

APPLIED ENERGETICS, INC.  
Form 10-Q  
November 14, 2017

**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, 2017

**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)

**2480 W Ruthrauff Road, Suite 140 Q**  
**Tucson, Arizona 85705**

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(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

|  |                            |
|--|----------------------------|
| Large accelerated filer:   | Accelerated filer:         |
| Non-accelerated filer: (Do not check if a smaller reporting company) | 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

As of November 12, 2017 there were 157,785,520 shares of the issuer's common stock, par value \$.001 per share, outstanding.

**APPLIED ENERGETICS, INC.**

**QUARTERLY REPORT ON FORM 10-Q**

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

APPLIED ENERGETICS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

|   | September<br>30, 2017<br>(Unaudited) | December<br>31, 2016 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets  |                                      |                      |
| Cash and cash equivalents   | \$ 14,521                            | \$ 680               |
| Other assets  | 312                                  | 312                  |
| Total current assets  | 14,833                               | 992                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 14,833</b>                     | <b>\$ 992</b>        |
| <b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>  |                                      |                      |
| Current liabilities   |                                      |                      |
| Accounts payable  | \$ 91,363                            | \$ 66,986            |
| Accrued compensation  | 245,733                              | 108,333              |
| Accrued officer compensation  | 223,000                              | 125,500              |
| Notes payable face value \$53,000 less \$2,549 discount at September 30, 2017   | 50,451                               | —                    |
| Accrued dividends   | 48,079                               | 48,080               |
| Total current liabilities   | 658,626                              | 348,899              |
| Total liabilities   | 658,626                              | 348,899              |
| Commitments and contingencies   |                                      |                      |
| Stockholders' (deficit)   |                                      |                      |
| Series A Convertible Preferred Stock, \$.001 par value, 2,000,000 shares authorized; 13,602 shares issued and outstanding at September 30, 2017 and at December 31, 2016              | 14                                   | 14                   |
| Common stock, \$.001 par value, 500,000,000 shares authorized; 157,785,520 and 154,785,520 shares issued and outstanding at September 30, 2017 and at December 31, 2016, respectively | 157,785                              | 154,785              |
| Additional paid-in capital  | 79,344,831                           | 79,179,432           |
| Accumulated deficit   | (80,146,423)                         | (79,682,138)         |

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|   |            |            |
|---|------------|------------|
| Total stockholders' (deficit)                 | (643,793 ) | (347,907 ) |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) | \$14,833   | \$992      |

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

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

|  | For the three months ended<br>September 30, |              |
|--|---|--------------|
|  | 2017  | 2016         |
| Operating expenses   |   |              |
| General and administrative                                       | \$ 180,353                                  | \$ 145,439   |
| Total operating expenses   | 180,353                                     | 145,439      |
| Operating loss   | (180,353 )                                  | (145,439 )   |
| Other income/(expense)   |   |              |
| Interest income  | —   | 3            |
| Interest (expense)   | (451 )                                      | —            |
| Total other income   | (451 )                                      | 3            |
| Net loss   | (180,804 )                                  | (145,436 )   |
| Preferred stock dividends  | (8,501 )                                    | (8,501 )     |
| Net loss attributable to common stockholders                     | \$(189,305 )                                | \$(153,937 ) |
| Net loss per common share – basic and diluted                    | \$(0.01 )                                   | \$(0.01 )    |
| Weighted average number of shares outstanding, basic and diluted | 157,785,520                                 | 154,785,520  |

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

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

|  | For the nine months ended<br>September 30, |              |
|--|--|--------------|
|  | 2017                                       | 2016         |
| Operating expenses   |  |              |
| General and administrative                                       | \$463,834                                  | \$396,410    |
| Total operating expenses   | 463,834                                    | 396,410      |
| Operating loss   | (463,834 )                                 | (396,410 )   |
| Other income/(expense)   |  |              |
| Other income   | —  | 2,542        |
| Interest income  | —  | 32           |
| Interest (expense)   | (451 )                                     | —            |
| Total other income   | (451 )                                     | 2,574        |
| Net loss   | (464,285 )                                 | (393,836 )   |
| Preferred stock dividends  | (25,504 )                                  | (25,504 )    |
| Net loss attributable to common stockholders                     | \$(489,789 )                               | \$(419,340 ) |
| Net loss per common share – basic and diluted                    | \$(0.01 )                                  | \$(0.01 )    |
| Weighted average number of shares outstanding, basic and diluted | 155,118,854                                | 93,679,681   |

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

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

|   | For the nine months<br>ended<br>September 30, |             |
|---|---|-------------|
|   | <b>2017</b>                                   | <b>2016</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |   |             |
| Net loss  | \$(464,285)                                   | \$(393,836) |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |             |
| Non-cash stock based compensation expense                                   | 65,309  | 63,000      |
| Warrant expense   | 40,590  | —           |
| Interest expense  | 279   | —           |
| Amortization of financing costs   | 172   | —           |
| Changes in assets and liabilities:  |   |             |
| Prepaid expenses, deposits and other assets                                 | —   | (2,768 )    |
| Accounts payable  | 24,376  | 9,843       |
| Accrued compensation  | 234,900                                       | 196,582     |
| Net cash used in operating activities                                       | (98,659 )                                     | (127,179)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |   |             |
| Net cash provided by investing activities                                   | —   | —           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |   |             |
| Proceeds from notes payable net of financing costs                          | 50,000  | —           |
| Proceeds from issuance of common stock                                      | 62,500  | —           |
| Net cash provided by financing activities                                   | 112,500                                       | —           |
| Net increase (decrease) in cash and cash equivalents                        | 13,841  | (127,179)   |
| Cash and cash equivalents, beginning of period                              | 680   | 136,840     |
| Cash and cash equivalents, end of period                                    | \$14,521                                      | \$9,661     |
| <b>Supplemental Cash Flow Information</b>                                   |   |             |
| Cash paid for interest and taxes  | \$—   | \$—         |

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



APPLIED ENERGETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

**1. BASIS OF PRESENTATION**

The accompanying interim unaudited condensed consolidated financial statements include the accounts of Applied Energetics, Inc. and its wholly owned subsidiary North Star Power Engineering, Inc. as of September 30, 2017 (collectively, “company,” “Applied Energetics,” “we,” “our” or “us”). All intercompany balances and transactions have been eliminated. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented have been made. The results for the three month and nine month periods ended September 30, 2017, may not be indicative of the results for the entire year. The interim unaudited condensed consolidated financial statements should be read in conjunction with the company’s audited consolidated financial statements contained in our Annual Report on Form 10-K.

**LIQUIDITY AND MANAGEMENT’S PLAN**

The accompanying unaudited financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the nine months ended September 30, 2017, the company incurred a net loss of approximately \$464,000, had negative cash flows from operations of approximately \$99,000 and expects to incur additional future losses due to the reactivation of its business activities. These matters raise substantial doubt as to the company’s ability to continue as a going concern unless the company is able to obtain additional financing for its continuing operations. The financial statements do not include any adjustments relating to the recoverability of assets and the amount or classification of liabilities that might be necessary should the company be unable to continue as a going concern.

As of September 30, 2017, the company had approximately \$15,000 in cash and cash equivalents.

**USE OF ESTIMATES**

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

## **RECENT ACCOUNTING PRONOUNCEMENTS**

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

## **2. SHARE-BASED COMPENSATION**

### Share-Based Compensation – Contractors

For the nine months ended September 30, 2017 and 2016, share-based compensation expense totaled approximately \$65,000 and \$63,000, respectively.

APPLIED ENERGETICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

There was no related income tax benefit recognized 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 applying the assumptions in the following table:

|  | Nine months<br>ended September<br>30, |      |
|--|---------------------------------------|------|
|  | 2017                                  | 2016 |
| Expected life (years)                                | 5                                     | —    |
| Dividend yield                                       | 0                                     | % —  |
| Expected volatility                                  | 80                                    | % —  |
| Risk free interest rates                             | 1.97                                  | % —  |
| Weighted average fair value of options at grant date | \$0.02980                             | —    |

During the nine months ended September 30, 2017 the company granted each member of the Scientific Advisory Board options to purchase 2 million shares of \$.001 par value common stock at a price of \$0.05 per share. These options have a five year term and vest to the extent of 500,000 shares on the first anniversary of the grant and to the extent of 62,500 options per month during the 24 months following the initial vesting date.

During the nine months ended September 30, 2017 the company also granted each member of the Scientific Advisory Board performance options to purchase 1.5 million shares of \$.001 par value common stock at a price of \$0.25 per share. These options have a five year term and vest on the date the company has cumulative revenues of \$5 million.

For the nine months ended September 30, 2017, 14,000,000 options to purchase stock were granted, additionally, no options to purchase stock were exercised, expired or forfeited; no restricted stock units were granted, vested or forfeited; and no restricted stock awards were granted, vested or forfeited. At September 30, 2017, options to purchase

14,000,000 shares of common stock were outstanding with a weighted average exercise price of \$0.136 with a weighted average remaining contract term of approximately 4.5 years with an aggregate intrinsic value of \$-0-. At September 30, 2017 no options were exercisable.

As of September 30, 2017, there was approximately \$121,000 of unrecognized compensation cost related to unvested stock options granted and outstanding, net of estimated forfeitures. The cost is expected to be recognized on a weighted average basis over a period of approximately three years.

### **3. NET LOSS PER SHARE**

Basic net loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period before giving effect to stock options, stock warrants, restricted stock units and convertible securities outstanding, which are considered to be dilutive common stock equivalents. Diluted net loss per common share is calculated based on the weighted average number of common and potentially dilutive shares outstanding during the period after giving effect to convertible preferred stock, stock options, warrants and restricted stock units. Contingently issuable shares are included in the computation of basic loss per share when issuance of the shares is no longer contingent. Due to the losses from continuing operations for the nine months ended September 30, 2017 and 2016, basic and diluted loss per common share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

APPLIED ENERGETICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

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

|                                       | Nine months ended<br>September 30, |        |
|---------------------------------------|------------------------------------|--------|
|                                       | 2017                               | 2016   |
| Options to purchase common shares     | 14,000,000                         | —      |
| Warrants to purchase common shares    | 1,320,598                          | —      |
| Convertible preferred stock           | 40,381                             | 37,548 |
| Total potentially dilutive securities | 15,360,979                         | 37,548 |

**4. DIVIDENDS**

Dividends on Preferred Stock are accrued when the amount and kind of the dividend is determined and are payable quarterly on the first day of February, May, August and November, in cash or shares of common stock. The holders of shares of Series A Convertible Preferred Stock are entitled to receive dividends at the initial rate of 6.5% of the liquidation preference per share (the “Initial Dividend Rate”), payable, at the option of the corporation, in cash or shares of common stock or a combination of cash and common stock. Upon the occurrence of the company’s failure to pay dividends in the five business days following a dividend payment date (a “Payment Default”), the dividend rate shall immediately and automatically increase to 7.5% of the liquidation preference per share for as long as such Payment Default continues (or return to the Initial Dividend Rate at such time as such Payment Default no longer continues), and if a Payment Default shall occur on two consecutive Dividend Payment Dates, the dividend rate shall immediately and automatically increase to 10% of the Liquidation Preference for as long as such Payment Default continues and shall immediately and automatically return to the Initial Dividend Rate at such time as the Payment Default is no longer continuing.

As of September 30, 2017, we had 13,602 shares of our 6.5% Series A Convertible Preferred Stock outstanding. The company has not paid the dividends commencing with the quarterly dividend due August 1, 2013. Dividend

arrearages as of September 30, 2017 was approximately \$145,000. Our Board of Directors suspended the declaration of the dividend, commencing with the dividend payable as of February 1, 2015 since we did not have a surplus (as such term is defined in the Delaware general corporation Law) as of December 31, 2014, until such time as we have a surplus or net profits for a fiscal year.

Our Series A Preferred Stock has a liquidation preference of \$25.00 per Share. 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 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.

APPLIED ENERGETICS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(Unaudited)

**5. NOTES PAYABLE**

On September 15, 2017 the Company borrowed \$53,000 under a convertible note maturing June 20, 2018. The note bears interest of 12% payable at maturity. Any amount of principal or interest on the note which is not paid when due shall bear interest at the rate of twenty two percent (22%) per annum from the due date thereof until the same is paid. The note is convertible into shares of the Company's \$0.001 par value common stock after March 24, 2018 (the "Initial Conversion Date"). The conversion rate is variable and will be 58% of the average of the lowest one day trading price during the twenty trading days preceding the holders notice of conversion. The number of shares issuable on conversion is limited to 4.99% of the Company's then issued and outstanding Common Stock. The Company at the request of the Note Holder has reserved 36,369,879 shares of its \$0.001 common stock for conversion. The Note is prepayable at the Company's option until the Initial Conversion Date. The following reconciles notes payable as of September 30, 2017 and December 31, 2016:

|   | September<br>30, 2017 | December<br>31, 2016 |
|---|-----------------------|----------------------|
| Note payable - 12% interest payable at maturity June 20, 2018 | 53,000                | —                    |
| Financing costs   | (3,000 )              | —                    |
| Accrued interest  | 279                   | —                    |
| Amortization of financing costs                               | 172                   | —                    |
|   | 50,451                | —                    |

On October 18, 2017 the Company borrowed \$33,000 under a convertible note maturing July 20, 2018. The note bears interest of 12% payable at maturity. Any amount of principal or interest on the note which is not paid when due shall bear interest at the rate of twenty two percent (22%) per annum from the due date thereof until the same is paid. The note is convertible into shares of the Company's \$0.001 par value common stock after April 16, 2018 (the "Initial Conversion Date"). The conversion rate is variable and will be 58% of the average of the lowest one day trading price during the twenty trading days preceding the holders notice of conversion. The number of shares issuable on conversion is limited to 4.99% of the Company's then issued and outstanding Common Stock. The Company at the request of the Note Holder has reserved 18,062,397 shares of its \$0.001 common stock for conversion. The Note is

prepayable at the Company's option until the Initial Conversion Date.

## **6. EQUITY**

During the nine months ended September 30, 2017 the company issued 2,500,00 shares of its common stock for \$62,500, or \$0.025 per share through subscription agreements with three investors. The company also issued 500,000 shares of common stock in April 2017, valued at \$10,000 or \$0.02 per share, to a consultant for services.

In September, 2017, Company borrowed \$53,000 under a convertible note maturing June 20, 2018. The Company issued the note holder warrants to purchase 1,320,598 shares of it's \$0.001 par value common stock at an exercise price of \$0.0301, The Warrants are exercisable at any time over a 7 year period commencing on the date of issuance.

## **7. LEGAL PROCEEDINGS**

On August 4, 2017, the previously reported legal proceeding Three of the Company's shareholders commenced an action entitled Superius Securities Group, Inc.et. al. vs George Farley, et.al. (CA No. 2017-0024-VCMR) in the Court of Chancery of the state of Delaware was dismissed.

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

## **8. SUBSEQUENT EVENT**

The company's management has evaluated subsequent events occurring after September 30, 2017, the date of our most recent balance sheet, through the date our financial statements were issued. Where applicable, all material subsequent events have been disclosed in their respective footnotes..



## **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 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, 2016.

### **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, performances or achievements to be materially different from any future results, performances 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, 2016. 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.

#### **Overview**

Applied Energetics, Inc. is a corporation organized and existing under the laws of the State of Delaware. Our executive office is located at 2480 W Ruthrauff Road, Suite 140 Q, Tucson, Arizona, 85705 and our telephone number is (520) 628-7415.

Starting in the fourth quarter of 2014 and through the first quarter of 2017, the company reported as a "shell company" as such term is defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended due to the suspension its previous business activities in October, 2014. The Company has developed a comprehensive research and development program and commenced R&D Activities in April, 2017. Accordingly, the Company is no longer a "shell

company” and is reporting as a “smaller reporting company”.

The Company has reactivated its previous business activities pursuant to Teaming and Consulting Agreements with (i) Applied Optical Sciences, Inc. (“AOS”), (ii) Stephen W. McCahon, Ph.D., one of the company’s founders, a significant shareholder of the Company and owner of AOS, who was primarily responsible for development of the Company’s existing Intellectual Property portfolio, and (iii) each of the members of the Scientific Advisory Board (collectively the “Consultants”).

The members of the Scientific Advisory Board (“SAB”) have agreed to assist in our Strategic Roadmap Development, expected R&D activities, and provide a sound technical basis for future teaming, investment, and market analysis. These members have been chosen based upon their areas of subject matter expertise and senior experience levels that span both the Department of Defense (“DOD”). and commercial sectors

The company is engaged in the design, development of applied energy systems for military and commercial applications and Advanced Ultra Short Pulse lasers and high voltage lasers for commercial applications. Our goal is to increase the energy and power while decreasing the size, weight, and cost of AUSP lasers. We expect to develop very high energy and power scaled AUSP lasers that have a very broad range of applicability for Department of Defense, commercial, and medical applications. Although the current market for AERG’s LGE technology is the U.S. Government, the AUSP technologies will provide numerous platforms for commercial and medical, markets creating a substantially larger product market.

The Company owns intellectual property that is integral and necessary for the development of Laser Guided Energy and Direct Discharge Electrical products for military and commercial uses and the Consultants have the facilities and technical knowhow to utilize the Company’s intellectual property in the development of a next generation of Advanced Ultra-Short Pulse Lasers. The Parties have also agreed to cooperate in the proposal and fulfillment of research and development contracts for branches of the Department of Defense, agencies of the Federal Government and other Defense contractors and in other research and development activities relating to lasers. We are preparing for the next stage of LGE development that involves the development of Advanced USP Laser Technologies. These lasers will allow for LGE weapon systems to be mounted on mobile platforms for multiple Anti-Terrorist missions including Counter Optical Measures, Counter-Improvised Explosive Devices (“C-IED”), Vehicle Stopping, and many others.

We expect to team with a major Defense Contractor for co-development and manufacture of military products. We also intend to team with a leading commercial laser technology manufacturer for co-development of commercial products resulting from our research and development efforts.

## RESULTS OF OPERATIONS

### COMPARISON OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016:

|                            | 2017        | 2016        |
|----------------------------|-------------|-------------|
| General and administrative | \$(180,353) | \$(145,439) |
| Other income/(expense):    |             |             |
| Interest income            | —           | 3           |
| Interest (expense)         | (451 )      | —           |
| Net loss                   | \$(180,804) | \$(145,436) |

### GENERAL AND ADMINISTRATIVE

General and administrative expenses increased approximately \$35,000 to \$180,000 for the three months ended September 30, 2017 compared to \$145,000 for the three months ended September 30, 2016 primarily due to an increase of professional expenses of \$39,000 partially offset by a decrease in supplies, insurance and miscellaneous fees of \$4,000.

**NET LOSS**

Our operations for the three months ended September 30, 2017 resulted in a net loss of approximately \$181,000, an increase of approximately \$36,000 compared to the \$145,000 loss for the three months ended September 30, 2016.

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**COMPARISON OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016:**

|                            | 2017        | 2016        |
|----------------------------|-------------|-------------|
| General and administrative | \$(463,834) | \$(396,410) |
| Other income/(expense):    |             |             |
| Other income               | —           | 2,542       |
| Interest income            | —           | 32          |
| Interest (expense)         | (451 )      | —           |
| Net loss                   | \$(464,285) | \$(393,836) |

**GENERAL AND ADMINISTRATIVE**

General and administrative expenses increased approximately \$68,000 to \$464,000 for the nine months ended September 30, 2017 compared to \$396,000 for the nine months ended September 30, 2016 primarily due to an increase in professional expenses of \$84,000 partially offset by a \$15,000 reduction of supplies, insurance and miscellaneous fees, and a \$2,000 reduction in building costs.

**OTHER INCOME**

Other income for the nine months ended September 30, 2017 reduced \$3,000 from the nine months ended September 30, 2016 due to our reduced interest bearing balances.

**NET LOSS**

Our operations for the nine months ended September 30, 2017 resulted in a net loss of approximately \$464,000, an increase of approximately \$70,000 compared to the \$394,000 loss for the nine months ended September 30, 2016.

**LIQUIDITY AND CAPITAL RESOURCES**

At September 30, 2017, we had approximately \$15,000 of cash and cash equivalents, an increase of approximately \$14,000 from December 31, 2016. During the first nine months of 2017 the net cash outflow from operating activities was approximately \$99,000. This amount was comprised primarily of our net loss of \$464,000 partially offset by an increase in our accrued expenses and deposits of \$235,000, noncash stock based compensation of \$65,000, warrant expense of \$41,000 and accounts payable of \$24,000, investing activities had no activity, and financing activities reflected \$63,000 proceeds from the sale of common stock and \$50,000 proceeds from a note payable, resulting in net cash inflow of approximately \$14,000.

In their report accompanying our financial statements, our independent auditors stated that our financial statements for the year ended December 31, 2016 were prepared assuming that we would continue as a going concern, and that they have substantial doubt as to our ability to continue as a going concern. Our auditors' have noted that our recurring losses from operations and need to raise additional capital to sustain operations raise substantial doubt about our ability to continue as a going concern.

### **BACKLOG OF ORDERS**

At November 9, 2017, we had a backlog (workload remaining on signed contracts) of \$0, to be completed within the next twelve months.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer has concluded that our disclosure controls and procedures as of September 30, 2017 are 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.

During the three months ended September 30, 2017, there was no significant change in our internal controls over financial reporting that has materially affected or which is reasonably likely to materially affect our internal controls over financial reporting.

**PART II – OTHER INFORMATION**

**ITEM 6.**

**EXHIBITS**

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



**SIGNATURES**

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

**APPLIED ENERGETICS, INC.**

By/s/ George P Farley  
George P Farley  
Principal Executive Officer and Principal Financial Officer

Date: November 14, 2017