u>\$ -</u>	<u>\$ 81,449</u>
Equipment investing in accounts payable	<u>\$ -</u>	<u>\$ 64,107</u>
Common stock issued for repayment of convertible notes	<u>\$ -</u>	<u>\$ 47,499</u>

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

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

NOTE 1 – ORGANIZATION OF BUSINESS, GOING CONCERN AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of Applied Energetics, Inc. and its wholly owned subsidiary North Star Power Engineering, Inc. (“North Star”) (collectively, “company,” “Applied Energetics,” “we,” “our” or “us”). All intercompany balances and transactions have been eliminated.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information, the instructions for Form 10-Q and the rules and regulations of the SEC. Accordingly, since they are interim statements, the accompanying unaudited condensed consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements, but reflect all adjustments consisting of normal, recurring adjustments, that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of the results that may be expected for any future periods. The December 31, 2021, balance sheet information was derived from the audited financial statements as of that date. 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.

Going Concern

The accompanying 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, 2022, the company incurred a net loss of \$4,265,136, had negative cash flows from operations of \$2,742,953 and may incur additional future losses due to limited contract activity. At September 30, 2022, the company had total current assets of \$1,492,695 and total current liabilities of \$1,786,868, resulting in a working capital deficit of \$294,173. At September 30, 2022, the company had cash of \$1,155,349.

Based on the company’s current business plan, it believes its cash balance as of the date of this filing, together with anticipated revenues from a government grant and contract, will be sufficient to meet its anticipated cash requirements for the near term. However, there can be no assurance that the current business plan will be achievable. Such conditions raise substantial doubts about the company’s ability to continue as a going concern for one year from the date the financial statements are issued.

The company’s existence depends 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 management’s efforts will result in profitable operations or enable it to overcome future liquidity concerns. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability of assets, the amount or classification of liabilities or otherwise that might be necessary should the company be unable to continue as a going concern.

The ongoing COVID-19 pandemic and pandemic-related trade conditions, such as exacerbated port congestion, supplier shutdowns and delays, contribute to this uncertainty. Additionally, Russia’s military action in Ukraine and related economic sanctions around the globe, could impact the company’s ability to source necessary supplies and equipment which could materially and adversely affect its ability to continue as a going concern. In addition, the company’s ability to continue as a going concern may depend on its ability to raise capital which may be impacted by these events, including as a result of increased market volatility, or decreased market liquidity. This may result in third-party financing being unavailable on terms acceptable to the company or at all. The impact of this action and related sanctions on the world economy and the specific impact on the company’s financial position and results of operations are not yet determinable. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

To further improve its liquidity position, the company’s management continues to explore 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. During the three months ended September 30, 2022, the company received funds in the amount of \$585,000 as part of a pending placement of equity which it has recognized as a subscription payable. 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.

Applied Energetics, Inc. is a corporation organized and existing under the laws of the State of Delaware. Our headquarters are located at 9070 S. Rita Road Suite 1500, Tucson, Arizona, 85747, including office and laboratory space, and our telephone number is (520) 628-7415.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

Use of Estimates

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 assumptions 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 impact the amounts reported and disclosed herein. Significant estimates include carrying amounts of long-lived assets, valuation assumptions for share-based payments, effective borrowing rate determinations, analysis of fair value transferred upon debt extinguishment, valuation and calculation of measurements of income tax assets and liabilities and valuation of debt discount related to beneficial conversion features.

Net Loss Attributable to Common Stockholders

Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period before giving effect to stock options, stock warrants, 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 dilutive common stock equivalents. Contingently issuable shares are included in the computation of basic loss per share when issuance of the shares is no longer contingent. The number of warrants, options, restricted stock units and our Series A Convertible Preferred Stock, which were not included in the computation of earnings per share because the effect was antidilutive, was 24,424,550 and 32,019,604 for the nine months ended September 30 2022 and 2021, respectively.

Significant Concentrations and Risks

We maintain cash balances at a commercial bank, and, at times, balances exceed FDIC limits. As of September 30, 2022, \$905,349 was uninsured.

NOTE 2 – NEW ACCOUNTING STANDARDS

The company has reviewed all 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.

In December 2019, the FASB issued amended guidance in the form of ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU is intended to simplify various aspects of accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for annual periods beginning after December 15, 2020, and interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The company has evaluated the impact of this new standard and notes the guidance did not have a material impact on our financial statements.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

On August 5, 2020, the FASB issued ASU No. 2020-06 which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 simplifies the guidance in U.S. GAAP on the issuer's accounting for convertible debt instruments and preferred stock. Such guidance includes multiple disparate sets of classification, measurement, and derecognition requirements whose interactions are complex. ASU 2020-06 is effective for annual periods beginning after December 15, 2021, and interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The company adopted this standard on January 1, 2022. The adoption of this standard did not have a material impact on the company's financial statements.

NOTE 3 – NOTES PAYABLE

On May 24, 2019, the company entered into an Asset Purchase Agreement (the "APA") with Applied Optical Sciences, LLC ("AOS") to acquire certain assets. As consideration for the APA, the company entered into a promissory note issued to the shareholders of AOS for \$2,500,000. The note is non-interest bearing and payable in equal installments. The company made the first three payments of \$500,000 on February 10, 2021, May 24, 2021, and November 19, 2021, respectively. The Promissory Note was amended on May 23, 2022 as modification of debt to extend the maturity date by one year to, May 24, 2023, and restructure the payment to time up to the adjusted maturity date. The remaining balance of \$1,000,000 as of June 30, 2022 is to be paid in ten equal installments of \$100,000 over a period of ten month with the final installment to paid on April 24, 2023. In accordance with the terms of the promissory note, the company made three payments of \$100,000, for an aggregate total repayment of \$300,000. As of September 30, 2022, \$700,000 in principle was outstanding on this loan.

Paycheck Protection Program

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 \$132,760 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 matured two years from the disbursement date. This loan bears interest at a rate of 1.00% per annum, with the first six-months ended of interest deferred. Principal and interest are payable monthly commencing six-months ended 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.

Under the terms of the PPP, up to the entire amount of principal and accrued interest may be forgiven to the extent loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration ("SBA") under the PPP. The company partially used the loan amount for designated qualifying expenses and received notice from the SBA on June 30, 2021, that the company would not be required to repay \$81,550 in proceeds. As a result, the company received partial forgiveness of the PPP amounting to \$80,594 in principal and \$956 in interest which is reflected within PPP forgiveness and other income on the statements of operations. During the six months ended June 30, 2020, the company paid the remaining balance of the loan in the aggregate of \$23,553 in four equal payments, with loan formally repaid on April 20, 2022. As a result, as of September 30, 2022, no principal or interest was outstanding on this loan.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

Premium Financing

On April 8, 2022, the company entered into an agreement with Oakwood D&O Insurance to provide financing in an amount of \$234,367 for the insurance premium associated with two D&O policies. Both policies commenced March 12, 2022, and provided coverage for the next 12 months, expiring March 12, 2023. The loan bears interest at a fixed rate of 5% per annum and required the company to prepay \$58,932 and appears on the balance sheet as a current asset. On April 12, 2022, the company commenced monthly principal and interest payments of \$19,901, which was the first payment of nine remaining months due of \$175,435, the last payment of which is scheduled to be made on December 31, 2022. As of September 30, 2022, the outstanding balance on the note was \$38,985 and was recorded as notes payable, a currently liability, in the company's condensed consolidated balance sheet.

Notes Payable Reconciliation

The following reconciles notes payable as of September 30, 2022, and December 31, 2021:

	September 30, 2022	December 31, 2021
Beginning balance	\$ 1,024,190	\$ 2,681,157
Notes payable	175,435	117,209
Accrued interest	(640)	1,385
Payments on notes payable	(460,002)	(1,646,513)
Extinguishment of debt	-	(81,550)
Converted into common stock	-	(47,498)
Total	738,985	1,024,190
Less-Notes payable – current	738,985	1,024,190
Notes payable – non-current	\$ -	\$ -

Future principal payments for the company's Notes as of September 30, 2022, are as follows:

2022	\$ 338,985
2023	400,000
Thereafter	-
Total	\$ 738,985

The company's note payable balance of \$738,985 is due within the next twelve months, in accordance with the terms of note payable. \$700,000 of the outstanding notes payable balance at September 30, 2022 will be paid in seven equal installments of \$100,000 over the next seven months, with the final installment to be paid on April 24, 2023.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

NOTE 4 – DEFERRED COMPENSATION

On May 24, 2019, the company entered into the APA with AOS to acquire certain assets. As consideration for the APA, the company entered into a promissory note issued to the shareholders of AOS for \$2,500,000. The company also recorded a debt discount, which is reported on the balance sheet as deferred compensation, in the amount of \$2,500,000, in relation to the transaction which is being amortized over the life of the loan as compensation expense. The amortization of deferred compensation for the nine months ended September 30, 2022, and 2021 was \$416,666 and \$625,000, respectively.

NOTE 5 – DUE TO RELATED PARTIES

It has come 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 party.

NOTE 6 – STOCKHOLDERS' EQUITY

Authorized Capital Stock

During the nine months ended September 30, 2021, the company issued 7,056,250 shares of common stock in a private placement to accredited investors for \$0.32 per share or \$2,258,000 of net cash proceeds, in the aggregate.

During the nine months ended September 30, 2021, the company issued 158,329 shares of common stock upon the conversion of \$47,499 of convertible notes (see Note 3).

During the nine months ended September 30, 2021, the company issued 31,250 shares of common stock in relation to a restricted stock agreement with a value of \$4,550.

During the nine months ended September 30, 2021, the company issued 800,000 shares of common stock upon the exercise of 800,000 warrants at an exercise price of \$0.07 a share.

During the nine months ended September 30, 2021, the company issued 250,000 shares of common stock upon the exercise of 250,000 warrants at an exercise price of \$0.06 a share.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

During the nine months ended September 30, 2021, the company issued 259,741 shares of common stock upon the exercise of 500,000 options at an exercise price of \$0.37 a share. This exercise was performed on a cashless basis.

During the nine months ended September 30, 2021, the company issued 1,760,000 options to purchase common stock at an exercise price of \$0.40 a share. The options vest over a period of three years from the date of the amendment.

During the nine months ended September 30, 2021, the company issued 4,054,665 shares of common stock in a private placement to accredited investors for \$0.75 per share or \$3,041,000 of net cash proceeds, in the aggregate.

During the nine months ended September 30, 2021, the company issued 50,000 shares of common stock upon the exercise of 50,000 warrants at an exercise price of \$0.06 a share. During the nine months ended September 30, 2021, the company issued 100,000 shares of common stock upon the exercise of 100,000 warrants at an exercise price of \$0.07 a share.

During the nine months ended September 30, 2021, the company issued 200,000 shares of common stock upon the exercise of 200,000 warrants at an exercise price of \$0.06 a share.

During the nine months ended September 30, 2021, the company issued 125,000 shares of common stock upon the exercise of 125,000 warrants at an exercise price of \$0.06 a share.

During the nine months ended September 30, 2021, the company issued 60,000 shares of common stock upon the exercise of 60,000 warrants at an exercise price of \$0.06 a share.

During the nine months ended September 30, 2021, the company issued 65,000 shares of common stock upon the exercise of 65,000 warrants at an exercise price of \$0.06 a share.

During the nine months ended September 30, 2021, the company issued 475,000 shares of common stock with an exercise of 500,000 options. 25,000 shares of common stock were withheld with the exercise. This exercise was performed on a cashless basis.

During the nine months ended September 30, 2021, the company issued the company issued 482,143 shares of common stock with an exercise of 500,000 options. 17,857 shares of common stock were withheld with the exercise. This exercise was performed on a cashless basis.

During the nine months ended September 30, 2022, the company issued 130,417 shares of common stock for previously vested and expensed shares in relation to a restricted stock agreement. For the nine months ended September 30, 2022, the Company recorded \$0 in relation to these shares.

During the nine months ended September 30, 2022, the company issued 100,000 shares of common stock upon the exercise of 100,000 options at an exercise price of \$0.13 a share. As a result, the company received \$13,000 in cash proceeds as part of the transaction.

During the nine months ended September 30, 2022, the company issued 25,000 shares of common stock upon result of the two warrant exercises of 12,500 shares each, or 25,000 shares of common stock in the aggregate, at an exercise price of \$0.05 a share. The company received \$1,250 in cash proceeds as part of the transaction.

Effective August 1, 2022, the Company entered into an Executive Employment Agreement with Mr. Donaghey who was appointed the Company's Chief Financial Officer ("CFO"). As part of the Executive Employment Agreement, the Company granted 1,000,000 options to purchase shares of common stock at an exercise price of \$2.36 per share. The options vest over a period of four years and expire ten years from the date of the grant. Mr. Donaghey was also granted 400,000 shares of restricted to units as part of his Executive Employment Agreement (see "Share-Based Payments" below). Further, Mr. Donaghey forfeited unvested options to purchase 950,000 shares of common stock which he had previously received for his service on the Company's Board of Advisors. The forfeiture of the unvested options resulted in the reversal of previously recorded stock-based compensation expense in the amount of approximately \$176,000.

As of nine months ended, September 30, 2022, the company recognized a subscription payable for \$585,000 from the sale of common stock as a current liability on its balance sheet, reflecting the receipt of \$585,000 in cash proceeds as part of a pending private equity placement transaction.

During the nine months ended September 30, 2022 and 2021, the company recognized stock-based compensation in the amount of \$1,261,626 and \$848,277, respectively.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

Preferred Stock

As of September 30, 2022, and December 31, 2021, there were 13,602 shares of Series A Redeemable Convertible Preferred Stock (the “Series A Preferred Stock”) issued and outstanding, respectively. The company has not paid the dividends commencing with the quarterly dividend due August 1, 2013. Dividend arrearages as of June 30, 2022, including previously accrued dividends included in our balance sheet are approximately \$314,546. 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. The Series A Preferred Stock bears dividends at the rate of 6.5% of the liquidation preference per share per annum, which accrues from the date of issuance, and is payable quarterly. Dividends may be paid 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 and the company’s common stock is listed on a U.S. national securities exchange or the Nasdaq Stock Market at the time of issuance or (iii) any combination of the foregoing. If the company fails to make a dividend payment within five business days following a dividend payment date, the dividend rate shall immediately and automatically increase by 1% from 6.5% of the liquidation preference per offered share of Series A preferred stock to 7.5% of such liquidation preference. 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.

Each share of Series A Preferred Stock is convertible at any time at the option of the holder into a number of shares of common stock equal to the liquidation preference (plus any unpaid dividends for periods prior to the dividend payment date immediately preceding the date of conversion by the holder) divided by the conversion price (initially \$12.00 per share, subject to adjustment in the event of a stock dividend or split, reorganization, recapitalization or similar event). If the closing sale price of the common stock is greater than 140% of the conversion price on 20 out of 30 trading days, the company may redeem the Series A Preferred Stock in whole or in part at any time through October 31, 2010, upon at least 30 days’ notice, at a redemption price, payable in cash, equal to 100% of the liquidation preference of the shares to be redeemed, plus unpaid dividends thereon to, but excluding, the redemption date, subject to certain conditions. In addition, beginning November 1, 2010, the company may redeem the Series A Preferred Stock in whole or in part, upon at least 30 days’ notice, at a redemption price, payable in cash, equal to 100% of the liquidation preference of the Series A Preferred Stock to be redeemed, plus unpaid dividends thereon to, but excluding, the redemption date, under certain conditions.

If a change of control occurs, each holder of shares of Series A Convertible Preferred Stock that are outstanding immediately prior to the change of control shall have the right to require the corporation to purchase, out of legally available funds, any outstanding shares of Series A Convertible Preferred Stock at the defined purchase price. The purchase price is defined as: per share of Preferred Stock, 101% of the liquidation preference thereof, plus all unpaid and accumulated dividends, if any, to the date of purchase thereof. The purchase price is payable, at the corporation’s option, (x) in cash, (y) in shares of the common stock at a discount of 5% from the fair market value of Common Stock on the Purchase Date (i.e. valued at a 95% discount of the Common Stock on the Purchase Date), or (z) any combination thereof.

If the Corporation pays all or a portion of the Purchase Price in Common Stock, no fractional shares of Common Stock will be issued; instead, the company will round the applicable number of shares of Common Stock up to the nearest whole number of shares; provided that the Corporation may pay the Purchase Price (or a portion thereof), whether in cash or in shares of Common Stock, only if the Corporation has funds legally available for such payment and may pay the Purchase Price (or a portion thereof) in shares of its Common Stock only if (i) the Common Stock is listed on a U.S. national securities exchange or the Nasdaq Stock Market at the time of issuance and (ii) a shelf registration statement covering the issuance by the Corporation and/or resales of the Common Stock issuable as payment of the Purchase Price is effective on the Payment Date unless such shares are eligible for immediate resale in the public market by non-affiliates of the Corporation.

The company pays an annual dividend on its preferred stock of approximately \$34,000. For the nine months ended September 30, 2022 and 2021, the company has recorded \$25,004 and \$25,504 respectively as preferred stock dividends on its condensed consolidated statements of operations in relation to its annual dividend. Dividends on our Preferred Stock are payable quarterly on the first day of February, May, August and November, in cash or shares of Common Stock, at our discretion.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

Share-Based Payments

Effective November 12, 2018, the Board of Directors of Applied Energetics, Inc. adopted the 2018 Incentive Stock Plan. The plan provides for the allocation and issuance of stock, restricted stock purchase offers and options (both incentive stock options and non-qualified stock options) to officers, directors, employees and consultants of the company. The board reserved a total of 50,000,000 shares for possible issuance under the plan.

We have, from time to time, also granted non-plan options to certain officers, directors, employees and consultants. Total stock-based compensation expense for grants to officers, employees and consultants was \$1,261,626 and \$848,277 for the nine months ended September 30, 2022, and 2021, respectively, which was charged to general and administrative expense.

Stock-based compensation for the year ended December 31, 2021, was comprised of 140,000 shares under a restricted stock agreement the company entered into in May of 2021. The restricted stock awards were valued at \$84,000 of which the full \$84,000 was recognized as of September 30, 2022. The shares vest annually over two years with the first installment one year from the agreement; provided, however, if either party terminates the agreement at any time prior to the last date of it ending, then the shares will vest, pro rata, for each month served since the most recent prior annual vesting date.

As part of his Executive Employment Agreement dated July 13, 2022 the company granted 400,000 shares issued as restricted stock units to the Chief Financial Officer. The restricted stock units were valued at \$928,000 of which \$50,780 was recognized as of September 30, 2022. The shares vest in equal annual installments over four years. If either party terminates the agreement at any time prior to the last date of it ending, then the shares will vest, pro rata, for each month served since the most recent prior annual vesting date. The Restricted Stock Units are issued pursuant to a Restricted Stock Unit Agreement, dated as of July 13, 2022.

Stock based compensation for the nine months ended September 30, 2022, was comprised of 250,000 shares issued pursuant to the restricted stock unit agreement, dated July 13, 2022. The restricted stock units were valued at \$580,000 of which \$42,297 was recognized as of September 30, 2022. The shares vest with 25% being vested at the end of year one and two respectively, with the remaining 50% being expensed at the end of year three. If either party terminates the agreement at any time prior to the last date of it ending, then the shares will vest, pro rata, for each month served since the most recent prior annual vesting date.

The \$1,261,626 stock-based compensation for the nine months ended September 30, 2022, was comprised of \$930,077 option expense, \$108,549 expense from the vesting of the restricted stock and \$223,000 was the amortization of 5,000,000 shares of stock valued at \$0.4014 over three years for the acquisition of assets of Applied Optical Sciences.

The company recognized no related income tax benefit because our deferred tax assets are fully offset by a valuation allowance.

We determine the fair value of option grant share-based awards at their grant date, using a Black-Scholes- Merton Option-Pricing Model.

As of September 30, 2022, the company has \$4,998,280 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 six years.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

The following table summarizes the activity of our stock options for the nine-months ended September 30:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Contractual Term Outstanding</u>	<u>Intrinsic Value</u>
Outstanding at December 31, 2021	28,415,000	\$ 0.1859	5.84	\$ 50,673,665
Granted	2,390,000	2.2130	9.48	17,378,564
Exercised	(100,000)	(0.1300)	6.09	(961,438)
Forfeited or expired	(7,950,000)	-	-	(75,400,831)
Outstanding at September 30, 2022	<u>22,755,000</u>	<u>0.3378</u>	<u>6.66</u>	<u>208,131,088</u>
Outstanding and exercisable at September 30, 2022	<u>20,308,888</u>	<u>0.1751</u>	<u>6.34</u>	<u>189,061,250</u>

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:

	<u>Nine-Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>
Assumptions:		
Risk-free interest rate	1.26-1.30%	.05-0.07%
Expected dividend yield	0%	0%
Expected volatility	126%	128-130%
Expected life (in years)	5	2-3

The fair value of restricted stock and restricted stock units was estimated using the closing price of our common stock on the date of award and fully recognized upon vesting. Restricted stock activity for the nine months ended September 30, 2022, was as follows:

	<u>Shares</u>	<u>Restricted Stock Outstanding Weighted Average Fair Value per Share at Grant Date</u>
Outstanding at December 31, 2021	215,000	\$ 0.52
Granted – restricted stock units and awards	650,000	2.32
Granted – performance-based stock units	-	-
Canceled	-	-
Vested and converted to shares	-	-
Outstanding at September 30, 2022	<u>865,000</u>	<u>\$ 1.8708</u>

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

As of September 30, 2022, and December 31, 2021, there was \$1,414,923 and \$15,355 respectively in unrecognized stock-based compensation related to unvested restricted stock agreements, net of estimated forfeitures.

As of September 30, 2022 and December 31, 2021, the company in aggregate recorded \$1,561,000 and \$1,338,000, respectively, in stock-based compensation related to a lockup agreement on 5,000,000 shares of common stock in the acquisition of assets of AOS valued at \$0.4014 per share, representing the closing price on the date of the contract which is amortized over 36 months, of which, \$223,000 and \$501,750, respectively, was amortized for the nine months ended September 30, 2022, and 2021.

Warrant stock activity for the nine-months ended September 30, 2022, was as follows:

	Warrant Activity		
	Shares	Weighted Average Exercise Price	Weighted Average remaining Contractual Term (years)
Outstanding at December 31, 2021	1,775,000	\$ 0.0599	7.43
Granted	-	-	-
Exercised	(25,000)	0.0500	-
Forfeited	-	-	-
Outstanding and exercisable at September 30, 2022	1,750,000	\$ 0.0600	6.78

	Warrants Outstanding			Warrants Exercisable	
	Shares Outstanding	Weighted Avg. Remaining Contractual Life in Years	Weighted Avg. Exercise Price	Shares Exercisable	Weighted Avg. Exercise Price
Range of Exercise Prices					
\$0.05 - \$0.07	1,750,000	0.01	\$ 0.0600	1,750,000	\$ 0.0600
	1,750,000	0.01	\$ 0.0600	1,750,000	\$ 0.0600

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,	
	2022	2021
Assumptions:		
Risk-free interest rate	0%	0%
Expected dividend yield	0%	0%
Expected volatility	0%	0%
Expected life (in years)	0	0

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

NOTE 7 – REVENUE RECOGNITION

The Company derives revenue from technical research detailing the findings of its investigations to its customers under contract for specific projects. Under Topic 606, revenue is recognized when control of promised goods and services is transferred to customers, and the amount of revenue recognized reflects the consideration to which an entity expects to be entitled to in exchange for the goods and services transferred. A performance obligation is a contractual promise to transfer a distinct good or service to the customer and is the unit of account under Topic 606. The transaction price of a contract is allocated to distinct performance obligations and recognized as revenue when or as the performance obligations are satisfied. The Company's contracts require significant integrated services and are accounted for as a single performance obligation, and revenue is recognized by the Company over the contract term at a fixed contract price.

Concentrations

During the nine months ended September 30, 2022, the company earned revenue from two contracts with two separate customers. One customer accounted for \$648,905 or 85% of revenue recognized during the period. As of September 30, 2022, the company has \$219,618 of accounts receivable recorded as current assets on the balance sheet. As of September 30, 2022, one customer accounted for \$162,226 or 74% of accounts receivable. The company had no revenue during the nine months ended, September 30, 2021.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Operating Leases

In March 2021, the company signed a five-year lease for a 13,000 square foot laboratory/office space in Tucson. The initial base rent was \$6.7626 per rentable square foot for year one, and escalated to \$9.2009 in year two, \$11.4806 in year three, \$13.1740 in year four and \$14.9306 in year five, plus certain operating expenses and taxes.

The company incurred lease expense for its operating leases of \$193,326 which was included in general and administrative expenses in the statements of operation for the periods ended September 30, 2022. During the nine months ended September 30, 2022, the company made cash lease payments in the amount of \$166,501.

At September 30, 2022, we had approximately \$128,000 in future minimum lease payments due in less than a year. The below table presents the future minimum lease payments due reconciled to lease liabilities.

	Operating Lease
For the fiscal years ending December 31, 2022:	
2022	\$ 30,752
2023	143,325
2024	168,577
2025	191,779
2026	66,536
Thereafter	-
Total undiscounted lease payments	600,969
Present value discount, less interest	71,512
Lease Liability	\$ 529,426

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2022
(Unaudited)

Guarantees

The company agrees to indemnify its officers and directors for certain events or occurrences arising as a result of the officers or directors serving in such capacity. The maximum amount of future payments that the company could be required to make under these indemnification agreements is unlimited. However, the company maintains a director's and officer's liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result, it believes the estimated fair value of these indemnification agreements is minimal because of its insurance coverage, and it has not recognized any liabilities for these agreements as of September 30, 2022 and 2021.

Litigation

On July 3, 2019, Gusrae, Kaplan & Nusbaum and its partner, Ryan Whalen filed a complaint in the United States District Court for the Southern District of New York against the company, its directors, officers, attorneys and a consultant. The action alleged libel, securities fraud and related claims. 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. On August 5, 2021, the plaintiffs filed a Notice of Voluntary Dismissal of the action without prejudice.

On January 15, 2021, the company filed a complaint in the United States District Court, Southern District of New York, against Gusrae, Kaplan & Nusbaum and Ryan Whalen for malpractice and breach of New York Rules of Professional Conduct by both parties as former counsel to the company. On May 28, 2021, Gusrae, Kaplan & Nusbaum and Mr. Whalen filed a motion to dismiss the complaint. On June 25, 2021, the company filed an opposition to the motion. On July 13, 2021, Gusrae Kaplan & Nusbaum and Mr. Whalen filed their reply brief. On March 30, 2022, United States Magistrate Judge Debra Freeman signed an order denying the motion of GKN and Mr. Whalen to dismiss the company's claim for malpractice and for rescission of the shares-for-fees agreement under which GKN and Whalen received shares of the company's common stock. The motion was partially granted as to the separate claim for violation of NYRPC 1.7 and 1.8 because the court found that it was duplicative of the malpractice claim. The parties are currently engaged in discovery. No trial date has been set.

On September 7, 2021, Gusrae Kaplan & Nusbaum and its partner Ryan Whalen filed a complaint in the New York Supreme Court against the company, its directors, officers, attorneys and a consultant, alleging a single claim for defamation per se based on the same conduct underlying their claim of libel in their voluntarily dismissed federal court action. The company filed a motion to dismiss the complaint on October 29, 2021, to which Gusrae Kaplan & Nusbaum and Mr. Whalen filed an opposition on January 13, 2022, and the company filed its reply brief on February 17, 2022.

On May 23, 2022, the New York Supreme Court held a hearing on the motion to dismiss, and Judge Hagler ruled from the bench, granting all defendants', including Applied Energetics', motions to dismiss the claim, in its entirety, with prejudice. While he noted that defendants' arguments regarding the claim being time-barred and the court lacking personal jurisdiction over certain defendants may have merit, he elected not to rule on those issues as he believed it appropriate to reach the merits. The judge declined to award sanctions requested by the defendants in this claim. The plaintiffs have filed a notice of intent to appeal the dismissal but have not filed their actual appeal brief, which is due on December 21, 2022.

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.

NOTE 9 – SUBSEQUENT EVENTS

The company's management has evaluated subsequent events occurring after September 30, 2022, the date of our most recent balance sheet, through the date our financial statements were issued.

Subsequent to September 30, 2022, the Company received \$2,931,000 in cash proceeds from a pending placement of common stock at a price of \$2.20 per share, as amended in November 2022 per agreement between the company and the investors.

As of October 20, 2022, the Company issued incentive stock options to purchase up to 50,000 shares of common stock to an employee. The options are exercisable at a price of \$2.30 per share.

As of November 4, 2022, the Company issued incentive stock options to purchase up to 50,000 shares of common stock to an employee. The options are exercisable at a price of \$2.24 per share.

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, 2021, and Quarterly Report on Form 10-Q from the nine months ended September 30, 2022.

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, 2021. 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., (sometimes referred to as the “company”) is a corporation organized and existing under the laws of the State of Delaware. Our executive office is located at 9070 S. Rita Road, Suite 1500, Tucson, Arizona 85747, (520) 628-7415. www.aergs.com

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

Technology, Capabilities and Patents

Applied Energetics, Inc. is recognized as a global leader in developing the next generation optical sources exhibiting ever-increasing output energy, peak power and frequency agility while also providing decreased size, weight, and cost of these systems for customers. Applied Energetics utilizes patented, dual-use technologies to advance critical industries. Leveraging our proprietary fiber-based architecture and wavelength- and pulse-agility capability, our Ultrashort Pulse (“USP™”) technology can enable users to achieve specific effects across different use cases with an unmatched blend of size, weight and power attributes. While initially designed to meet the emerging needs and priorities for the national security community, our directed energy technology also has commercial applications in both the biomedical and advanced manufacturing industries.

The Applied Energetics scientific team is continuously innovating and expanding our patent portfolio to cover these technological breakthroughs and further enhance our suite of solutions for threat disruption for the Department of Defense, the intelligence community, and for commercial, medical and space applications with optical sources operating from the deep ultraviolet to the far infrared portions of the electromagnetic spectrum.

Applied Energetics has developed, successfully demonstrated and holds all crucial intellectual property rights to a dynamic directed energy technology called Laser Guided Energy (“LGE[®]”) and Laser Induced Plasma Channel (“LIPC[®]”). LGE and LIPC are technologies that can be used in a new generation of high-tech directed energy systems. The Department of Defense (DOD) previously recognized only two key types of Directed Energy Weapon (“DEW”) technologies, High Energy Lasers (“HEL”), and High-Power Microwave (“HPM”). Neither the HEL nor the HPM intellectual property portfolio is owned by a single entity. The DOD then designated a third DEW technology, LGE. Applied Energetics’ LGE and LIPC technologies are wholly owned by Applied Energetics and protected by one or more of Applied Energetics’ 26 issued patents and 11 Government Sensitive Patent Applications (“GSPA”). These GSPA’s are held under secrecy orders of the US government, providing the company with greatly extended protection rights. The company also has seven provisional patent applications, and we continue to file patent applications as we deem appropriate.

Applied Energetics’ Directed Energy technologies are vastly different from conventional directed energy systems, i.e. HEL, and HPM. LGE uses Ultrashort Pulse (USP[™]) laser technology to combine the speed and precision of lasers with the overwhelming impact on targeted threats with high-voltage electricity. 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. Applied Energetics’ proprietary fiber-based architecture is a key differentiator for our most recent technology demonstrators. Compared with traditional continuous wave technologies with their larger footprints, AE’s architecture enables orders of magnitude size-weight-power reductions on all deliverables, creating powerful, dual-use and agile systems that can fit a host of platforms while delivering very high intensity, ultrashort pulses of light to the required target. 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.

Applied Energetics’ unique optical fiber-based laser architectures enable unmatched wavelength agility as well as pulse duration agility. Using innovative and highly specialized frequency shifting techniques, wavelengths can be custom tuned from the deep ultraviolet to the far infrared. In addition, temporal outputs can be adjusted from continuous wave to sub-picoseconds. The technology enables the customer to adjust the lasers’ operating parameters, ultimately creating more flexibility to change wavelength and pulse width. This feature allows for optimization of laser performance for defense or commercial applications.

Our proprietary USP laser technology provides a significantly more compact solution than current continuous wave laser platforms while still delivering high peak power. Continuous wave laser systems are typically used to heat a target and, during continuous illumination, this heat transfer leads to melting or charring of the material. Using continuous wave output powers that now exceed 100 kilowatts (1kW = 1000 watts), it can take anywhere from seconds to minutes to impact a target. By contrast, Applied Energetics has delivered USP lasers to national security users that exceed five terawatts (1 TW = 1 trillion watts) in peak power, with the difference being that this peak power from a USP laser is delivered in a pulse that is less than a trillionth of a second. During this short pulse duration, and having such a high peak intensity, near-instantaneous ablation of the surface of the threat takes place. The net results of our innovative USP approaches are highly effective lasers with mountable footprints that require only a fraction of the size and weight of other directed energy technologies.

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 ultrashort pulse and frequency-agile optical sources, from the ultraviolet to the far infrared portion of the electromagnetic spectrum, to address numerous challenges within the national security, medical device, and advanced manufacturing market sectors.

Recent Developments

In May 2022, Applied Energetics was awarded a \$3.89 million, two-year grant from the Department of the Navy, Office of Naval Research (ONR), to develop an optical system capable of defeating customer-specified threats for integration onto U.S. Marine Corps (USMC) platforms. We were awarded this grant to accelerate the development and testing of Infrared (IR) optical technology with an ultrashort pulse laser (USPL) system. The overall objective is to advance and ruggedize optical technologies that can be fielded on a variety of USMC platforms and are able to operate in harsh conditions.

We also executed a Phase I Small Business Technology Transfer (STTR) contract with the U.S. Army on June 2, 2022. The objective of the contract is the delivery of an ultra-broadband infrared (IR) source. Under this contract, Applied Energetics, will model novel approaches for the eye-safe delivery of ultra-broadband infrared laser pulses to electro-optic sensors. Electro-Optical/Infrared (EO/IR) sensors are imaging systems used for military applications. The STTR program is a federally funded initiative to incorporate small business technological innovation into government supported research and development programs. STTRs require the small business to team with a university or non-profit and are structured in three potential phases. Applied Energetics proposed to partner with the James C. Wyant College of Optical Sciences at the University of Arizona for Phase I.

We have begun work on each of these projects and anticipate producing all deliverables required under them in a successful and timely manner.

Effective August 1, 2022, our board of directors appointed Christopher Donaghey, age 50, to serve as Chief Financial and Chief Operating Officer. The company and Mr. Donaghey entered into an Executive Employment Agreement, pursuant to which he is to serve for an initial term of four years, with automatic renewal for additional one-year periods thereafter unless either party terminates the agreement. The agreement calls for salary of \$350,000 per year, plus standard benefits and eligibility for a bonus at the discretion of the board. The company has also granted Mr. Donaghey additional options to purchase up to 1,000,000 shares of its common stock under its 2018 Incentive Stock Plan, which vest over four years and have an exercise price of \$2.36 per share, and Restricted Stock Units representing up to 400,000 shares of the company's common stock which also vest over four years. The Restricted Stock Units are issued pursuant to a Restricted Stock Unit Agreement, dated as of July 13, 2022. Mr. Donaghey forfeited unvested options to purchase up to 950,000 shares of common stock which he had previously received for service on the company's Board of Advisors.

Mr. Donaghey is an experienced financial executive with a proven track-record in delivering profitable growth, including extensive experience within the defense industry. He joins Applied Energetics from Science Applications International Corporation (SAIC), a defense and government agency technology integrator, where he served as the senior vice president and head of corporate development. In this role, he was responsible for executing the company's mergers and acquisitions (M&A) and strategic ventures strategy, working closely with the senior management team to support the development and implementation of SAIC's strategic plan with an emphasis on M&A and external emerging technology investments to complement organic growth strategies and value creation. He joined SAIC in 2017, as senior vice president of finance for SAIC's operations, and provided strategic leadership and business guidance to the organization. Mr. Donaghey is also a Founder and Executive Board member of the Silicon Valley Defense Group, a non-profit organization whose mission is to create the nexus of pioneering ideas, people, and capital that will unlock new sources of innovation for national security and power the digital evolution of the defense industrial base.

Prior to joining SAIC, Donaghey was vice president of Corporate Strategy and Development for KeyW Corporation, a national security solutions provider for the Intelligence, Cyber and Counterterrorism Communities, where he guided the overall corporate strategy, M&A, and capital markets activities.

Mr. Donaghey was also a senior research analyst for SunTrust Robinson Humphrey Capital Markets where he provided investment advice and insight to institutional investors covering public defense technology, government IT services, and commercial aerospace industries. During his tenure at SunTrust, Donaghey was ranked the number one defense analyst and number two analyst overall for stock selection by Forbes/Starmine in 2005 and was named in the Wall Street Journal Best on the Street survey in 2005, 2008, and 2009.

Mr. Donaghey served in the U.S. Navy Reserve where he provided scientific and technical analysis of missile guidance and control systems and advanced electronics for the Short-Range Ballistic Missile group at the Defense Intelligence Agency's Missile and Space Intelligence Center. Donaghey earned his bachelor's degree in mechanical engineering from Texas Tech University and served as an officer in the U.S. Navy.

Mr. Donaghey previously served on Applied Energetics' Board of Advisors since April 30, 2019, providing input into the strategic direction of the company and assistance in building relationships in the defense markets.

Upon the successful examination, and with no opposition, the United States Patent and Trademark Office (USPTO) officially entered the marks LGE[®] (Reg. No. 6,289,892) and LIPC[®] (Reg. No. 6,316,069) on March 9, 2021, and April 6, 2021, respectively, in the principal register. Applied Energetics has applications pending before the USPTO for the marks USP[™], USPL[™], AERG[™] and AE[™] and anticipates allowance and/or registration within the next six months. The company also has seven provisional patents, and we continue to file patent applications as we deem appropriate.

In April 2022, we repaid the remaining balance on the Paycheck Protection Program loan, which we took out in 2020. The original loan was in the amount of \$132,760, but our compliance with the guidelines set forth by the Small Business Administration regarding use of the proceeds of the loan qualified us for a waiver of a portion of this amount. We had been repaying the remaining balance in monthly installments at an annual interest rate of 1%.

Ongoing Business Development Activities

Over the past several quarters, we have submitted multiple proposals to, and attended briefings with, various defense and other various government agencies and attended briefings with various defense and other government agencies who have expressed an interest in our technology and applications. Due to the closures of multiple agencies and work-from-home orders during the Coronavirus pandemic, reviews and funding decisions on these proposals were delayed longer than anticipated as resources were focused on other matters within the government. We have received multiple notices from government agencies stating that "the vast number of proposals received, and the challenges posed by the COVID-19 pandemic, have impacted the government's evaluation timelines." Several of the government agencies that have received and are reviewing our proposals started to open their facilities to limited off-site briefings starting on June 1, 2021, and since that date, our team has been invited to, and completed, multiple briefings focused on our capabilities and submissions. Over time, the DOD has increased and reduced its facility occupancy limits and remote work requirements depending upon the local infection rates, and we have continued to make use of the time to submit proposals and attend briefings as and when permitted. We intend to continue developing and submitting proposals and to be available to attend on-site briefings to the extent possible.

In addition to these review-based delays, the US federal budget for 2022 was not approved by Congress by the October 1, 2021, start of the U.S. federal government fiscal year. The US government final fiscal year 2022 appropriations bill was signed into law by President Biden on the night of March 11, 2022 and includes increases in areas of particular interest to the company.

Two other significant pieces of legislation impacted Applied Energetics that were signed by the President on September 30, 2022. The first piece, bill S. 4900, the “SBIR and STTR Extension Act of 2022,” authorizes the Small Business Innovation Research (SBIR), Small Business Technology Transfer (STTR), and six related pilot programs through Fiscal Year 2025; requires agencies with an SBIR or STTR program to establish a due diligence program to assess the potential risk posed by program applicants’ foreign ties; requires certain departments and agencies to report on national security risks within their SBIR/STTR programs; and establishes increased minimum performance standards for firms that have won a certain number of awards during a specified period of time.

The other piece of legislation that we have seen multiple times in the past decade is the Continuing Resolution (CR), HR 6833, which provides fiscal year 2023 appropriations to federal agencies through December 16, 2022, for continuing projects and activities of the federal government and includes supplemental appropriations to respond to the Russian military action in Ukraine. This will provide for a continuation of funding for currently funded programs through December 16, but no new contracts until the 2023 fiscal year appropriations are approved by Congress. This CR allows for current Applied Energetics programs to continue.

Strategic Plan and Analysis

We plan to continue building our management team with highly qualified individuals. We intend to recruit additional personnel in the areas of R&D, science and simulation, marketing and finance, and, possibly add members to our Board of Directors and our Board of Advisors. We have worked to align key innovations with our roadmap to encourage and enable internal filing for a broad, strategic and robust intellectual property portfolio and continue surveying the literature for acquisitions of parallel intellectual property to that end. We also intend to pursue strategic corporate acquisitions in related fields and technology. We continue to explore any favorable equity financing opportunities.

Our goal with the Applied Energetics 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 Applied Energetics’ 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. Since 2020, the Applied Energetics team was able to develop partnership and teaming arrangements with the three leading laser and optics institutes in the United States, namely, the University of Arizona, the University of Central Florida, and the University of Rochester Laboratory for Laser Energetics. Our desire is to work on programs jointly where the strengths of each organization can assist in escalating knowledge and delivery of systems to the government sponsors, and to train the next generation of scientists and engineers to work in the directed energy fields.

Despite the challenges posed by COVID-19, we have continued to execute our business development plans, further our research and development program and submit filings for intellectual property and proposals for grants and contracts. During the past two fiscal years, 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. Having received a significant research grant and an STTR contract during the previous quarter, we believe the interest in our technology and applications remains high, and we continue to submit proposals for all appropriate opportunities and share our vision of the disruptive capabilities of USP optical sources for both near- and far-term threats and dual-use commercial applications.

Through our analysis of the market, and in discussions with potential customers, we remain convinced 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. The government has allocated \$1.4 billion for various directed energy programs in 2021, and market analysis and projections have estimated that this directed energy sector is anticipated to exceed \$10.1 billion globally by 2026. The DOD budget for directed energy was essentially flat between 2021 and 2022, approaching \$1.2 billion for each year. As a result, we continue to be optimistic about our future and the growing opportunities in directed energy applications. The Applied Energetics 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 USP and LGE marketplaces.

Results of Operations

Comparison of Operations for the three months ended September 30, 2022 and 2021:

	2022	2021
Revenue	\$ 572,766	\$ —
Cost of revenue	127,668	—
General and administrative	(1,249,132)	(1,304,875)
Selling and marketing	(56,416)	(83,173)
Research and development	(65,364)	(61,968)
Other income	637	—
Interest (expense)	(1,227)	(1,794)
Net loss	<u>\$ (926,404)</u>	<u>\$ (1,451,810)</u>

Revenue

Revenues increased by approximately \$573,000 to approximately \$573,000 as of September 30, 2022. We had no revenues as of September 30, 2021. This is due to a contract and grant that the company commenced in June 2022.

Cost of revenue

The cost of revenue increased by approximately \$128,000 to approximately \$128,000 as of September 30, 2022. We had no cost of revenues as of September 30, 2021. This is due to the costs directly associated with contract and grant that the company commenced in June 2022.

General and Administrative

General and administrative expenses decreased approximately \$56,000 to approximately \$1,249,000 for the three months ended September 30, 2022, compared to approximately \$1,305,000 for the three months ended September 30, 2021, primarily due to the decrease of \$246,000 of consulting services, an increase in salaries and employee benefits of approximately \$123,000, in building costs of approximately \$13,000, and in supplies and insurance of \$25,000.

Selling and Marketing

Selling and marketing expenses decreased \$27,000, to approximately \$56,000, for the three months ended September 30, 2022, compared to approximately \$83,000 for the three months ended September 30, 2021, primarily due to the \$27,000 decrease in expenses related to marketing consultant services.

Research and Development

Research and development expenses increased approximately \$3,000 to approximately \$65,000 for the three months ended September 30, 2022, compared to approximately \$62,000 for the three months ended September 30, 2021.

Other Income

Other income increased approximately \$1,000, to approximately \$1,000 for the three months ended September 30, 2022, compared to \$0 for the three months ended September 30, 2021. The other income for the three months ended September 30, 2022 was primarily due to the forgiveness of the company's PPP loan.

Interest Expense

Interest expense decreased approximately \$1,000 to \$1,000 for the three months ended September 30, 2022 compared to approximately \$2,000 for the three months ended September 30, 2021 primarily due the decrease in interest bearing notes payable.

Net Loss

Our operations for the three months ended September 30, 2022 resulted in a net loss of approximately \$926,000, a decrease of approximately \$526,000 compared to the approximately \$1,452,000 net loss for the three months ended September 30, 2021, primarily due to the increase in revenue and decrease in general and administrative, selling and marketing expenses, partially offset by higher research and development expenses.

Comparison of Operations for the nine months ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Revenue	\$ 763,688	\$ —
Cost of revenue	142,835	—
General and administrative	(4,365,823)	(3,412,603)
Selling and marketing	(231,528)	(235,897)
Research and development	(286,365)	(192,783)
Other income	637	81,218
Interest (expense)	(2,910)	(3,542)
Net loss	<u>\$ (4,265,136)</u>	<u>\$ (3,763,607)</u>

Revenue

Revenues increased by approximately \$764,000 to approximately \$764,000 for the nine months ended September 30, 2022, as we had no revenues during the 2021 period. Revenues for the 2022 period were from a contract and a grant that we received and commenced performing in June 2022.

Cost of revenue

The cost of revenue increased by approximately \$143,000 to approximately \$143,000 for the nine months ended September 30, 2022, as we had no revenues, and therefore no costs of revenue during the 2021 period. September 30, 2022. This is due to the costs directly associated with contract and grant that the company commenced in June 2022.

General and Administrative

General and administrative expenses increased approximately \$953,000 to approximately \$4,366,000 for the nine months ended September 30, 2022, compared to approximately \$3,413,000 for the nine months ended September 30, 2021, primarily due to an increase of approximately \$403,000 in professional expenses, an increase in salaries and employee benefits of approximately \$336,000, in IT costs of approximately \$87,000, and in insurance of \$42,000.

Selling and Marketing

Selling and marketing expenses decreased approximately \$4,000, to approximately \$232,000 for the nine months ended September 30, 2022, compared to approximately \$236,000 for the nine months ended September 30, 2021, primarily due to the continuation of business development activities through our Master Services Agreement with Westpark Advisors as well as other consultants in this field.

Research and Development

Research and development expenses increased approximately \$94,000, to approximately \$286,000 for the nine months ended September 30, 2022, compared to approximately \$193,000 for the nine months ended September 30, 2021 primarily assets that were placed into service during the quarter that are actively being used to generate work in progress research and development of the company core technologies.

Other Income

Other income decreased approximately \$81,000 to \$1,000 for the nine months ended September 30, 2022 compared to approximately \$81,000 for the nine months ended September 30, 2021 primarily due to the partial forgiveness of the company's PPP loan.

Interest Expense

Interest expense decreased approximately \$1,000 to \$3,000 for the nine months ended September 30, 2022, compared to \$4,000 for the nine months ended September 30, 2021, primarily due to a decrease in the aggregate outstanding debt the company had outstanding as of September 30, 2022, relative to September 30, 2021.

Net Loss

Our operations for the nine months ended September 30, 2022, resulted in a net loss of approximately \$4,265,000, an increase of approximately \$501,000 compared to the approximately \$3,764,000 net loss for the nine months ended September 30, 2021, primarily due to increases in general and administrative and research and development expenses partially offset by higher revenue and decrease in selling and marketing.

Liquidity and Capital Resources

The accompanying 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, 2022, the company incurred a net loss of approximately \$4,265,000, had negative cash flows from operations of approximately \$2,743,000 and may incur additional future losses due to the possible reduction in government contract activity and the expenses discussed under Results of Operations. In their report accompanying our financial statements for the year ended December 31, 2021, our independent auditors stated that our financial statements were prepared assuming that we would continue as a going concern and that they have substantial doubt as to our ability to do so based on our recurring losses from operations and need to raise additional capital. 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.

At September 30, 2022, the company had total current assets of \$1,492,695 and total current liabilities of \$1,786,868 resulting in negative working capital of \$294,173. At September 30, 2022, we had \$1,155,349 of cash and cash equivalents, a decrease of \$ 2,507,266 from \$3,662,615 at December 31, 2021.

During the first nine months of 2022, the net cash outflow from operating activities was \$2,742,953. This amount was comprised primarily of our net loss of \$4,265,136. This was offset by noncash stock-based compensation expense of \$1,261,626, amortization of future compensation payable of \$416,666, and the amortization of right of use assets of \$83,965. Additionally, net cash used the changes in asset and liabilities totaled \$409,283. This included an increase in accounts receivable \$219,618, increase in prepaid and deposits of \$178,506, increase in accrued expenses and compensation of \$11,063, and an increase in accounts payable of \$53,863. This is offset by the net decrease in operating lease liabilities of \$53,959.

During the first nine months of 2022, the net cash outflow from investing activities was \$78,996. This was comprised of a \$78,996 decrease from the acquisition of equipment.

During the first nine months of 2022, the net cash flows from financing activities was \$314,685. This amount consisted of \$175,435 in proceeds on a note payable for insurance premium financing, \$14,250 from the exercise of options, and \$585,000 of proceeds from subscription payable offset by \$460,000 in conjunction with the monthly repayment of the note for the company's insurance premium financing and AOS note. The proceeds from a subscription payable represent funding received as part of a pending private placement of equity.

Based on the company's current business plan, we believe our cash balance as of the date of this report, along with anticipated revenues from our recently received ONR grant and STTR agreement, will be sufficient to meet the company's anticipated cash requirements for the near term. However, there can be no assurance that the current business plan will be achievable.

The company's existence is dependent upon management's ability to develop profitable operations. Management is devoting a significant portion of its efforts to developing additional business and raising capital, as needed, but cannot be certain that these efforts will be successful. Management's business development efforts may not result in profitable operations. To fund its research and development and marketing efforts, the company's management continues to explore possible financing opportunities through discussions with investment bankers and private investors. The company may not be successful in its effort to secure additional financing on terms it considers favorable. The accompanying consolidated financial statements do not include any adjustments that might result should the company be unable to continue as a going concern.

Additionally, the Russian military action in Ukraine and related economic sanctions around the globe could impact the company's ability to source necessary supplies and equipment which could materially and adversely affect its ability to continue as a going concern. In addition, the company's ability to continue as a going concern may depend on its ability to raise capital which may be impacted by these events, including as a result of increased market volatility, or decreased market liquidity. This may result in third-party financing being unavailable on terms acceptable to the company or at all. The impact of this action and related sanctions on the world economy and the specific impact on the company's financial position and results of operations are not yet determinable. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Budgeting for upcoming expenses and costs of supplies and equipment needed to perform our ONR grant, our STTR contract, both of which are described under "Recent Developments" above, and any other contracts or grants we receive in the future, requires that we estimate factors such as inflation and geo-political events that affect such expenses and costs. The cost of labor continues to increase across many sectors of the US and global economy which is likely to drive up our general and administrative expenses as well as the cost of personnel working directly and indirectly on our grants and contracts. This aspect of inflation is particularly difficult given the highly skilled nature of this work. Inflation is also likely to impact the price of supplies and materials we must purchase in order to perform grants and contracts, some of which may have been bid on based on cost structures which were submitted during periods of lower inflation. In addition, the war in Ukraine and other related geo-political events have further limited the number of countries from which we can source certain supplies and equipment. These limitations can range from outright prohibitions to strong discouragement based on potentially sensitive information. We continually monitor these events and the markets for needed supplies in order to make the best estimates possible, both in our internal budgeting and in any bids or proposals we submit.

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, 2022. Based on that evaluation, our Principal Executive Officer has concluded that our disclosure controls and procedures as of September 30, 2022, 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

On July 3, 2019, Gusrae, Kaplan & Nusbaum and its partner, Ryan Whalen filed a complaint in the United States District Court for the Southern District of New York against the company, its directors, officers, attorneys and a consultant. The action alleged libel, securities fraud and related claims. 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. On August 5, 2021, the plaintiffs filed a Notice of Voluntary Dismissal of the action without prejudice.

On January 15, 2021, the company filed a complaint in the United States District Court, Southern District of New York, against Gusrae, Kaplan & Nusbaum and Ryan Whalen for malpractice and breach of New York Rules of Professional Conduct by both parties as former counsel to the company. On May 28, 2021, Gusrae, Kaplan & Nusbaum and Mr. Whalen filed a motion to dismiss the complaint. On June 25, 2021, the company filed an opposition to the motion. On July 13, 2021, Gusrae Kaplan & Nusbaum and Mr. Whalen filed their reply brief. On March 30, 2022, United States Magistrate Judge Debra Freeman signed an order denying the motion of GKN and Mr. Whalen to dismiss the company's claim for malpractice and for rescission of the shares-for-fees agreement under which GKN and Whalen received shares of the company's common stock. The motion was partially granted as to the separate claim for violation of NYRPC 1.7 and 1.8 because the court found that it was duplicative of the malpractice claim. The parties are currently engaged in discovery. No trial date has been set.

On September 7, 2021, Gusrae Kaplan & Nusbaum and its partner Ryan Whalen filed a complaint in the New York Supreme Court against the company, its directors, officers, attorneys and a consultant, alleging a single claim for defamation per se based on the same conduct underlying their claim of libel in their voluntarily dismissed federal court action. The company filed a motion to dismiss the complaint on October 29, 2021, to which Gusrae Kaplan & Nusbaum and Mr. Whalen filed their opposition on January 13, 2022, and the company filed its reply brief on February 17, 2022.

On May 23, 2022, the New York Supreme Court held a hearing on the motion to dismiss, and Judge Hagler ruled from the bench, granting all defendants', including Applied Energetics', motions to dismiss the claim, in its entirety, with prejudice. While he noted that defendants' arguments regarding the claim being time-barred and the court lacking personal jurisdiction over certain defendants may have merit, he elected not to rule on those issues as he believed it appropriate to reach the merits. The judge declined to award sanctions requested by the defendants in this claim. The plaintiffs have filed a notice of intent to appeal this dismissal but have not yet filed their actual appeal brief, which is due on December 21, 2022.

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.

The company 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

The company has reported all information pertaining to issuances of equity securities sold during the period covered by this Quarterly Report on Form 10-Q in previously filed reports on Forms 10-K, 10-Q and 8-K.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a).
32.1	Principal Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	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	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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, President and
Chief Executive Officer

By: /s/ Christopher Donaghey
Christopher Donaghey, Chief Financial Officer and
Chief Operating Officer

Date: November 14, 2022

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

I, Gregory J Quarles, the President and Chief Executive 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
President and Chief Executive Officer

Date: November 14, 2022

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

I, Christopher Donaghey, the Chief Financial Officer Chief Operating 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/ Christopher Donaghey

Christopher Donaghey
Chief Financial Officer and
Chief Operating Officer

Date: November 14, 2022

**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, 2022 (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
President and Chief Executive Officer

Date: November 14, 2022

**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, 2022 (the “Report”) I, Christopher Donaghey, Chief Financial Officer and Chief Operating 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/ Christopher Donaghey

Christopher Donaghey
Chief Financial Officer and
Chief Operating Officer

Date: November 14, 2022