APPLIED ENERGETICS, INC.

FORM 10-Q
(Quarterly Report)

Filed 05/11/23 for the Period Ending 03/31/23

Address	9070 S. RITA ROAD SUITE 1500 TUCSON, AZ, 85747
Telephone	520-628-7415
CIK	0000879911
Symbol	AERG
SIC Code	3812 - Search, Detection, Navigation, Guidance, Aeronautical, and Nautical Systems and Instruments
Industry	Electrical Components & Equipment
Sector	Industrials
Fiscal Year	12/31

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 March 31, 2023

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	**77-0262908**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
9070 S. Rita Road, Suite 1500 Tucson, Arizona	**85747**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer:	☐	Accelerated filer:	☐
Non-accelerated filer:	☐	Smaller reporting company:	☒
		Emerging growth company	☐

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

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

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

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

As of May 11, 2023, there were 211,033,255 shares of the issuer's common stock, par value $0.001 per share, outstanding.

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

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

APPLIED ENERGETICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2023 (unaudited)	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 4,327,928	$ 5,640,308
Accounts receivable	324,452	353,149
Other assets	254,263	92,774
Total current assets	4,906,643	6,086,231
Long-term assets		
Property and equipment - net	200,105	192,935
Right of use asset - operating	403,045	432,057
Security deposit	17,004	17,004
Total long-term assets	620,154	641,996
Total assets	$ 5,526,797	$ 6,728,227
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 210,602	$ 116,970
Notes payable	255,541	400,000
Due to related parties	50,000	50,000
Operating lease liability - current	122,993	113,478
Accrued expenses	42,032	28,005
Accrued dividends	48,079	48,079
Total current liabilities	729,247	756,532
Long-term liabilities		
Operating lease liability - non-current	361,562	393,709
Total long-term liabilities	361,562	393,709
Total liabilities	1,090,809	1,150,241
Stockholders' Equity		
Series A convertible preferred stock, $.001 par value, 2,000,000 shares authorized and 13,602 shares issued and outstanding at March 31, 2023 and December 31, 2022 (Liquidation preference $340,050 and $340,050, respectively)	14	14
Common stock, $.001 par value, 500,000,000 shares authorized; 211,033,255 and 210,848,671 shares issued and outstanding at March 31, 2023 and at December 31, 2022, respectively	211,034	210,849
Additional paid-in capital	109,626,819	108,830,982
Accumulated deficit	(105,401,879)	(103,463,859)
Total stockholders' equity	4,435,988	5,577,986
Total Liabilities and Stockholders' Equity	$ 5,526,797	$ 6,728,227

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

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2023	**2022**
Revenue	$ 486,678	$ -
Cost of revenue	141,272	-
Gross profit	345,406	-
Operating expenses		
General and administrative	2,115,267	1,628,489
Selling and marketing	108,890	76,670
Research and development	59,980	75,987
Total operating expenses	2,284,137	1,781,146
Operating loss	(1,938,731)	(1,781,146)
Other income/(expense)		
Other income	711	-
Interest expense	-	(44)
Total other income/(expense)	711	(44)
Loss before provision for income taxes	(1,938,020)	(1,781,190)
Provision for income taxes	-	-
Net loss	(1,938,020)	(1,781,190)
Preferred stock dividends	(8,501)	(8,501)
Net loss attributable to common stockholders	$ (1,946,521)	$ (1,789,691)
Net loss attributable to common stockholders per common share - basic and diluted	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	210,976,434	207,663,896

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

APPLIED ENERGETICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2022	13,602	$ 14	210,848,671	$ 210,849	$ 108,830,982	$ (103,463,859)	$ 5,577,986
Stock-based compensation	-	-	-	-	758,187	-	758,187
RSU Restricted Stock	-	-	9,584	10.00	21,075	-	21,085
Common stock issued on exercise of options	-	-	175,000	175	16,575	-	16,750
Net loss for the quarter ended March 31, 2023	-	-	-	-	-	(1,938,020)	(1,938,020)
Balance at March 31, 2023	13,602	14	211,033,255	$ 211,034	$ 109,626,819	$ (105,401,879)	$ 4,435,988

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount			
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

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

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2023	**2022**
Cash Flows From Operating Activities		
Net loss	$ (1,938,020)	$ (1,781,190)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash stock based compensation expense	779,272	554,877
Amortization of ROU assets	29,012	-
Depreciation and amortization	24,926	6,209
Amortization of future compensation payable	-	208,333
Amortization of prepaid assets	55,390	43,407
Changes in assets and liabilities:		
Accounts receivable	28,697	-
Prepaid and deposits	(216,879)	(251,767)
ROU liabilities	(22,632)	14,529
Accounts payable	93,632	(54,442)
Accrued expenses and compensation	14,027	(2,261)
Net cash used in operating activities	(1,152,575)	(1,262,305)
Cash Flows From Investing Activities		
Purchase of equipment	(32,096)	(6,455)
Net cash used in investing activities	(32,096)	(6,455)
Cash Flows From Financing Activities		
Repayment on note payable	(300,000)	(17,420)
Proceeds from note payable	155,541	175,435
Proceeds from the exercise of stock option	16,750	-
Net cash provided by financing activities	(127,709)	158,015
Net change in cash and cash equivalents	(1,312,380)	(1,110,745)
Cash and cash equivalents, beginning of year	5,640,308	3,662,615
Cash and cash equivalents, at end of period	$ 4,327,928	$ 2,551,870
Supplemental disclosure of cash flow information		
Cash paid for interest	$ -	$ 44
Cash paid for taxes	$ -	$ -
Non-cash investing and financing activities		
Insurance financing for prepaid insurance	$ 155,541	$ 175,435

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

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023
(Unaudited)

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

Basis of Presentation

The unaudited 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, 2022, 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 unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

For the three months ended March 31, 2023, the company incurred a net loss of $1,938,020, had negative cash flows from operations of $1,152,575 and may incur additional future losses due to limited contract activity. At March 31, 2023, the company had total current assets of $4,906,643 and total current liabilities of $729,247, resulting in working capital surplus of $4,177,396. At March 31, 2023, the company had cash of $4,327,928.

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. 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.

Use of Estimates

The preparation of unaudited condensed 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 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 revenue recognition, carrying amounts of long-lived assets, valuation assumptions for share-based payments, evaluation of debt modification accounting, effective borrowing rate determinations, analysis of fair value transferred upon debt extinguishment, valuation and calculation of measurements of income tax assets and liabilities.

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 shares underlying 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 28,757,351 and 21,362,021 for the three months ended March 31, 2023 and 2022, respectively.

Significant Concentrations and Risks

We maintain cash balances at a commercial bank, and, at times, balances exceed FDIC limits. As of March 31, 2023, $4,077,928 was uninsured.

NOTE 2 – NEW ACCOUNTING STANDARDS

The company has reviewed all issued accounting pronouncements The company does not expect the adoption of any pronouncements to have an impact on its results of operations or financial position.

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 months with the final installment to be paid on April 24, 2023. In accordance with the amended terms of the promissory note, the company made six payments of $100,000 each, for an aggregate repayment of $600,000. As of March 31, 2023, $100,000 in principle was outstanding on this loan. The Company repaid the note in full as of the date of filing of these unaudited condensed consolidated financial statements.

Premium Financing

On March 16, 2023, the company entered into an agreement with Oakwood D&O Insurance to provide financing in the amount of $155,541 for the insurance premium associated with two D&O policies. Both policies commenced March 12, 2023, and provided coverage for the next 12 months, expiring March 12, 2024. The loan bears interest at a fixed rate of 8.75% per annum and required the company to prepay $40,410 and appears on the balance sheet as a current asset. On April 12, 2023, the company commenced monthly principal and interest payments of $17,282, which was the first payment of nine remaining months due of $155,541, the last payment of which is scheduled to be made on December 31, 2023. As of March 31, 2023, the outstanding balance on the note was $155,541 and was recorded as notes payable, a currently liability, in the company's unaudited condensed consolidated balance sheet.

Notes Payable Reconciliation

The following reconciles notes payable as of March31, 2023, and December 31, 2022:

	March 31, 2023	December 31, 2021
Beginning balance	$ 400,000	$ 1,024,190
Notes payable	155,541	175,435
Accrued interest	-	(636)
Payments on notes payable	(300,000)	(798,988)
Total	255,541	400,000
Less-Notes payable – current	255,541	400,000
Notes payable – non-current	$ -	$ -

Future principal payments for the company's Notes as of March 31, 2023, are as follows:

2023	$	255,541
Thereafter		-
Total	$	255,541

The company's note payable balance of $255,541 is due within the next twelve months, in accordance with the terms of note payable. $100,000 of the outstanding notes payable balance at March 31, 2023 will be paid on April 24, 2023.

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 three months ended March 31, 2023, and 2022 was $0 and $208,333, 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 three-months ended March 31, 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 three months ended March 31, 2023, the Company recorded $0 in relation to these shares.

During the three months ended March 31, 2023, the company issued 100,000 shares of common stock upon the exercise of 100,000 options at an exercise price of $0.07 a share. As a result, the company received $7,000 in cash proceeds as part of the transaction.

During the three months ended March 31, 2023, the company issued 75,000 shares of common stock upon the exercise of 75,000 options at an exercise price of $0.13 a share. As a result, the company received $9,750 in cash proceeds as part of the transaction.

During the three months ended March 31, 2023, the company issued the remaining 9,584 shares of common stock pursuant to a restricted stock agreement dated May 2021.

Preferred Stock

As of March 31, 2023, and December 31, 2022, 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 March 31, 2023, including previously accrued dividends of $48,079 included in our balance sheet total approximately $340,239. 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.

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 $779,272 and $554,877 for the three months ended March 31, 2023, and 2022, respectively, which was charged to general and administrative expense.

During the three months ended March 31, 2023, the company issued restricted stock units covering 940,909 shares for services rendered pursuant to an amendment to a master services agreement with a consultant.

During the three months ended March 31, 2023, the company issued incentive stock options to purchase up to 312,500 shares of common stock, at an exercise price of $2.05, to one new employee.

During the three months ended March 31, 2023, the company issued incentive stock options to purchase up to 100,000 shares of common stock, at an exercise price of $2.20, to two new employees.

During the three months ended March 31, 2023, the company issued incentive stock options to purchase up to 100,000 shares of common stock, at an exercise price of $2.25, to one new employee. In addition, the company issued restricted stock units covering 35,000 shares for services rendered pursuant to an employment agreement.

See Note 6 – Stockholders' Equity – Authorized Capital Stock for details related to the exercise of an aggregate 175,000 options during the three months ended March 31, 2023.

The $779,272 stock-based compensation for the three months ended March 31, 2023, was comprised of $331,075 option expense, $427,112 expense from the vesting of the restricted stock and $21,085 expense related to shares of common stock for services rendered pursuant to a board of advisor's agreement.

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

As of March 31, 2023, the company has $4,047,073 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.

The following table summarizes the activity of our stock options for the three months ended March 31, 2023:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term Outstanding	Intrinsic Value
Outstanding at December 31, 2022	22,848,385	$ **0.3666**	**6.42**	$ 203,236,473
Granted	512,500	**2.1183**	**9.90**	3,989,820
Exercised	(175,000)	**(0.0957)**	**5.61**	(1,749,829)
Forfeited or expired	(30,451)	-	-	(301,566)
Outstanding at March 31, 2023	23,155,434	**0.4053**	**6.26**	219,931,432
Outstanding and exercisable at March 31, 2023	20,467,654	**0.1967**	**7.08**	198,671,334

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:

	Three Months Ended March 31,	
	2023	**2022**
Assumptions:		
Risk-free interest rate	1.26 – 1.30%	1.16 – 1.30%
Expected dividend yield	0%	0%
Expected volatility	112.6 –111.62%	126%
Expected life (in years)	6	5

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 three months ended March 31, 2023, was as follows:

	Restricted Stock Outstanding	
	Shares	**Weighted Average Fair Value per Share at Grant Date**
Nonvested at December 31, 2022	2,819,545	$ 1.9396
Granted – restricted stock units and awards	975,909	1.80
Granted – performance-based stock units	-	-
Canceled	-	-
Vested *	(215,000)	0.51
Nonvested at March 31, 2023	3,580,454	$ 1.9877

* Of which 75,000 shares were issued in the first quarter of 2021 and 130,417 were issued in the first quarter of 2022.

As of March 31, 2023, and December 31, 2022, there was $6,402,587 and $5,071,427, respectively in unrecognized stock-based compensation related to unvested restricted stock agreements, net of estimated forfeitures.

As of March 31, 2023 and December 31, 2022, the company recorded $0 and $223,000, respectively, in unrecognized 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, $0 and $167,250 was amortized for the three months ended March 31, 2023 and 2022, respectively.

Warrant stock activity for the three months ended March 31, 2023, was as follows:

	Warrant Activity		
	Shares	**Weighted Average Exercise Price**	**Weighted Average remaining Contractual Term (years)**
Outstanding at December 31, 2022	1,750,000	$ 0.0600	6.53
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding and exercisable at March 31, 2023	1,750,000	$ 0.0600	6.28

	Warrants Outstanding			Warrants Exercisable	
Range of Exercise Prices	**Shares Outstanding**	**Weighted Avg. Remaining Contractual Life in Years**	**Weighted Avg. Exercise Price**	**Shares Exercisable**	**Weighted Avg. Exercise Price**
$0.05 – $0.07	1,750,000	6.28	$ 0.0600	1,750,000	$ 0.0600
	1,750,000	6.28	$ 0.0600	1,750,000	$ 0.0600

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 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 the company recognizes revenue over the contract term at a fixed contract price.

Concentrations

During the three months ended March 31, 2023, the company earned revenue from one contract with one customer. The customer accounted for $486,678 or 100% of revenue recognized during the period. As of March 31, 2023. The company has $324,452 of accounts receivable recorded as current assets on the balance sheet related to this customer. For the three months ended March 31, 2022, the company had no revenue.

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 $37,132 which was included in general and administrative expenses in the statements of operation for the period ended March 31, 2023. During the three months ended March 31, 2023, the company made cash lease payments in the amount of $30,752.

At March 31, 2023, we had approximately $150,944 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 three months ended March 31, 2023	
2023	$ 112,573
2024	168,577
2025	191,779
2026	66,535
2027	-
Thereafter	-
Total undiscounted lease payments	539,464
Present value discount, less interest	54,909
Lease Liability	$ 484,555

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 March 31, 2023 and 2022.

Litigation

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.

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.

Related Party

In January 2023, the company made a $25,000 tax-deductible donation to Silicon Valley Defense Group (SVDG), a 501(c)(3) organization of which Christopher Donaghey, our Chief Financial and Operating Officer, is a founder and member of the Board of Directors. As its objective, SVDG "seeks to align and connect the people, capital, and ideas that will ensure allied democracies retain a durable techno-security advantage."

NOTE 9 – SUBSEQUENT EVENTS

The company's management has evaluated subsequent events occurring after March 31, 2023, the date of our most recent balance sheet, through the date our financial statements were issued.

Effective May 1, 2023, the board of directors of the company appointed Stephen W. McCahon, age 63, to serve as Chief Science Officer. The company and Dr. McCahon entered into an Executive Employment Agreement, pursuant to which he is to serve for an initial term through December 2025, with automatic renewal for additional one-year periods thereafter unless either party terminates the agreement. The agreement calls for a salary of $300,000 annualized for 2023, $325,000 for 2024 and $350,000 for 2025, plus standard benefits.

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, 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, 2022. 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. appliedenergetics.com

Applied Energetics, Inc., specializes in the development and manufacture of advanced high-performance lasers and 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, biomedical 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 extended protection rights. The company also has nine pending patent applications. We continue to file patent applications as we deem appropriate to protect our intellectual property and enhance our competitive advantage.

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 laser 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 tunability, 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 laser 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, biomedical, 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. The research on this grant continues with all progress reported to the program manager as on-time and on-budget. The AE team is actively engaged with the customer and providing regular briefings.

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 was the delivery of an ultra-broadband infrared (IR) source. Under this contract, Applied Energetics, modeled 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. The company completed work on this first phase of the Army STTR and filed the report on January 3, 2023. Prior to the final report filing, AE submitted the Phase II proposal by the submission deadline of December 7, 2022. The Phase II proposals can be up to $1.15 million in contract funding over a 24-month period. Any announcement on the Phase II STTR proposals is estimated by the Army to be released no later than the second quarter of 2023.

During the fourth quarter of 2022 and the first quarter of 2023, Applied Energetics added several new members to our scientific and engineering team, including two Scientists, two Laser and Optics Research and Development Technicians and an Engineering Project Manager. We also retained a Senior Growth and Product Development Advisor. We have worked to integrate these new members into our team and optimize the contribution that each brings to our research and development efforts.

Effective May 1, 2023, Stephen W. McCahon entered into an Executive Employment Agreement with the company to serve as Chief Science Officer (CSO). Dr. McCahon was an original co-founder of Applied Energetics, and in May of 2019, he returned to the company to serve as its Chief Scientist in a consulting role. Since that time, he has provided strategic direction to the company's research and development activities in the areas of advanced optical technologies and USPL Directed Energy solutions. His salary as CSO is commensurate with his compensation under his Consulting Agreement for service as Chief Scientist.

He was a Member of the Research Staff in the Optical Physics Department at the Hughes Research Laboratory in Malibu, California from 1986 to 1996 performing basic research in the area of optical physics and non-linear optical materials. In 1996, Dr. McCahon moved to Raytheon (Hughes) Missile Systems Co, in Tucson, AZ, during which time as was significantly responsible for the successful creation and development of the Directed Energy Weapons Product Line and served as its Chief Scientist. He left Raytheon in 2002 to co-found Applied Energetics Inc. in Tucson, AZ to develop Directed Energy Weapons for the Defense Department including very high energy and average power ultrashort pulse laser sources and Laser Guided Energy (LGE®) technologies. In April 2010, Dr. McCahon left Applied Energetics to form Applied Optical Sciences where he developed technologies related to the application of optical physics to a broad range of areas, including photonics and ultrashort pulse laser development. Dr. McCahon is a graduate of the University of Southern California (BSEE, MSEE), holds a Ph.D., Photonics, Inter-disciplinary Physics and Electrical Engineering from the University of Iowa.

Dr. McCahon beneficially owns approximately 7% of the company's issued and outstanding shares of common stock.

Applied Energetics has trademark applications pending before the USPTO for the marks USP™, USPL™, AERG™ and AE™ The company also has nine pending patent applications. We continue to file patent applications as we deem appropriate to protect our intellectual property and enhance our competitive advantage.

Ongoing Business Development Activities

Over the past few years, we have submitted multiple proposals to, 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 COVID-19 pandemic, reviews and funding decisions on these proposals were delayed longer than anticipated as resources were focused on other matters within the government. Since the reopening of proposal reviews and processing, our team has been invited to, and completed, multiple briefings focused on our capabilities and submissions. We intend to continue developing and submitting proposals and to be available to attend on-site briefings to the extent possible. However, this positive action by the agencies could be reversed as COVID-19 remains an ongoing risk. Any changes to reinstate the closures or work-from-home orders could again hamper the ability of the AE team to schedule on-site briefings for our proposals undergoing review.

Two 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 was amended three times to provide fiscal year 2023 appropriations to federal agencies through December 30, 2022, for continuing projects and activities of the federal government and includes supplemental appropriations to respond to the Russian military action in Ukraine. This CR provided for a continuation of funding for currently funded programs through December 30, but no new contracts until the 2023 fiscal year appropriations was approved by Congress. This CR allowed for current Applied Energetics programs to continue. The Consolidated Appropriations Act, 2023 was passed by the US House of Representatives and the US Senate and signed by President Biden on December 29, 2022. A similar situation occurred in the prior year as the US government final fiscal year 2022 appropriations bill was signed into law by President Biden on the night of March 11, 2022 and included increases in areas of particular interest to the company.

Strategic Plan and Analysis

The core of our strategy has been to continue growing our management and science teams with highly qualified individuals. This has driven our recruitment efforts in the areas of R&D, science, modeling and simulation, marketing and finance. We are also contemplating adding members to our Board of Directors and our Board of Advisors. Our board and leadership team 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. The company's management continues 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 biomedical applications, such as biophotonic illumination and imaging. 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 biomedical 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 three years, we continued to submit proposals and have been engaged in meetings on a continuous 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 second quarter of 2022, 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 US Department of Defense fiscal budgets from 2017 through 2023, its directed energy spending grew from approximately $500 million in 2017 to over $1.695 billion in 2023, an increase of nearly 240%. Market analysis and projections have estimated that this directed energy sector is anticipated to exceed $10.1 billion globally by 2026. We continue to be optimistic about our future and the growing opportunities in directed energy applications, especially since this growth to nearly $1.7 B annually is being accomplished without a recognized Program of Record (POR) for directed energy platforms. Once these technologies are funded in production for a POR, these DOD budgets for DE will grow exponentially larger to support the technology insertion. 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 March 31, 2023 and 2022:

	2023	2022
Revenue	$ 486,678	$ —
General and administrative	(2,115,266)	(1,628,489)
Selling and marketing	(108,890)	(76,670)
Research and development	(59,980)	(75,987)
Interest (expense)	711	(44)
Net loss	$ (1,938,020)	$ (1,781,190)

<u>Revenue</u>

Revenue increased by approximately $486,700 to approximately $486,700 for the three months ended March 31, 2023 from zero for the three months ended March 31, 2022. Revenues for the 2023 period were from a grant that we received and commenced performing in June 2022.

General and Administrative

General and administrative expenses increased approximately $487,000 to approximately $2,115,000 for the three months ended March 31, 2023, compared to approximately $1,628,000 for the three months ended March 31, 2022, primarily due to an increase in salaries and employee benefits of approximately $650,000 mainly due non-cash compensation, an increase in travel and meals of approximately $47,000, an increase in software and licenses of approximately $25,000, an increase in depreciation expense of approximately $19,000, partially offset by a decrease of approximately $252,000 in professional and consulting expenses and a change in other expense of $2,000.

Selling and Marketing

Selling and marketing expenses increased approximately $32,000 to approximately $109,000 for the three months ended March 31, 2023, compared to approximately $77,000 for the three months ended March 31, 2022, 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 decreased approximately $16,000 to approximately $60,000 for the three months ended March 31, 2023, compared to approximately $76,000 for the three months ended March 31, 2022, primarily due to an increase in direct labor cost incurred in connection with the Office of Naval Research grant.

Net Loss

Our operations for the three months ended March 31, 2023, resulted in a net loss of approximately $1,938,000 an increase of approximately $140,000 compared to the approximately $1,781,000 net loss for the three months ended March 31, 2022, primarily due an increase in general and administrative expense and selling and marketing expense partially offset by a decrease in research and development expense.

Liquidity and Capital Resources

The accompanying unaudited condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the three months ended March 31, 2023, the company incurred a net loss of approximately $1,938,000, had negative cash flows from operations of approximately $1,153,000 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, 2022, 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 for one year from the date the financial statements are issued 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 March 31, 2023, the company had total current assets of $4,906,643 and total current liabilities of $729,247 resulting in working capital of $4,177,396. At March 31, 2023, we had $4,327,928 of cash and cash equivalents, a decrease of $1,312,380 from $5,640,308 at December 31, 2022.

During the first three months of 2023, the net cash outflow from operating activities was $1,152,575. This amount was comprised primarily of our net loss of $1,938,020, offset by non-cash stock-based compensation expense of $779,272, depreciation and amortization of $24,926 and amortization of prepaid assets of $24,926, and cash used from changes in assets and liabilities of $103,155 from the increase in prepaid and deposits of $216,879, increase in accounts payable of $93,632, decrease in accounts receivable of $28,697, off set by the net decrease in operating lease liabilities of $22,632 and a decrease in accrued expenses and compensation of $14,027.

Investing activities reflected $32,096 for the acquisition of equipment.

During the first three months of 2023, the net cash inflow from financing activities was $127,709. This amount consisted of $155,541 in proceeds on a note payable for insurance premium financing and $16,750 from the exercise of options, which were offset by $300,000 in conjunction with the monthly repayment of the note for the company's insurance premium financing and the note payable to Applied Optical Sciences (AOS). The company made the final payment on the AOS note in May 2023, satisfying this note in full.

Based on the company's current business plan, we believe our cash balance as of the date of this report, along with revenue from our ONR grant, 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 substantially all of its efforts to developing its business and raising capital, as needed, and 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.

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 March 31, 2023. Based on that evaluation, our Principal Executive Officer has concluded that our disclosure controls and procedures as of March 31, 2023, 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 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.

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 report on Forms 10-K, 10-Q and 8-K.

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
23	Consent of RBSM LLP *
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).

* Incorporated by reference to Exhibit 23.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

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: May 11, 2023

Exhibit 31.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE
PURSUANT TO RULE 15d-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory J Quarles, the President and Chief Executive Officer of Applied Energetics, Inc., certify that:

1. I have reviewed this Quarterly 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. 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: May 11, 2023

Exhibit 31.2

CERTIFICATION OF
PRINCIPAL ACCOUNTING OFFICER
PURSUANT TO RULE 15d-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher Donaghey, the Chief Financial Officer of Applied Energetics, Inc., certify that:

1. I have reviewed this Quarterly 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. 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

Date: May 11, 2023

Exhibit 32.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER
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 three months ended March 31, 2023 (the “Report”) I, Gregory J Quarles, President and Chief Executive 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 chief 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: May 11, 2023

Exhibit 32.2

CERTIFICATION OF
PRINCIPAL ACCOUNTING OFFICER
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 three months ended March 31, 2023 (the “Report”) I, Christopher Donaghey, Chief 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 chief 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

Date: May 11, 2023