APPLIED ENERGETICS, INC.
Form 10-K
March 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File Number 001-14015

Applied Energetics, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**77-0262908**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

3590 East Columbia Street Tucson, Arizona (Address of Principal Executive Offices)	85714 (Zip Code)

Registrant’s telephone number, including area code (520) 628-7415
Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.001 par value	**Over the Counter Bulletin Board**

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

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the last reported sales price at which the stock was sold on June 30, 2011 (the last day of the registrant's most recently completed second quarter) was approximately $27,797,000.

The number of outstanding shares of the registrant's Common Stock, $.001 par value, as of March 27, 2012 was 91,670,192.

APPLIED ENERGETICS, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2011

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PART I

ITEM 1. BUSINESS

Cautionary Note Concerning Forward-Looking Statements

Certain statements in this Form 10-K constitute forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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", "expect", "project", "anticipate", “estimates", "plans", "strategy", "target", "prospects" or "continue", and words of similar meaning. 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. This Form 10-K contains important information as to risk factors under Item 1A. In making these forward-looking statements, we claim the protection of the safe-harbor for forward-looking statements contained in the Private Securities Reform Act of 1995. 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.

Available Information

Applied Energetics, Inc. makes available free of charge on its website at www.appliedenergetics.com its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practical after electronically filing or furnishing such material to the Securities and Exchange Commission (“SEC”).

This report may be read or copied at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549 or at www.sec.gov. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

General

Applied Energetics, Inc. (“company”, “Applied Energetics”, “we”, “our” or “us”) designs, develops and manufactures solid sta Ultra Short Pulse (“USP”) lasers for commercial applications and applied energy systems for commercial and 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. During the third quarter of 2011, we completed our USP laser application center. This new application center enables potential customers and strategic partners to use, test and validate the capabilities our USP laser systems for their individual needs and try new and emerging applications prior to purchasing our USP lasers systems. In addition, we have entered into a cooperative work agreement with Laser Light Technologies, a leading contract manufacturer in the commercial micromachining market, to jointly develop USP lasers and processes for the laser micromachining market. We have provided a USP system to them for use in their manufacturing facility developing commercial micromachining applications.

Additionally, we develop and manufacture high-voltage systems for government and commercial customers for a range of applications.

Applied Energetics, Inc. is a corporation organized and existing under the laws of the State of Delaware. Our executive office is located at 3590 East Columbia Street, Tucson, Arizona, 85714 and our telephone number is (520) 628-7415.

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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 (“LGE”), Laser Induced Plasma Channel (“LIPC”), counter- improvised explosive devices (“IED”) and high voltage laser technologies and USP systems. We have suspended the majority of our Government work due to the lack of Government funding. We are not investing company funds or resources to further develop and enhance our LGE, LIPC, counter-IED and high voltage technologies and systems. We continue to receive smaller research and development contracts and small orders from the Government and commercial customers. We will continue to develop and market our USP laser technologies and systems in commercial markets and protect our intellectual property rights. At February 29, 2012, our backlog of orders approximated $0.2 million.

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 2012 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 revenues and profits.

High-Voltage Technologies

We have acquired and developed unique high-voltage capabilities focused on providing high-voltage solutions for semiconductor, aerospace, chemical processing, and other military and commercial activities. Opportunities currently in process or under development include advanced electron-beam technologies, nested high-voltage generators and other unique power solutions for use in a wide range of commercial and military applications. We believe our electron beam technologies are more compact than competitive technologies and offer customers a capable solution for applications that require less space for implementation.

Defense

We have delivered innovative technologies and systems to address urgent military requirements, including neutralizing improvised explosive devices and other high priority missions of U.S. military forces.

LGE and LIPC® Technologies

Upon our inception in 2002, we began developing LGE and LIPC technologies intended to precisely deliver high voltage electrical charges by using a laser to create a conductive path in the atmosphere. We have protected the enabling intellectual property through U.S. Patent filings. LGE development has been funded through multiple Department of Defense ("DoD") contracts in support of U.S. Navy, Army, Air Force, and the Office of Secretary of Defense programs, as well as through internally funded research initiatives.

During 2011, we continued the development and advancement of our LGE technology by working with our customer, the U. S. Army's Research, Development and Engineering Command ("ARDEC"). We have completed all contracted work authorized under the ARDEC contract. We have recently responded to ARDEC requests for proposal on contracts for development of our LGE technology; however, there is no assurance that a contract will be awarded.

Counter-IED Technologies

Working with the US Marine Corps ("USMC"), we have developed and delivered a system that demonstrated significant capability in over 200 missions in Afghanistan countering IEDs, a major threat to military operations throughout the world. During the first quarter of 2011, we completed the development of a more compact version of our counter-IED technology for our USMC customer and also completed our contract for providing extended field operation support to the USMC in Afghanistan. During the third quarter of 2011, we were informed that the USMC was re-evaluating their plan for fielding direct electrical discharge technology for counter-IED and would not be funding further procurement of our tested system.

Patents and Proprietary Information

Since our inception, we have pursued the development of a range of core intellectual property objectives using internal investment, and have aggressively pursued patents on such technology. The objective of this approach has been to establish a sole source role for us in customer-funded technology and product development contracts, as well as to build and protect the value of the intellectual property that we create, seeking to establish a preferred competitive position in the commercial marketplace. Presently, fourteen U.S. Patents have been issued and thirty-two U.S. patent applications are pending. We currently have U.S. Government initiated "national security related" secrecy orders for fourteen of the thirty-two pending patent applications. The U.S. Patent and Trademark Office imposes secrecy orders when disclosure of an invention by publication of a patent would be detrimental to the United States' national security. These patents are treated as under review unless and until they are declassified, at which time patents may be issued, with enforcement based on the original filing date. We have thus far received notice that ten of these patent applications under secrecy order have been found patentable by the U.S. Patent Office. We have recently been notified that the secrecy orders related to two of our counter-IED patents has been rescinded. We expect that these patents will be publicly issued in the near future. Applied Energetics patents and patent applications relate to our core LIPC technology, counter-IED offerings, and other technologies related to LGE, laser and high voltage applications.

Customer Dependency

Historically, revenue was derived from contracts with Government agencies or contractors to the Government representing approximately 90% and 97%, of total revenue for 2011, and 2010, respectively. The significant reduction in Government funding for our LGE, LIPC and counter-IED technologies and systems has had, and will continue to have, a material adverse effect on Applied Energetics. We do not anticipate significant funding from our Government Customers in 2012 and thus continued operations will be dependent on funding from new customers yet to be developed. When we refer to "Government" we mean the U.S. Government and its agencies. Over the past two years our efforts have increasingly focused on applications of our technologies for commercial products and markets. We believe that both our USP laser technologies and the compact high voltage generation systems offer unique capabilities that surpass performance for competitive commercial products in the marketplace of which we are aware.

Competition

Within the USP laser and commercial high voltage markets there exist established companies which offer competitive products in our market segment. These competitors are primarily based in Europe and have substantial existing customer bases throughout the various worldwide markets.

Historically, substantially all of our activity and revenue was generated through contracts with agencies of the Government focused on military and national security applications. We have successfully developed, demonstrated, and advanced innovative directed-energy technologies. However, we face competition from other domestic companies within the defense industry and other companies with differing technologies that seek to provide similar benefits or address similar missions as our technologies. Additionally, foreign countries and companies may be developing technologies that may compete with our technologies.

Research and Development

We have historically funded our research and development primarily through internal investment and we diligently attempt to retain the sole ownership of all of the key intellectual property.

Our research and development expense was $1,674,158 and $161,280 for 2011 and 2010, respectively. Our investment in internally funded research increased during 2011 as we focused on building prototypes and establishing commercial application centers for our USP lasers and nested high voltage generators. We expect our research and development efforts to decline as we do not intend to invest our own funds on further development and advancement of our LGE, LIPC, counter-IED and high voltage technologies.

Backlog of Orders

At December 31, 2011 and 2010, respectively, we had a backlog (i.e., work load remaining on signed contracts) of approximately $390,000 and $3.3 million, respectively, to be completed within the twelve months following those dates. As February 29, 2012, our backlog was approximately $0.2 million.

Employees

As of December 31, 2011, we had 27 full time employees. The breakdown of the employees is as follows: three in executive management, two in sales, marketing and business development, five scientists, eleven in technical and engineering, two in manufacturing support and four in administrative functions including accounting, human resources and information technology. As of March 30, 2012, we had 25 full-time employees.

ITEM 1A. RISK FACTORS

Future results of operations of Applied Energetics involve a number of known and unknown risks and uncertainties. Factors that could affect future operating results and cash flows and cause actual results to vary materially from historical results include, but are not limited to those risks set forth below:

Risk Related to Our Business

Our historical lack of earnings and continued future losses could adversely affect our financial health and prevent us from continuing to develop and market our products.

We have incurred net losses applicable to our common stockholders since our formation in June 2002. Our ability to achieve profitable operations is dependent upon, among other things, our ability to obtain sufficient government and commercial contracts, to complete the development of products based on our technologies and to control costs. We cannot assure you that we will be able to significantly increase our revenue or achieve and maintain profitability.

Our lack of earnings history and continued future losses could have important consequences, such as:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry;
- restricting us from introducing new products or exploiting business opportunities; or delaying or terminating research projects;
- requiring us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms;
- limiting our ability to obtain additional financing; and
- placing us at a possible competitive disadvantage compared to our competitors, who may have greater financial resources.

Our independent auditors have expressed substantial doubt about our ability to continue as a going concern, which may hinder our ability to obtain future financing.

In their report accompanying our financial statements, our independent auditors stated that our financial statements for the year ended December 31, 2011 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' doubts are based on the net loss of $6.2 million for 2011, negative cash flows from operations of $4.8 million in 2011 and the fact that we may incur additional future losses due to the reduction in Government contract activity that raise substantial doubt about our ability to continue as a going concern.

We do not intend to invest our own funds to further develop and enhance LGE, LIPC, or counter-IED technologies and systems and do not anticipate receiving Government funding in the near terms.

The cash proceeds received from our 2005 and 2006 equity financings have satisfactorily funded our operating losses, our research and development program and the launch of our new products, working capital requirements, and strategic initiatives. However we have limited financial resources.

The development, enhancement and modification of technologies and products requires the commitment of substantial resources to conduct the time consuming research and development, field training and regulatory activities necessary to bring any potential technology or product to market and to establish production, marketing and sales capabilities. We do not expect to invest our own funds to further develop and advance those technologies and systems.

Current economic conditions and uncertainty of future levels of defense spending has inhibited and will continue to inhibit our ability to obtain future funding from Government sources or from public capital sources consistent with our prior history. We do not expect that it is likely that we will receive additional Government funding for our LGE, LIPC, or counter-IED technologies and subsystems in the near term. As a result our revenues can be expected further decline and losses will continue for the foreseeable future.

The timing and magnitude of Government funding and orders for our technologies and systems cannot be predicted.

Because Government agencies have been the dominant revenue source historically and many of these agencies continue to be identified as the intended customers for our various future products, it is uncertain whether we will enter into new or continue with existing development or production contracts and, if we do, what the timing or magnitude of such orders will be. In addition, the reduction in US forces in Afghanistan has really reduced the urgent need for our counter-IED system.

The receipt of future Government funding is uncertain and may be reduced or eliminated at any time, particularly if our LIPC technology does not meet certain milestones.

Due to federal budgetary constraints, we cannot provide assurance that any continued Government funding will be made available, or that we will be able to enter into any agreements with Government customers for the further development of LIPC, LGE and counter-IED technologies and systems. If additional Government funding for LIPC, LGE and counter-IED is reduced or is not forthcoming, in the absence of additional funding, our future technology development efforts would be terminated and our revenues would be adversely affected.

Our future success will depend on our ability to develop and commercialize technologies and applications that address the needs of our markets.

Both our defense and commercial markets are characterized by rapidly changing technologies and evolving industry standards. Accordingly, our future performance depends on a number of factors, including our ability to:

- identify emerging technological trends in our target markets;
- develop and maintain competitive products;
- enhance our products by improving performance and adding innovative features that differentiate our products from those of our competitors;
- develop and manufacture and bring products to market quickly at cost-effective prices;
- obtain commercial scale production orders from our Government and other customers;
- meet scheduled timetables and enter into suitable arrangements for the development, certification and delivery of new products; and
- enter into suitable arrangements for volume production of mature products.

We believe that, in order to be competitive in the future, we will need to continue to develop and commercialize technologies and products, which will require the investment of financial and engineering resources. However, we do not intend to invest our funds in the further development. Due to the design complexity of our products, we may in the future experience delays in completing development and introduction on a commercial scale of new products. Any delays could result in increased costs of development, deflect resources from other projects or incur loss of contracts.

In addition, there can be no assurance that the market for our technologies and products will develop or continue to expand as we currently anticipate. The failure of our technology to gain market acceptance could significantly reduce our revenue and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing or differing technologies which gain market acceptance in advance of our products. The possibility that our competitors might develop new technology or products might cause our existing technology and products to become obsolete or create significant price competition. If we fail in our new product development and commercialization efforts or our products fail to achieve market acceptance more rapidly than our competitors, our revenue will decline and our business, financial condition and results of operations will be negatively affected.

The long sales cycles for our products may cause us to incur significant expense without offsetting revenues.

Our potential customers are likely to view the purchase of our products as a significant and strategic decision. As a result, we expect them to expend significant effort in evaluation, testing and qualifying our products before making a decision to purchase them, resulting in a lengthy initial sales cycle. While our customers are evaluating our products and before they place an order with us, we may incur substantial sales and marketing and research and development expenses to customize our products to the customers' needs. We may also expend significant management efforts, increase manufacturing capacity and order long lead-time components or materials prior to receiving an order. Even after this evaluation, a potential customer may not purchase our products. As a result, these long sales cycles may cause us to incur significant expenses without ever receiving revenue to offset such expense.

Our commercial laser systems are complex in design and may contain defects that are not detected until installed and operated by our customers, which could increase our costs and reduce our revenues.

Laser systems are inherently complex in design and require ongoing regular maintenance. The manufacture of our lasers involves a highly complex and precise process. As a result of the technological complexity of our products, changes in our or our suppliers' manufacturing processes or the inadvertent use of defective materials by us or our suppliers could result in a material adverse effect on our ability to achieve acceptable manufacturing yields and product reliability. To the extent that we do not achieve and maintain our projected yields or product reliability, our business operating results, financial condition and customer relationships would be adversely affected.

Our customers may discover defects in our products after the products have been fully installed and operated under the end user's peak stress conditions. In addition, some of our products are combined with products from other vendors, which may contain defects. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to identify and fix defects or other problems, we could experience, among other things:

- loss of customers;
- increased costs of product returns and warranty expenses;
- damage to our brand reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; and
- legal actions, including for personal injury and property damage, by our customers and/or their end users.

The occurrence of any one or more of the foregoing factors could seriously harm our business, financial condition and results of operations.

The commercial markets for our laser products are unpredictable and characterized by rapid technological changes and evolving standards demanding a significant investment in research and development, and, if we fail to address changing market conditions, our business and operating results will be harmed.

The photonics industry is characterized by extensive research and development, rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Because this industry is subject to rapid change, it is difficult to predict its potential size or future growth rate. Our success in generating revenues in this industry will depend on, among other things:

- building our relationships with our customers;
- the education of potential end-user customers about the benefits of lasers and laser systems; and
- our ability to accurately predict, and develop our products to meet, industry standards.

We cannot assure you that our expenditures for research and development will result in the introduction of new products or, if such products are introduced, that those products will achieve sufficient market acceptance or to generate sales to offset the costs of development. Our failure to address rapid technological changes in our markets could adversely affect our business and results of operations.

We continuously evaluate the commercial viability of each of our technologies and, if we determine that the commercial viability of a technology is not justified by the investment needed to generate meaningful revenues, we may determine to discontinue such efforts.

We depend on Government customers for substantially all of our revenue and changes in government spending could significantly impact our sales and profitability.

Approximately 90% and 97%, of our net revenue for the years ended December 31, 2011 and 2010, respectively, were from the U.S. Government and Government contractors. The current trend for the U.S. defense spending is decreasing, and is expected to be in a downward trend for the foreseeable future. We do not expect to receive Government funding for our LGE, LIPC, and counter-IED systems in the near term and expect our revenues to further decline and losses to continue for the foreseeable future.

A reduction in the quality of our relationship with the Government and defense agencies and/or a shift in Government funding could have severe consequences on our prospects and financial condition.

Any significant disruption or deterioration of our relationship with the Government or important agencies thereof could significantly reduce our revenue. Our Government programs must compete with programs managed by other defense contractors for a limited number of programs and for uncertain levels of funding. The development of our business will depend upon the continued willingness of the U.S. Government agencies to fund existing and new defense programs and, in particular, to continue to purchase our products and services. The Department of Defense may not focus its spending on technologies or missions relevant to our technologies and products.

Our competitors continuously engage in efforts to expand their business relationships with the Government which may be to our disadvantage and are likely to continue these efforts in the future. The Government may choose to use other defense contractors for its limited number of defense programs. In addition, the funding of defense programs also competes with non-defense spending of the Government. Budget decisions made by the Government are outside of our control and have long-term consequences for the size and structure of Applied Energetics. The shift in Government defense spending to other programs in which we are not involved and a reduction in Government defense spending generally has had and will continue to have severe consequences for our results of operations.

Our Government customers may terminate or modify our existing contracts, which would adversely affect our revenue.

There are inherent risks in contracting with the Government, including risks peculiar to the defense industry, which could have a material adverse effect on our business, financial condition or results of operations. Laws and regulations permit the Government to:

- terminate contracts for its convenience;
- reduce or modify contracts if its requirements or budgetary constraints change;
- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- shift its spending practices; and
- adjust contract costs and fees on the basis of audits done by its agencies.

If the Government terminates our contracts for convenience, we may only recover our costs incurred or committed for settlement expenses and profit on work completed before the termination. Additionally, most of our backlog could be adversely affected by any modification or termination of contracts with the Government or contracts the prime contractors have with the Government. The Government regularly reviews our costs and performance on its contracts, as well as our accounting and general business practices. The Government may reduce the reimbursement for our fees and contract-related costs as a result of an audit. Also, we can give no assurance that we would be able to procure new Government contracts to offset the revenue lost as a result of any termination of our contracts. As our revenue is dependent on our procurement, performance and payment under our contracts, the loss of one or more critical contracts could have a negative impact on our financial condition.

Our business is subject to various restrictive laws and regulations because we are a contractor and subcontractor to the Government.

As a contractor and subcontractor to the Government, we are subject to various laws and regulations that are more restrictive than those applicable to non-Government contractors. We are required to obtain and maintain material Governmental authorizations and approvals to run our business as it is currently conducted. New or more stringent laws or Government regulations concerning Government contracts, if adopted and enacted, could have a material adverse effect on our business.

Generally, Government contracts are subject to oversight audits by Government representatives. Responding to Governmental audits, inquiries or investigations may involve significant expense and divert management attention from regular operations. Our Government business is also subject to specific procurement regulations and a variety of socio-economic and other requirements. These requirements, although customary in Government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Failure to comply with these regulations and requirements could lead to suspension or debarment, for cause, from Government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various statutes, including those related to:

- procurement integrity;
- export control;
- Government security regulations;
- employment practices;
- protection of the environment;
- accuracy of records and the recording of costs; and
- foreign corruption.

Any of these factors, which are largely beyond our control, could also negatively impact our financial condition. We also may experience problems associated with advanced designs required by the Government, which may result in unforeseen technological difficulties and cost overruns. Failure to overcome these technological difficulties and the occurrence of cost overruns would have a negative impact on our results.

Government contracts may be subject to protest or challenge by unsuccessful bidders or to termination, reduction or modification in the event of changes in Government requirements, reductions in federal spending or other factors.

Competition within our markets may reduce our procurement of future contracts and our revenue.

The defense and commercial industries in which we operate are highly competitive. Our competitors range from highly resourceful small concerns, which engineer and produce specialized items, to large, diversified firms and defense contractors. Many of our potential competitors have more extensive or more specialized engineering, manufacturing and marketing capabilities and greater financial resources than we do. Consequently, these competitors may be better suited to take advantage of economies of scale and devote greater resources to develop new technologies. There can be no assurance that we can continue to compete effectively with these firms. In addition, some of our suppliers and customers could develop the capability to manufacture products similar to products that we are developing. This would result in competing directly which could significantly reduce our revenue and seriously harm our business.

There can be no assurance that we will be able to compete successfully against our current or future competitors or that the competitive pressures we face will not result in reduced revenue and market share or seriously harm our business.

We have historically derived a substantial portion of our revenue from a limited number of contracts. Therefore, our revenue will be adversely affected if we fail to receive new contracts and renewals or follow-on contracts.

During the year ended December 31, 2011, we derived approximately 43% of our revenues from supporting our USMC customer's counter-IED requirements. The loss of Government funding has adversely affected our revenue and, as a result, we anticipate revenue will continue decline and losses to continue for at least the foreseeable future.

Our products may fail to perform satisfactorily in tests or field operations and even if our products perform satisfactorily, we may experience unanticipated delays in obtaining contracts, and may not obtain commercial scale production orders.

Our Government customers typically test our products at various stages of development and through operational assessments. Our success will ultimately depend upon our products meeting performance criteria established by our customers. Failure of a product to perform satisfactorily in a field test or during operations could result in delay of product development, delay in production contracts, cost overruns, or termination of the contract, or our inability to obtain commercial scale production orders, any of which could materially affect the development and manufacturing of such product and our prospects, revenue and financial condition.

We depend on component availability, subcontractor performance and our key suppliers to manufacture and deliver our products and services.

Our manufacturing operations are highly dependent upon the delivery of materials by outside suppliers in a timely manner. In addition, we depend in part upon subcontractors to assemble major components and subsystems used in our products in a timely and satisfactory manner. If these subcontractors are not willing to contract with us on competitive terms or devote adequate resources to fulfill their obligations to us, or we do not properly manage these relationships, our existing customer relationships may suffer. In addition, by undertaking these activities, we run the risks that:

- the reputation and competitiveness of our products and services may deteriorate as a result of the reduction of our control over quality and delivery schedules and the consequent risk that we will experience supply interruptions and be subject to escalating costs; and
- our competitiveness may be harmed by the failure of our subcontractors to develop, implement or maintain manufacturing methods appropriate for our products and customers.

Moreover, because most of our contracts are with Governmental agencies, we may be limited in the third parties we can engage as component manufacturers due to security clearance requirements.

We are dependent for some purposes or product on sole-source suppliers. If any of these sole-source suppliers fails to meet our needs, we may not have readily available alternatives. Our inability to fill our supply needs could jeopardize our ability to satisfactorily and timely complete our obligations under Government and other contracts. This might result in reduced revenue, termination of one or more of these contracts and damage to our reputation and relationships with our customers. We cannot be sure that materials, components, and subsystems will be available in the quantities we require, if at all.

Because the manufacturing process of our products is highly complex, errors, changes or uncertainties could disrupt production.

The manufacture of our products involves highly complex and precise processes, requiring production in a highly controlled environment. Inadvertent or slight changes or uncertainties in our manufacturing processes, errors or use of defective or contaminated materials could impact our ability to achieve and affect product reliability, or disrupt and/or delay production.

Our business could be adversely affected by a negative audit by the U.S. Government.

Government agencies such as the Defense Contract Audit Agency ("DCAA") routinely audit and investigate Government contractors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the Government. In addition, our reputation would suffer serious harm if allegations of impropriety were made against us.

We depend on the recruitment and retention of qualified personnel, and failure to attract and retain such personnel could seriously harm our business.

Due to the specialized nature of our businesses, our future performance is highly dependent upon the continued services of our key engineering and scientific personnel. To the extent we obtain Government contracts or significant commercial contract our prospects depend upon our ability to attract and retain qualified engineering, scientific and manufacturing personnel for our operations. Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel could seriously harm our business, results of operations and financial condition. Additionally, since the majority of our business has historically involved technologies that are classified due to national security reasons, we must hire U.S. Citizens who have the ability to obtain a security clearance. This further reduces our potential labor pool.

Because many of our contracts and projects to date were classified for national security reasons, we may not be able to provide important information to the public.

To date, a majority of our revenue has been derived from contracts which are classified by the Government for national security reasons. Therefore, we are prohibited from filing these contracts as exhibits to our SEC reports, registration statements and filings or provide more than the summary information that we provide in our reports, registration statements and other filings with the SEC and in our press releases. The specific aspects of our technologies are highly sensitive to ongoing military operations and are largely classified under specific Department of Defense guidelines and, consequently, cannot be disclosed publicly. Such absence of explanation, detail and discussion may prohibit us from providing details that an investor may find meaningful, cause many individuals and investors to question our level of disclosure and discourage potential investors from investing in our securities. Accordingly, investors may not have important information concerning our businesses and operations with which to make an informed investment decision.

The U.S. Government's royalty-free right to use technology developed by us limits our intellectual property rights.

We seek to protect the competitive benefits we derive from our patents, proprietary information and other intellectual property. However, we do not have the right to prohibit the U.S. Government from using certain technologies developed or acquired by us or to prohibit third party companies, including our competitors, from using those technologies in providing products and services to the U.S. Government. The U.S. Government has the right to royalty-free use of technologies that we have developed under Government contracts. We are free to commercially exploit those Government-funded technologies and may assert our intellectual property rights to seek to block other non-Government users thereof, but we cannot assure you we could successfully do so.

We are subject to Government regulation which may require us to obtain additional licenses and could limit our ability to sell our products outside the United States.

We may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.

Protecting our intellectual property rights is critical to our ability to compete and succeed as a company. We hold a number of United States patents and patent applications, as well as trademark, and registrations which are necessary and contribute significantly to the preservation of our competitive position in the market. There can be no assurance that any of these patents or future patent applications and other intellectual property will not be challenged, invalidated or circumvented by third parties. In some instances, we have augmented our technology base by licensing the proprietary intellectual property of others. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms. We enter into confidentiality and invention assignment agreements with our employees, and enter into nondisclosure agreements with our suppliers and appropriate customers so as to limit access to and disclosure of our proprietary information. These measures may not suffice to deter misappropriation or independent third party development of similar technologies. Moreover, the protection provided to our intellectual property by the laws and courts of foreign nations may not be as advantageous to us as the remedies available under United States law.

We may face claims of infringement of proprietary rights.

There is a risk that a third party may claim our products infringe on their proprietary rights. Whether or not our products infringe on proprietary rights of third parties, infringement or invalidity claims may be asserted or prosecuted against us and we could incur significant expense in defending them. If any claims or actions are asserted against us, we may be required to modify our products or obtain licenses on commercially reasonable terms, which we may be unable to do in a timely manner or at all. Our failure to do so could adversely affect our business.

Our operations expose us to the risk of material environmental liabilities.

We are also subject to increasingly stringent laws and regulations that impose strict requirements for the proper management, treatment, storage and disposal of hazardous substances and wastes, restrict air and water emissions from our testing and manufacturing operations, and require maintenance of a safe workplace. These laws and regulations can impose substantial fines and criminal sanctions for violations, and require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We incur, and expect to continue to incur, capital and operating costs to comply with these laws and regulations. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs in the future that would have a negative effect on our financial condition or results of operations.

Our growth is subject to a number of economic risks.

Our business has been adversely affected by decreases in the general level of economic activity, such as decreases in defense spending, financial strength of customers and government procurement. We are unable to predict the duration and severity of disruptions in financial markets and the adverse economic conditions and continuation in Government fiscal tightening that might occur and the effect such events might have on our business

The unpredictability of our results may harm the trading price of our securities, or contribute to volatility.

Our operating results may vary significantly over time for a variety of reasons, many of which are outside of our control, and any of which may harm our business. The value of our securities may fluctuate as a result of considerations that are difficult to forecast, such as:

- the size and timing of contract receipt and funding;
- changes in Government policies and Government budgetary policies;
- termination or expiration of a key Government contract;
- our ability and the ability of our key suppliers to respond to changes in customer orders;
- timing of our new product introductions and the new product introductions of our competitors;
- adoption of new technologies and industry standards;
- competitive factors, including pricing, availability and demand for competing products, and fluctuations in foreign currency exchange rates;
- conditions in the capital markets and the availability of project financing;
- the ability to hire and retain key scientists and executives and/or appropriately trained and experienced staff;
- regulatory developments;
- general economic conditions;
- changes in the mix of our products;
- cost and availability of components and subsystems; and
- price erosion.

We are subject to the penny stock rules adopted by the Securities and Exchange Commission that require brokers to provide extensive disclosure to their customers prior to executing trades in penny stocks. These disclosure requirements may cause a reduction in the trading activity of our common stock, which in all likelihood would make it difficult for our stockholders to sell their securities.

Rule 3a51-1 of the Securities Exchange Act of 1934 establishes the definition of a “penny stock,” for purposes relevant to us, as any equity security that has a minimum bid price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to a limited number of exceptions which are not available to us. This classification would severely and adversely affect any market liquidity for our common stock.

For any transaction involving a penny stock, unless exempt, the penny stock rules require that a broker or dealer approve a person's account for transactions in penny stocks and the broker or dealer receive from the investor a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased. In order to approve a person's account for transactions in penny stocks, the broker or dealer must obtain financial information and investment experience and objectives of the person and make a reasonable determination that the transactions in penny stocks are suitable for that person and that that person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prepared by the SEC relating to the penny stock market, which, in highlight form, sets forth:

- The basis on which the broker or dealer made the suitability determination; and
- That the broker or dealer received a signed, written agreement from the investor prior to the transaction

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and commission payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Because of these regulations, broker-dealers may not wish to engage in the above-referenced necessary paperwork and disclosures and/or may encounter difficulties in their attempt to sell shares of our common stock, which may affect the ability of selling stockholders or other holders to sell their shares in any secondary market and have the effect of reducing the level of trading activity in any secondary market. These additional sales practice and disclosure requirements could impede the sale of our common stock, if and when our common stock becomes publicly traded. In addition, the liquidity for our common stock may decrease, with a corresponding decrease in the price of our common stock. Our common stock, in all probability, will be subject to such penny stock rules for the foreseeable future and our stockholders will, in all likelihood, find it difficult to sell their shares of common stock.

A large number of shares of our common stock could be sold in the market in the near future, which could depress our stock price.

As of March 27, 2012, we had outstanding approximately 92 million shares of common stock. A substantial portion of our shares are currently freely trading without restriction under the Securities Act of 1933, having been held by their holders for over one year and are eligible for sale under Rule 144(k) of the Securities Act

Provisions of our corporate charter documents could delay or prevent change of control.

Our Certificate of Incorporation authorizes our Board of Directors to issue up to 2,000,000 shares of "blank check" preferred stock without stockholder approval, in one or more series and to fix the dividend rights, terms, conversion rights, voting rights, redemption rights and terms, liquidation preferences, and any other rights, preferences, privileges, and restrictions applicable to each new series of preferred stock. In addition, our Certificate of Incorporation divides our board of directors into three classes, serving staggered three-year terms. At least two annual meetings, instead of one, will be required to effect a change in a majority of our board of directors. The designation of preferred stock in the future, the classification of our Board of Directors, its three classes and the rights agreement could make it difficult for third parties to gain control of our company, prevent or substantially delay a change in control, discourage bids for our common stock at a premium, or otherwise adversely affect the market price of our common stock. Moreover, the holders of our outstanding Series A Preferred Stock have a right to put their shares to the Company for $2.7 million in the event of a change of control. Such right could hinder our ability to sell our assets or a merge with another company.

We use estimates in accounting for many of our programs and changes in our estimates could adversely affect our future financial results.

Contract accounting requires judgments relating to assessing risks, including risks associated with customer directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenues and costs, and assumptions for schedule and technical issues. The estimation of total revenues and cost at completion is complicated and subject to many variables. Because of the significance of the judgments and estimation processes, it is likely that materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition, including requiring us to take write downs or charges in certain periods, and could result in fluctuations in our operating results.

The commercial products and systems that we sell are considered capital equipment and the company’s financial condition may preclude future sales due to perceived risk for service and warranties.

Both our commercial laser systems and compact high voltage equipment are expected to be major capital equipment purchases for industrial manufacturing. Companies evaluate these systems based upon a number of factors and criteria which include the ability of suppliers to provide long-term warranty, maintenance, technical and parts support. The company’s present financial condition may be viewed as an impediment to providing long-term customer service for these major capital equipment purchases.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal office, manufacturing, storage, and primary research and development facility is located in Tucson, Arizona. We purchased this approximately 25,000 square foot facility in February 2008.

In November of 2009, we entered into a lease agreement for 20,000 square feet of office and light manufacturing space in Tucson, Arizona for a period of two years at a monthly rent of approximately $9,000. This lease expired in November 2011.

Our aggregate rent expense, including common area maintenance costs, was approximately $97,000 and $123,000 for 2011 and 2010, respectively.

We believe our facilities are adequate for our current planned operations.

See Note 11 to our 2011 Consolidated Financial Statements, which is incorporated herein by reference for information with respect to our lease commitments at December 31, 2011.

ITEM 3. LEGAL PROCEEDINGS

On February 9, 2012, the previously reported litigation with NewOak Capital Markets LLC. was dismissed with prejudice on February 16, 2012 pursuant to a settlement agreement which required the payment of $200,000.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market price per share

Our common stock is currently quoted for trading on the Over the Counter Bulletin Boards and the OTC Markets, trading under the symbol "AERG.OB". The following table sets forth information as to the price range of our common stock for the period January 1, 2010 through December 31, 2011. No dividends on common stock were declared for these periods.

Quarterly Periods	High	Low
2010		
First	$0.85	$0.33
Second	1.80	0.75
Third	1.44	0.98
Fourth	1.25	0.14
2011		
First	0.97	0.59
Second	0.68	0.27
Third	0.52	0.19
Fourth	0.37	0.04

Holders of Record

As of March 27, 2012, there were approximately 430 holders of record of Applied Energetics' common stock.

Unregistered Sale of Securities and Use of Proceeds

There were no unregistered sales of securities in 2011.

Dividends

We have never paid cash dividends on our common stock and do not expect to do so in the foreseeable future. Instead, we intend to retain any earnings to support our operations and the growth of our business.

Dividends on our Preferred Stock are payable quarterly on the first day of February, May, August and November, in cash or shares of Common Stock, at our discretion. We paid dividends on our 6.5% Series A Convertible Preferred Stock in May, August and November 2011 and February 2012. In 2010, 1,000 shares of common stock were exchanged for 10,000 shares of preferred stock. Such exchange was determined to be an induced conversion and, as such required $11,500 to be reported as a special dividend.

Equity Compensation Plan Information

See Item 12.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following management discussion and analysis ("MD&A") together with the risk factors set forth in Item 1A and with our audited Consolidated Financial Statements and Notes thereto included elsewhere herein.

Overview

Applied Energetics, Inc. ("company", "Applied Energetics", "we", "our" or "us") designs, develops and manufactures solid sta 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. During the third quarter of 2011, we completed our USP laser application center. This new application center enables potential customers and strategic partners to use, test and validate the capabilities our USP laser systems for their individual needs and try new and emerging applications prior to purchasing our USP lasers systems. In addition, we have entered into a cooperative work agreement with Laser Light Technologies, a leading contract manufacturer in the commercial micromachining market, to jointly develop USP lasers and processes for the laser micromachining market. We have provided a USP system to them for use in their manufacturing facility developing commercial micromachining applications.

Additionally, we develop and manufacture high-voltage systems for government and commercial customers for a range of applications.

High-Voltage Technologies

We have acquired and developed unique high-voltage capabilities focused on providing high-voltage solutions for semiconductor, aerospace, chemical processing, and other military and commercial activities. Opportunities currently in process or under development include advanced electron-beam technologies, nested high-voltage generators and other unique power solutions for use in a wide range of commercial and military applications. We believe our electron beam technologies are more compact than competitive technologies and offer customers a capable solution for applications that require less space for implementation.

LGE and LIPC® Technologies

Upon our inception in 2002, we began developing LGE and LIPC technologies intended to precisely deliver high voltage electrical charges by using a laser to create a conductive path in the atmosphere. We have protected what we believe to be the enabling intellectual property through U.S. Patent filings. LGE development has been funded through multiple Department of Defense ("DoD") contracts in support of U.S. Navy, Army, Air Force, and the Office of Secretary of Defense programs, as well as through internally funded research initiatives.

During 2011, we continued the development and advancement of our LGE technology by working with our customer, the U. S. Army's Research, Development and Engineering Command ("ARDEC"). We have completed all contracted work authorized under the ARDEC contract. We have recently responded to ARDEC requests for proposal on contracts for development of our LGE technology; however, there is no assurance that a contract will be awarded.

Counter-IED Technologies

Working with the USMC, we have developed and delivered a system that demonstrated significant capability in over 200 missions in Afghanistan countering IEDs, a major threat to military operations throughout the world. During the first quarter of 2011, we completed the development of a more compact version of our counter-IED technology for our US Marine Corps ("USMC") customer and we completed our contract for providing extended field operation support to the USMC in Afghanistan. During the third quarter of 2011, we were informed that the USMC was re-evaluating their plan for fielding direct electrical discharge technology for counter-IED and would not be funding further procurement of our tested system.

Critical Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles 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 inputs and 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 impact the amounts reported and disclosed herein. Significant estimates include revenue recognition under the percentage of completion method of contract accounting, estimate to forecast loss on contracts under the completed contract method of accounting, the valuation of inventory, estimates of long-lived asset value, and estimate to forecast expected forfeiture rate on stock-based compensation and stock-based compensation expense.

Revenue Recognition

Revenue has been derived from ongoing contract work for systems development, effects testing and the design and development of demonstration systems and sub-systems for our Government and commercial customers. This work is expected to be generally performed under cost-plus contracts with Government customers.

Revenue under long-term Government contracts is generally recorded under the percentage of completion method. Revenue, billable monthly, under cost plus fixed fee contracts is recorded as costs are incurred and includes estimated earned fees in the proportion that costs incurred to date bear to total estimated costs. Costs include direct labor, direct materials, subcontractor costs and overhead. General and administrative expenses allowable under the terms of the contracts are allocated per contract depending on its direct labor and material proportion to total direct labor and material of all contracts. As contracts can extend over one or more accounting periods, revisions in earnings estimated during the course of work are reflected during the accounting period in which the facts become known. When the current contract estimate indicates a loss, a provision is made for the total anticipated loss in the period in which the facts become known. Management evaluates many variables and makes various assumptions related to the estimation of total cost of completion of long-term contracts. Management reviews the progress and performance of all contracts monthly.

The asset caption “accounts receivable” includes costs and estimated earnings in excess of billings on uncompleted contracts, which represents revenue recognized in excess of amounts billed. Such revenue is billable under the terms of the contracts at the end of the year, yet was not invoiced until January, 2012, and is generally expected to be collected within one year. The liability “billings in excess of costs and estimated earnings on uncompleted contracts” represents billings in excess of revenue recognized.

Revenue for other products and services is recognized when such products and services are delivered or performed and, in connection with certain sales to certain customers, when the products and services are accepted, which is normally negotiated as part of the initial contract. Revenue from commercial, non-Governmental customers has historically been based on fixed price contracts where the sale is recognized upon acceptance of the product or performance of the service and when payment is probable. Contract costs are accumulated in the same manner as inventory costs and are charged to operations as the related revenue from contract is recognized. When the current contract estimate indicates a loss, a provision is made for the total anticipated loss in the period in which the facts become known.

Inventories

Inventories include material, direct labor and related manufacturing and administrative overhead and are stated at the lower-of-cost (determined on a weighted average basis) or market for raw materials and work-in-process inventory. When actual contract cost and the estimate to complete exceed the estimated contract revenues, a loss provision is recorded. Due to the nature of our inventory, we analyze inventory on an item-by-item basis compared to future usage and sales for obsolescence quarterly.

Share-Based Payments

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period.

The fair value of each option grant is estimated at the date of grant using the Black-Scholes-Merton option valuation model. We make the following assumptions relative to this model: (i) the annual dividend yield is zero as we do not pay dividends, (ii) the weighted-average expected life is based on a midpoint scenario, where the expected life is determined to be half of the time from grant to expiration, regardless of vesting, (iii) the risk free interest rate is based on the U.S. Treasury security rate for the expected life, and (iv) the volatility is based on the level of fluctuations in our historical share price for a period equal to the weighted-average expected life. We estimate forfeitures when recognizing compensation expense and adjust this estimate over the requisite service period should actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative adjustment, which is recognized in the period of change and which impacts the amount of unamortized compensation expense to be recognized in future periods.

Recoverability of Property and Equipment

We assess recoverability of property and equipment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

We assess the recoverability of property and equipment 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.

Income Taxes

Deferred tax assets and liabilities are recognized currently for the future tax consequences attributable to the temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

Results of Operations

Our consolidated financial information for the years ending December 31, 2011, and 2010 is as follows:

	2011	2010
Revenue	$5,070,156	$13,089,136
Cost of revenue	4,793,181	12,274,759
General and administrative	3,811,028	2,924,439
Selling and marketing	1,151,213	664,665
Research and development	1,674,158	161,280
Other (expense) income:		
Interest expense	(4,156)	(5,374)
Interest income	3,477	8,588
Other income	-	-
Loss before provision for income taxes	(6,360,103)	(2,932,793)
Provision (benefit) for income taxes	-	-
Net loss	$(6,360,103)	$(2,932,793)

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Revenue

Revenue decreased approximately $8.0 million to $5.0 million for the year ended December 31, 2011 compared to 2010 primarily as a result of the reduction in Government spending on our technologies. Our counter-IED revenue decreased by $6.9 million to $2.2 million in 2011; as we completed work on our contract supporting our USMC during the first half of 2011. LGE revenue decreased by $822,000 to $2.1 million as we exhausted the available funding under our contract with ARDEC. Additionally, our USP Laser revenues decreased by $503,000 for the year ended 2011 largely due to the delivery of our USP Laser to the Navy in June of 2010. Offsetting these decreases in revenue was an increase in our HV revenue of $227,000 for the year ended 2011.

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 $7.5 million for the year ended December 31, 2011 compared to 2010. The decrease in cost of revenue is directly tied to the decrease in sales activity of approximately 61%. Cost of revenue as a percentage of revenue remained relatively constant.

General and Administrative

General and administrative expenses increased approximately $887,000 for the year ended December 31, 2011 compared to 2010. Salaries and wages decreased by approximately $1.5 million, non-cash compensation costs decreased by approximately $687,000, professional services decreased by approximately $388,000, and supplies and building related expenses decreased by approximately $129,000. Offsetting these reductions in operating expenses was a decrease in absorption of labor and overheads of approximately $3.4 million previously charged to government contracts because our staffing exceeded our operational requirements as a result of the reduced volume of government contract business, as well as a $150,000 charge relating to the settlement of a lawsuit in February 2012 . To compensate for the decrease in government revenues we instituted various cost saving measures through 2011 and the beginning of 2012; which included reducing our workforce, exiting our leased facilities, and reductions in other operating expenses.

At December 31, 2011, there were approximately $145,000 of unrecognized compensation costs related to unvested restricted stock awards, and approximately $78,000 of unrecognized compensation costs related to unvested stock options, net of estimated forfeitures. The costs for unvested stock options are expected to be recognized on a weighted-average basis over approximately one year. The costs for restricted stock awards are expected to be recognized on a weighted-average basis over approximately two years.

Selling and Marketing

Selling and marketing expenses increased by approximately $487,000 for the year ended December 31, 2011 compared to 2010. The increase was mostly due to an increase in our bid and proposal activity along with an increase in headcount do to the addition of our VP of Business Development in October of 2010.

Research and Development

Research and development expenses increased approximately $1.5 million for the year ended December 31, 2011 compared to 2010. Our investment in internally funded research increased during 2011 as we focused on building prototypes and establishing commercial application centers for our USP lasers and nested high voltage generators. We expect our research and development efforts to decline as we do not intend to invest our own funds on further development and advancement of our LGE, LIPC, counter-IED and high voltage technologies.

Other Income (Expense)

Other income (expense) primarily consists of interest income and interest expense. Net interest income for 2011 was lower by approximately $5,000 from 2010 primarily due to the lower balance of invested funds and to investments being held in cash and money markets.

Net Loss

Our operations in 2011 resulted in a net loss of approximately $6.4 million, an increase of approximately $3.5 million compared to the approximately $2.9 million net loss for 2010. Our net loss attributable to common stockholders per common share – basic and diluted increased from $0.04 per share to $0.07 per share, largely due to the increase of net loss.

Inflation and Seasonality

We do not believe that inflation has a material effect on the operations or financial condition of our business, nor do we believe that we are subject to significant seasonal swings in our business.

Trend Discussion

We expect revenues for 2012 to decline as a result of decreased Government spending and tightening of the defense budget, the completion of our contract with the USMC for our counter-IED systems and completion of funding under our ARDEC contract for our LGE technology.

As a result, to reduce our cost of revenue, research and development and general and administrative expenses, we have made a strategic decision not to invest internal funds on the further development and advancement of our LGE, LIPC, counter-IED and high voltage systems and have reduced our work force to a level consistent with our expected operations.

Liquidity and Capital Resources

At December 31, 2011, we had approximately $3.9 million of cash and cash equivalents, a decrease of approximately $5 million. In 2011, we used approximately $4.8 million in operating activities. During 2011, we received approximately $6.5 million in cash from customers, and paid approximately $6.7 million to our suppliers. An additional $4.8 million was paid to, or on behalf of our employees. The net cash outflow from operating activities is approximately $4.8 million. Also in 2011, investing activities caused net cash outflow of approximately $233,000 and financing activities caused net cash inflow of approximately $24,000.

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; 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 2012 is dependent on successful development of new commercial customers and 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, may assist in funding our operations and contribute to our overall profitability. Since there can be no assurances regarding the above, these factors raise substantial doubt about our ability to continue as a going concern.

In their report accompanying our financial statements, our independent auditors stated that our financial statements for the year ended December 31, 2011 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' doubts are based on the net loss of $6.4 million for 2011, negative cash flows from operations of $4.8 million in 2011 and the fact that we may incur additional future losses due to the reduction in Government contract activity that raise substantial doubt about our ability to continue as a going concern.

Backlog

At December 31, 2011 and 2010, we had a backlog (i.e., work load remaining on signed contracts) of approximately $390,000 and $3.3 million, respectively, to be completed within the twelve months following those dates. As of February 29, 2012, our backlog was approximately $0.2 million.

Contractual Obligations:

The following table summarizes our contractual obligations and other commercial commitments as of December 31, 2011:

	Payment by Period				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Operating leases	$ -	$ -	$ -	$ -	$ -
Purchase Obligations	60,308	60,308	-	-	-
Total	$ 60,308	$ 60,308	$ -	$ -	$ -

Included in the above table are obligations for which we are contractually liable, but are specific to cost type reimbursable government contracts. Not included in the above table are the dividends on our Series A Preferred Stock that are approximately $172,000 each year (approximately $43,000 each quarter), assuming no conversion of the outstanding shares of Series A Preferred Stock into shares of common stock.

Operating Leases

We have, in the past, operated in leased premises under operating leases. Total rent expense on premises amounted to approximately $97,000 and $123,000 for 2011 and 2010, respectively.

Preferred Stock

The 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, when declared. The holders of the Series A Preferred Stock have a right to put the stock to the Company for an aggregate amount equal to the liquidation preference ($2.7 million) in the event of a change in control. Dividends are payable in: (i) cash, (ii) shares of our common stock (valued for such purpose at 95% of the weighted average of the last sales prices of our common stock for each of the trading days in the ten trading day period ending on the third trading day prior to the applicable dividend payment date), provided that the issuance and/or resale of all such shares of our common stock are then covered by an effective registration statement or (iii) any combination of the foregoing. As of December 31, 2011, there were 107,172 shares of Series A Preferred Stock outstanding.

Recent Accounting Pronouncements

Refer to Note 2 of Notes to Consolidated Financial Statements for a discussion of recent accounting standards and pronouncements.

Off-Balance Sheet Arrangements

As of December 31, 2011, we had no significant off-balance sheet arrangements other than operating leases. For a description of our operating leases, see Note 11 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

In the normal course of business, our financial position is subject to a variety of risks, such as the ability to collect our accounts receivable and the recoverability of the carrying values of our long-term assets. We do not presently enter into any transactions involving derivative financial instruments for risk management or other purposes.

Our available cash balances are invested in money market funds (invested primarily in Government Securities) with generally immediate liquidity. These short-term cash-like investments are subject to general interest rate and general market risks. However, lack of timely access to these funds or loss of any portion of principal could be catastrophic to the ongoing funding and health of our business. Substantially all of our cash flows are derived from our operations within the United States and today we are not subject to market risk associated with changes in foreign exchange rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements, the related notes and the Report of Independent Registered Public Accounting Firm thereon, are included in Applied Energetics' 2011 Consolidated Financial Statements and are filed as a part of this report on page F-1 following the signatures.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), means controls and other procedures of a company 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 the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2011.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and affected by our Board of Directors, management and other personnel, 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. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the company's assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of the management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our Principal Executive Officer and Principal Financial Officer, has conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011, based on the framework established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). This assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls. Based on our assessment under the criteria described above, management has concluded that our internal control over financial reporting was effective as of December 31, 2011.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the SEC rules that permit smaller reporting companies to provide only management attestation in annual report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There has been no change in Applied Energetics' internal control over financial reporting for the quarter ended December 31, 2011 that materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not Applicable

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following is information with respect to our executive officers and directors:

Name	Age	Principal Position	Director, Term expiring in
James M. Feigley	62	Chairman of the Board	2012
Joseph C. Hayden	53	President and principal executive officer	
Humberto A. Astorga	39	Controller, principal financial officer and principal accounting officer	
Eric F. Lau	47	Chief Operating Officer and Vice President of Engineering	
George P. Farley	73	Independent Director	2012
James K. Harlan	60	Independent Director	2013
John F. Levy	56	Independent Director	2014
Mark J. Lister	54	Independent Director	2014

James M. Feigley: James M. Feigley has served as a member of our Board of Directors since June 2008, and as Chairman since April of 2009. Mr. Feigley serves as a member of our Nominating and Governance Committee and our Strategic Planning Committee. Mr. Feigley has served as President of Rock River Consulting, Inc., a defense consulting firm he founded in May 2003 after retiring from the U.S. Marine Corps. General Feigley served as Commander of the Marine Corps Systems Command from 1998 through 2002, where he was the executive authority on research, development, procurement, fielding and life cycle support for all Marine Corps ground combat, combat support and combat service support equipment, ordinance and systems. General Feigley served as Direct Reporting Program Manager for Advanced Amphibious Assault to the Assistant Secretary of the Navy, Research, Development and Acquisition Program from 1993 through 1998, during which time he was in charge of business planning, cost estimating, technical risk analyses and management, systems engineering and numerous other responsibilities. He served as Project Manager for the Headquarters, U.S. Marine Corps and Naval Sea Systems Command from 1986 through 1993, where he managed all technology base projects for ‘Advanced Amphibious Assault Vehicle’ and wrote all technical, financial, cost, management, risk, planning and performance documentation. General Feigley served as a member of the United States Marine Corps from 1972 through 2002. He received a BS from the University of Wisconsin - Oshkosh in 1972 and graduated from the Army Logistics Management Center in 1982, the Marine Corps Command and Staff College in 1986 and the Defense Systems Management College in 1986. Mr. Feigley retired from the Marine Corps as a Brigadier General in 2002 and received many decorations and honors during his military career.

Joseph C. Hayden: Joseph C. Hayden has been the President since June 2010 and Principal Executive Officer since April 2009. Mr. Hayden also served as Chief Operating Officer. Previously, he served as Executive Vice President - Programs for Applied Energetics (since December 2004), directing all new business capture and the execution of awarded contracts. Prior to that, he was Executive Vice President of Business Operations from November 2002 to 2004. He is a founder of the company.

Formerly, Mr. Hayden was a Program Manager and Senior Principal Systems Engineer at Raytheon Missile Systems working in the Directed Energy Weapons and JSOW missile product lines. From 1998 to 1999, Mr. Hayden was the Engineering Manager for Delta V Technologies, Inc., overseeing the design and manufacture of high vacuum coating systems for the commercial thin film and glass coating industries. From 1993 to 1997, Mr. Hayden was employed by Molten Metal Technology, Inc., an environmental high technology start-up company. As Director of Commercial Services for Molten Metal Technology, he led the staffing and start-up of three hazardous waste processing plants, including a joint venture for radioactive waste processing in Oak Ridge, Tennessee. While Director of Research and Development Operations for Molten Metal Technology, he managed the operations at the company’s R&D facility, which included a commercial-scale pilot plant. Mr. Hayden’s career began in the United States Navy, where he served as a Nuclear Surface Warfare Officer. His billets included tours on nuclear powered aircraft carriers, guided missile cruisers and destroyers, including being a member of the pre-commissioning crew of the USS George Washington (CVN-73) where he was closely involved in the testing and acceptance of the ship’s nuclear power plants. Mr. Hayden’s additional Navy tours included being a staff member of the Atlantic Fleet, an instructor and company officer at the U.S. Naval Academy, and service at the Naval Electronics Systems Command. Mr. Hayden received a B.S. in Mechanical Engineering from the United States Naval Academy.

Humberto A. Astorga: Humberto A. Astorga has been our Chief Financial Officer since June 2010, and our principal financial officer and principal accounting officer since September 2009. Since March 2006, Mr. Astorga has been Controller of Applied Energetics. Prior to joining the company, Mr. Astorga was Controller of Lasertel, Inc., a semi-conductor laser manufacturer he joined in June 2002. From 2001 through June 2002, Mr. Astorga was senior financial analyst of NCS Pearson, Inc., a provider of educational assessments, products, services and solutions. Prior to joining NCS Pearson, Mr. Astorga was the SAP Business Analyst for Leoni Wiring Systems, Inc., a global supplier of wires, cables and wiring systems. From 1997 until he joined Leoni Wiring in 2000, Mr. Astorga was a senior financial analyst for the Chamberlain Group, Inc., a consumer electronics manufacturing company. Mr. Astorga is a graduate of Eller College at University of Arizona and he received an M.B.A. from University of Phoenix.

Eric F. Lau: Eric F. Lau has been the Chief Operating Officer and Vice President of Engineering since December 2010. Since July 2009, Mr. Lau served as Director of Engineering and Operations. From December 2002 to July 2009, Mr. Lau was a Program Manager for the Laser Guided Energy (LGE) and counter-IED Programs. Prior to joining the company in December 2002, Mr. Lau was the Vice President of Operations for Mission Viejo S. A. de C. V. from 1998 through 2002. From 1994 to 1998, Mr. Lau was the New Product Development Team Leader for P. L. Porter Company. From 1991 to 1994, Mr. Lau was a Senior Project Engineer at Robertshaw Controls, Co. and from 1986 to 1991, Mr. Lau was a Project and Design Engineer at ITT General Controls. Mr. Lau is a graduate of the University of Southern California, where he received a Bachelor’s Degree in Mechanical Engineering.

George P. Farley: George P. Farley, a certified public accountant, has been a member of our Board of Directors since March 2004. Mr. Farley is Chairman of our Audit Committee and also serves as a member of our Compensation Committee. Since 1999, Mr. Farley has operated a consulting practice in which he assists and advises public and private companies in complex financial transactions, on complex accounting and reporting issues and at time providing Chief Financial Officer services. Mr. Farley has been providing financial consulting services since 1999. Through 2007, Mr. Farley served as a Director and a member of the Audit Committee of iCad, Inc. He has also served as a Director and member of the Audit Committee of Preserver Insurance Company, Inc. and Acorn Holdings Corp and as a Director for Olympia Leather Company, Inc. From November 1997 to August 1999, Mr. Farley was a Chief Financial Officer of Talk.com, Inc., which provides telecommunication services. Mr. Farley was also a director of Talk.com, Inc. Mr. Farley joined BDO USA, LLP in 1962 and was a partner at BDO USA, LLP from 1972 to 1995, where he served as the managing partner of BDO’s Philadelphia Office, National Director of Mergers and Acquisition and established BDO’s valuation practice.

James K. Harlan: James K. Harlan has been a member of our Board of Directors since March 2004. Mr. Harlan is the Chairman of our Compensation Committee and serves as a member of our Audit Committee. Mr. Harlan founded HNG Storage, an underground natural gas storage development and operations enterprise, in 1992, and served as Executive Vice President and Chief Financial Officer from 1998 to 2007. This company acquired, developed and operated several projects that were sold to major energy companies. From 1991 to 1997, Mr. Harlan served as Group Development Manager for the Pacific Resources Group based in Indonesia, which was engaged with various manufacturing and distribution businesses and joint ventures in Asia, Australia, and North America. Mr. Harlan has expertise in energy technology and markets having served as operations research and planning analyst for the White House Office of Energy Policy and Planning from 1977 to 1978, the Department of Energy from 1978 to 1981, and U. S. Synthetic Fuels Corporation from 1981 to 1984. He has a PhD in Public Policy with an operations research dissertation from Harvard University and a BS in Chemical Engineering from Washington University in St. Louis. Mr. Harlan was a member of the Board of Directors of iCAD, serving on board audit and compensation committees from 2000 until 2008, when he became a candidate for U. S. Congress from Louisiana. Mr. Harlan is currently chief executive of the Vendevco group of companies with interests in oil/gas production, property and venture development in the United States and internationally. He also serves on the advisory committee for Washington University's International Center for Advanced and Renewable Energy and Sustainability.

John F. Levy: John F. Levy has been a director of the company since June 2009. Mr. Levy serves as Chairman of our Nominating and Corporate Governance Committee and as a member of our Audit and Strategic Planning Committee. Since May 2005, Mr. Levy has served as the Chief Executive Officer of Board Advisory, a consulting firm that advises public companies in the areas of corporate governance, corporate compliance, financial reporting and financial strategies. Mr. Levy served as the Interim Chief Financial Officer from November 2005 to March 2006 of Universal Food & Beverage Company, which filed a voluntary petition under the provisions of Chapter 11 of the United States Bankruptcy Act on August 31, 2007. From November 1997 to May 2005, Mr. Levy served as Chief Financial Officer of MediaBay, Inc., a NASDAQ listed company and provider of spoken word audio content. While at MediaBay, he also served for a period as its Vice Chairman. Mr. Levy is a certified public accountant with nine years of experience with the national public accounting firms of Ernst & Young, Laventhol & Horwath and Grant Thornton. Mr. Levy is a director and non-executive Chairman of the Board of Applied Minerals, Inc., an exploration stage natural resource and mining company, a director, lead director and chair of the audit committee of Gilman Ciocia, Inc., a publicly traded financial planning and tax preparation firm, and a director of Brightpoint, Inc., a publicly traded company that provides supply chain solutions to leading stakeholders in the wireless industry. Mr. Levy was formerly a director of Take-Two Interactive Software, Inc. and PNG Ventures, Inc. Mr. Levy has authored The 21st Century Director: Legal and Ethical Responsibilities of Board Members, a course on the ethical and legal responsibilities of board members initially presented to various state accounting societies. Mr. Levy has a B.S. degree in Economics from the Wharton School of the University of Pennsylvania and received his M.B.A. from St. Joseph's University in Philadelphia.

Mark J. Lister: Mark J. Lister has served as a member of our Board of Directors since June 2009. Mr. Lister serves as the Chairman of our Strategic Planning Committee. Since November 2006, Mr. Lister has been President of StratTechs, Inc., a consulting firm he founded which specializes in brokering technology within the Defense, Intelligence and Homeland Security Government markets. Mr. Lister recently completed service on the Secretary of the Navy Advisory Panel and formerly served as Chairman of the Naval Research Advisory Committee. From January 1992 to June 2006, Mr. Lister was employed by the Sarnoff Corporation where he most recently served as Senior Vice President of Government Operations. While at Sarnoff, from 2001 to 2006, Mr. Lister served as Managing Director of the Rosettex Technology and Ventures Group, a joint venture of Sarnoff Corporation and SRI International for which he was a founder, and from 1996 to 2001, Mr. Lister served as Executive Director of the National Information Display Laboratory. From 1987 to 1992, he served as Director, Advanced Development and Applications in the Research and Development Group of the Office of the Assistant Secretary of the U.S. Air Force for Space. Mr. Lister's government career began at the Naval Research Laboratory where he served as a researcher in the Space Applications Branch from 1977 to 1987. Mr. Lister has a B.S. in Electrical Engineering from Drexel University, a B.S. in Mathematics from St. Vincent College and a MEA from George Washington University.

Director Qualifications, Experience and Skills

All of our directors bring to our Board a wealth of executive leadership experience derived from their service as senior executives and, in many cases, founders of industry or knowledge specific consulting firms or operational businesses. They also offer extensive public company board experience. Each of our board members has demonstrated strong business acumen and an ability to exercise sound judgment and has a reputation for integrity, honesty and adherence to ethical standards. When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the company's business and structure, the Corporate Governance and Nominating Committee and the Board of Directors focused primarily on the information discussed in each of the Directors' individual biographies set forth above and the specific individual qualifications, experience and skills as described below:

- General Feigley's service in the United States Marine Corps and ownership and operation of a defense consulting firm provides us with invaluable insight into our government customers' needs and requirements, as well as contacts to key personnel within these companies.
- Mr. Farley's extensive knowledge of accounting, the capital markets, financial reporting and financial strategies from his extensive public accounting experience, and prior services as a chief financial officer of a public company and as audit committee member of several public companies. Mr. Farley specialized in "Transactional Accounting" managing the accounting and auditing function for numerous public financings, mergers, acquisitions, reorganizations and business dispositions. In 1993, Mr. Farley was part of the team that created a new financing vehicle, the Specified Purpose Acquisition Company "SPAC".
- Mr. Harlan's service in senior executive positions in manufacturing and operations provide our Board with a wealth of knowledge for these aspects of our business. Mr. Harlan has significant experience with management and commercial issues associated with technology based businesses that comprise an important aspect of our business position. Mr. Harlan also has prior experience in serving on the compensation and audit committees of other public companies.
- Mr. Levy's extensive knowledge of accounting, the capital markets, corporate governance, corporate compliance, financial reporting and financial strategies from his public accounting firm experience and service as chief financial

officer and audit committee member of several public companies, as well as through the services he provides to public companies through Board Advisory a consulting firm he founded.

- Mr. Lister's broad perspective regarding our customers, markets and bringing defense industry applications to market gained through the services provided by his consulting firm to customers in the Defense, Intelligence and Homeland Security Government markets, as well as from his current and previous positions with the Navy Advisory Panel and Navel Research Advisory Committee and senior assignment with the U.S. Air Force Office of Space Systems.

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Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires certain officers and directors of Applied Energetics, and any persons who own more than ten percent of the common stock outstanding to file forms reporting their initial beneficial ownership of shares and subsequent changes in that ownership with the SEC and the NASDAQ Stock Market. Officers and directors of Applied Energetics, and greater than ten percent beneficial owners are also required to furnish us with copies of all such Section 16(a) forms they file. None of our officers or directors failed to file any Section 16(a) forms, nor were any such persons late in making any such filings.

Code of Ethics

Applied Energetics has adopted a Code of Business Conduct and Ethics that applies to all of Applied Energetics' employees and directors, including its principal executive officer, principal financial officer and principal accounting officer. Applied Energetics' Code of Business Conduct and Ethics covers all areas of professional conduct including, but not limited to, conflicts of interest, disclosure obligations, insider trading, confidential information, as well as compliance with all laws, rules and regulations applicable to Applied Energetics' business.

Our Code of Ethics and Business Conduct is available at our website at www.appliedenergetics.com/default.aspx/investor-relations, or upon request made to us in writing at the following address, will be provided without charge:

Applied Energetics, Inc.

Attention: Compliance Officer

3590 East Columbia Street

Tucson, AZ 85714

Committees of the Board of Directors

Audit Committee

The Audit Committee of the Board of Directors is comprised of Messrs. Farley (Chairman), Harlan and Levy. The Audit Committee makes recommendations concerning the engagement of independent public accountants, reviews the scope and results of the audit engagement with the independent public accountants, approves professional services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees and reviews the adequacy of our internal accounting controls. Our Board of Directors has determined that each committee member meets the independence and financial literacy requirements under current NASDAQ rules. In addition, our Board of Directors has determined that Mr. Farley is an “audit committee financial expert” as defined under Item 407 of Regulation S-K of the SEC. Refer to Item 10 above for Mr. Farley's qualifications.

Compensation Committee

The Compensation Committee of the Board of Directors is comprised of Messrs. Harlan (Chairman) and Farley. The committee is responsible for establishing and maintaining executive compensation practices designed to encourage company profitability and enhance long-term shareholder value.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is comprised of Messrs. Levy (Chairman) and Feigley. The Committee is responsible for establishing and maintaining corporate governance practices designed to aid the long-term success of Applied Energetics and effectively enhance and protect shareholder value.

Strategic Planning Committee

The Strategic Planning Committee is comprised of Messrs. Lister (Chairman), Feigley and Levy. The Committee is responsible for providing oversight to establish strategic direction for the Company, develop with Company management and recommend to the Board a short and long-term strategic plan for the Company, periodically review and update the plan, investigate and review merger, acquisition, joint venture and other business combination and strategic opportunities and to provide oversight for monitoring and executing strategies.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table discloses, for the periods presented, the compensation for the persons who served as our Principal Executive Officer, our Chief Financial Officer and our Chief Operating Officer for the years ended December 31, 2011, and 2010 (the "Named Executives").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Option Awards (4)	All Other Compensation (5)	Total
Joseph C. Hayden	2011	$214,740	$ -	$ 19,090	$ -	$ 3,688	$237,518
President, principal executive officer	2010	$222,384	$25,000	$ -	$ -	$ 5,259	$252,643
Humberto A. Astorga	2011	$160,385	$ -	$ 14,110		$ 400	$174,895
Chief Financial Officer, principal financial officer, Controller	2010	$142,308	$ -	$ -	$ 16,432	$ 2,887	$161,627
Eric F. Lau	2011	$161,154	$ -	$ 14,110		$ 3,199	$178,463
Chief Operating Officer, Vice President of Engineering	2010	$140,414	$ -	$ -	$ 16,432	$ 4,063	$160,909

(1) Mr. Hayden's 2011 salary reflects the decrease of his base salary to $195,500 effective July 5, 2011, and his 2010 salary reflects the increase of his base salary to $230,000 effective March 23, 2010. Mr. Astorga's 2011 salary reflects the decrease of his base salary to $150,000 effective July 5, 2011 and his 2010 salary reflects the increase of his base salary to $170,000 effective January 3, 2011. Mr. Lau's 2011 salary reflects the decrease of his base salary to $150,000 effective July 5, 2011, and his 2010 salary reflects the increase of his base salary to $170,000 upon his appointment as Chief Operating Officer and Vice President of Engineering.

(2) Mr. Hayden's cash bonus in 2010 was determined by the compensation committee.

(3) The amounts included in the "Stock Awards" column represent the aggregate grant date fair value in 2011, and 2010 related to stock awards, computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 7 to our 2011 Consolidated Financial Statements.

(4) The amounts included in the "Option Awards" column represent the aggregate grant date fair value in 2011, and 2010 related to stock option awards, computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 7 to our 2011 Consolidated Financial Statements.

(5) The amounts shown in the “All Other Compensation” column are attributable to the company match expense for 401(k) contributions. All named executives received an employer matching benefit pursuant to which we match 50% of the employees’ 401(K) contribution up to 3% of their eligible compensation to their 401(K) plans, a benefit that is available to all employees. Additionally, “All Other Compensation” includes the dollar value of life insurance premiums paid by us for all named executive officers.

Employment Agreements for Named Executive Officers

We currently have no employment agreements for named executive officers.

Outstanding Equity Awards at Fiscal Year-End

The following table discloses unexercised options held by the Named Executives at December 31, 2011:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price	Option Expiration Date	Stock Awards Number of Shares of stock that have not vested	Market Value of Shares of stock that have not vested
Joseph C. Hayden	-	-			23,000 (1)	$ 1,679
	-	-			17,000 (2)	$ 1,241
Humberto A. Astorga	58,000 (3)	-	$ 0.50	03/09/2012	-	$ -
	166,667 (4)	-	$ 0.40	07/16/2014	-	$ -
	33,333 (5)	16,667 (5)	$ 0.60	03/23/2015	-	$ -
Eric F. Lau	-	-			3,375 (6)	$ 246
	-	-			17,000 (7)	$ 1,241
	69,500 (8)	-	$ 0.50	03/09/2012	-	$ -
	17,500 (9)	-	$ 0.50	03/09/2012	-	$ -
	250,000 (10)	-	$ 0.40	07/16/2014	-	$ -
	33,334 (11)	16,666 (11)	$ 0.60	03/23/2015	-	$ -

(1) Restricted stock grant vests as to one third on the second day following the filing of the 10-K report for each of the years ended 2011, 2012 and 2013. These restricted stock units were granted under the 2007 Stock Incentive Plan.

(2) Restricted stock grant vests as to one third on the second day following the filing of the 10-K report for each of the years ended 2011, 2012 and 2013. These restricted stock units were granted under the 2007 Stock Incentive Plan.

(3) Pursuant to an exchange offer (the “Exchange Offer”) made in March 2009 to all employees and directors with respect to all then outstanding options granted under our 2004 Stock Incentive Plans, Mr. Astorga exchanged options to purchase 116,000 shares of common stock in March 2009 for options to purchase 58,000 of common stock exercisable at $0.50 per share. The options received in the Exchange Offer vested immediately and are exercisable over a three year period from the date of the exchange. These options were granted under the 2004 Stock Incentive Plan.

(4) Vested as to 83,333 shares on each of July 16, 2010 and 2011. These options were granted under the 2007 Stock Incentive Plan.

(5) Vested as to 16,667 shares on each of March 23, 2010 and 2011, and vests annually in 2012. These options were granted under the 2007 Stock Incentive Plan.

(6) Restricted stock grant vests upon the achievement of certain specified performance targets or on November 29, 2012. These restricted stock units were granted under the 2007 Stock Incentive Plan.

(7) Restricted stock grant vests as to one third on the second day following the filing of the 10-K report for each of the years ended 2011, 2012 and 2013. These restricted stock awards were granted under the 2007 Stock Incentive Plan.

(8) Pursuant to the Exchange Offer, Mr. Lau exchanged options to purchase 139,000 shares of common stock for options to purchase 69,500 of common stock exercisable at $0.50 per share. The options received in the Exchange Offer vested immediately and are exercisable over a three year period from the date of the exchange. These options were granted under the 2004 Stock Incentive Plan.

(9) Vested on April 23, 2009. These options were granted under the 2007 Stock Incentive Plan.

(10) Vested as to 83,333 shares on each of July 16, 2009, 2010 and 2011. These options were granted under the 2007 Stock Incentive Plan.

(11) Vested on each of March 23, 2010 and 2011, and vests on March 23, 2012. These options were granted under the 2007 Stock Incentive Plan.

(12) The market value of shares or units of stock that have not vested as reported in the table above is determined by multiplying the closing market price of our common stock on the last trading day of 2011 of $0.073 by the number of shares stock that have not vested.

Payments upon Termination or Change-In-Control

There are no termination or change in control agreements in place.

Director Compensation

The following table discloses our director compensation for the year ended December 31, 2011:

Name	Fees Earned or Paid in Cash	Stock Awards (1)	Total
George P. Farley	$ 69,375	$ -	$69,375
James K. Harlan	$ 50,875	$ -	$50,875
James M. Feigley	$ 115,625	$ -	$115,625
John F. Levy	$ 50,875	$ -	$50,875
Mark J. Lister	$ 191,500	$ -	$191,500

In January 2010, the Board of Directors terminated the Independent Directors Compensation Program. In addition, in January of 2010, the Board set the annual cash compensation for independent directors as follows: the Chairman of the Board, and/or Lead Independent Director, if independent, shall receive $125,000 per year; the Chairman of the Audit Committee shall receive $75,000 per year; the Chairman of the Compensation Committee shall receive $55,000 per year, the Chairman of the Nominating Committee shall receive $55,000 per year and each other independent director shall receive $50,000 per year. In addition, the Chairman of the Strategic Planning Committee was awarded an additional payment of $50,000 annually for his services in leading the corporation’s strategic planning initiatives.

In July of 2011, the board reduced their compensation by 15% and in March 2012, the board further reduced its compensation by 25%.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION:

During the fiscal year ended December 31, 2011, none of our executive officers served on the Board of Directors or the Compensation Committee of any other company whose executive officers also serve on our Board of Directors or our Compensation Committee.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS:

The following table sets forth information regarding the beneficial ownership of our Common Stock, based on information provided by the persons named below in publicly available filings, as of March 27, 2012:

- each of our directors and executive officers;
- all directors and executive officers of ours as a group; and
- each person who is known by us to beneficially own more than five percent of the outstanding shares of our Common Stock.

Unless otherwise indicated, the address of each beneficial owner is care of Applied Energetics, 3590 East Columbia Street, Tucson, Arizona 85714. Unless otherwise indicated, the company believes that all persons named in the following table have sole voting and investment power with respect to all shares of common stock that they beneficially own.

For purposes of this table, a person is deemed to be the beneficial owner of the securities if that person has the right to acquire such securities within 60 days of March 27, 2012 upon the exercise of options or warrants. In determining the percentage ownership of the persons in the table below, we assumed in each case that the person exercised all options which are currently held by that person and which are exercisable within such 60 day period, but that options and warrants held by all other persons were not exercised, and based the percentage ownership on 91,670,192 shares outstanding on March 27, 2012. Restricted stock units which were granted February 28, 2011, begin vesting on the third business day following the dates on which we file our Annual Report on Form 10-K for the years ending December 31, 2011, 2012 and 2013 with the Securities and Exchange Commission. Therefore, the first vesting is included in the table below.

Name of Beneficial Owner	Number of Shares Beneficially Owned (1)		Percentage of Shares Beneficially Owned (1)	
Superius Securities Group Inc. Profit Sharing Plan	8,535,997	2	9.3	%
Joseph C. Hayden	5,604,468		6.1	%
James M. Feigley	528,697	3	*	
Eric F. Lau	335,084	4	*	
Humberto A. Astorga	251,183	5	*	
James K. Harlan	119,365	6	*	
Mark J. Lister	125,000	7	*	
John F. Levy	87,500	8	*	
George P. Farley	0	9	*	
All directors and executive officers as a group (8 persons)	7,051,297		7.6	%

* Less than 1%

(1) Computed based upon the total number of shares of common stock, restricted shares of common stock and shares of common stock underlying options held by that person that are exercisable within 60 days of the Record Date.

(2) Based on information contained in a report on Schedule 13G filed with the SEC on October 29, 2009. The address of Superius Securities Group Inc. Profit Sharing Plan is 94 Grand Ave., Englewood, NJ 07631.

(3) Represents 103,697 shares of common stock and 425,000 options exercisable within 60 days of record date.

(4) Represents 35,084 shares of common stock and 300,000 options exercisable within 60 days record date.

(5) Represents 34,516 shares of common stock and 216,667 options exercisable within 60 days record date.

(6) Represents 64,365 shares of common stock and 55,000 options exercisable within 60 days of record date.

(7) Represents 75,000 shares of common stock and 50,000 options exercisable within 60 days of record date.

(8) Represents 37,500 shares of common stock and 50,000 options exercisable within 60 days of record date.

(9) Mr. Farley denies beneficial ownership of the common shares and common shares issuable upon exercise of options he transferred to various LLCs.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table details information regarding our existing equity compensation plans as of December 31, 2011:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	3,823,260	$ 0.52	7,320,156
Equity compensation plans not approved by security holders	-	$ -	-
Total	3,823,260	$ 0.52	7,320,156

The following is a description of currently open stock option and equity plans.

The 2004 Stock Incentive Plan (“2004 Plan”), which provides for the grant of any or all of the following types of awards: (1) stock options, which may be either incentive stock options or non-qualified stock options, (2) restricted stock, (3) deferred stock and (4) other stock-based awards. A total of 3,000,000 shares of common stock were originally reserved for distribution pursuant to the 2004 Plan. On June 28, 2005, the stockholders approved an amendment to the 2004 Plan to (i) increase the number of shares of the company's common stock, $.001 par value, authorized for issuance under the 2004 Plan by 2,000,000 shares from 3,000,000 shares to 5,000,000 shares, and (ii) set the maximum number of shares of common stock which may be issued upon the exercise of incentive stock options at 3,000,000 shares. As of December 31, 2011, options to purchase 2,485,195 shares were outstanding under this plan. Additionally, as of December 31, 2011, there were no unvested restricted stock units outstanding under this plan. Approximately 450,000 shares were available for grant under this plan as of December 31, 2011.

The 2007 Stock Incentive Plan (“2007 Plan”), which provides for the grant of any or all of the following types of awards: (1) stock options, which may be either incentive stock options or non-qualified stock options, (2) restricted stock, (3) deferred stock, (4) stock appreciation rights, and (5) other stock-based awards. A total of 10,000,000 shares of common stock have been reserved for distribution pursuant to the 2007 Plan provided, however, that the maximum number of shares available for award or grant during the first five years of the 2007 Plan shall be an aggregate of 5,000,000 shares; and provided further that the maximum number of shares available for award or grant during any consecutive twelve month period shall be 1,000,000 shares during the first two years of the 2007 Plan and 2,000,000 shares during the third through fifth years of the 2007 Plan. As of December 31, 2011, options to purchase 1,338,065 shares were outstanding under this plan. As of December 31, 2011, 242,635 restricted stock grants remain outstanding under the plan. As of December 31, 2011, approximately 6.8 million shares were available for grant from this plan, 5.0 million of which are reserved for the years 2012 to 2017.

We have, from time to time, also granted non-plan options and other equity-based awards to certain officers, directors, employees and consultants. No inducement grants as defined were made during 2011, nor are any outstanding from previous years.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Related Parties

On December 22, 2010, we engaged Mark Lister, a director of the Company, to perform consulting services for a period commencing on January 3, 2011 through March 3, 2011 to assist us with our strategic plans. Mr. Lister agreed to relocate to Tucson, Arizona during this period and we agreed to pay to him a consulting fee of $3,000 per day, not to exceed an aggregate of $100,000 and to reimburse him for reasonable and out-of-pocket expenses incurred during the period of service. Mr. Lister was paid $99,000 in consulting fees and approximately $15,000 in reimbursable expenses.

Review, Approval or Ratification of Transactions with Related Persons

Pursuant to our Code of Business Conduct, all officers and directors of the company who have, or whose immediate family members have, any direct or indirect financial or other participation in any business that supplies goods or services to Applied Energetics, are required to notify our Compliance Officer, who will review the proposed transaction and notify the Audit Committee of our Board of Directors for review and action as it sees fit, including, if necessary, approval by our Board of Directors.

Director Independence

The Board has determined that Messrs. Farley, Harlan, Feigley, and Levy meet the director independence requirements applicable to NASDAQ listed companies.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES:

The following is a summary of the fees billed to the company by BDO USA, LLP for professional services rendered for the years ended December 31, 2011 and 2010.

	2011	2010
Audit Fees	$141,500	$326,500
Tax Fees	$18,000	$46,500

Fees for audit services include fees associated with the annual audit of the company and its subsidiaries, the review of our quarterly reports on Form 10-Q and in 2010, the internal control evaluation under Section 404 of the Sarbanes-Oxley Act of 2002. Tax fees include tax compliance, tax advice, research and development credits and tax planning related to federal and state tax matters.

Pre-Approval Policies and Procedures

Consistent with the SEC requirements regarding auditor independence, our Audit Committee has adopted a policy to pre-approve all audit and permissible non-audit services provided by our independent registered public accounting firm. Under the policy, the Audit Committee must approve non-audit services prior to the commencement of the specified service. Our independent registered public accounting firm, BDO USA, LLP, have verified, and will verify annually, to our Audit Committee that they have not performed, and will not perform any prohibited non-audit service.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed or incorporated by reference as part of this report:

(a)(1) The Consolidated Financial Statements of Applied Energetics, Inc. are filed as part of this report on page F-1 following the signatures.

Exhibits:

EXHIBIT NUMBER	DESCRIPTION
2.1	Amended and Restated Plan and Agreement of Merger entered into as of March 17, 2004, by and among U.S. Home & Garden, Inc. ("USHG"), Ionatron Acquisition Corp., a wholly-owned subsidiary of USHG, Robert Kassel (for purposes of Sections 5.9, 6.2(d), 6.2(j), 9.4 and 10.10 only), Fred Heiden (for purposes of Section 9.4 only), and Ionatron, Inc. and Robert Howard, Stephen W. McCahon, Thomas C. Dearmin and Joseph C. Hayden (incorporated by reference to the comparable exhibit filed with the Registrant's Form 8-K filed with the SEC on March 24, 2004).
3.1	Certificate of Incorporation, as amended, (incorporated by reference to the comparable exhibit filed with the Registrant's Form 10-KSB for the fiscal year ended June 30, 1995).
3.2	Certificate of Amendment of Certificate of Incorporation of the Registrant filed with the Secretary of State of the State of Delaware on April 29, 2004 (incorporated by reference to the comparable exhibit filed with the Registrant's Form 10-Q for the quarterly period ended March 31, 2004).
3.3	Certificate of Elimination of the 10% Series A Convertible Preferred Stock of the Registrant (incorporated by reference to the comparable exhibit filed with the Registrant's Form 8-K filed with the SEC on October 28, 2005).
3.4	Certificate of Designation of the 6.5% Series A Redeemable Convertible Preferred Stock of the Registrant (incorporated by reference to the comparable exhibit filed with the Registrant's 8-K filed with the SEC on October 28, 2005).
3.5	Certificate of Ownership and Merger of Applied Energetics, Inc. into Ionatron, Inc. (incorporated by reference to the comparable exhibit filed with the Registrant's Form 8-K filed with the SEC on February 20, 2008).
3.6	Amended and Restated By-laws of the Registrant (incorporated by reference to Exhibit 3 of the Registrant's Form 10-Q for the Quarter ended June 30, 2007.
3.7	Certificate of Amendment to Certificate of Incorporation filed with the Secretary of State of the State of Delaware on September 10, 2007.
4.1	Form of certificate evidencing Common Stock, $.001 par value, of the Registrant
10.1	2004 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's Proxy Statement on Schedule 14A filed with the SEC on May 25, 2005).
10.2	Form of 2004 Stock Incentive Plan Non-Qualifying Stock Option Agreement for Directors (incorporated by reference to the comparable exhibit filed with the Registrant's Form 10-Q for the quarterly period ended June 30, 2005).
10.3	2007 Stock Incentive Plan (as amended).
21	Subsidiaries (incorporated by reference to the comparable exhibit filed with the Registrant's Form 10-K for the year ended December 31, 2006)
23	Consent of BDO USA, LLP
31.1	Certification of Principal Executive 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.
31.2	Certification of 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 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Compensation Committee Charter (incorporated by reference to the comparable exhibit filed with the Registrant's Form 10-K for the year ended December 31, 2010)

99.2	Corporate Governance and Nominating Committee Charter (incorporated by reference to the comparable exhibit filed with the Registrant’s Form 10-K for the year ended December 31, 2009)
99.3	Audit Committee Charter (incorporated by reference to the comparable exhibit filed with the Registrant’s Form 10-K for the year ended December 31, 2009

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on the 29th day of March, 2012.

APPLIED ENERGETICS, INC.

By /s/ Joseph C. Hayden
Joseph C. Hayden
President, Principal Executive Officer
and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on the 29th day of March, 2012 by the following persons on behalf of the registrant and in the capacities indicated.

Name	Title
/s/ James M. Feigley James M. Feigley	Chairman of the Board
/s/ George P. Farley George P. Farley	Director
/s/ James K. Harlan James K. Harlan	Director
/s/ John F. Levy John F. Levy	Director
/s/ Mark J. Lister Mark J. Lister	Director
/s/ Joseph C. Hayden Joseph C. Hayden	President, Secretary (principal executive officer)
/s/ Humberto A. Astorga Humberto A. Astorga	Chief Financial Officer, Controller (principal financial officer and principal accounting officer)

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APPLIED ENERGETICS, INC.

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Applied Energetics, Inc.

Tucson, Arizona

We have audited the accompanying consolidated balance sheets of Applied Energetics, Inc. as of December 31, 2011 and 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Applied Energetics, Inc. at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, has negative cash flow from operations and may incur additional losses due to the reduction in Government contract activity that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO USA, LLP

Phoenix, Arizona

March 29, 2012

APPLIED ENERGETICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31 ,

	2011	2010
Revenue	$5,070,156	$13,089,136
Cost of revenue	4,793,181	12,274,759
Gross profit	276,975	814,377
Operating expenses:		
General and administrative	3,811,028	2,924,439
Selling and marketing	1,151,213	664,665
Research and development	1,674,158	161,280
Total operating expenses	6,636,399	3,750,384
Operating loss	(6,359,424)	(2,936,007)
Other income (expense):		
Interest expense	(4,156)	(5,374)
Interest income	3,477	8,588
Total other income (expense)	(679)	3,214
Loss before provision for income taxes	(6,360,103)	(2,932,793)
Provision for income taxes	-	-
Net loss	(6,360,103)	(2,932,793)
Preferred stock dividends	(166,042)	(207,221)
Deemed dividend from induced conversion of Series A preferred stock	-	(11,478)
Net loss attributable to common stockholders	$(6,526,145)	$(3,151,492)
Net loss attributable to common stockholders per common share – basic and diluted	$(0.07)	$(0.04)
Weighted average number of common shares outstanding, basic and diluted	90,992,496	89,211,315

See accompanying notes to consolidated financial statements.

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APPLIED ENERGETICS, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31 ,	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	$3,937,135	$8,983,281
Accounts receivable	494,744	2,022,292
Inventory - net	141,676	683,546
Prepaid expenses	249,215	365,506
Other receivables	99,447	48,717
Total current assets	4,922,217	12,103,342
Long term receivable	205,313	205,313
Property and equipment - net	2,366,180	2,507,814
Other assets	-	10,000
TOTAL ASSETS	$7,493,710	$14,826,469
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities		
Accounts payable	$318,330	$870,009
Accrued expenses	415,880	798,962
Insurance premium financing (3.9% interest)	212,526	206,720
Accrued compensation	293,671	507,341
Customer deposits	49,046	126,282
Billings in excess of costs	2,152	6,505
Total current liabilities	1,291,605	2,515,819
Total liabilities	1,291,605	2,515,819
Commitments and contingencies		
Stockholders’ equity		
Series A convertible preferred stock, $.001 par value, 2,000,000 shares authorized and 107,172 shares issued and outstanding at December 31, 2011 and 2010 (Liquidation preference $2,679,300)	107	107
Common stock, $.001 par value, 125,000,000 shares authorized; 91,670,192 shares issued and outstanding at December 31, 2011; 91,068,357 shares issued and outstanding at December 31, 2010	91,670	91,068
Additional paid-in capital	79,155,518	78,738,520
Accumulated deficit	(73,045,190)	(66,519,045)
Total stockholders’ equity	6,202,105	12,310,650
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$7,493,710	$14,826,469

See accompanying notes to consolidated financial statements.

APPLIED ENERGETICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance as of December 31, 2009	135,572	$ 136	88,968,812	$ 88,969	$ 76,931,065	$ (63,367,553)	$ 13,652,617
Exercise of stock options	-	-	1,359,851	1,360	621,771	-	623,131
Stock issued under equity incentive plans	-	-	481,100	481	(481)	-	-
Stock-based compensation expense	-	-	-	-	967,695	-	967,695
Preferred stock converted into common stock	(28,400)	(29)	67,083	67	11,440	(11,478)	-
Preferred stock dividends	-	-	191,511	191	207,030	(207,221)	-
Net loss for the year ended December 31, 2010	-	-	-	-	-	(2,932,793)	(2,932,793)
Balance as of December 31, 2010	107,172	$ 107	91,068,357	$ 91,068	$ 78,738,520	$ (66,519,045)	$ 12,310,650
Exercise of stock options	-	-	48,084	48	23,927	-	23,975
Stock issued under equity incentive plans	-	-	2,836	4	(4)	-	-
Stock-based compensation expense	-	-	-	-	256,124	-	256,124
Preferred stock dividends	-	-	550,915	550	136,951	(166,042)	(28,541)
Net loss for the year ended December 31, 2011	-	-	-	-	-	(6,360,103)	(6,360,103)
Balance as of December 31, 2011	107,172	$ 107	91,670,192	$ 91,670	$ 79,155,518	$ (73,045,190)	$ 6,202,105

See accompanying notes to consolidated financial statements.

APPLIED ENERGETICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

APPLIED ENERGETICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(6,360,103)	$(2,932,793)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	338,315	396,738
Loss on equipment disposal	36,525	7,669
Provision for inventory reserves	(73,830)	51,830
Noncash stock based compensation expense	256,124	967,695
Changes in assets and liabilities:		
Accounts receivable	1,527,548	(947,348)
Other receivable	(50,730)	3,578
Inventory	615,700	50,103
Prepaid expenses and other assets	126,291	92,589
Accounts payable	(551,679)	441,596
Billings in excess of costs	(4,353)	(36,211)
Accrued expenses and deposits	(696,723)	501,675
Net cash used in operating activities	(4,836,915)	(1,402,879)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(237,206)	(80,675)
Sales of short term investment	-	225,000
Proceeds from disposal of equipment	4,000	14,061
Net cash provided by (used in) investing activities	(233,206)	158,386
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the exercise of stock options and warrants	23,975	623,131
Net cash provided by (used in) financing activities	23,975	623,131
Net decrease in cash and cash equivalents	(5,046,146)	(621,362)
Cash and cash equivalents, beginning of period	8,983,281	9,604,643
Cash and cash equivalents, end of period	$3,937,135	$8,983,281

See accompanying notes to consolidated financial statements.

APPLIED ENERGETICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Applied Energetics, Inc. and its wholly owned subsidiaries, Ionatron Technologies, Inc. and North Star Power Engineering, Inc. (“North Star”) (collectively, "company," "Applied Energetics," "we," "our" or "us"). All intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior period financial statement amounts to conform to the current presentation.

The accompanying 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.