

APPLIED ENERGETICS, INC.

FORM 10-Q (Quarterly Report)

Filed 08/13/25 for the Period Ending 06/30/25

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

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2025

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 001-14015

APPLIED ENERGETICS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

77-0262908

(IRS Employer
Identification Number)

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

(Address of Principal Executive Offices)

85747

(Zip Code)

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

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

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

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

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

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

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

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

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

As of August 12, 2025, there were 219,042,971 shares of the issuer's common stock, par value \$0.001 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

	June 30, 2025 (unaudited)	December 31, 2024
Assets		
Current assets		
Cash and cash equivalents	\$ 865,679	\$ 164,812
Accounts receivable, net	-	335,839
Other assets	350,876	164,128
Total current assets	1,216,555	664,779
Long-term assets		
Property and equipment - net	1,351,863	314,503
Right of use asset – operating lease	945,749	1,074,583
Security deposits	17,004	17,004
Total long-term assets	2,314,616	1,406,090
Total assets	\$ 3,531,171	\$ 2,070,869
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 383,050	\$ 258,481
Notes payable	144,000	47,325
Due to related parties	50,000	50,000
Operating lease liability - current	251,446	265,380
Accrued expenses	118,084	63,153
Accrued dividends	48,079	48,079
Total current liabilities	994,659	732,418
Long-term liabilities		
Operating lease liability - non-current	836,999	945,704
Total long-term liabilities	836,999	945,704
Total liabilities	1,831,658	1,678,122
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, 2025 and December 31, 2024 (Liquidation preference \$340,050 and \$340,050, respectively)	14	14
Common stock, \$.001 par value, 500,000,000 shares authorized; 218,250,816 and 213,860,508 shares issued and outstanding at June 30, 2025 and December 31, 2024, respectively	218,591	213,861
Additional paid-in capital	128,361,575	120,168,124
Accumulated deficit	(126,880,667)	(119,989,252)
Total stockholders' equity	1,699,513	392,747
Total Liabilities and Stockholders' Equity	\$ 3,531,171	\$ 2,070,869

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

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2025	2024	2025	2024
Revenue	\$ 70,335	\$ 780,643	\$ 280,088	\$ 914,878
Cost of revenue	47,490	384,208	111,404	658,640
Gross profit	22,845	396,435	168,684	256,238
Operating expenses				
General and administrative	2,823,159	2,343,511	5,432,847	4,660,410
Selling and marketing	649,260	76,216	968,044	151,776
Research and development	336,178	37,923	659,225	118,703
Total operating expenses	3,808,597	2,457,650	7,060,116	4,930,889
Operating loss	(3,785,752)	(2,061,215)	(6,891,432)	(4,674,651)
Other income/(expense)				
Other income	3	265	17	2,322
Interest expense	-	-	-	-
Total other income/(expense)	3	265	17	2,322
Loss before provision for income taxes	(3,785,749)	(2,060,950)	(6,891,415)	(4,672,329)
Provision for income taxes	-	-	-	-
Net loss	(3,785,749)	(2,060,950)	(6,891,415)	(4,672,329)
Preferred stock dividends	(8,501)	(8,501)	(17,003)	(17,003)
Net loss attributable to common stockholders	<u>\$ (3,794,250)</u>	<u>\$ (2,069,451)</u>	<u>\$ (6,908,418)</u>	<u>\$ (4,689,332)</u>
Net loss attributable to common stockholders per common share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding	<u>218,426,641</u>	<u>212,607,537</u>	<u>217,975,767</u>	<u>211,962,257</u>

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

APPLIED ENERGETICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2025 AND 2024
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2024	13,602	\$ 14	213,860,508	\$ 213,861	\$ 120,168,124	\$ (119,989,252)	\$ 392,747
Stock-based compensation	-	-	-	-	912,593	-	912,593
Common stock issued on exercise of options	-	-	30,000	30	11,970	-	12,000
Issuance of common stock under the market offering	-	-	4,272,334	4,272	5,999,978	-	6,004,250
Common stock issued for settlement of restricted stock units	-	-	11,667	12	(12)	-	-
Common stock withheld to cover income tax withholding obligations	-	-	(3,693)	(4)	(2,729)	-	(2,733)
Common stock issued for consulting services	-	-	80,000	80	79,120	-	79,200
Net loss for the period ended March 31, 2025	-	-	-	-	-	(3,105,666)	(3,105,666)
Balance at March 31, 2025	13,602	\$ 14	218,250,816	\$ 218,251	\$ 127,169,044	\$ (123,094,918)	\$ 4,292,391
Stock-based compensation	-	-	-	-	1,098,971	-	1,098,971
Common stock issued on exercise of options	-	-	210,000	210	26,690	-	26,900
Common stock issued on exercise of warrants	-	-	50,000	50	2,950	-	3,000
Common stock issued for consulting services	-	-	80,000	80	63,920	-	64,000
Net loss for the period ended June 30, 2025	-	-	-	-	-	(3,785,749)	(3,785,749)
Balance at June 30, 2025	13,602	\$ 14	218,590,816	\$ 218,591	\$ 128,361,575	\$ (126,880,667)	\$ 1,699,513

	Preferred Stock		Common Stock		Additional Paid- In Capital	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount			
Balance at December 31, 2023	13,602	\$ 14	211,236,688	\$ 211,237	\$ 112,223,129	\$ (110,814,294)	\$ 1,620,086
Stock-based compensation	-	-	-	-	955,730	-	955,730
Common stock issued on exercise of options	-	-	60,000	60	12,540	-	12,600
Common stock issued on exercise of warrants	-	-	66,000	66	3,894	-	3,960
Common stock issued for settlement of restricted stock units	-	-	11,666	12	(12)	-	-
Common stock withheld to cover income tax withholding obligations	-	-	(3,715)	(4)	(7,515)	-	(7,519)
Net loss for the period ended March 31, 2024	-	-	-	-	-	(2,611,379)	(2,611,379)
Balance at March 31, 2024	13,602	\$ 14	211,370,639	\$ 211,371	\$ 113,187,766	\$ (113,425,673)	\$ (26,522)
Stock-based compensation	-	-	-	-	920,847	-	920,847
Common stock issued on exercise of options	-	-	280,000	280	60,720	-	61,000
Common stock issued on exercise of warrants	-	-	99,000	99	5,840	-	5,939
Issuance of common stock under the market offering	-	-	1,896,182	1,896	4,169,705	-	4,171,601
Net loss for the period ended June 30, 2024	-	-	-	-	-	(2,060,950)	(2,060,950)
Balance at June 30, 2024	13,602	\$ 14	213,645,821	\$ 213,646	\$ 118,344,878	\$ (115,486,623)	\$ 3,071,915

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

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

	FOR THE SIX MONTHS ENDED June 30,	
	2025	2024
Cash Flows From Operating Activities		
Net loss	\$ (6,891,415)	\$ (4,672,329)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash stock-based compensation expense	2,154,764	1,876,577
Amortization of ROU assets	128,834	95,044
Depreciation and amortization	114,203	103,921
Amortization of prepaid assets	38,393	109,445
Changes in assets and liabilities:		
Accounts receivable	335,839	356,615
Prepaid and deposits	(65,141)	(68,293)
Operating lease liabilities, net	(122,639)	(75,628)
Deferred Revenue	-	(308,908)
Accounts payable	124,568	(91,590)
Accrued expenses and compensation	54,931	4,772
Net cash used in operating activities	<u>(4,127,663)</u>	<u>(2,670,374)</u>
Cash Flows From Investing Activities		
Purchase of equipment	(1,151,563)	(55,435)
Net cash used in investing activities	<u>(1,151,563)</u>	<u>(55,435)</u>
Cash Flows From Financing Activities		
Repayment on notes payable	(63,325)	(47,325)
Proceeds from sale of common stock	6,004,250	4,171,601
Tax withholdings related to net share settlement of RSU's	(2,733)	(7,519)
Proceeds from the exercise of stock options and warrants	41,900	83,499
Net cash provided by financing activities	<u>5,980,093</u>	<u>4,200,256</u>
Net change in cash and cash equivalents	700,867	1,474,447
Cash and cash equivalents, beginning of year	164,812	1,319,526
Cash and cash equivalents, at end of period	<u>\$ 865,679</u>	<u>\$ 2,793,973</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 686</u>	<u>\$ -</u>
Cash paid for taxes	<u>\$ -</u>	<u>\$ -</u>
Non-cash investing and financing activities		
Insurance financing for prepaid insurance	<u>\$ 160,000</u>	<u>\$ 189,302</u>

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

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025
(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, 2024, 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 six months ended June 30, 2025, the company incurred a net loss of \$6,891,415, had negative cash flows from operations of \$4,127,663 and may incur additional future losses due to limited contract activity. At June 30, 2025, the company had total current assets of \$1,216,555 and total current liabilities of \$994,659, resulting in working capital of \$221,896. At June 30, 2025, the company had cash of \$865,679.

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 government contracts, 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.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025
(Unaudited)

Trade conditions, such as unusually high and fluctuating tariffs, exacerbated supply chain shutdowns and delays, contribute to this uncertainty. Additionally, Russia's military action in Ukraine, war in the Middle East, 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 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. The company may be unsuccessful 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 41,833,712 and 30,969,228 for the six months ended June 30, 2025 and 2024, respectively.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025
(Unaudited)

Significant Concentrations and Risks

We maintain cash balances at a commercial bank, and, at times, balances exceed FDIC limits. As of June 30, 2025, \$607,417 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 – OTHER ASSETS

Other assets consisted of the following as of June 30, 2025 and December 31, 2024:

	As of June 30, 2025	As of December 31, 2024
Prepaid Expenses	\$ 144,126	\$ 125,735
Prepaid Insurance	205,000	38,393
Other Receivables	1,750	-
Total other assets	<u>\$ 350,876</u>	<u>\$ 164,128</u>

NOTE 4 – PROPERTY AND EQUIPMENT – NET

Property and equipment – net consisted of the following as of June 30, 2025 and December 31, 2024:

	As of June 30, 2025	As of December 31, 2024
Lab equipment	\$ 655,072	\$ 642,420
Battle Lab Equipment	1,021,250	-
Computer equipment	161,977	161,977
Software	442,310	442,310
Other Property Used for Transportation	11,200	-
Furniture & Fixtures	24,143	24,143
Equipment in process	106,461	-
Total property and equipment	2,422,413	1,270,850
Less: Accumulated depreciation	(1,070,550)	(956,347)
Property and equipment, net	<u>\$ 1,351,863</u>	<u>\$ 314,503</u>

Depreciation expense for the six months ended June 30, 2025 and 2024, was \$114,203 and 103,921, respectively.

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025
(Unaudited)

NOTE 5 – SECURITY DEPOSITS

As of June 30, 2025 and December 31, 2024, the Company had security deposits totaling \$17,004 which primarily consist of amounts paid under office and facility lease agreements. These deposits are refundable upon lease termination, subject to the terms of the underlying agreements. The security deposits are classified as non-current assets, as the leases are not expected to terminate within the next twelve months.

NOTE 6 – ACCRUED EXPENSES

Accrued expenses consisted of the following as of June 30, 2025 and December 31, 2024:

	As of June 30, 2025	As of December 31, 2024
Accrued other	\$ 61,448	\$ -
Accrued payroll	53,883	61,629
Accrued taxes		1,524
Accrued 401k	2,753	-
Total accrued expenses	<u>\$ 118,084</u>	<u>\$ 63,153</u>

NOTE 7 – NOTES PAYABLE

Premium Financing

On June 12, 2025, the company entered into an agreement with Oakwood D&O Insurance to provide financing in the amount of \$160,000 for the insurance premium associated with its D&O and employed lawyer insurance policies. Both policies commenced June 12, 2025, and provided coverage for the next 12 months, expiring June 11, 2026. The loan bears interest at a fixed rate of 9.250% per annum and required the company to prepay \$45,000 and appears on the balance sheet as other asset. On July 12, 2025, the company commenced monthly principal and interest payments of \$16,686 which was the first payment of ten remaining months due of \$166,861.50, the last payment of which is scheduled to be made on May 17, 2026. As of June 30, 2025, the outstanding balance on the note was \$144,000.

On March 12, 2024, the company entered into an agreement with Oakwood D&O Insurance to provide financing in the amount of \$189,302 for the insurance premium associated with its D&O and employed lawyer insurance policies. Both policies commenced March 12, 2024, and provided coverage for the next 15 months, expiring June 11, 2025. The loan bears interest at a fixed rate of 9.50% per annum and required the company to prepay \$41,057 and appears on the balance sheet as other asset. On April 12, 2024, the company commenced monthly principal and interest payments of \$15,775 which was the first payment of twelve remaining months due of \$189,302, the last payment of which is scheduled to be made on March 12, 2025. As of December 31, 2024, the outstanding balance on the note was \$0.

Notes Payable Reconciliation

The following reconciles notes payable as of June 30, 2025, and December 31, 2024:

	June 30, 2025	December 31, 2024
Beginning balance	\$ 47,325	\$ -
Notes payable	160,000	189,302
Payments on notes payable	(63,325)	(141,977)
Total	144,000	47,325
Less-Notes payable – current	144,000	47,325
Notes payable – non-current	<u>\$ -</u>	<u>\$ -</u>

APPLIED ENERGETICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2025
(Unaudited)

NOTE 8 – DUE TO RELATED PARTIES

On July 31, 2018, our now deceased acting 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 9 – STOCKHOLDERS' EQUITY

Authorized Capital Stock

During the six months ended June 30, 2024, the company completed the placement of 1,896,182 shares of its common stock, par value, \$0.001 per share, in a private sale to individual purchasers at a price of \$2.20 per share, for aggregate proceeds in the amount of \$4,171,601.

During the six months ended June 30, 2024, the company issued 180,000 shares of common stock upon the exercise of options at an exercise price of \$0.07 a share, for proceeds in the amount of \$12,600.

During the six months ended June 30, 2024, the company issued 60,000 shares of common stock upon the exercise of options at an exercise price of \$0.35 a share, for proceeds in the amount of \$21,000.

During the six months ended June 30, 2024, the company issued 100,000 shares of common stock upon the exercise of options at an exercise price of \$0.40 a share, for proceeds in the amount of \$40,000.

During the six months ended June 30, 2024, the company issued 165,000 shares of common stock upon exercise of warrants at an exercise price of \$ 0.06 per share for proceeds in the amount of \$9,899.

During the six months ended June 30, 2024, restricted stock units covering 11,666 shares of the company's common stock vested. The company issued 11,666 shares of common stock and withheld 3,715 shares of common stock from the holder pursuant to their restricted stock unit agreement to cover its tax withholding obligation of \$7,519.

During the six months ended June 30, 2025, the company completed the placement of 8,010,652 shares of its common stock, par value, \$0.001 per share, of which 3,738,318 were underlying pre-funded common stock purchase warrants, in a private sale to individual purchasers at a price of \$0.75 per share (or \$0.749 per underlying share for pre-funded warrants), for aggregate proceeds in the approximate amount of \$ 6,004,250.

During the six months ended June 30, 2025, the company issued 50,000 shares of common stock upon the exercise of 50,000 options at an exercise price of \$0.40 a share. As a result, the company received \$20,000 in cash proceeds as part of the transaction.

APPLIED ENERGETICS, INC.
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During the six months ended June 30, 2025, restricted stock units covering 11,667 shares of the company's common stock vested. The company issued 11,667 shares of common stock, and withheld 3,693, shares of common stock from the holder pursuant to their restricted stock unit agreements to cover its tax withholding obligation of \$2,733.

During the six months ended June 30, 2025, the Company issued 160,000 shares of common stock to consultants in exchange for services rendered. During the six months ended June 30, 2025, the Company recognized stock compensation expense of \$143,040.

During the six months ended June 30, 2025, the company issued 50,000 shares of common stock upon the exercise of warrants at an exercise price of \$ 0.06 per share for proceeds in the amount of \$3,000.

During the six months ended June 30, 2025, the company issued 170,000 shares of common stock upon the exercise of 170,000 options at an exercise price of \$0.07 a share. As a result, the company received \$11,900 in cash proceeds as part of the transaction.

During the six months ended June 30, 2025, the company issued 20,000 shares of common stock upon the exercise of 20,000 options at an exercise price of \$0.35 a share. As a result, the company received \$7,000 in cash proceeds as part of the transaction.

Preferred Stock

As of June 30, 2025, and December 31, 2024, there were 13,602 shares of Series A Redeemable Convertible Preferred Stock (the "Series A Preferred Stock") issued and outstanding, respectively. The company has not paid the dividends commencing with the quarterly dividend due August 1, 2013. Dividend arrearages as of June 30, 2025, including previously accrued dividends of \$48,079 included in our balance sheet total approximately \$413,633. 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.

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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 and restricted stock units to certain officers, directors, employees and consultants. Total stock-based compensation expense for grants to officers, employees and consultants was \$2,154,764 and \$1,876,577 for the six months ended June 30, 2025, and 2024, respectively, which was charged to general and administrative expense.

The \$2,154,764 stock-based compensation for the six months ended June 30, 2025, was comprised of \$1,092,659 option expense, \$918,905 expense from the vesting of the restricted stock and \$143,200 relating to shares issued for services rendered.

During the six months ended June 30, 2025, the company issued an incentive stock option to purchase up to 150,000 shares of common stock, at an exercise price of \$1.02, to two consultants.

During the six months ended June 30, 2025, the company issued an incentive stock option to purchase up to 150,000 shares of common stock, at an exercise price of \$0.74, to a consultant.

During the six months ended June 30, 2025, the company issued an incentive stock option to purchase up to 5,600,000 shares of common stock, at an exercise price of \$1.22, to eighteen employees.

During the six months ended June 30, 2025, the company issued a non-qualified stock option to purchase up to 250,000 shares of common stock, at an exercise price of \$1.70, to a consultant.

During the six months ended June 30, 2025, the company issued an incentive stock option to purchase up to 300,000 shares of common stock, at an exercise price of \$2.44, to two employees.

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

As of June 30, 2025, the company has \$8,993,937 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.

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The following table summarizes the activity of our stock options for the six months ended June 30, 2025:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term Outstanding	Intrinsic Value
Outstanding at December 31, 2024	27,105,434	\$ 0.30	5.23	\$ 262,199,729
Granted	6,450,000	0.96	9.89	57,620,551
Exercised	(240,000)	(0.16)	3.92	(901,045)
Forfeited or expired	-	-	-	-
Outstanding at June 30, 2025	33,315,434	0.59	5.74	171,313,829
Outstanding and exercisable at June 30, 2025	21,959,598	0.37	3.96	78,864,328

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:

	Six Months Ended June 30, 2025	Six Months Ended June 30, 2024
Assumptions:		
Risk-free interest rate	4.00-4.28%	1.26-1.30%
Expected dividend yield	0%	0%
Expected volatility	86.00-111.96%	111.62-112.60%
Expected life (in years)	6.5	6

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 six months ended June 30, 2025, was as follows:

	Restricted Stock Outstanding	Weighted Average Fair Value per Share at Grant Date
	Shares	
Nonvested at December 31, 2024	3,293,788	2.27
Granted – restricted stock units and awards	-	-
Granted – performance-based stock units	-	-
Canceled	-	-
Vested	(11.667)	(2.25)
Nonvested at June 30, 2025	3,282,121	2.28

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As of June 30, 2025, and December 31, 2024, there was \$2,404,563 and \$3,323,467, respectively in unrecognized stock- based compensation related to unvested restricted stock agreements, net of estimated forfeitures.

Warrant stock activity for the six months ended June 30, 2025, was as follows:

	Warrant Activity		
	Shares	Weighted Average Exercise Price	Weighted Average remaining Contractual Term (years)
Outstanding at December 31, 2024	1,485,000	\$ 0.06	4.53
Granted	3,738,318	0.75	9.53
Exercised	(50,000)	(0.06)	4.03
Forfeited	-	-	-
Outstanding and exercisable at June 30, 2025	5,173,318	\$ 0.56	8.01

Range of Exercise Prices	Warrants Outstanding			Warrants Exercisable	
	Shares Outstanding	Weighted Avg. Remaining Contractual Life in Years	Weighted Avg. Exercise Price	Shares Exercisable	Weighted Avg. Exercise Price
\$0.06 – \$0.75	5,173,318	8.01	\$ 0.56	5,173,318	\$ 0.56
	5,173,318	8.01	\$ 0.56	5,173,318	\$ 0.56

There were 3,738,318 prefunded stock warrants which are exercisable for \$0.001 per share. These shares are included in outstanding shares in determining earnings per share.

NOTE 10 – 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 revenue is recognized by the company over the contract term at a fixed contract price.

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Contract modifications are routine in the performance of our contracts. Contracts are often modified to account for changes in the contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct, and, therefore, are accounted for as part of the existing contract.

The following table summarizes the company's accounts receivable, net,

	June 30, 2025	December 31, 2024
Accounts receivable	\$ -	\$ 335,839

Concentration

During the three months ended June 30, 2025, one customer accounted for a total of \$70,334 in revenue or 100% of revenue recognized. During the six months ended June 30, 2025, two customers accounted for a total of \$280,088 in revenue or 100% of revenue recognized. As of June 30, 2025, the company has \$0 or 0% of accounts receivable recorded as current assets on the balance sheet.

During the three months ended June 30, 2024, three customers accounted for a total of \$768,146 in revenue or 98% of revenue recognized. During the six months ended June 30, 2024, three customers accounted for a total of \$902,382 in revenue or 99% of revenue recognized. As of June 30, 2024, the company has \$211,177 or 100% of accounts receivable recorded as current assets on the balance sheet related to one customer.

NOTE 11– 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 at the University of Arizona Tech Park. The initial base rent was \$6.7626 per rentable square foot for year one and escalated to \$ 9.2009 per rentable square foot in year two. It is to further escalate to \$11.4806 per rentable square foot in year three, \$13.1740 per rentable square foot in year four and \$14.9306 per rentable square foot in year five, in addition to certain operating expenses and taxes.

On June 7, 2023, the company entered into an amendment to extend the term of the original lease from April 26, 2026 to July 31, 2028. Included in the lease amendment is extension space commencing on August 1, 2023. As of August 1, 2023 the Company has secured additional square footage in the amount of 9,805 rentable square feet (8,375 usable square feet). The initial base rent for expansion space was \$9.10 per rentable square foot for year one, and escalated to \$10.20 in year two, \$11.30 in year three, \$12.40 in year four and \$13.50 in year five, plus certain operating expenses and taxes.

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On July 3, 2024, Applied Energetics, Inc. exercised its option to lease more than 5,000 square feet of additional space at the University of Arizona Tech Park. The company will occupy, in the aggregate, approximately 26,000 sq. ft. of space at the Arizona Tech Park. The company took the option to lease this additional space under the June 7, 2023, amendment.

The company incurred lease expense for its operating leases of \$179,659 which was included in general and administrative expenses in the statements of operation for the six months ended June 30, 2025. During the six months ended June 30, 2025, the company made cash lease payments in the amount of \$173,464.

At June 30, 2025, we had approximately \$187,800 in future minimum lease payments due for the six months ending December 31, 2025. The below table presents the future minimum lease payments due reconciled to lease liabilities.

	Operating Lease
2025, six months ending December 31, 2025	\$ 187,804
2026	394,256
2027	418,216
2028	250,316
2029	-
Thereafter	-
Total undiscounted lease payments	1,250,592
Present value discount, less interest	162,147
Lease Liability	<u>\$ 1,088,445</u>

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 director's and officer's and employed lawyer liability insurance policies that limit 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 June 30, 2025 and 2024.

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 (GKN) and Ryan Whalen for malpractice and breach of New York Rules of Professional Conduct (NYRPC) by both parties as former counsel to the company. On May 28, 2021, GKN 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, GKN 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 1,242,710 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. Motions for summary judgment in the case are fully briefed, and the judge held oral arguments on August 7, 2025. The parties await judgment in the case.

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.

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NOTE 12 – SEGMENT INFORMATION

The Company is currently deemed to be comprised of only one operating segment and one reportable segment. The following table presents selected financial information with respect to the Company's single reportable segment for the three and six months ended June 30, 2025 and 2024:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2025	2024	2025	2024
Revenue	\$ 70,335	\$ 780,643	\$ 280,088	\$ 914,878
Operating Expenses				
Cost of revenue				
Payroll and related	29,277	232,842	88,341	422,476
Materials and supplies	18,213	151,366	23,063	236,164
Marketing and travel	-	-	-	-
Total cost of revenue	47,490	384,208	111,404	658,640
General and administrative				
Payroll and related	335,852	688,731	670,541	1,330,052
Professional fees	657,620	150,367	1,292,912	363,909
Board compensation	89,667	76,250	165,917	152,500
Employee stock based compensation	622,244	515,965	1,093,988	1,044,462
Consulting stock based compensation	540,726	404,880	1,060,775	832,112
Materials and supplies	49,233	15,744	98,207	22,738
Marketing and travel	82,061	54,006	152,897	114,701
Investor relations	63,661	60,577	99,783	102,597
Insurance	16,755	67,706	92,288	127,001
Software and communications	72,100	78,814	143,702	127,372
General and administrative, including rent	235,187	178,989	447,633	339,045
Depreciation	58,053	51,482	114,204	103,921
Total general and administrative	2,823,159	2,343,511	5,432,847	4,660,410
Selling and marketing				
Professional fees	-	-	-	-
Marketing and travel	649,260	76,216	968,044	151,776
Total selling and marketing	649,260	76,216	968,044	151,776
Research and development				
Payroll and related	232,166	25,418	414,873	60,108
Professional fees	-	-	-	-
Materials and supplies	104,012	12,505	244,352	58,595
Total research and development	336,178	37,923	659,225	118,703
Operating loss	\$ (3,785,752)	\$ (2,061,215)	\$ (6,891,432)	\$ (4,674,651)

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NOTE 13 – SUBSEQUENT EVENTS

The company's management has evaluated subsequent events occurring after June 30, 2025, the date of our most recent balance sheet, through the date our financial statements were issued.

Subsequent to June 30, 2025, the company issued 242,192 shares of common stock upon the exercise of options at an exercise price of \$0.07 per share. The company received \$16,953 in cash proceeds, minus required withholding, from the exercise of such options.

Subsequent to June 30, 2025, the company issued 10,000 shares of common stock upon the exercise of options at an exercise price of \$0.35 per share. The company received \$3,500 in cash proceeds, minus required withholding, from the exercise of such options.

Subsequent to June 30, 2025, Restricted Stock Units covering 200,000 shares of the company's common stock vested. The company withheld a portion of these shares of common stock from the holders pursuant to their restricted stock unit agreements to cover its tax withholding obligation.

As of the reporting date, the company has received cash proceeds in the amount of \$2,999,997 from investors pursuant to an equity offering. The company has not yet delivered countersigned subscription agreements or conducted a closing of the financing, and the final terms remain subject to change while the financing is open. Accordingly, the Company has classified the proceeds as a liability. The company will reclassify the liability to equity upon delivery of countersigned agreements and finalization of the terms.

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, 2024.

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, 2024. 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.

Our UltraShort Pulse Lasers (USP) are designed to provide:

- Frequency Agile Optical Sources from Ultraviolet (UV) to Far Infrared (IR)
- Pulse Duration Agility
- Size, Weight, and Power Optimization
- Advanced Fiber Applications
- Laser Guided Energy (LGE®)
- Laser Induced Plasma Channel (LIPC®)

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. 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 six pending patent applications, one of which has been allowed. 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. 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 also 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 early July, the company generated over 1 billion watts (1 gigawatt) of peak optical power at near-infrared wavelengths in a laboratory-scale ultrashort pulse laser (USPL) system, marking a significant milestone in its technological development. This achievement marks the latest in a rapidly accelerating series of performance milestones. Since December 2023, Applied Energetics has advanced its systems from hundreds of thousands of watts, to multi-megawatt levels in late 2024, to 25 million watts in April 2025, and 400 million watts in May 2025. Surpassing the gigawatt threshold demonstrates the scalability and maturity of Applied Energetics' proprietary technology and solidifies its leadership in next generation directed energy capabilities. This breakthrough was achieved using our proprietary USPL architecture, developed entirely in-house and protected by a growing portfolio of patents.

Effective May 17, 2025, the company received a Requisition from the University of Rochester in the amount of \$181,639. This is part of a contractual arrangement with the university in the amount of approximately \$250,000 to support its Laboratory for Laser Energetics (LLE) for ongoing efforts to explore pulsed laser technologies. Work on the contract commenced on July 10, 2025 with a meeting at Applied Energetics headquarters in Tucson, AZ with Dr. Jon Zuegel, Laser Development and Engineering Division Director and a Senior Scientist at the Laboratory for Laser Energetics (LLE) at the University of Rochester to discuss the research to be provided by the company.

On February 10, 2025, Applied Energetics announced the opening of its new Battle Lab, a world-class facility designed to test, demonstrate, and advance emerging laser technologies in dynamic environments. The facility, as planned, is also expected to provide the capacity to manufacture and integrate advanced lasers as Applied Energetics makes the anticipated technology transition to the next stage of its lifecycle. The company has installed multiple laser systems in the Battle Lab since opening and conducted demonstrations of these lasers. Over the coming months, the company intends to install and demonstrate additional ultrashort pulse lasers with varying wavelengths against relevant target packages. Ultimately, the Battle Lab is intended to support laser system testing against relevant targets and emerging threats. It is expected to enable technology maturation and be the venue for customer and partner demonstrations under realistic and controlled conditions.

Ongoing Business Operations

In the three months ended June 30, 2025, the company continued work relating to its strategic collaboration with Kord Technologies, Inc., a wholly owned subsidiary of KBR, to explore the potential development and integration of an advanced pulsed laser system with Kord's FIREFLY™ High Energy Laser Weapon System (HELWS). The current phase of the project began in the prior quarter with the purchase of a specially modified Firefly HELWS unit from Kord which the company is using to work on the development and integration of its proprietary Ultrashort Pulse technology in its newly opened Battle Lab, with the assistance of Kord personnel under a related services agreement.

This teaming effort is intended to advance innovative directed energy capabilities that may create future opportunities in defense and security markets. The development and integration activities focus on refining system performance, optimizing integration, and validating operational effectiveness, by striving to achieve key technical milestones that could lead to additional customer interest, contract opportunities, and expanded applications.

Applied Energetics previously entered into a Memorandum of Understand (MOU) with Kord, effective October 28, 2024, to further the development and deployment of Applied Energetics' ultrashort pulsed laser (USPL) technology for defense and national security applications. The MOU outlines key areas of cooperation, including joint research and development, integration of Applied Energetics' USPL technologies into an existing high-energy laser directed energy platform, and the exploration of new opportunities to enhance both companies' product portfolios.

Effective August 23, 2023, Applied Energetics executed a contract with the Department of the Navy, Office of Naval Research (ONR) with an aggregate contract price of \$1.99 million payable over two years as the company performs its obligations under the contract. Under this contract, we have worked to develop a high-peak and high-average power USP optical system. The system is expected to demonstrate effects compatible with multiple Navy platforms and missions with an attractive size, weight, and power-cooling footprint. During the quarter ended June 30, 2025, the company was notified that no further funds are available for this contract and advised to stop work on it. Receipt of additional amounts under the contract, including for any work to be performed, is in doubt. The company intends to continue working in parallel on this technology as part of its ongoing internal research and development program.

Effective May 15, 2023, Applied Energetics executed a Phase II Small Business Technology Transfer (STTR) contract with the U.S. Army at an aggregate contract price of \$1.148 million payable over two years as the company performs its obligations thereunder, with the first year currently funded. The objective of this Phase II award is to further the development and testing of an IR laser system utilizing technologies that were investigated under the US Army Phase I STTR contract which the company was awarded in May 2022. This Phase II contract award follows a successful Phase I which established a computational concept with physical modeling and simulation to establish the feasibility of an IR laser system. Phase I was performed in collaboration with the James C. Wyant College of Optical Sciences at the University of Arizona. The company has continued its work under the contract, and provided all required reports, since its execution. On May 9, 2025, the company entered into a no-cost modification to continue work on the contract through November 14, 2025. The company also amended its related agreement with the University of Arizona consistent with this extension.

Effective March 12, 2024, a grant previously awarded to the company from the Department of the Navy, Office of Naval Research, was transitioned into a contract. The original grant from May 2022 had a two-year period of performance. The new contract superseded the grant with a ceiling value of \$1,217,535 under a base period of performance through November 11, 2024 and a 12-month unfunded option period that was to end November 11, 2025. On September 4, 2024, the company received a funding increase on this contract of \$237,647 which brought the total funding on the contract to \$1,455,182. Under this contract, we have worked 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. During the quarter ended June 30, 2025, the company was notified that funding has ceased for this contract. The contract is still in effect, and no stop-work order was received. The company has ceased recording revenue for this contract, and receipt of additional amounts under it is in doubt. The company intends to continue working in parallel on this technology as part of its ongoing internal research and development program.

Business Development Activities

We continue to submit proposals to, and attended briefings with, various defense and other government agencies who have expressed an interest in our technology and applications. Our efforts in this area of development have produced some results. In addition to the contracts which we have been awarded, 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. We have also engaged in discussions with private entities and academic institutions with the objective of possibly collaborating on one or more projects. Some of these could result in further customer agreements or other opportunities to grow our business.

For fiscal year 2025, which started on October 1, 2024, the National Defense Authorization Act (NDAA) was delayed, but on December 23, 2024, then-President Biden signed the 2025 NDAA into law. The NDAA sets defense spending policies, while the separate appropriations bills comprising the federal budget fund government spending, including spending on defense and homeland security. This impacts all proposals under review by the Department of Defense. On September 26, 2024, in the absence of an enacted federal budget, then-President Biden signed a Continuing Resolution (CR), HR 9747, which extended government operations through December 20, 2024. He then signed a second CR for FY25 on December 21, 2024, extending funding for the federal government through March 14, 2025. A full year Continuing Resolution, H.R. 1968, was passed and signed into law by President Trump on March 15, 2025, and extends through September 30, 2025.

In addition, the newly elected administration has established the Department of Government Efficiency (DOGE) whose mission is to sharply reduce federal spending. In February 2025, President Trump stated that he has directed DOGE to review defense spending for possible waste, fraud and abuse. The administration has also indicated that it may pursue significant reductions to the U.S. defense budget, if both Russia and China would agree to similar cuts in their respective national security spending. The potential impact on the company of DOGE and possible cuts to the defense and national security industries, if any, is uncertain. Notwithstanding these budgetary concerns, the administration and Pentagon have indicated an interest in continuing to fund innovative defense related technologies, including in the area of directed energy.

The current budgetary and deficit funding environment, continuing inflation, tariffs and other ongoing supply chain disruptions, the appropriations process, and DOGE, among other items, all continue to create significant short and long-term challenges and risks to the company and its business development endeavors. However, we remain optimistic that the innovative nature of our technology and its novel approach to addressable threats position the company for development, growth, and market opportunities.

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 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 has been able to develop partnerships 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.

As with many government contractors, we have experienced recent challenges with funding of our contracts by the DoD and, in particular, with funding cutbacks at the Office of Naval Research (ONR). We recently learned that funding has been discontinued on two of our ONR contracts which affects our cash position and our strategic plan. Although the contracts have not been cancelled, their funding remains in doubt so that we cannot rely on receipt of funds from them, including for work already performed. These contracts were awarded under the DoD's Research, Development, Test & Evaluation 6.2 Applied Research program which has been targeted by DoD for a 23.7% budget cut in FY2025. We believe that the technology underlying these contracts is considered "novel" and therefore, of continued interest to the DoD in its stated areas of ongoing focus. Accordingly, we plan to continue research and development of this technology, on an internal basis, and to focus on strategic partnerships with other entities as well as seeking additional prime government contracts. Our goal is to continue to accelerate the technology readiness level of our solutions to be able to submit more proposals and be prepared to conduct more customer and partner demonstrations of our technology in our recently opened Battle Lab. Under the current state of cutbacks in government funding both by individual agencies and DOGE, we cannot be certain that any such contracts will be forthcoming.

Subject to the foregoing, we continue to execute our business development plan, further our research and development program and submit filings for intellectual property and proposals for grants and contracts. During the past several 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 several contracts as well as other indications in recent years, 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 reach \$32.1 billion globally by 2033. 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. We believe that once these technologies are funded in production for a POR, or are approved to be integrated on fielded platforms in volumes to effect threat reduction, these DOD budgets for directed energy will grow exponentially larger to support the technology insertion. Notwithstanding the funding cuts at the ONR as described above, 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 the USP marketplace. These innovations could play a significant role in the efforts from the new administration to implement the Golden Dome for America program by advancing directed energy and other integrated technological solutions for missile and other threat protection for the country. Estimated budget requirements would exceed \$50B annually.

Our research and development programs depend on our ability to procure the necessary optical and fabricated materials, components, electronics and other supplies. A significant, prolonged increase in inflation could negatively impact the cost of materials and components, which could be a particular problem with respect to our fixed fee contracts. Within the current geopolitical context, there are ongoing embargos of exports from some global suppliers of various materials that are used in electronics and some diode and laser materials, which can have negative effects on technology supply chains. This, coupled with tariffs and other trade disruptions, could significantly impair our ability to source necessary supplies and equipment when and in quantities needed. We continuously monitor potential supply chain issues and supplier liquidity and work with our supply base to ensure adequate sources of materials at reasonable costs. In some instances, we depend upon a single source of supply, but we are developing multiple sources, both internal to AE and externally where possible to mitigate the risk. In some cases, we must comply with specific procurement requirements, which can limit the suppliers and subcontractors we may utilize.

Results of Operations

Comparison of Operations for the Three Months Ended June 30, 2025 and 2024:

	2025	2024	\$ Change	% Change
Revenue	\$ 70,335	\$ 780,643	(710,308)	(90.99)%
Cost of revenue	(47,490)	(384,208)	336,718	(87.64)%
General and administrative	(2,823,159)	(2,343,511)	(479,648)	20.47%
Selling and marketing	(649,260)	(76,216)	(576,044)	751.87%
Research and development	(336,178)	(37,923)	(298,255)	786.48%
Other income	3	265	(262)	(98.87)%
Net loss	\$ (3,785,749)	\$ (2,060,950)	(1,724,799)	83.69%

Revenue

Revenue decreased by \$710,308 to \$70,335 for the three months ended June 30, 2025 from \$780,643 for the three months ended June 30, 2024. In April 2025, the Company was notified by its customer that two of its active contracts were currently unfunded and remain unfunded as of the date, resulting in a decrease in revenue for the period. Although the contracts remain open, the Company suspended all work until funding is secured in the future. Despite the suspension, the Company continues to advance the underlying technology through its internal research and development efforts. Both the customer and the Company are actively seeking alternative sources of funding, including from within the original contracting agency and other departments of the U.S. Department of Defense.

Cost of Revenue

Cost of revenue decreased by \$336,718 to approximately \$47,490 for the three months ended June 30, 2025 from \$384,208 for the three months ended June 30, 2024. This decrease was primarily attributable to the unavailability of federal funds. The cost of material, supplies and direct labor incurred were expensed to R&D while our programs and work remain active and in place.

General and Administrative

General and administrative expenses increased by \$479,648 to approximately \$2,823,159 for the three months ended June 30, 2025, compared to approximately \$2,343,511 for the three months ended June 30, 2024. The increase was primarily driven by higher professional fees of \$507,253, an increase in non-cash compensation of \$242,125, and higher rent of \$56,198, partially offset by a decrease in payroll salaries and related expenses of \$352,880 and a reduction in insurance costs of \$50,951.

Selling and Marketing

Selling and marketing expenses increased by \$576,044 to \$649,260 for the three months ended June 30, 2025, compared to approximately \$76,216 for the three months ended June 30, 2024, primarily due to the development and installation of the Battle Lab for \$380,000 as well as \$148,000 for labor and the continuation of business development activities through our Master Services Agreement with Westpark Advisors as well as other consultants in this field.

Research and Development

Research and development expenses increased by \$298,255 to \$336,178 for the three months ended June 30, 2025, compared to approximately \$37,923 for the three months ended June 30, 2024, primarily due to an increase in labor costs of \$206,700 material costs of \$91,500 associated with continued development of our USP laser technologies.

Net Loss

Our operations for the three months ended June 30, 2025, resulted in a net loss of \$3,785,749 an increase of approximately \$1,724,799 compared to the \$2,060,950 net loss for the three months ended June 30, 2024, primarily due an increase in general and administrative expenses, selling and marketing and research and development expenses.

Comparison of Operations for the Six Months Ended June 30, 2025 and 2024:

	2025	2024	\$ Change	% Change
Revenue	\$ 280,088	\$ 914,878	(634,790)	-69.39%
Cost of revenue	(111,404)	(658,640)	547,236	-83.09%
General and administrative	(5,432,847)	(4,660,410)	(772,437)	16.57%
Selling and marketing	(968,044)	(151,776)	(816,268)	537.81%
Research and development	(659,225)	(118,703)	(540,522)	455.36%
Other income	17	2,322	(2,305)	-99.27%
Net loss	<u>\$ (6,891,415)</u>	<u>\$ (4,672,329)</u>	<u>(2,219,086)</u>	47.49%

Revenue

Revenue decreased by \$634,790 to \$280,088 for the six months ended June 30, 2025 from \$914,878 for the six months ended June 30, 2024. In April 2025, the Company was notified by its customer that two of its active contracts were currently unfunded and remain unfunded as of the date, resulting in a decrease in revenue for the period. Although the contracts remain open, the Company suspended all work until funding is secured in the future. Despite the suspension, the Company continues to advance the underlying technology through its internal research and development efforts. Both the customer and the Company are actively seeking alternative sources of funding, including from within the original contracting agency and other departments of the U.S. Department of Defense.

Cost of Revenue

Cost of revenue decreased by \$547,236 to \$111,404 for the six months ended June 30, 2025 from \$658,640 for the six months ended June 30, 2024. This decrease was primarily attributable to the unavailability of federal funds. The cost of material, supplies and direct labor incurred were expensed to R&D while our programs and work remain active and in place.

General and Administrative

General and administrative expenses increased by \$772,437 to \$5,432,847 for the six months ended June 30, 2025, compared to approximately \$4,660,410 for the six months ended June 30, 2024. The increase was primarily driven by higher professional fees of \$929,003, an increase in non-cash compensation of \$278,190, higher rent of \$108,588, and an increase in other general and administrative expenses of \$153,700. These increases were partially offset by a decrease in payroll salaries and related expenses of \$659,511 and a reduction in insurance costs of \$108,588.

Selling and Marketing

Selling and marketing expenses increased by \$816,268 to approximately \$968,044 for the six months ended June 30, 2025, compared to approximately \$151,776 for the six months ended June 30, 2024, primarily due to the development and installation of the Battle Lab for \$494,000 as well as \$289,000 for labor and the continuation of business development activities through our Master Services Agreement with Westpark Advisors as well as other consultants in this field.

Research and Development

Research and development expenses increased by \$540,522 to approximately \$659,225 for the six months ended June 30, 2025, compared to approximately \$118,703 for the six months ended June 30, 2024, primarily due to an increase in labor cost of \$354,765 and material cost of \$186,000 associated with continued development of our USP laser technologies and programs which remain in place as we continue to work on them.

Net Loss

Our operations for the six months ended June 30, 2025, resulted in a net loss of approximately \$6,891,415 an increase of approximately \$2,219,000 compared to the approximately \$4,672,329 net loss for the six months ended June 30, 2024, primarily due an increase in general and administrative expenses, research and development expenses and in selling and marketing expenses.

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 six months ended June 30, 2025, the company incurred a net loss of approximately \$6,891,000, had negative cash flows from operations of approximately \$4,128,000 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, 2024, 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.

On June 30, 2025, the company had total current assets of \$1,216,555 and total current liabilities of \$994,659 resulting in working capital surplus of \$221,896. At June 30, 2024, the company had total current assets of \$3,301,638 and total current liabilities of \$698,232 resulting in a working capital surplus of \$2,603,406.

During the first six months of 2025, the net cash outflow from operating activities was \$4,127,663. This amount was comprised primarily of our net loss of \$6,891,415, offset by non-cash stock-based compensation expense of \$2,154,764, depreciation and amortization of \$114,203, amortization of ROU assets of \$128,834, amortization of prepaid assets of \$38,393, and cash used from changes in assets and liabilities of \$327,558 from the increase in accounts receivable of \$335,839, increase in accounts payable of \$124,568 and accrued expenses and compensation of \$54,931 off set by the net decrease in prepaids and deposits of \$65,141 and operating lease liabilities of \$122,639.

During the first six months of 2025, the net cash outflow from investing activities was \$1,151,563. This was for the purchase of equipment.

During the first six months of 2025, the net cash inflow from financing activities was \$5,980,093. This amount consisted of \$6,004,250 in proceeds from stock subscriptions and \$41,900 from the exercise of options and warrants, which were offset by \$2,733 tax withholdings related to the share settlement of RSUs and \$63,325 of Repayment of insurance premium loan.

As of the reporting date, the company has received cash proceeds in the amount of \$2,999,997 from investors pursuant to an equity offering. The company has not yet delivered countersigned subscription agreements or conducted a closing of the financing, and the final terms remain subject to change while the financing is open. Accordingly, the company has classified the proceeds as a liability. The company will reclassify the liability to equity upon delivery of countersigned agreements and finalization of the terms.

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 current contracts, will be sufficient to meet the company's anticipated cash requirements for the near term. However, we cannot be certain that the current business plan will be achievable. In addition, we recently received verbal notice that funding under two of the company's contracts has been discontinued, as described under Results of Operations and Ongoing Business Activities. Although these contracts are still in effect, receipt of any additional funds under them is highly uncertain, which negatively affects our anticipated cash flows from operating activities.

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, 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure under this item is not required for a "smaller reporting companies."

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer (and principal accounting and financial officer) ("CEO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO has concluded that as of June 30, 2025, our disclosure controls and procedures were not effective as of such date as a result of a material weakness in our internal control over financial reporting due to a lack of segregation of duties (resulting from limited personnel) and written policies and procedures with the accounting functions and evidence of control review. Under the direction of our CEO, we are developing a plan to remediate this material weakness, including having hired additional personnel to implement and oversee the required policies and procedures.

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 (GKN) 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, GKN 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, GKN 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 1,242,710 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. Motions for summary judgment in the case are fully briefed, and the judge held oral arguments on August 7, 2025. The parties await judgment in the case.

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 5. OTHER INFORMATION

Rule 10b5-1 Trading Arrangements

On June 13, 2025, Mary P. O'Hara, our General Counsel, Chief Legal Officer, and Secretary adopted a written plan intended to satisfy the affirmative defense of Rule 10b5-1(c) which is to take effect on September 15, 2025, and is designed to be in effect until September 1, 2026, with respect to the sale of up to 550,000 shares of the company's common stock all of which underlie stock options held by Ms. O'Hara.

On June 13, 2025, Stephen W. McCahon, our Chief Science Officer, adopted a written plan intended to satisfy the affirmative defense of Rule 10b5-1(c) which is to take effect on September 19, 2025, and is designed to be in effect until March 31, 2026 with respect to the sale of up to 1,070,000 shares of the company's common stock beneficially owned by Dr. McCahon.

On June 13, 2025, Christopher Donaghey, our President and Chief Executive Officer, adopted a written plan intended to satisfy the affirmative defense of Rule 10b5-1(c) which is to take effect on September 25, 2025, and is designed to be in effect until September 24, 2026 with respect to the sale of up to 770,000 shares of the company's common stock beneficially owned by Mr. Donaghey. The plan is intended to replace Mr. Donaghey's current plan which is scheduled to expire on September 5, 2025.

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).
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.
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, 2024

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/ Christopher Donaghey
Christopher Donaghey,
President and
Chief Executive Officer and
Principal Financial Officer

Date: August 13, 2025

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, Christopher Donaghey, the President and Chief Executive Officer and Principal 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
President and Chief Executive Officer and
Principal Financial Officer
Date: August 13, 2025

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 Annual Report on Form 10-Q for the six months ended June 30, 2025 (the “Report”) I, Christopher Donaghey, President and Chief Executive Officer and Principal Financial Officer of the company, certify pursuant to 18 U.S.C. Section. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

This certificate is being made for the exclusive purpose of compliance by the 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
President and Chief Executive Officer
and Principal Financial Officer

Date: August 13, 2025