

APPLIED ENERGETICS, INC.
Form 10-Q
May 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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)

4585 S Palo Verde Road, Suite 405

Tucson, Arizona 85714
(Address of Principal Executive Offices) (Zip Code)

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

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

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

Yes No

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of May 2, 2013 there were 91,735,662 shares of the issuer's common stock, par value \$.001 per share, outstanding.

APPLIED ENERGETICS, INC.

QUARTERLY REPORT ON FORM 10-Q

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

APPLIED ENERGETICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|---|-------------------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,080,906 | \$ 2,622,142 |
| Accounts receivable | 8,818 | 47,964 |
| Inventory | 67,649 | 66,884 |
| Prepaid expenses and deposits | 77,890 | 102,610 |
| Total current assets | 2,235,263 | 2,839,600 |
| Property and equipment – net | 63,517 | 81,623 |
| TOTAL ASSETS | \$ 2,298,780 | \$ 2,921,223 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 219,603 | \$ 116,930 |
| Accrued expenses | 39,026 | 76,188 |
| Accrued compensation | 56,113 | 140,783 |
| Total current liabilities | 314,742 | 333,901 |
| Total liabilities | 314,742 | 333,901 |
| Commitments and contingencies - See Note 9 | | |
| Stockholders' equity | | |
| Series A Convertible Preferred Stock, \$.001 par value, 2,000,000 shares authorized; 107,172 shares issued and outstanding at March 31, 2013 and at December 31, 2012 | 107 | 107 |
| Common stock, \$.001 par value, 500,000,000 shares authorized; 91,735,662 shares issued and outstanding at March 31, 2013 and December 31, 2012 | 91,736 | 91,736 |
| Additional paid-in capital | 79,231,770 | 79,218,301 |
| Accumulated deficit | (77,339,575) | (76,722,822) |
| Total stockholders' equity | 1,984,038 | 2,587,322 |

| | | |
|--|--------------|--------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 2,298,780 | \$ 2,921,223 |
|--|--------------|--------------|

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

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APPLIED ENERGETICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | For the three months ended March 31, | |
|--|---|----------------|
| | 2013 | 2012 |
| Revenue | \$ 34,457 | \$ 399,207 |
| Cost of revenue | 28,894 | 365,067 |
| Gross profit (loss) | 5,563 | 34,140 |
| Operating expenses | | |
| General and administrative | 503,645 | 689,402 |
| Selling and marketing | 75,786 | 399,565 |
| Research and development | - | 134,788 |
| Total operating expenses | 579,431 | 1,223,755 |
| Operating loss | (573,868) | (1,189,615) |
| Other (expense) income | | |
| Interest expense | - | (1,651) |
| Interest income | 653 | 393 |
| Total other (expense) income | 653 | (1,258) |
| Net loss | (573,215) | (1,190,873) |
| Preferred stock dividends | (43,539) | (43,539) |
| Net loss attributable to common stockholders | \$(616,754) | \$(1,234,412) |
| Net loss per common share – basic and diluted | \$(0.01) | \$(0.01) |
| Weighted average number of shares outstanding, basic and diluted | 91,735,662 | 91,670,192 |

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

APPLIED ENERGETICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | For the three months ended March 31, | |
|---|---|-----------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (573,215) | \$ (1,190,873) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 18,106 | 79,562 |
| Non-cash stock based compensation expense | 13,469 | 41,069 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 39,146 | 401,201 |
| Other receivable | - | 51,630 |
| Inventory | (765) | 372 |
| Prepaid expenses, deposits and other assets | 24,720 | 76,588 |
| Accounts payable | 102,673 | (184,660) |
| Billings in excess of costs | - | (2,152) |
| Accrued expenses and deposits | (121,831) | (541,371) |
| Net cash used in operating activities | (497,697) | (1,268,634) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net cash provided by (used in) investing activities | - | - |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid (preferred stock) | (43,539) | (43,539) |
| Net cash provided by (used in) financing activities | (43,539) | (43,539) |
| Net decrease in cash and cash equivalents | (541,236) | (1,312,173) |
| Cash and cash equivalents, beginning of period | 2,622,142 | 3,937,135 |
| Cash and cash equivalents, end of period | \$ 2,080,906 | \$ 2,624,962 |

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

APPLIED ENERGETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying interim unaudited condensed consolidated financial statements include the accounts of Applied Energetics, Inc. and its wholly owned subsidiaries, Ionatron Technologies, Inc. and North Star Power Engineering, Inc. as of March 31, 2013 (collectively, "company," "Applied Energetics," "we," "our" or "us"). All intercompany balances and transactions have been eliminated. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented have been made. The results for the three- period ended March 31, 2013, may not be indicative of the results for the entire year. The interim unaudited condensed consolidated financial statements should be read in conjunction with the company's audited consolidated financial statements contained in our Annual Report on Form 10-K.

Recent Developments

The U.S. Government has significantly reduced defense spending and we do not anticipate receiving significant additional Government funding in the near future. We intend to continue to seek U.S. Government funding for our Laser Guided Energy, Laser Induced Plasma Channel, counter-improvised explosive devices ("IED") and high voltage and ultrashort pulse laser technologies and systems. We have suspended the majority of our Government work due to the lack of Government funding. We have also developed our USP laser technologies and systems for commercial markets. We are not investing company funds or resources to further develop and enhance our technologies and systems. As of March 18, 2013, our backlog was \$0.

As a result of the decrease in U.S. Government funding, we have significantly reduced our workforce to a level consistent with our expected operations.

We are considering strategic alternatives, including mergers, the acquisition of one or more businesses or technologies, and/or the disposition of one or more of our existing businesses.

Our continuance in business beyond 2013 is dependent on successful development of commercial customers, sales of our USP laser systems, obtaining profitable operations and additional financing necessary to fund our operations. Additional contracts from our Department of Defense customers, if available and substantial, will assist in funding our operations and contribute to revenue and cash flow.

The accompanying unaudited financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the three months ended March 31, 2013, the company incurred a net loss of approximately \$573,000, had negative cash flows from operations of \$498,000 and may incur additional future losses due to the reduction in Government contract activity. These matters raise substantial doubt as to the company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability of assets and the amount or classification of liabilities that might be necessary should the company be unable to continue as a going concern.

As of April 30, 2013, the company had approximately \$1.8 million in cash and cash equivalents.

USE OF ESTIMATES

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

APPLIED ENERGETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

CASH AND CASH EQUIVALENTS

Cash equivalents are investments in money market funds or securities with an initial maturity of three months or less. These money market funds are invested in government and US treasury based securities.

FAIR VALUE OF CURRENT ASSETS AND LIABILITIES

The carrying amount of accounts receivable and accounts payable approximate fair value due to the short maturity of these instruments.

RECENT ACCOUNTING PRONOUNCEMENTS

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

2.ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

| | March 31, 2013 | December 31, 2012 |
|----------------------|----------------|-------------------|
| Contracts receivable | \$ 6,990 | \$ 46,221 |

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| | | |
|---|----------|-----------|
| Costs and estimated earnings on uncompleted contracts | 1,828 | 1,743 |
| Accounts receivable, net | \$ 8,818 | \$ 47,964 |

Contracts receivable are expected to be collected within a year.

Costs and Estimated Earnings on Uncompleted Contracts

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|----------------------|
| Costs incurred on uncompleted contracts | \$ 694,167 | \$ 6,350,706 |
| Estimated earnings | 53,471 | 601,755 |
| Total billable costs and estimated earnings | 747,638 | 6,952,461 |
| Less: | | |
| Billings to date | 745,810 | 6,950,718 |
| Total | \$ 1,828 | \$ 1,743 |
| Included in accompanying balance sheet: | | |
| Unbilled costs and estimated earnings on uncompleted contracts included in accounts receivable | \$ 1,828 | \$ 1,743 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | - | - |
| Total | \$ 1,828 | \$ 1,743 |

APPLIED ENERGETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

3. INVENTORY

Our inventories consist of the following:

| | March 31, 2013 | December 31, 2012 |
|-----------------|----------------|-------------------|
| Raw materials | \$ 66,718 | \$ 66,719 |
| Work-in-process | 931 | 165 |
| Total | \$ 67,649 | \$ 66,884 |

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APPLIED ENERGETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

4. PROPERTY AND EQUIPMENT

Our property and equipment consist of the following:

| | March 31, 2013 | December 31, 2012 |
|--|----------------|-------------------|
| Leasehold improvements | \$ 15,141 | \$ 15,141 |
| Equipment | 1,898,920 | 1,898,920 |
| Furniture | 5,333 | 5,333 |
| Software | 801,498 | 801,498 |
| Total | 2,720,892 | 2,720,892 |
| Less accumulated depreciation and amortization | (2,657,375) | (2,639,269) |
| Net property and equipment | \$ 63,517 | \$ 81,623 |

We review long-lived assets, including intangible assets subject to amortization, for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

We annually assess the recoverability of such long-lived assets by determining whether the amortization of the balances over their remaining lives can be recovered through undiscounted future operating cash flows. The amount of impairment, if any, is measured based on projected discounted future operating cash flows. The assessment of the recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved.

5. SHARE-BASED COMPENSATION

Share-Based Compensation – Employees and Directors

For the three months ended March 31, 2013 and 2012, share-based compensation expense totaled approximately \$13,000 and \$41,000, respectively.

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

As of March 31, 2013, \$31,000 of total unrecognized compensation cost related to restricted stock units is expected to be recognized over a weighted average period of approximately 1.97 years.

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

During the three months ended March 31, 2013, 38,228 shares of restricted stock units were vested and no shares of restricted stock units or restricted stock awards were forfeited, no options to purchase shares were granted or exercised, nor forfeited. At March 31, 2013, 1,172,166 options with an average exercise price of \$0.51 were outstanding.

APPLIED ENERGETICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(Unaudited)

6. SIGNIFICANT CUSTOMERS

Approximately 81% and 99% of revenues for the three-month periods ended March 31, 2013 and 2012, respectively, are generated from either the U.S. Government or contractors to the U.S. Government.

7. NET LOSS PER SHARE

Basic net loss per common share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period before giving effect to stock options, stock warrants, restricted stock units and convertible securities outstanding, which are considered to be dilutive common stock equivalents. Diluted net loss per common share is calculated based on the weighted average number of common and potentially dilutive shares outstanding during the period after giving effect to convertible preferred stock, stock options, warrants and restricted stock units. Contingently issuable shares are included in the computation of basic loss per share when issuance of the shares is no longer contingent. Due to the losses from continuing operations for the three months ended March 31, 2013 and 2012, basic and diluted loss per common share were the same, as the effect of potentially dilutive securities would have been anti-dilutive.

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

| | Three Months Ended March 31, | |
|---------------------------------------|------------------------------|-----------|
| | 2013 | 2012 |
| Options to purchase common shares | 1,172,166 | 2,824,001 |
| Unvested restricted stock units | 38,230 | 224,001 |
| Convertible preferred stock | 107,172 | 107,172 |
| Total potentially dilutive securities | 1,317,568 | 3,155,174 |

8. DIVIDENDS

As of March 31, 2013, we had 107,172 shares of our 6.5% Series A Convertible Preferred Stock outstanding. A dividend was declared and was paid in cash on May 1, 2013 to the holders of record as of April 15, 2013.

Dividends on Preferred Stock are accrued when the amount and kind of the dividend is determined and are payable quarterly on the first day of February, May, August and November, in cash or shares of common stock.

9.SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events occurring after March 31, 2013, the date of our most recent balance sheet, through the date our financial statements were issued.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related disclosures included elsewhere herein and in 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, 2012.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the securities laws. Forward-looking statements include all statements that do not relate solely to the historical or current facts, and can be identified by the use of forward looking words such as "may", "believe", "will", "would", "could", "should", "expect", "project", "anticipate", "estimates", "possible", "plan", "strategy", "target", "prospect" or "continue" and other similar terms and phrases. These forward looking statements are based on the current plans and expectations of our management and are subject to a number of uncertainties and risks that could significantly affect our current plans and expectations, as well as future results of operations and financial condition and may cause our actual results, performances or achievements to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. Important factors that could cause our actual results to differ materially from our expectations are described in Item 1A. (Risk Factors) of our Annual Report on Form 10-K, for the year ended December 31, 2012. Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. We do not assume any obligation to update these forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting such forward-looking statements.

OVERVIEW

Applied Energetics, Inc. ("company", "Applied Energetics", "we", "our" or "us") designs, develops and manufactures solid state Ultra Short Pulse ("USP") lasers for commercial applications and applied energy systems for military applications. Through our technology development efforts, we have gained expertise and proprietary knowledge in high performance lasers and high-voltage electronics.

We believe our proprietary USP laser systems, which are a commercial adaptation of our prior military development activities, offer better performance for high pulse energy and high average power compared to commercially available USP lasers for micromachining. Micromachining applications include drilling, cutting, and engraving metals, composites and ceramics.

Additionally, we have also developed high-voltage systems for government and commercial customers for a range of applications. We are not investing company funds to further develop and enhance our technologies of systems.

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RESULTS OF OPERATIONS**COMPARISON OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012:**

| | 2013 | 2012 |
|----------------------------|-------------|---------------|
| Revenue | \$34,457 | \$399,207 |
| Cost of revenue | 28,894 | 365,067 |
| General and administrative | 503,645 | 689,402 |
| Selling and marketing | 75,786 | 399,565 |
| Research and development | - | 134,788 |
| Other (expense) income: | | |
| Interest expense | - | (1,651) |
| Interest income | 653 | 393 |
| Net loss | \$(573,215) | \$(1,190,873) |

REVENUE

Revenue decreased by approximately \$365,000 to \$34,000 for the three months ended March 31, 2013 compared to \$399,000 for the three months ended March 31, 2012. Revenues from the LGE product line decreased by \$212,000 to \$0 and High Voltage revenues decreased by \$153,000 to \$34,000 for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. There were no revenues from Laser or the C-IED product line for the quarters. Because of the significant reduction in U.S. Government spending, we do not anticipate receiving additional Government funding in the near future and expect our revenue to remain at these reduced levels.

COST OF REVENUE

Cost of revenue includes manufacturing labor, benefits and overhead, and an allocation of allowable general and administration and research and development costs in accordance with the terms of our government contracts.

Cost of revenue decreased by approximately \$336,000 to \$29,000 for the three months ended March 31, 2013, compared to \$365,000 for the three months ended March 31, 2012. The decrease in cost of revenue is directly tied to the decrease in sales activity of approximately 91%. Cost of revenue as a percentage of revenue decreased from last year by approximately 8%. We have suspended the majority of our Government work due to the lack of Government

funding and are not investing company funds or resources to develop or enhance our technologies or systems.

GENERAL AND ADMINISTRATIVE

General and administrative expenses decreased approximately \$186,000 to \$504,000 for the three months ended March 31, 2013 compared to \$689,000 for the three months ended March 31, 2012. Salaries, wages and benefits decreased by approximately \$436,000, which is reflective of our reduction in workforce; professional services decreased by approximately \$149,000; depreciation and amortization decreased by \$61,000, reflecting the sale of our building and the sale of other depreciable assets as we downsized to a smaller facility; supplies; building related expenses decreased by approximately \$44,000; insurance and miscellaneous fees decreased by \$39,000; and non-cash compensation costs decreased by approximately \$28,000. Offsetting these reductions in operating expenses totaling approximately \$775,000 was a decrease in absorption of labor and overheads of approximately \$589,000 previously charged to government contracts. Cost saving measures were instituted throughout 2011 and continuing into 2012 and 2013 to compensate for the decrease in revenue, including reductions of our workforce and reductions in other operating expenses.

SELLING AND MARKETING

Selling and marketing expenses decreased by \$324,000 to \$76,000 for the three months ended March 31, 2013 compared to \$400,000 for the three months ended March 31, 2012. The decrease in sales and marketing expenses is represented by decreases in business development expense of \$233,000, bid and proposal expenses of \$53,000 and marketing expenses of \$38,000 predominantly due to our headcount reductions.

RESEARCH AND DEVELOPMENT

There were no research and development expenses during the three months ended March 31, 2013 as compared to \$135,000 for the three months ended March 31, 2012. This decrease reflects our goal to limit the investment of our own resources in research and development efforts as a cost reduction measure.

INTEREST INCOME AND INTEREST EXPENSE

Net interest income for the three months ended March 31, 2013 was higher by approximately \$2,000 as compared to the three months ended March 31, 2012.

NET LOSS

Our operations for the three months ended March 31, 2013 resulted in a net loss of approximately \$573,000, a decrease of approximately \$618,000 compared to the \$1.2 million loss for the three months ended March 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2013, we had approximately \$2.1 million of cash and cash equivalents, a decrease of approximately \$541,000 from December 31, 2012. During the first three months of 2013 the net cash outflow from operating activities was approximately \$498,000. This amount is comprised primarily of our net loss of \$573,000 and decreases in our accrued expenses and deposits of \$122,000 partially offset by the increase in accounts payable of \$103,000, decreases in accounts receivables of \$39,000 and prepaid expenses, deposits and other assets of \$25,000, depreciation and amortization of \$18,000 and noncash stock based compensation of \$13,000. Investing activities had no activity while financing activities reflected the cash dividend payment of \$44,000, resulting in net cash outflow of approximately \$541,000.

The fiscal year 2012 Department of Defense budget was approved in January of 2012. This budget and the President's proposed budget for 2013 reflect significant reductions in research and development funding for the foreseeable future. This area has historically generated greater than 90% of revenues. We have suspended the majority of our Government work due to the lack of Government funding; therefore we expect to continue having significantly reduced revenues from the US Government. Furthermore, it is expected that revenue generated from commercial sales

of our new USP laser and High Voltage systems will not become significant for at least the next twelve months as these products gain market acceptance. The combination of these conditions will cause further depletion our cash reserves during the transition to commercialize our USP laser technologies. We are considering strategic alternatives, including mergers, the acquisition of one or more businesses or technologies, and/or the disposition of one or more of our existing businesses.

Our continuance in business beyond 2013 is dependent on successful development of new commercial customers and sales of our USP laser systems and high voltage systems, obtaining profitable operations and additional financing necessary to fund our operations. Additional contracts from our Department of Defense customers, if available and substantial, may assist in funding our operations and contribute to our overall cash flow.

In their report accompanying our financial statements, our independent auditors stated that our financial statements for the year ended December 31, 2012 were prepared assuming that we would continue as a going concern, and that they have substantial doubt as to our ability to continue as a going concern. Our auditors' have noted that our recurring losses from operations and negative cash flow from operations and the concern that we may incur additional losses due to the reduction in Government contract activity raise substantial doubt about our ability to continue as a going concern.

BACKLOG OF ORDERS

At March 31, 2013, we had a backlog (workload remaining on signed contracts) of approximately \$0, to be completed within the next twelve months.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2013. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer has concluded that our disclosure controls and procedures as of March 31, 2013 are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

During the three months ended March 31, 2013, there was no significant change in our internal controls over financial reporting that has materially affected or which is reasonably likely to materially affect our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 6. EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|-------------------|--|
| 31.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Principal Executive Officer and Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Schema Document |
| 101.CAL | XBRL Calculation Linkbase Document |
| 101.LAB | XBRL Label Linkbase Document |
| 101.PRE | XBRL Presentation Linkbase Document |

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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/ Joseph C. Hayden
Joseph C. Hayden
Principal Executive
Officer, Principal
Financial Officer and
Principal Accounting
Officer

Date: May 10, 2013