

APPLIED ENERGETICS, INC.
Form DEF 14A
August 13, 2010

United States
Securities and Exchange Commission
Washington, D.C. 20549

Schedule 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

Applied Energetics, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
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(4) Proposed maximum aggregate value of transaction:

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.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

APPLIED ENERGETICS, INC.
3590 EAST COLUMBIA STREET
TUCSON, ARIZONA 85714

August 13, 2010

Dear Stockholder:

You are cordially invited to attend the 2010 Annual Meeting of Stockholders that will be held on Thursday, September 23, 2010 at 9:00 A.M., local time, at our corporate offices at 3590 East Columbia Street, Tucson, Arizona 85714.

As permitted by rules adopted by the United States Securities and Exchange Commission, we are mailing a notice to many of our stockholders instead of a paper copy of this proxy statement and our 2009 Annual Report to Stockholders. The notice contains instructions on how to access those documents over the Internet. The notice also contains instructions on how each of those stockholders can receive a paper copy of our proxy materials, including this proxy statement, our 2009 Annual Report to Stockholders and a proxy card. We believe that this process will provide our stockholders with easier access to these proxy materials, reduce the costs of printing and distributing our proxy materials and conserve environmental resources.

The notice of annual meeting and proxy statement, which follow, describe the business to be conducted at the meeting. Whether or not you plan to attend the annual meeting, we urge you to read this material carefully and encourage you to vote promptly. You may vote your shares via a toll-free telephone number or over the Internet. If you received a proxy card by mail, you may vote by signing, dating and mailing the proxy card in the envelope provided. Instructions regarding all three methods of voting are contained on the proxy card.

If you plan to attend the annual meeting in person, you will need to present a government issued picture identification, such as a passport or driver's license, to enter our corporate offices. Access to the secured portion of our facility will not be permitted.

Thank you and I look forward to seeing you at the meeting.

Cordially,

James M. Feigley
Chairman of the Board

APPLIED ENERGETICS, INC.
3590 EAST COLUMBIA STREET
TUCSON, ARIZONA 85714

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 23, 2010

To the Stockholders of Applied Energetics, Inc.:

NOTICE IS HEREBY GIVEN that an Annual Meeting of Stockholders of Applied Energetics, Inc. (the "Company") will be held on Thursday, September 23, 2010 at 9:00 A.M. local time at our corporate offices at 3590 East Columbia Street, Tucson, Arizona 85714 to consider and vote upon the proposals below, as explained more fully in the accompanying proxy statement:

- (i) A proposal to elect two Class III directors to hold office until the 2013 Annual Meeting of Stockholders, and until their respective successors have been duly elected and qualified;
- (ii) A proposal to ratify the appointment of BDO USA, LLP as the Company's independent registered accounting firm for the fiscal year ending December 31, 2010; and
- (iii) Any other matters properly brought before the meeting, including approval of any adjournment or postponement of the meeting.

Only stockholders of record on the books of the Company at the close of business on July 30, 2010 will be entitled to notice of and to vote at the meeting or any adjournments thereof.

A copy of the Company's Annual Report for the year ended December 31, 2009, which contains financial statements, accompanies this Notice and the attached Proxy Statement. You may vote your shares via a toll-free telephone number or over the Internet. If you received a proxy card by mail, you may vote by signing, dating and mailing the proxy card in the envelope provided. Whether or not you attend the meeting, it is important your shares be represented and voted.

Your board of directors believes that the election of the nominees specified in the accompanying proxy statement as directors at the annual meeting is in the best interests of the Company and its stockholders and, accordingly, unanimously recommends a vote "FOR" such nominees.

August 13, 2010

By order of the Board of Directors

James M. Feigley
Chairman of the Board

YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE ENSURE YOU TAKE THE TIME TO CAST YOUR VOTE.

YOU MAY VOTE BY SUBMITTING YOUR PROXY BY TELEPHONE, THE INTERNET OR MAIL. IF YOU ARE A REGISTERED STOCKHOLDER AND ATTEND THE MEETING, YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON. IF YOU HOLD YOUR SHARES THROUGH A BANK OR BROKER AND WANT TO VOTE YOUR SHARES IN PERSON AT THE MEETING, PLEASE CONTACT YOUR BANK OR BROKER TO OBTAIN A LEGAL PROXY.

PROXY STATEMENT

APPLIED ENERGETICS, INC.

ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD SEPTEMBER 23, 2010

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Applied Energetics, Inc. (“Applied Energetics” or the “Company”) for use at the Annual Meeting of Stockholders to be held on Thursday, September 23, 2010 (the “Annual Meeting”), including any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of Meeting.

Proxies in the accompanying form, duly executed and returned to the management of the Company and not revoked, will be voted at the Annual Meeting. Any proxy given by a stockholder pursuant to such solicitation may be revoked by the stockholder at any time prior to the voting of the proxy by a subsequently dated proxy, by written notification to the Secretary of the Company, or by personally withdrawing the proxy at the meeting and voting in person.

The address and telephone number of the principal executive offices of the Company are:

3590 East Columbia Street
Tucson, Arizona 85714
Telephone: (520) 628-7415

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GENERAL INFORMATION

Notice of Electronic Availability of Proxy Statement and Annual Report

As permitted by rules adopted by the United States Securities and Exchange Commission (sometimes referred to as the SEC), Applied Energetics is making this proxy statement and its annual report available to its stockholders electronically via the Internet. On August 13, 2010, we mailed a notice to our stockholders containing instructions on how to access this proxy statement and our annual report and vote online. If you received a notice by mail, you will not receive a printed copy of the proxy materials in the mail. The notice instructs you on how to access and review all of the important information contained in the proxy statement and annual report. The notice also instructs you on how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the notice.

Questions and Answers About The Proposals to be Voted Upon and The Voting Procedures

Q. What am I voting on?

A. You are being asked to vote on the proposal to elect two Class III directors (James K. Harlan and David C. Hurley) to serve as such commencing immediately following our 2010 annual meeting and until our annual meeting of stockholders in 2013.

In addition, you may be asked to consider and vote upon other matters that may properly come before the annual meeting, including approval of any adjournment or postponement of the meeting

Q. Who is entitled to vote at the annual meeting?

A. Common stockholders of record as of the close of business on July 30, 2010, the record date, are entitled to vote on each of the proposals at the annual meeting. Each share of common stock entitles the holder thereof to cast one vote per each share held by such stockholder on the record date with respect to each proposal.

Q. How do I vote?

A. Stockholders can vote in person at the annual meeting or by proxy. There are three ways to vote by proxy:

- By telephone — You can vote by telephone by calling 1-800-690-6903 and following the instructions on the proxy card;
- By Internet — You can vote over the Internet at www.proxyvote.com by following the instructions on the proxy card;
or
- By mail — If you received your proxy materials by mail, you can vote by mail by signing, dating and mailing the enclosed proxy card.

Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day and will close at 11:59 p.m. (EDT) on September 22, 2010.

If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the holder of record. You must follow the instructions of the holder of record in order for your shares to be voted. Telephone and Internet voting also will be offered to stockholders owning shares through certain banks and

brokers. If your shares are not registered in your own name and you plan to vote your shares in person at the annual meeting, you should contract your broker or agent to obtain a legal proxy or broker's proxy card and bring it to the annual meeting in order to vote.

Q. How may I revoke or change my vote?

A. You have the right to revoke your proxy any time before the meeting by (a) notifying Applied Energetics' corporate secretary of your revocation or (b) returning a later-dated proxy. The last vote received chronologically will supersede any prior vote. You may also revoke your proxy by voting in person at the annual meeting. Attendance at the meeting, without voting at the meeting, will not in and of itself serve as a revocation of your proxy.

Q. What does it mean if I receive more than one notice or set of proxy materials.

A. It may mean that you are the registered holder of shares in more than one account. You may call our transfer agent, Continental Stock Transfer & Trust Company, at 212-509-4000, if you have any questions regarding the share information or your address appearing on the notice or proxy materials.

Q. Who will count the votes?

A. It is expected that either an employee of the Company or its counsel will tabulate the votes and act as the inspector of election.

Q. What constitutes a quorum?

A. A majority of the outstanding shares, present or represented by proxy, of Applied Energetics' common stock will constitute a quorum for the annual meeting. As of the record date, there were 90,531,716 shares of Applied Energetics common stock, \$.001 par value per share, issued and outstanding.

Q. How many votes are needed for Proposal I — the election of the two Class III directors?

A. Assuming a quorum is present, the two Class III directors will be elected by a plurality of the votes cast at the annual meeting, meaning the two nominees receiving the highest number of votes will be elected as directors. Only votes cast for a nominee will be counted, except that a properly executed proxy that does not specify a vote with respect to the nominees will be voted for the two nominees whose names are printed on the proxy card (James K. Harlan and David C. Hurley). Because the vote on this proposal is determined by a plurality of the votes cast, neither abstentions nor broker non-votes (as described below) will have any effect on the election of directors.

Q. How many votes are needed to approve the other Proposal?

A. Assuming a quorum is present, the affirmative vote of the holders of a majority of the shares of the Company's common stock represented at the annual meeting, either in person or by proxy, and entitled to vote at the annual meeting is required for Proposal II to pass. As described below, for this proposal, abstentions and broker-non votes will have the same effect as a vote against the proposal.

Q. What happens if I abstain from voting?

A. If an executed proxy card is returned and the stockholder has explicitly abstained from voting on any proposal, the shares represented by the proxy will be considered present at the annual meeting for the purpose of determining a quorum. In addition, while they will not count as votes cast in favor of the proposal, they will count as votes cast on the proposal. As a result, other than with respect to Proposal I, which will be determined by a plurality of the votes cast, an abstention on a proposal will have the same effect as a vote against the proposal.

Q. What is a "broker non-vote"?

A. A "broker non-vote" occurs when a broker submits a proxy that does not indicate a vote for one or more of the proposals because the broker has not received instructions from the beneficial owner on how to vote on such proposals and does not have discretionary authority to vote in the absence of instructions. While broker non-votes will be counted for the purposes of determining whether a quorum exists at the annual meeting, they will not be considered to have voted on any of the proposals on which such instructions have been withheld. In the case of any proposal requiring a majority vote in favor of the proposal, they will have the same effect as a vote against the

proposal.

Q. Who bears the cost of soliciting of proxies?

A. The entire cost of soliciting proxies, including the costs of preparing, assembling, printing and mailing the notice and, as applicable, this proxy statement, the proxy and any additional soliciting material furnished to stockholders, will be borne by us. In addition, arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy materials to the beneficial owners of stock, and we may reimburse such persons for their expenses.

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PROPOSAL I: ELECTION OF DIRECTORS

The Company's By-Laws provide that the Board of Directors of the Company is divided into three classes (Class I, Class II and Class III). At each Annual Meeting of Stockholders, directors constituting one class are elected for a three-year term. At this year's Annual Meeting of Stockholders, two (2) Class III directors will be elected to hold office for a term expiring at the Annual Meeting of Stockholders to be held in 2013. It is the intention of the Board of Directors to nominate Mr. James K. Harlan and Mr. David C. Hurley as Class III directors. Each director will be elected to serve until a successor is elected and qualified or until the director's earlier resignation or removal.

At this year's Annual Meeting of Stockholders, the proxies granted by stockholders will be voted individually for the election, as directors of the Company, of the persons listed below, unless a proxy specifies that it is not to be voted in favor of a nominee for director. In the event either or both of the nominees listed below shall be unable to serve, it is intended that the proxy will be voted for such other nominees as are designated by the Board of Directors. Each of the persons named below has indicated to the Board of Directors that he will be available to serve.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION OF THE NOMINEES SPECIFIED BELOW.

The following information is with respect to the nominees for election at this Annual Meeting of Stockholders:

CLASS III DIRECTOR
(To be Elected)
(New Term Expires in 2013)

David C. Hurley: David C. Hurley, 69, has been a member of our Board of Directors since March, 2004 and served as the independent Chairman of our Board from March 2006 until December 2007. Mr. Hurley was appointed Vice Chairman of PrivatAir of Geneva, Switzerland on February 1, 2003, relinquishing the role of Chief Executive Officer, a position he held following the acquisition of Flight Services Group ("FSG") by PrivatAir in 2000. Mr. Hurley founded FSG in 1984. PrivatAir has major business aviation operations in over fifteen bases in the U.S. and aircraft service operations at Toulouse and, Paris, France; Dusseldorf, Munich and Hamburg, Germany; Amsterdam, The Netherlands, and Geneva, Switzerland. Mr. Hurley has over 40 years experience in operations, marketing and sales in the aerospace and telecommunications industries. Before founding FSG, he served as the Executive Vice President for Canadair Challenger (a Division of General Dynamics). Prior to that position, he served as Regional Manager of the Cessna Aircraft Company Commercial Jet Marketing Division. He began his career in 1968 as Director of Marketing, Government and Military Products Division, for RF Communications, a division of the Harris Intertype Corporation. Mr. Hurley serves as the Chairman Emeritus of the Board of the Smithsonian Institution's National Air and Space Museum, Washington, D.C.; and serves on the Boards of Aviation Partners Boeing, CAMP Systems, Hexcel Corp., Genesee & Wyoming, Inc. and The Corporate Angel Network, White Plains, N.Y. He is an alumnus of Hartwick College and served three years in the Special Services Branch of the US Army, receiving an honorable discharge.

James K. Harlan: James K. Harlan, 58, 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 is currently Chief Executive Officer for Vendevco, LLC, a venture development company with ownership interests in oil/gas production, energy technology and international wine production and sale. Mr. Harlan was the Executive Vice President and Chief Financial Officer of HNG Storage, LP, a natural gas storage development and operations business that he helped found in 1992 and sold in 2005. From 1991 to 1997, Mr. Harlan served as Group Development Manager for the Pacific Resources Group which was engaged with various manufacturing and distribution businesses and joint ventures in Asia, Australia, and North America. He also 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 and was a member of the Audit and Governance Committees until July 2008.

DIRECTORS AND EXECUTIVE OFFICERS

The following information is with respect to incumbent directors in Class I and Class II of the Board of Directors who are not nominees for election at this Annual Meeting of Stockholders:

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CLASS I DIRECTORS

(Term Expires in 2011)

John F. Levy: John F. Levy, 54, has served as a member of our Board of Directors since June 2009. Mr. Levy serves as a member of our Audit Committee. Since May 2005, Mr. Levy has served as the Chief Executive Officer of Board Advisory Services, 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 director and non-executive Chairman of the Board of Applied Minerals, Inc. (formerly Atlas Mining Company), an exploration stage natural resource and mining company, and a director, Lead Director and Chairman of the Audit Committee of Gilman Ciocia, Inc., a financial planning and tax preparation firm. Mr. Levy has authored The 21st Century Director: Ethical and Legal Responsibilities of Board Members, a course on the ethical and legal responsibilities of board members initially presented to various state accounting societies. 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 LLP. 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, 52, has served as a member of our Board of Directors since June 2009. Mr. Lister serves as Chairman of our Strategic Planning Committee and as a member of our Compensation 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 Rosetex 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 is a director of Steelcloud, Inc., a developer of mobility software solutions. 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.

CLASS III DIRECTORS

(Term Expires in 2012)

James M. Feigley: James M. Feigley, 60, 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 Corporate Governance Committee and Strategic Planning Committee. Mr. Feigley is the 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 the Direct Reporting Program Manager for Advanced Amphibious Assault to the Assistant Secretary of the Navy for Research, Development and Acquisition from 1993 through 1998, during which time he was in charge of all business planning,

cost estimating, technical risk analyses, management and systems engineering for that program. He served as Project Manager in the Weapons Branch at the Headquarters, U.S. Marine Corps and Naval Sea Systems Command from 1986 through 1993, where he managed all technology base projects for the Advanced Amphibious Assault Vehicle and wrote all its technical, financial, cost, management, risk, planning and performance documentation. General Feigley served nearly 31 years on active duty as a member of the United States Marine Corps. 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. He currently serves as an Associate Member of the Naval Research Advisory Committee. Mr. Feigley retired from the Marine Corps as a Brigadier General in 2002 and received many decorations and honors during his military career. Mr. Feigley is a director of Steelcloud, Inc., a developer of mobility software solutions, and The Protective Group, which produces armor for military systems and personnel.

George P. Farley: George P. Farley, 71, 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. 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 Seidman, LLP in 1962 and was a partner at BDO 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.

The following is information with respect to the Company's officers who are not directors or nominees for director:

Joseph C. Hayden: Joseph C. Hayden, 52, is the President and Chief Operating Officer of Applied Energetics, Inc. Mr. Hayden was appointed as the Chief Operating Officer (COO) in April 2009, and held the title of Executive Vice President for Programs since 2004. He directed all new business capture and the execution of awarded contracts. His previous role was the Executive Vice President for Business Operations from 2002 to 2004. 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 at Molten Metal Technology, Inc., an environmental high technology start up company. As Director of Commercial Services, 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, 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, 38, 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.

STOCK OWNERSHIP AND SECTION 16 COMPLIANCE

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 the record date:

- 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 officer and director is in 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 the Record Date 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 and warrants 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 90,531,716 shares outstanding on the Record Date.

| 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) | 9.4% |
| State of Wisconsin Investment Board | 8,388,570(3) | 9.3% |
| Artis Capital Management, L.P. | 6,657,129(4) | 7.4% |
| Joseph C. Hayden | 5,654,468 | 6.2% |
| Stephen W. McCahon | 4,642,250(5) | 5.1% |
| James M. Feigley | 533,697(6) | * |
| David C. Hurley | 272,534(7) | * |
| James K. Harlan | 255,615(8) | * |
| Humberto A. Astorga | 192,516(9) | * |
| Mark J. Lister | 125,000(10) | * |
| John F. Levy | 87,500(11) | * |
| George P. Farley | 0(12) | * |
| All directors and executive officers as a group (8 persons) | 7,121,330 | 7.8% |

* 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) Based on information contained in a report on Schedule 13G filed with the SEC on February 16, 2010. The address of the State of Wisconsin Investment Board is P. O. Box 7842, Madison, WI 53707.
- (4) Based on information contained in a report on Schedule 13G filed with the SEC on February 16, 2010: The address of Artis Capital Management, LLC ("Artis") is One Market Plaza, Spear Street Tower, Suite 1700, San Francisco, CA 94105. Artis is a registered investment adviser and is the investment adviser of investment funds that hold the company's stock for the benefit of the investors in those funds. Artis Inc. is the general partner of Artis. Stuart L. Peterson is the president of Artis Inc. and the controlling owner of Artis and Artis Inc. Each of Artis, Artis Inc., and Mr. Peterson disclaims beneficial ownership of the Stock, except to the extent of its or his pecuniary interest therein.
- (5) Based on information provided by Dr. McCahon as of July 30, 2010.
- (6) Represents 103,697 shares of common stock and options to purchase 430,000 shares of common stock exercisable within 60 days of the Record Date.
- (7) Represents 75,034 shares of common stock and options to purchase 197,500 shares of common stock exercisable within 60 days of the Record Date.
- (8) Represents 64,365 shares of common stock and options to purchase 191,250 shares of common stock exercisable within 60 days of the Record Date.
- (9) Represents 34,516 shares of common stock and options to purchase 158,000 shares of common stock exercisable within 60 days of the Record Date.
- (10) Represents 75,000 shares of common stock and options to purchase 50,000 shares of common stock exercisable within 60 days of the Record Date.
- (11) Represents 37,500 shares of common stock and options to purchase 50,000 shares of common stock exercisable within 60 days of the Record Date.
- (12) Mr. Farley denies beneficial ownership of the common shares and common shares issuable upon exercise of options he transferred to various LLCs.

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 Global 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. Based solely on a review of the copies of the forms furnished to us, we believe that during the year ended December 31, 2008 all section 16(a) filing requirements were met.

CORPORATE GOVERNANCE

Director Independence

The Board has determined that General Feigley and Messrs. Farley, Harlan, Hurley, Levy and Lister meet the director independence requirements of the Marketplace Rules of the Association of Securities Dealers, Inc. applicable to NASDAQ listed companies.

Board Leadership Structure

The Board recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management. The Board understands that there is no single, generally accepted approach to providing Board leadership and recognizes that, depending on the circumstances, other leadership models might be appropriate. Accordingly, the Board periodically reviews its leadership structure.

The Board currently believes that the Company and its stockholders are best served by having a Board Chairman whose duties are separate from those of the Chief Executive Officer. In accordance with our bylaws our Board of Directors elects our Chief Executive Officer and our Board Chairman. The Chairman is selected from among the directors.

Board Oversight of Risk

The Board's role in the Company's risk oversight process includes receiving regular reports from members of the executive management team on areas of material risk to the Company, including operational, financial, legal, regulatory, strategic, transactional and reputational risks. The full Board receives these reports from the appropriate "risk owner" within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies.

Director Qualifications, Experience and Skills

The Board believes that it is necessary for each of the Company's directors to possess many qualities and skills. When searching for new candidates, the Nominating and Governance Committee considers the evolving needs of the Board and searches for candidates that fill any current or anticipated future needs. The Board also believes that all directors must possess a considerable amount of business management and social services related experience. The Nominating and Governance Committee considers, among other things, a candidate's board experience, education, whether they are independent under applicable Nasdaq listing standards and the SEC rules financial expertise, integrity, financial integrity, ability to make independent and analytical inquiries, understanding of the Company's business environment, experience in the defense industry and with government customers and knowledge about the issues affecting the Company's current and potential markets, and willingness to devote adequate time to Board and committee duties when considering director candidates. The Nominating and Governance Committee also focuses on issues of diversity, such as diversity of gender, race and national origin, education, professional experience and differences in viewpoints and skills. The Nominating and Governance Committee does not have a formal policy with respect to diversity; however, the Board and the Nominating and Governance Committee believe that it is essential that the Board members represent diverse viewpoints. In considering candidates for the board, the Nominating and Governance Committee considers the entirety of each candidate's credentials in the context of these standards. With respect to the nomination of continuing directors for re-election, the individual's contributions to the Board are also considered.

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:

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- 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".
- David Hurley's extensive knowledge of our markets and customers and the capital markets through his service on the boards of directors of several public and private companies which operate in the defense and aerospace industries. Mr. Hurley also provides extensive knowledge of corporate governance matters and holds a Professional Director Certification from the Corporate Directors Group, a national education and public company director credentialing organization.
- 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 committee 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 courses he has written and presented on corporate governance, corporate ethics and the roles and responsibilities of corporate directors.
- 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.

Board Meetings

During the last year, the Board of Directors held nine meetings. Each of the directors is encouraged to attend meetings scheduled and all of the directors attended at least 75% of the meetings of the Board and of the committees on which he served in the aggregate. The Board also took action by unanimous written consent in lieu of meetings.

Committees of the Board of Directors

Audit Committee. The Audit Committee of the Board of Directors is currently comprised of Messrs. Farley, Harlan and Levy. The Audit Committee is comprised entirely of non-employee directors, each of whom has been determined to be "independent" as defined by the rules of The Nasdaq Stock Market. The Audit Committee operates under a written charter, a copy of which is filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2009. The Audit Committee assists the Board of Directors by providing oversight of the accounting and financial reporting processes of the Company, appoints the independent registered public accounting firm, reviews with the registered independent registered public accounting firm the scope and results of the audit engagement, approves professional services provided by the independent registered public accounting firm, reviews the independence of the independent registered public accounting firm, considers the range of audit and non-audit fees and reviews the adequacy of internal accounting controls. The Audit Committee met four times during the last fiscal year. The Board of Directors has determined that Mr. Farley, the Chairman of the Audit Committee, has been designated the audit committee financial expert under the rules and regulations of the Securities and Exchange

Commission for purposes of Section 407 of the Sarbanes-Oxley Act of 2002.

Compensation Committee. The Compensation Committee of the Board of Directors is currently comprised of Messrs. Harlan, Farley and Lister. The Compensation Committee is comprised of non-employee directors, each of whom is “independent” as defined by the rules applicable to Nasdaq-traded issuers. The Committee operates under a written charter, a copy of which was filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2006. The Compensation Committee is responsible for establishing and maintaining executive compensation practices designed to enhance Company profitability and enhance long-term stockholder value. The Compensation Committee met three times during the last fiscal year. The Compensation Committee also met within executive sessions of [each] board meeting during the last fiscal year. Throughout the year, the committee also took actions by unanimous written consent in lieu of meetings.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is currently comprised of Mr. Hurley and General Feigley. The Committee is comprised of non-employee directors, each of whom is “independent” as defined by the rules applicable to Nasdaq-traded issuers. The Nominating and Corporate Governance 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 stockholder value. The Committee operates under a written charter, a copy of which was filed as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2009. The Nominating and Corporate Governance Committee had one meeting during the last fiscal year. However, the Committee also met within the executive session of each board meeting during the last fiscal year. Throughout the year, the committee from time to time discussed various matters.

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.

Code of Ethics and Business Conduct

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.

Upon request made to us in writing at the following address, our Code of Ethics and Business Conduct will be provided without charge:

Applied Energetics, Inc.
Attn: Human Resources
3590 E Columbia St.
Tucson, AZ 85714

Communications with the Board

The Board of Directors has established a process for stockholders to send communications to the Board of Directors. Stockholders may communicate with the Board of Directors individually or as a group by writing to: The Board of Directors of Applied Energetics, Inc., c/o Corporate Secretary, 3590 East Columbia Street, Tucson, Arizona 85714. Stockholders should identify their communication as being from a stockholder of the Company. The Corporate Secretary may require reasonable evidence that the communication or other submission is made by a stockholder of the Company before transmitting the communication to the Board of Directors.

Consideration of Director Nominees

Stockholders of the Company wishing to recommend director candidates to the Board of Directors must submit their recommendations in writing to the Board of Directors, c/o Corporate Secretary, 3590 East Columbia Street, Tucson, Arizona 85714.

The Nominating and Corporate Governance Committee is responsible for recommending to the Board all director nominees for consideration and follow the process set forth below. The Nominating and Corporate Governance

Committee, comprised of Mr. Hurley and General Feigley, recommended to the Board the director nominations for the Annual Meeting of Stockholders.

The Nominating and Corporate Governance Committee consider nominees recommended by the Company's stockholders provided that the recommendation contains sufficient information for the independent directors to assess the suitability of the candidate, including the candidate's qualifications, name, age, business and residential address. Candidates recommended by stockholders that comply with these procedures will receive the same consideration that candidates recommended by the Committee receive. The recommendations must also state the name of the stockholder who is submitting the recommendation. In addition, it must include information regarding the recommended candidate relevant to a determination of whether the recommended candidate would be barred from being considered independent under NASD Marketplace Rule 4200, or, alternatively, a statement that the recommended candidate would not be so barred. Each nomination is also required to set forth a representation that the stockholder making the nomination is a holder of record of capital stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to vote for the person or persons nominated; a description of all arrangements and understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination was made by the stockholder; such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had the nominee been nominated by the Board of Directors; and the consent of each nominee to serve as a director of the Company if so elected. A nomination which does not comply with the above requirements or that is not received by the deadline referred to below will not be considered.

The qualities and skills sought in prospective members of the board will be determined by the independent directors. Generally, director candidates must be qualified individuals who, if added to the Board, would provide the mix of director characteristics, experience, perspectives and skills appropriate for the Company. Criteria for selection of candidates will include, but not be limited to: (i) business and financial acumen, as determined by the committee in its discretion, (ii) qualities reflecting a proven record of accomplishment and ability to work with others, (iii) knowledge of the Company's industry, (iv) relevant experience and knowledge of corporate governance practices, and (v) expertise in an area relevant to the Company. Such persons should not have commitments that would conflict with the time commitments of a Director of the Company.

EXECUTIVE AND DIRECTOR COMPENSATION

Summary Compensation Table

The following table discloses, for the periods presented, the compensation for the persons who served as our Principal Executive Officer and our Principal Financial Officer for the years ended December 31, 2009 and 2008 (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, President and Chief Operating Officer | 2009 | \$ 209,615 | \$ - | \$ - | \$ - | \$ 4,479 | \$ 214,094 |
| | 2008 | \$ 225,000 | \$ - | \$ - | \$ - | \$ 4,813 | \$ 229,813 |
| Humberto A Astorga Chief Financial Officer, principal accounting officer and controller | 2009 | \$ 120,769 | \$ 22,750 | \$ - | \$ 61,547 | \$ 1,650 | \$ 206,716 |
| | 2008 | \$ 12,500 | \$ 8,000 | \$ - | \$ - | \$ 3,488 | \$ 123,988 |
| Dana A. Marshall Former Chairman, Chief Executive Officer, President and Assistant Secretary(6) | 2009 | \$ 122,753 | \$ 20,000 | \$ 174,662 | \$ 37,039 | \$ 501,484 | \$ 855,938 |
| | 2008 | \$ 350,000 | \$ - | \$ - | \$ - | \$ 71,949 | \$ 421,949 |
| Kenneth M. Wallace Former Chief Financial Officer, principal accounting officer and Secretary (7) | 2009 | \$ 173,095 | \$ - | \$ 90,618 | \$ 70,847 | \$ 155,587 | \$ 490,147 |
| | 2008 | \$ 225,000 | \$ - | \$ - | \$ - | \$ 7,064 | \$ 232,064 |

(1) Mr. Hayden's 2009 salary reflects the voluntary decrease of his base salary to \$200,000 effective 5/11/09. Mr. Astorga's 2009 salary reflects the increase of his base salary to \$ 137,500 effective September 1, 2009 as a result of his acceptance of the promotion to Principal Financial officer from Controller of the company. Messrs. Marshall and Wallace's 2009 salaries reflect only the base salary.

- (2) Mr. Astorga's cash bonus of \$22,750 in 2009 was determined by the compensation committee.
- (3) The amounts included in the "Stock Awards" column represent the aggregate grant date fair value in 2009 and 2008 related to restricted stock awards, computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 7 to our 2009 Consolidated Financial Statements.
- (4) The amounts included in the "Option Awards" column represent the aggregate grant date fair value in 2009 and 2008 related to stock option awards, computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 7 to our 2009 Consolidated Financial Statements.
- (5) The 2009 amounts shown in the "All Other Compensation" column are attributable to Messrs. Marshall and Wallace as severance. Also included in this amount is the company match expense for 401(k). The 2008 amounts shown in the "All Other Compensation" column are attributable to Mr. Marshall receiving \$39,411 for temporary living, travel and automobile expenses, and \$25,105 "gross up" for the payment of taxes for such expenses. Also included in this amount is the company match expense for 401(k). All named executives received the employer match benefit where 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. The amounts shown in the "All Other Compensation" column for Mr. Marshall include payments for commuting costs, temporary housing assistance and relocation assistance, Mr. Marshall also received reimbursements of automotive expenses.
- (6) Mr. Marshall served in such capacities until March 31, 2009.
- (7) Mr. Wallace served in such capacities until September 1, 2009.

Employment Agreements for Named Executive Officers

We currently have no employment agreements for named executive officers. Previously, we were obligated under employment agreements with Messrs. Marshall and Wallace, but each executive separated from the company during 2009.

Outstanding Equity Awards at Fiscal Year-End

The following table discloses unexercised options held by the Named Executives at December 31, 2009:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | Option Awards | | | | Stock Awards | |
|---------------------|---|---|-----------------------|------------------------|--|--|
| | Number of Securities Underlying Unexercised Options Exercisable (#) | Number of Securities Underlying Unexercised Options Unexercisable (#) | Option Exercise Price | Option Expiration Date | Number of shares of stock that have not vested | Market Value of Shares of stock that have not vested |
| Joseph C. Hayden | - | - | | | 13,500(1) | \$ 4,725 |
| Humberto A. Astorga | 58,000(2) | - | \$ 0.50 | 03/09/2012 | | |
| | 83,333(3) | 166,667(3) | \$ 0.40 | 07/16/2014 | | |
| | - | - | \$ - | | 8,667(4) | \$ 3,033 |
| | - | - | \$ - | | 4,563(5) | \$ 1,597 |

- (1) Restricted stock grant vested 13,500 shares on each of December 1, 2008 and 2009. An additional 13,500 shares will vest on December 1, 2010. These restricted stock awards are from the 2007 Stock Incentive Plan.
- (2) 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. These options are from the 2004 Stock Incentive

Plan.

(3) Options vested on July 16, 2009. Additional options to purchase shares vest annually on the third day following the filing of form 10-Q in each of 2010 and 2011. These options are from the 2007 Stock Incentive Plan.

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- (4) Restricted stock grant vested 8,667 shares on January 10, 2008 and 8,666 shares on January 10, 2009. An additional 8,667 shares will vest on January 10, 2010. These restricted stock units are from the 2004 Stock Incentive Plan.
- (5) Restricted stock grant vested 4,564 shares on December 1, 2008, and 4,563 shares on December 1, 2009. Additionally, 4,563 shares vest on December 1, 2010. These restricted stock awards are from the 2007 Stock Incentive Plan.
- (6) 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 2009 of \$0.35 by the number of shares stock that have not vested.

Payments upon Termination or Change-In-Control

On March 31, 2009, we entered into a separation agreement with Dana Marshall, pursuant to which his employment was terminated. Pursuant to the agreement, we made total cash payments of approximately \$485,000 to Mr. Marshall. These payments consisted of a \$135,000 lump sum payment and twelve monthly payments of \$29,167. In addition, we accelerated the vesting of 137,500 unvested shares of restricted stock and unvested options to purchase 800,000 shares of common stock. As such, all of Mr. Marshall's equity awards were modified pursuant to ASC 718 "Compensation – Stock Compensation", and all appropriate charges have been expensed. The options expired in July 2009, pursuant to their terms.

On September 1, 2009, we entered into a separation agreement with Kenneth Wallace, pursuant to which his employment was terminated. Pursuant to the agreement, we made total cash payments of approximately \$149,000 to Mr. Wallace. These payments consisted of a \$29,000 lump sum payment, four monthly payments of \$28,125 and a lump sum payment of \$7,682 as reimbursement for health insurance premiums.

Director Compensation

The following table discloses our director compensation for the year ended December 31, 2009:

| Name | Fees Earned or Paid in | | (1) Option Awards | Total |
|------------------|------------------------------|---------------|----------------------|-------|
| | Cash | | | |
| David C. Hurley | \$ 53,750 | (2) \$ 19,593 | \$ 73,343 | |
| George P. Farley | \$ 75,000 | (3) \$ 23,171 | \$ 98,171 | |
| James K. Harlan | \$ 56,875 | (4) \$ 23,191 | \$ 80,066 | |
| James M. Feigley | \$ 68,750 | (5) \$ 90,655 | \$ 159,405 | |
| John F. Levy | \$ 29,167 | (6) \$ 12,352 | \$ 41,519 | |
| Mark J. Lister | \$ 29,167 | (7) \$ 12,352 | \$ 41,519 | |

- (1) The amounts included in the "Option Awards" column represent aggregate grant date fair value in 2009 related to share awards to directors, computed in accordance with FASB ASC Topic 718. For a discussion of valuation assumptions, see Note 7 to our 2009 Consolidated Financial Statements. All options granted to directors in 2009 vested immediately and became immediately exercisable upon grant.
- (2) Mr. Hurley was granted options to purchase 55,000 shares of common stock in April 2009 with a grant date fair value, computed in accordance with FASB ASC Topic 718, \$11,708 of which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718. In addition, as part of our March, 2009 option exchange which was available to all employee and director holding options under our stock incentive plans (the "option exchange"), Mr. Hurley exchanged options to purchase 285,000 shares of common stock in March, 2009

for options to purchase 142,500 of common stock exercisable at \$0.50 per share. The grant date fair value for the exchange, which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718, was \$7,885.

- (3) Mr. Farley was granted options to purchase 75,000 shares of common stock in April, 2009 with a grant date fair value, computed in accordance with FASB ASC Topic 718, of \$15,965 which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718.
- (4) Mr. Harlan was granted options to purchase 80,000 shares of common stock in April 2009 with a grant date fair value, computed in accordance with FASB ASC Topic 718, of \$17,029 which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718. In addition, Mr. Harlan participated in the option exchange and exchanged options to purchase 222,500 shares of common stock in March 2009 for options to purchase 111,250 of common stock exercisable at \$0.50 per share. The grant date fair value for the exchange, which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718, was \$6,162.

- (5) Mr. Feigley was granted options to purchase 425,000 shares of common stock in April 2009 with a grant date fair value, computed in accordance with FASB ASC Topic 718, of \$90,467 which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718. In addition, Mr. Feigley participated in the option exchange and exchanged options to purchase 10,000 shares of common stock in March 2009 for options to purchase 5,000 of common stock exercisable at \$0.50 per share. The grant date fair value for the exchange, which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718, was \$188.
- (6) Mr. Levy was granted options to purchase 50,000 shares of common stock in June 2009 with a grant date fair value, computed in accordance with FASB ASC Topic 718, of \$12,352 which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718.
- (7) Mr. Lister was granted options to purchase 50,000 shares of common stock in June 2009 with a grant date fair value, computed in accordance with FASB ASC Topic 718, of \$12,352 which was recognized in 2009 for financial statement reporting purposes in accordance with FASB ASC Topic 718. In addition, Mr. Lister was awarded an additional payment of \$25,000 as director fees in January 2010 for his services in light of the time and effort spent in leading the corporation's strategic planning initiatives.

In April 2009, the board agreed to reduce its compensation under its Independent Directors Compensation Program. The Chairman of the Board and Chair of the Audit Committee each received \$75,000 annually, and were granted options to purchase 75,000 shares of the Corporation's common stock. The Chair of the Compensation Committee and the Chair of the Nominating and Governance Committee each received \$55,000 annually, and were granted options to purchase 55,000 shares of the Corporation's common stock. The remaining independent directors received \$50,000 annually, and, upon their appointment in June, were granted 50,000 shares of the Corporation's common stock.

Under the program, if at anytime an independent director served in more than one position of Chairman of the Board, lead independent director and Chairman of the Audit Committee or Compensation Committee, that director shall receive the higher level compensation paid for any such position the director then holds.

In addition, in April 2009, the board made a one-time grant of an option to purchase 350,000 shares of common stock to General James Feigley for his having accepted the position of Chairman of the Board.

In April 2009, the board also made a one-time grant to Mr. Harlan of an option to purchase 25,000 shares of common stock at an exercise price of \$0.50 per share. This option vested immediately and is exercisable until March 9, 2012.

All of such options vested immediately and are exercisable at a price of \$0.50 per share until April 23, 2014.

In connection with the appointment of John F. Levy and Mark J. Lister to the Board on June 16, 2009 each of Mr. Levy and Mr. Lister were awarded an option to purchase 50,000 shares of common stock at an exercise price of \$0.45, the last sale price of the common stock on the date of appointment. Each option vested immediately and is exercisable for a period of five years. In addition, each of Mr. Levy and Mr. Lister receive a monthly cash retainer in an annualized amount of \$50,000, payable monthly, for serving as an independent director.

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.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE:

Transactions With Related Parties

On March 31, 2009, we entered into a consulting agreement with Dr. Stephen McCahon, a principal stockholder, providing for his full-time consulting services for an initial term of one year for a fee of \$18,750 per month. The agreement was terminated at the end of the initial term upon thirty days notice. During 2009, he was paid approximately \$167,000, and was owed approximately \$18,850 in fees and expenses at December 31, 2009.

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.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Principal Accountant Fees and Services

The following is a summary of the fees billed to the company by BDO USA, LLP (f/k/a BDO Seidman, LLP) for professional services rendered for the years ended December 31, 2008 and 2009:

| | | 2008 | | 2009 |
|------------|----|---------|----|---------|
| Audit Fees | \$ | 385,000 | \$ | 239,000 |
| Tax Fees | \$ | 11,000 | \$ | 12,000 |

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 2008, the internal control evaluation under Section 404 of the Sarbanes-Oxley Act of 2002. Tax fees include tax compliance, tax advice 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.

AUDIT COMMITTEE REPORT

The responsibilities of the audit committee are to assist the board of directors in fulfilling the board's oversight responsibilities with respect to (i) the integrity of the company's financial statements; (ii) the system of internal control over financial reporting; (iii) the performance, qualifications and independence of the company's independent registered public accounting firm; (iv) the company's internal audit function and (v) compliance with the company's ethics and applicable legal and regulatory requirements. The committee fulfills its responsibilities through periodic meetings with our independent registered public accounting firm, internal auditors and members of our management.

Throughout the year the audit committee monitors matters related to the independence of BDO USA, LLP, our independent registered public accounting firm. As part of its monitoring activities, the committee obtained a letter from BDO USA, containing a description of all relationships between us and BDO USA. After reviewing the letter and discussion it with management, the audit committee discussed with BDO USA's objectivity and independence. Based on its continued monitoring activities and year-end review, the committee has satisfied itself as to BDO USA's independence. BDO USA also has confirmed in its letter that, in its professional judgment, it is independent of the company within the meaning of the Federal securities laws and within the requirements of Rule

3526 of the Public Company Accounting Oversight Board, “Communication with Audit Committees Concerning Independence.”

The audit committee also discussed with members of our management, our internal auditors and our independent registered public accounting firm, the quality and adequacy of our internal controls and the internal audit function’s management, organization, responsibilities, budget and staffing. The committee reviewed with both our independent registered public accounting firm and our internal auditors their audit plans, audit scope, and identification of audit risks.

The audit committee discussed and reviewed with the independent registered public accounting firm all matters required by auditing standards generally accepted in the United States, including those described in SAS 114, "The Auditor's Communication with Those Charged with Governance," as adopted by the Public Company Accounting Oversight Board. With and without management present, the committee discussed and reviewed the results of the independent registered public accounting firm's examination of the financial statements. The committee also discussed the results of the internal audit examinations.

The committee reviewed and discussed our audited financial statements as of and for the fiscal year ended December 31, 2009 with our management and BDO USA. Management has the responsibility for the preparation and integrity of our financial statements and BDO USA, as our independent registered public accounting firm, has the responsibility for the examination of those statements. Based on the above-mentioned review and discussions with management and BDO USA, the audit committee recommended to our board of directors that our audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 for filing with the Securities and Exchange Commission. The Committee also reappointed BDO USA as our independent registered public accounting firm.

Audit Committee of the Board of Directors:

George P. Farley
James K. Harlan
John F. Levy

PROPOSAL II: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Company's independent registered public accounting firm for the fiscal year ended December 31, 2009 was BDO USA, LLP (f/k/a BDO Seidman, LLP). The Audit Committee of the Board of Directors has re-appointed BDO USA, LLP as the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2010, and the Board is asking stockholders to ratify that selection. Although, current law, rules and regulations, as well as the charter of the Audit Committee, require the Audit Committee to engage, retain, and supervise the Company's independent registered public accounting firm, the Board considers the selection of the independent registered public accounting firm to be an important matter of stockholder concern and is submitting the selection of BDO USA, LLP for ratification by stockholders as a matter of good corporate practice. The Audit Committee reserves the right, even after ratification by stockholders, to change the appointment of BDO USA, LLP as auditors, at any time during the 2010 fiscal year, if it deems such change to be in the best interest of the Company. If the stockholders do not ratify the selection of BDO USA, LLP, the Audit Committee will review the Company's relationship with BDO USA, LLP as the Company's independent registered public accounting firm. A representative of BDO USA, LLP is expected to be present at the Annual Meeting with the opportunity to make a statement if he or she desires to do so and is expected to be available to respond to appropriate questions.

Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2010.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Applied Energetics currently anticipates holding its annual meeting of stockholders for its fiscal year ending December 31, 2010 in May 2011. Stockholders who wish to present proposals appropriate for consideration at our annual meeting of stockholders to be held in the year 2010 must submit the proposal in proper form to our corporate secretary at our address as set forth on the first page of this proxy statement (or such other address as then constitutes our corporate offices) no later than December 14, 2010 in order for the proposition to be considered for inclusion in our proxy statement and form of proxy relating to such annual meeting. Any such proposals must be presented in a manner consistent with our by-laws and applicable laws. Any such proposal, as well as any questions related thereto, should be directed to our Corporate Secretary c/o Applied Energetics, Inc., 3590 East Columbia Street, Tucson, Arizona 85714.

If a stockholder submits a proposal after the December 14, 2010 deadline required under Rule 14a-8 of the Exchange Act but still wishes to present the proposal at our Annual Meeting of Stockholders (but not in our proxy statement) for the fiscal year ending December 31, 2010 to be held in 2011, the proposal, which must be presented in a manner consistent with our By-laws and applicable law, must be submitted to our Secretary in proper form at the address set forth above so that it is received by our Secretary not less than 50 nor more than 75 days prior to the meeting unless less than 65 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, in which case, no less than the close of business on the tenth day following the date on which the notice of the date of the meeting was mailed or other public disclosure was made.

We did not receive notice of any proposed matter to be submitted by stockholders for a vote at this Annual Meeting and, therefore, in accordance with Exchange Act Rule 14a-4(c) any proxies held by persons designated as proxies by our Board of Directors and received in respect of this Annual Meeting will be voted in the discretion of our management on such other matter which may properly come before the Annual Meeting.

WHERE YOU CAN FIND MORE INFORMATION

Our 2009 annual report to stockholders is being made available to stockholders via the Internet. If you would like to receive printed copy of our proxy statement and annual report, you should follow the instructions for requesting such information in the notice you receive.

Copies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 will be provided upon written request to Applied Energetics, Inc., 3590 East Columbia Street, Tucson, Arizona 85714, Attention Corporate Secretary. The Form 10-K also is available on our website www.appliedenergetics.com

We also file reports, proxy statements and other information with the Securities and Exchange Commission as required by the Securities Exchange Act of 1934, as amended. Copies of our reports, proxy statements and other information may be inspected and copied at the Public Reference Room maintained by the Securities and Exchange Commission at:

Room 1580
100 F Street, N.E.
Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website that contains reports, proxy and information statements and other information regarding Applied Energetics. The address of the Securities and Exchange Commission website is <http://www.sec.gov>.

You should rely only on the information contained in this proxy statement to vote on the proposals set forth herein. Applied Energetics has not authorized anyone to provide you with information that is different from what is contained in this proxy statement. This proxy statement is dated August 13, 2010. You should not assume that the information contained in this proxy statement is accurate as of any date other than August 13, 2010, and neither the availability of this proxy statement via the Internet nor the mailing of this proxy statement to stockholders shall create any implication to the contrary.

OTHER INFORMATION

The Board of Directors is aware of no other matters, except for those incident to the conduct of the Annual Meeting, that are to be presented to stockholders for formal action at the Annual Meeting. If, however, any other matters

properly come before the Annual Meeting or any adjournments thereof, it is the intention of the persons named in the proxy to vote the proxy in accordance with their judgment.

By order of the Board of Directors,

James M. Feigley
Chairman of the Board

August 13, 2010

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Ú FOLD AND DETACH HERE AND READ THE REVERSE SIDE Ú

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS TO BE
HELD SEPTEMBER 23, 2010
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

Please
mark
your
votes
like this x

1. ELECTION OF CLASS III DIRECTORS:

“ FOR all nominees “
listed below
(except as marked
to the contrary
below).

WITHHOLD
AUTHORITY
to vote for all
nominees listed below.

To withhold authority to
vote for any individual
nominee, write that
nominee’s name in the
space below.)

David C. Hurley
James K. Harlan

2. Ratification of the Appointment of BDO USA, LLP as Applied Energetic’s
independent registered accounting firm for the fiscal year ending December 31,
2010.

“ For “ Against “ Abstain

3. In their discretion, the Proxies are authorized to vote upon such other business as
may properly come before the meeting.

COMPANY ID:
PROXY NUMBER:
ACCOUNT NUMBER:

SIGNATURE SIGNATURE IF HELD JOINTLY DATE , 2010

NOTE: Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Ú FOLD AND DETACH HERE AND READ THE REVERSE SIDE Ú

THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE INSTRUCTIONS GIVEN ON THE REVERSE SIDE.

IF NO INSTRUCTIONS ARE GIVEN, THIS PROXY WILL BE VOTED FOR THE PROPOSALS LISTED ON THE REVERSE SIDE.

Please mark, sign and return this proxy card promptly using the enclosed envelope.

The undersigned hereby appoints Joseph Hayden and Humberto Astorga, and each of them, Proxies, with full power of substitution in each of them, in the name, place and stead of the undersigned, to vote at the Annual Meeting of Stockholders of Applied Energetics, Inc. on Thursday, September 23, 2010, at our corporate offices at 3590 East Columbia Street, Tucson, Arizona 85714, or at any adjournment or adjournments thereof, according to the number of votes that the undersigned would be entitled to vote if personally present, upon the following matters:

(continued and to be marked, dated and signed on reverse side)
