

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2019**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-38037

**SG BLOCKS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**95-4463937**

(I.R.S. Employer  
Identification No.)

**195 Montague Street, 14<sup>th</sup> Floor, Brooklyn, NY**

(Address of principal executive offices)

**11201**

(Zip Code)

**(646) 240-4235**

(Registrant's telephone number, including area code)

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

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

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

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

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

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

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01	SGBX	The Nasdaq Stock Market LLC

As of May 6, 2019, there were 5,107,791 shares of the registrant's common stock, \$0.01 par value, outstanding.

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SG BLOCKS, INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SG BLOCKS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	<i>March 31,</i> <i>2019</i>	<i>December 31,</i> <i>2018</i>
	<i>(Unaudited)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 250,464	\$ 1,368,395
Accounts receivable, net	2,956,614	1,746,326
Costs and estimated earnings in excess of billings on uncompleted contracts	12,424	260,325
Prepaid expenses and other current assets	781,046	986,687
Total current assets	<u>4,000,548</u>	<u>4,361,733</u>
Property, plant and equipment, net	68,172	71,337
Goodwill	4,162,173	4,162,173
Intangible assets, net	2,407,648	2,443,929
<b>Total Assets</b>	<u>\$ 10,638,541</u>	<u>\$ 11,039,172</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,251,920	\$ 2,624,218
Billings in excess of costs and estimated earnings on uncompleted contracts	1,580,481	1,334,887
Total current liabilities	<u>3,832,401</u>	<u>3,959,105</u>
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$1.00 par value, 5,405,010 shares authorized; none issued or outstanding	—	—
Common stock, \$0.01 par value, 300,000,000 shares authorized; 4,260,041 issued and outstanding as of March 31, 2019 and December 31, 2018	42,601	42,601
Additional paid-in capital	17,917,551	17,700,743
Accumulated deficit	(11,154,012)	(10,663,277)
Total stockholders' equity	<u>6,806,140</u>	<u>7,080,067</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 10,638,541</u>	<u>\$ 11,039,172</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**SG BLOCKS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<i>For the Three Months Ended March 31, 2019</i>	<i>For the Three Months Ended March 31, 2018</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Revenue:</b>		
Construction services	\$ 1,658,074	\$ 1,543,526
Engineering services	77,050	—
Total	<u>1,735,124</u>	<u>1,543,526</u>
<b>Cost of revenue:</b>		
Construction services	1,159,229	1,379,930
Engineering services	31,790	—
Total	<u>1,191,019</u>	<u>1,379,930</u>
<b>Gross profit</b>	544,105	163,596
<b>Operating expenses:</b>		
Payroll and related expenses	638,550	405,418
General and administrative expenses	333,000	426,275
Marketing and business development expense	47,359	81,047
Pre-project expenses	15,931	4,964
Total	<u>1,034,840</u>	<u>917,704</u>
<b>Operating loss</b>	(490,735)	(754,108)
<b>Other income (expense):</b>		
Interest income	—	4
Total	<u>—</u>	<u>4</u>
<b>Loss before income taxes</b>	(490,735)	(754,104)
<b>Income tax expense</b>	<u>—</u>	<u>—</u>
<b>Net loss</b>	<u>\$ (490,735)</u>	<u>\$ (754,104)</u>
<b>Net loss per share - basic and diluted:</b>		
Basic and diluted	<u>\$ (0.12)</u>	<u>\$ (0.18)</u>
<b>Weighted average shares outstanding:</b>		
Basic and diluted	<u>4,260,041</u>	<u>4,260,041</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**SG BLOCKS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)**

	<i>\$0.01 Par Value Common Stock</i>		<i>Additional Paid-in Capital</i>	<i>Accumulated Deficit</i>	<i>Total Stockholders' Equity</i>
	<i>Shares</i>	<i>Amount</i>			
<i>Balance – December 31, 2017</i>	4,260,041	\$ 42,601	\$ 17,304,529	\$ (5,819,256)	\$ 11,527,874
Stock-based compensation	—	—	79,989	—	79,989
Net loss	—	—	—	(754,104)	(754,104)
<i>Balance – March 31, 2018</i>	4,260,041	\$ 42,601	\$ 17,384,518	\$ (6,573,360)	\$ 10,853,759
<i>Balance – December 31, 2018</i>	4,260,041	\$ 42,601	\$ 17,700,743	\$ (10,663,277)	\$ 7,080,067
Stock-based compensation	—	—	216,808	—	216,808
Net loss	—	—	—	(490,735)	(490,735)
<i>Balance – March 31, 2019</i>	4,260,041	\$ 42,601	\$ 17,917,551	\$ (11,154,012)	\$ 6,806,140

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

**SG BLOCKS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<i>For the Three Months Ended March 31, 2019</i>	<i>For the Three Months Ended March 31, 2018</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (490,735)	\$ (754,104)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	3,165	931
Amortization of intangible assets	36,281	147,316
Interest income on short-term investment	—	(4)
Stock-based compensation	162,493	79,989
Changes in operating assets and liabilities:		
Accounts receivable	(1,210,288)	1,576,243
Cost and estimated earnings in excess of billings on uncompleted contracts	247,901	59,763
Prepaid expenses and other current assets	205,641	(442,192)
Accounts payable and accrued expenses	(317,983)	(542,879)
Billings in excess of costs and estimated earnings on uncompleted contracts	245,594	(509,846)
Net cash used in operating activities	<u>(1,117,931)</u>	<u>(384,783)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from short-term investment	—	30,037
Purchase of property, plant and equipment	—	(3,184)
Net cash provided by investing activities	<u>—</u>	<u>26,853</u>
<b>Cash flows from financing activities:</b>		
Net cash provided by financing activities	<u>—</u>	<u>—</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,117,931)</b>	<b>(357,930)</b>
<b>Cash and cash equivalents - beginning of period</b>	<b><u>1,368,395</u></b>	<b><u>4,870,824</u></b>
<b>Cash and cash equivalents - end of period</b>	<b><u>\$ 250,464</u></b>	<b><u>\$ 4,512,894</u></b>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Non cash conversion of salary liability to restricted stock units	<u>\$ 54,315</u>	<u>\$ —</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

## SG BLOCKS, INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

#### 1. Description of Business

SG Blocks, Inc. (collectively with its subsidiaries, the “Company,” “we”, “us” or “our”) was previously known as CDSI Holdings, Inc., a Delaware corporation incorporated on December 29, 1993. On November 4, 2011, CDSI Merger Sub, Inc., the Company’s wholly-owned subsidiary, was merged with and into SG Building Blocks, Inc. (“SG Building,” formerly SG Blocks Inc.) (the “Merger”), with SG Building surviving the Merger and becoming a wholly-owned subsidiary of the Company. The Merger was a reverse merger that was accounted for as a recapitalization of SG Building, as SG Building was the accounting acquirer. Accordingly, the historical financial statements presented are the financial statements of SG Building.

The Company provides two main products, both of which are used to meet the growing demand for safe and greencommercial, industrial and residential building construction. The Company provides SGBlocks<sup>™</sup>, code engineered cargo shipping containers that the Company modifies for use in construction. Rather than consuming new steel and lumber, SGBlocks<sup>™</sup> capitalize on the structural engineering and design parameters a shipping container must meet and repurposes them for use in building. They offer the construction industry a safer, greener, faster, longer lasting and more economical alternative to conventional construction methods. The Company also provides purpose-built modules (“SGPBMs” and, together with SGBlocks<sup>™</sup>, “Modules”), which are prefabricated steel modular units created specifically for use in modular construction, unlike the shipping containers used to create SGBlocks<sup>™</sup>.

The Company also provides engineering and project management services related to the use and modification of Modules in construction.



SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

2. Liquidity

The Company has prepared its condensed consolidated financial statements on a going concern basis, which assumes that the Company will realize its assets and satisfy its liabilities in the normal course of business. However, the Company has incurred net losses since its inception and has negative operating cash flows, which raise substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of the uncertainty concerning the Company's ability to continue as a going concern.

As of March 31, 2019, the Company had cash and cash equivalents of \$250,464 and a backlog of \$95.8 million. See Note 8 for a discussion of construction backlog. Based on our conversations with key customers, the Company anticipates its backlog to convert to revenue over the following period:

	<u>2019</u>
Within 1 year	\$ 20,847,051
1 to 2 years	54,546,876
Thereafter	<u>20,445,913</u>
Total Backlog	<u>\$ 95,839,840</u>

Based on the expected conversion timeline of its backlog, the Company expects to generate positive cash flows from operations for the year ending December 31, 2019. The Company believes that it has adequate cash balances to meet obligations coming due in the next twelve months and further intends to meet its capital needs by containing costs and entering into strategic alliances, as well as exploring other options, including the possibility of raising additional debt or equity capital as necessary. The Company completed an equity offering in April 2019, which resulted in net proceeds of approximately \$692,248. See Note 13 for a discussion of the offering. There is, however, no assurance the Company will be successful in meeting its capital requirements prior to becoming cash flow positive. The Company does not have any additional sources secured for future funding, and if it is unable to raise the necessary capital at the times it requires such funding, it may need to materially change its business plan, including delaying implementation of aspects of such business plan or curtailing or abandoning such business plan altogether.

## SG BLOCKS, INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

#### 3. Summary of Significant Accounting Policies

**Basis of presentation and principals of consolidation**— The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. The condensed consolidated financial statements and notes should be read in conjunction with the financial statements and notes for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on March 29, 2019. In the opinion of management, all adjustments, consisting of normal accruals, considered necessary for a fair presentation of the interim financial statements have been included. Results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, SG Building Blocks, Inc. and SG Residential, Inc. All significant intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period’s presentation.

**Recently adopted accounting pronouncements**— New accounting pronouncements implemented by the Company are discussed below or in the related notes, where appropriate.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The update’s principal objective is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet. ASU 2016-02 continues to retain a distinction between finance and operating leases but requires lessees to recognize a right-of-use asset representing their right to use the underlying asset for the lease term and a corresponding lease liability on the balance sheet for all leases with terms greater than twelve months. The update is effective for fiscal years beginning after December 15, 2018. In July 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvements” (“ASU 2018-11”), which provides entities with an additional transition method. Under ASU 2018-11, entities have the option of recognizing the cumulative effect of applying the new standard as an adjustment to beginning retained earnings in the year of adoption while continuing to present all prior periods under previous lease accounting guidance. In July 2018, the FASB also issued ASU No. 2018-10, “Codification Improvements to Topic 842, Leases” (“ASU 2018-10”), which clarifies how to apply certain aspects of ASU 2016-02. The Company adopted ASU 2016-02, ASU 2018-10 and ASU 2018-11 effective January 1, 2019. The Company had no operating or finance lease agreements as of March 31, 2019. The adoption of ASU No. 2016-02 did not have a material impact on the Company’s financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation — Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”), which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. Under ASC 718, the measurement date for equity-classified, share-based awards is generally the grant date of the award. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. The Company adopted ASU 2018-07 effective January 1, 2019. The adoption provides administrative relief by fixing the remaining unamortized expense of the award and eliminating the requirement to quarterly re-measure the Company’s nonemployee awards. The adoption of ASU No. 2018-07 did not have a material impact on the Company’s financial statements and disclosures.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

**Recently issued accounting pronouncements not yet adopted**— New accounting pronouncements requiring implementation in future periods are discussed below.

In January 2017, the FASB issued ASU No.2017-04, “Simplifying the Test for Goodwill Impairment” (“ASU2017-04”), to simplify the test for goodwill impairment by removing Step 2. An entity will, therefore, perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform a qualitative assessment to determine if the quantitative impairment test is necessary. The ASU is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. Adoption of the ASU is on a prospective basis. Based on current evaluation, the Company does not expect that ASU No. 2017-04 will have a material impact on the Company’s financial statements.

In August 2018, the FASB issued ASU No.2018-13, “Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). This ASU amends ASC 820 to add, remove and modify certain disclosure requirements for fair value measurements. For example, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. Management does not expect the adoption of ASU 2018-13 to have a material impact on the Company’s financial position, results of operations or cash flow.

**Accounting estimates** — The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas that require the Company to make estimates include revenue recognition, stock-based compensation and allowance for doubtful accounts. Actual results could differ from those estimates.

**Operating cycle** — The length of the Company’s contracts varies, but is typically between six to twelve months. In some instances, the length of the contract may exceed twelve months. Assets and liabilities relating to current and long-term contracts are included in current assets and current liabilities, respectively, in the accompanying balance sheets as they will be liquidated in the normal course of contract completion, which at times could exceed one year.

**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**3. Summary of Significant Accounting Policies (continued)**

**Revenue recognition** – The Company applies recognition of revenue over time, which is similar to the method the Company applied under previous guidance (i.e., percentage of completion). The Company determines, at contract inception, whether it will transfer control of a promised good or service over time or at a point in time—regardless of the length of contract or other factors. The recognition of revenue aligns with the timing of when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To achieve this core principle, the Company applies the following five steps in accordance with its revenue policy:

- 1) Identify the contract with a customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to performance obligations in the contract
- 5) Recognize revenue as performance obligations are satisfied

Due to uncertainties inherent in the estimation process, it is possible that estimates of costs to complete a performance obligation will be revised in the near-term. For those performance obligations for which revenue is recognized using a cost-to-cost input method, changes in total estimated costs, and related progress toward complete satisfaction of the performance obligation, are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. When the current estimate of total costs for a performance obligation indicate a loss, a provision for the entire estimated loss on the unsatisfied performance obligation is made in the period in which the loss becomes evident.

*Disaggregation of Revenues*

The Company’s revenues are principally derived from construction and engineering contracts related to Modules. Our contracts are with many different customers in numerous industries.

The following tables provide further disaggregation of the Company’s revenues by categories:

Revenue by Customer Type	Three Months Ended March 31,			
	2019		2018	
Multi-Family	\$ 70,873	4 %	\$ —	— %
Office	1,125,603	65 %	363,629	24 %
Retail	530,659	31 %	114,944	7 %
School	—	— %	759,835	49 %
Special Use	6,812	— %	305,118	20 %
Other	1,177	— %	—	— %
<b>Total revenue by customer type</b>	<b>\$ 1,735,124</b>	<b>100 %</b>	<b>\$ 1,543,526</b>	<b>100 %</b>

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

*Contract Assets and Contract Liabilities*

Accounts receivable are recognized in the period when the Company's right to consideration is unconditional. Accounts receivable are recognized net of an allowance for doubtful accounts. A considerable amount of judgment is required in assessing the likelihood of realization of receivables.

The timing of revenue recognition may differ from the timing of invoicing to customers.

Contract assets include unbilled amounts from long-term construction services when revenue recognized under the cost-to-cost measure of progress exceeds the amounts invoiced to customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. Contract assets are generally classified as current within the condensed consolidated balance sheets and labeled as "costs and estimated earnings in excess of billings on uncompleted contracts".

Contract liabilities from construction and engineering contracts occur when amounts invoiced to customers exceed revenues recognized under the cost-to-cost measure of progress. Contract liabilities additionally include advanced payments from customers on certain contracts. Contract liabilities decrease as the Company recognizes revenue from the satisfaction of the related performance obligation. Contract liabilities are generally classified as current within the condensed consolidated balance sheet and labeled as "billings in excess of costs and estimated earnings on uncompleted contracts".

Although the Company believes it has established adequate procedures for estimating costs to complete on open contracts, it is at least reasonably possible that additional significant costs could occur on contracts prior to completion. The Company periodically evaluates and revises its estimates and makes adjustments when they are considered necessary.

**Cash and cash equivalents** – The Company considers cash and cash equivalents to include all short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less upon acquisition. Cash and cash equivalents totaled \$250,464 as of March 31, 2019 and \$1,368,395 as of December 31, 2018.

**Short-term investment** – The Company classifies any investment with a maturity greater than three months but less than one year as short-term investment. The Company had no short-term investments as of March 31, 2019 or December 31, 2018.

**Accounts receivable and allowance for doubtful accounts** – Accounts receivable are receivables generated from sales to customers and progress billings on performance type contracts. Amounts included in accounts receivable are deemed to be collectible within the Company's operating cycle. The Company recognizes account receivable at invoiced amounts.

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balances. Management provides an allowance for doubtful accounts based on the Company's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have been exhausted and the prospects for recovery are remote. Recoveries are recognized when they are received. Actual collection losses may differ from the Company's estimates and could be material to its consolidated financial position, result of operations, and cash flows.

**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**3. Summary of Significant Accounting Policies (continued)**

**Inventory** – Raw construction materials (primarily shipping containers) are valued at the lower of cost (first-in, first-out method) or net realizable value. Finished goods and work-in-process inventories are valued at the lower of cost or net realizable value, using the specific identification method. There was no inventory as of March 31, 2019 or December 31, 2018.

**Goodwill** – The Company performs its impairment test of goodwill at the reporting unit level each fiscal year, or more frequently if events or circumstances change that would more likely than not reduce the fair value of its reporting unit below its carrying values. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The first step of the impairment test involves comparing the fair value of the applicable reporting unit with its carrying value. If the carrying amount of the reporting unit exceeds the reporting unit’s fair value, management performs the second step of the goodwill impairment test. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit’s goodwill with the carrying value of that goodwill. The amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. The Company’s evaluation of goodwill completed during the year ended December 31, 2018 resulted in no impairment losses.

**Intangible assets** – Intangible assets represent the preliminary assets identified upon emergence from bankruptcy and consist of \$2,766,000 of proprietary knowledge and technology which is being amortized over 20 years and \$1,113,000 of customer contracts which was being amortized over 2.5 years. In addition, intangible assets include \$28,820 of trademarks and \$5,300 of website costs which are being amortized over 5 years. The Company evaluated intangible assets for impairment during the year ended December 31, 2018, and determined that there were no impairment losses. The accumulated amortization as of March 31, 2019 and 2018 was \$1,505,472 and \$1,026,889, respectively. The amortization expense for the three months ended March 31, 2019 and 2018 was \$36,281 and \$147,316, respectively. The estimated amortization expense for the successive five years is as follows:

For the year ended December 31,

2019	\$ 108,843
2020	145,124
2021	145,124
2022	140,801
2023	139,007
Thereafter	1,728,749
	<u>\$ 2,407,648</u>

**Property, plant and equipment** – Property, plant and equipment is stated at cost. Depreciation is computed using the straight-line method over the estimated lives of each asset. Estimated useful life for significant classes of assets are as follows: computer and software 3 to 5 years and equipment 5 to 7 years. Repairs and maintenance are charged to expense when incurred.

**Common stock purchase warrants and other derivative financial instruments** – The Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) provides a choice of net-cash settlement or settlement in the Company’s own shares (physical settlement or net-share settlement) providing that such contracts are indexed to the Company’s own stock. The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net cash settle the contract if any event occurs and if that event is outside the Company’s control) or (ii) gives the counterparty a choice of net-cash settlement or settlement shares (physical settlement or net-cash settlement). The Company assesses classification of common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities or equity is required.

## SG BLOCKS, INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

#### 3. Summary of Significant Accounting Policies (continued)

**Fair value measurements** – Financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are carried at cost, which the Company believes approximates fair value due to the short-term nature of these instruments.

The Company measures the fair value of financial assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The Company uses three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Quoted prices for similar assets and liabilities in active markets or inputs that are observable.
- Level 3 Inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

**Share-based payments** – The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, including non-employee directors, the fair value of a stock option award is measured on the grant date. The fair value amount is then recognized over the period services are required to be provided in exchange for the award, usually the vesting period. The Company recognizes stock-based compensation expense on a graded-vesting basis over the requisite service period for each separately vesting tranche of each award. Stock-based compensation expense to employees and all directors is reported within payroll and related expenses in the consolidated statements of operations. Stock-based compensation expense to non-employees is reported within marketing and business development expense in the consolidated statements of operations.

**Income taxes** – The Company accounts for income taxes utilizing the asset and liability approach. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes generally represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from the differences between the financial and tax bases of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for anticipated tax audit issues based on the Company's estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the liabilities are no longer determined to be necessary. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

**Concentrations of credit risk** – Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents. The Company places its cash with high credit quality institutions. At times, such amounts may be in excess of the FDIC insurance limits. The Company has not experienced any losses in its account and believes that it is not exposed to any significant credit risk on the account.

With respect to receivables, concentrations of credit risk are limited to a few customers in the construction industry. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers other than normal lien rights. At March 31, 2019 and December 31, 2018, 72% and 76%, respectively, of the Company's accounts receivable were due from two customers.

Revenue relating to two and three customers represented approximately 89% and 80% of the Company's total revenue for the three months ended March 31, 2019 and 2018, respectively.

Cost of revenue relating to two and three vendors represented approximately 95% and 75% of the Company's total cost of revenue for the three months ended March 31, 2019 and 2018, respectively. The Company believes it has access to alternative suppliers, with limited disruption to the business, should circumstances change with its existing suppliers.

**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**4. Accounts Receivable**

At March 31, 2019 and December 31, 2018, the Company's accounts receivable consisted of the following:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Billed:		
Block sales	\$ —	\$ 14,723
Construction services	2,826,999	1,619,498
Engineering services	416,894	400,877
Retainage receivable	544,910	543,417
Other receivable	<u>7,706</u>	<u>7,706</u>
Total gross receivables	3,796,509	2,586,221
Less: allowance for doubtful accounts <sup>(1)</sup>	<u>(839,895)</u>	<u>(839,895)</u>
Total net receivables	<u>\$ 2,956,614</u>	<u>\$ 1,746,326</u>

<sup>(1)</sup> The allowance for doubtful accounts is primarily due to unpaid billings on a contract that is currently in dispute.

Receivables are evaluated for collectability and allowances for potential losses are established or maintained on applicable receivables. The allowance for doubtful accounts was \$839,895 as of March 31, 2019. There was no provision for doubtful accounts and no write offs for the three months ended March 31, 2019. The provision for doubtful accounts was \$810,580 and write offs were \$4,920 for the year ended December 31, 2018.

**5. Contract Assets and Contract Liabilities**

Costs and estimated earnings on uncompleted contracts consisted of the following at March 31, 2019 and December 31, 2018:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Costs incurred on uncompleted contracts	\$ 11,175,706	\$ 11,307,975
Estimated earnings to date on uncompleted contracts	1,032,413	838,615
Gross contract assets	12,208,119	12,146,590
Less: billings to date	<u>(13,776,176)</u>	<u>(13,221,152)</u>
Net contract assets (liabilities)	<u>\$ (1,568,057)</u>	<u>\$ (1,074,562)</u>

The above amounts are included in the accompanying consolidated balance sheets under the following captions at March 31, 2019 and 2018:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 12,424	\$ 260,325
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>(1,580,481)</u>	<u>(1,334,887)</u>
Net contract assets (liabilities)	<u>\$ (1,568,057)</u>	<u>\$ (1,074,562)</u>

Although management believes it has established adequate procedures for estimating costs to complete on open contracts, it is at least reasonably possible that additional significant costs could occur on contracts prior to completion. The Company periodically evaluates and revises its estimates and makes adjustments when they are considered necessary.



**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**6. Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and amortization and depreciated using the straight-line method over their useful lives. At March 31, 2019 and December 31, 2018, the Company's property, plant and equipment, net consisted of the following:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
Computer equipment and software	\$ 39,193	\$ 39,193
Furniture and other equipment	63,479	63,479
Property, plant and equipment	102,672	102,672
Less: accumulated depreciation	(34,500)	(31,335)
Property, plant and equipment, net	<u>\$ 68,172</u>	<u>\$ 71,337</u>

Depreciation expense for the three months ended March 31, 2019 and 2018 amounted to \$3,165 and \$931, respectively.

**7. Net Income (Loss) Per Share**

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants. Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive.

At March 31, 2019, there were options, including options granted to non-employees and non-directors, restricted stock units and warrants to purchase 1,080,059, 346,936 and 86,250 shares of common stock, respectively, outstanding that could potentially dilute future net income (loss) per share. Because the Company had a net loss for the three months ended March 31, 2019, it is prohibited from including potential common shares in the computation of diluted per share amounts. Accordingly, the Company has used the same number of shares outstanding to calculate both the basic and diluted loss per share. At March 31, 2018, there were options, including options to non-employees and non-directors, and warrants to purchase 1,188,392 and 86,250 shares of common stock, respectively, outstanding that could potentially dilute future net income (loss) per share.

**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**8. Construction Backlog**

The following represents the backlog of signed construction and engineering contracts in existence at March 31, 2019 and December 31, 2018, which represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress and from contractual agreements in effect at March 31, 2019 and December 31, 2018, respectively, on which work has not yet begun:

	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Balance - beginning of period</b>	\$ 97,657,379	\$ 76,659,029
New contracts and change orders during the period	(82,415)	29,189,062
<b>Subtotal</b>	97,574,964	105,848,091
Less: contract revenue earned during the period	(1,735,124)	(8,190,712)
<b>Balance - end of period</b>	\$ 95,839,840	\$ 97,657,379

Backlog at March 31, 2019 included two large contracts entered into by the Company during the third quarter of 2017 and one contract during the last quarter of 2018 in the amounts of approximately \$55 million, \$15 million and \$25 million, respectively. The Company expects that all of this revenue will be realized by June 30, 2021. During the fourth quarter of 2018, the Company moved a contract of \$27.5 million out of backlog and into its pipeline until the customer completes a highest and best use analysis of the land.

The Company's remaining backlog as of March 31, 2019 represents the remaining transaction price of firm contracts for which work has not been performed and excludes unexercised contract options. As of March 31, 2019, the aggregate amount of the transaction price allocated to backlog was \$95,839,840.

The Company expects to satisfy its backlog which represents the remaining unsatisfied performance obligation on contracts as of March 31, 2019 over the following period:

	<b>2019</b>
Within 1 year	\$ 20,847,051
1 to 2 years	54,546,876
Thereafter	20,445,913
<b>Total Backlog</b>	\$ 95,839,840

Although backlog reflects business that is considered to be firm, cancellations, deferrals or scope adjustments may occur. Backlog is adjusted to reflect any known project cancellations, revisions to project scope and cost and project deferrals, as appropriate.

**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**9. Stockholders' Equity**

**Public Offering** – In June 2017, the Company issued 1,500,000 shares of its common stock at \$5.00 per share through a public offering (the “Public Offering”). The Company incurred \$1,388,615 in issuance costs from the Public Offering and issued 75,000 warrants valued at \$55,475 to the underwriters (as discussed in Note 10).

In July 2017, as permitted by the underwriting agreement entered into in connection with the Public Offering, the underwriters exercised their option to purchase an additional 225,000 shares of common stock at \$5.00 per share. The Company incurred \$176,771 in issuance costs from this issuance. In connection with this exercise, certain affiliates of the underwriters were granted additional warrants to purchase 11,250 shares of common stock in the aggregate valued at \$8,321 (as discussed in Note 10).

In connection with and prior to the Public Offering, the Company issued 1,801,670 shares of its common stock upon conversion of all outstanding preferred stock and 516,667 shares of its common stock upon conversion of the previously outstanding convertible debentures.

**Issuance of Common Stock** – In accordance with the Advisory Agreement (as defined below), a consultant was issued 50,000 shares of the Company’s common stock for services that were required to be performed by November 30, 2017. The fair market value of these shares amounted to \$254,500 as of November 30, 2017, which was expensed as general and administrative expenses.

**10. Warrants**

In conjunction with the Public Offering, the Company issued to certain affiliates of the underwriters, as compensation, warrants to purchase an aggregate of 86,250 shares of common stock at an exercise price of \$6.25 per share. The warrants are exercisable at the option of the holder on or after June 21, 2018 and expire June 21, 2023. The fair value of warrants was calculated utilizing a Black-Scholes model and amounted to \$3,796. The fair market value of the warrants as of the date of issuance has been included in issuance costs in additional paid-in capital.

**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**11. Share-based Compensation**

On October 26, 2016, the Company's Board of Directors approved the issuance of up to 500,000 shares of the Company's common stock in the form of restricted stock or options ("2016 Stock Plan"). Effective January 20, 2017, the 2016 Stock Plan was amended and restated as the SG Blocks, Inc. Stock Incentive Plan, as further amended effective June 1, 2018 (the "Incentive Plan"). The Incentive Plan authorizes the issuance of up to 2,500,000 shares of common stock. It authorizes the issuance of equity-based awards in the form of stock options, stock appreciation rights, restricted shares, restricted share units, other share-based awards and cash-based awards to non-employee directors and to officers, employees and consultants of the Company and its subsidiaries, except that incentive stock options may only be granted to the Company's employees and its subsidiary's employees. The Incentive Plan expires on October 26, 2026, and is administered by the Compensation Committee of the Board of Directors of the Company. Each of the Company's employees, directors, and consultants are eligible to participate in the Incentive Plan. As of March 31, 2019, there were 1,020,202 shares of common stock available for issuance under the Incentive Plan.

**Stock-Based Compensation Expense**

Stock-based compensation expense is included in the consolidated statements of operations as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Payroll and related expenses	\$ 162,493	\$ 79,989
Total	<u>\$ 162,493</u>	<u>\$ 79,989</u>

The following table presents total stock-based compensation expense by security type included in the consolidated statements of operations:

	<b>Three Months Ended March 31,</b>	
	<b>2019</b>	<b>2018</b>
Stock options	\$ 32,098	\$ 79,989
Restricted stock units	130,395	—
Total	<u>\$ 162,493</u>	<u>\$ 79,989</u>

**Stock-Based Option Awards**

The fair value of the stock-based option awards granted during the three months ended March 31, 2019 and 2018, were estimated at the date of grant using the Black-Scholes option valuation model with the following assumptions:

	<b>2019</b>	<b>2018</b>
Expected dividend yield	—%	—%
Expected stock volatility	68.35%	25.70%
Risk-free interest rate	2.44%	2.56%
Expected life	3.00	5.00

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

11. Share-based Compensation (continued)

Because the Company does not have significant historical data on employee exercise behavior, the Company uses the “Simplified Method” to calculate the expected life of the stock-based option awards granted to employees. The simplified method is calculated by averaging the vesting period and contractual term of the options.

The following table summarizes stock-based option activities and changes during the three months ended March 31, 2019. The table includes options granted to employees and directors of the Company, as described below:

	Shares	Weighted Average Fair Value Per Share	Weighted Average Exercise Price Per Share	Weighted Average Remaining Terms (in years)	Aggregate Intrinsic Value
<b>Outstanding – December 31, 2018</b>	1,105,059	\$ 1.24	\$ 4.06	8.41	\$ —
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Cancelled	(25,000)	—	—	—	—
<b>Outstanding – March 31, 2019</b>	<b>1,080,059</b>	<b>1.24</b>	<b>4.05</b>	<b>8.15</b>	<b>\$ —</b>
<b>Exercisable – December 31, 2018</b>	949,355	1.23	4.00	8.30	—
<b>Exercisable – March 31, 2019</b>	<b>970,190</b>	<b>1.23</b>	<b>4.01</b>	<b>8.07</b>	<b>\$ —</b>

For the three months ended March 31, 2019 and 2018, the Company recognized stock-based compensation expense of \$32,098 and \$79,989, respectively, related to stock options. This expense is included in payroll and related expenses in the accompanying consolidated statements of operations.

As of March 31, 2019, there was \$131,815 of total unrecognized compensation costs related to non-vested stock options, which will be expensed over a weighted average period of one year. The intrinsic value is calculated as the difference between the fair value of the stock price at year end and the exercise price of each of the outstanding stock options. The fair value of the stock price at March 31, 2019 was \$1.84 per share.

In March 2018, the Company granted Mr. Galvin, Mr. Shetty and six employees of the Company options to purchase 82,154, 81,342 and an aggregate of 86,504, respectively, shares of the Company’s common stock with an exercise price of \$4.61 per share. These options vest in equal quarterly installments over either a two-year and three-year period and will fully vest by the end of March 31, 2021. The options with a two-year period, which includes those granted to Mr. Galvin and Mr. Shetty, will vest in full by December 31, 2019; the options with a three-year vesting period will vest in full by March 31, 2021. The fair value of these options upon issuance amounted to \$320,000.

**Non-Employee Stock Options**

In September 2017, in connection with an advisory agreement entered into by the Company (the “Advisory Agreement”), a consultant was granted options to purchase 50,000 shares of the Company’s common stock, with an exercise price of \$6.25. The options were scheduled to vest when certain performance conditions were met. These performance conditions consisted of the purchase of fifty modular units from the Company by qualified customers. As of March 31, 2019, the required performance conditions were not met, and the options expired.

**SG BLOCKS, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**11. Share-based Compensation (continued)**

**Restricted Stock Units**

Effective July 26, 2018, a total of 27,955 of restricted stock units were granted to the Company's non-employee directors, under the Company's stock-based compensation plan, at the calculated fair value of \$5.36 per share, which represents the average closing price of the Company's common stock for the ten trading days immediately preceding and including the grant date. Restricted stock units granted to directors in 2018 vest on the earlier of (A) the first anniversary of the date of the grant or (B) the date of the annual meeting of the Company's stockholders that occurs in the year immediately following the date of the grant; and are payable six months after the termination of the director from the Board or death or disability.

On March 22, 2019, a total of 314,058 of restricted stock units were granted to Mr. Galvin, Mr. Armstrong, Mr. Shetty, six employees and one consultant of the Company, under the Company's stock-based compensation plan, at the fair value of \$2.70 per share, which represents the closing price of the Company's common stock on February 26, 2019. Restricted stock units granted to Mr. Galvin, Mr. Armstrong, Mr. Shetty, and an aggregate of six employees and one consultant of 122,785, 15,432, 114,575 and an aggregate of 61,266, respectively, vest in installments over either a one-year, two-year, three-year and four-year period and will fully vest by the end of December 31, 2022. The fair value of these units upon issuance amounted to \$847,957.

On January 15, 2019 and February 26, 2019, a total of 10,514 of restricted stock units were granted to two of the Company's non-employee directors, under the Incentive Plan, at the calculated fair value of \$2.94 and \$2.76 per share, which represents the average closing price of the Company's common stock for the ten trading days immediately preceding and including the grant date. The restricted stock units granted on January 15, 2019 will vest on January 15, 2020, subject to each individual's continued service as a director of the Company through such date, and are payable six months after the termination of the director from the Company's Board of Directors or death or disability. The restricted stock units granted on February 26, 2019 vest on the earlier of (A) the first anniversary of the date of the grant or (B) the date of the 2019 annual meeting of the Company's stockholders subject to each individual's continued service as a director of the Company through such date, and are payable six months after the termination of the director from the Board of Directors or death or disability.

For the three months ended March 31, 2019 and 2018, the Company recognized stock-based compensation expense of \$130,395 and \$0 related to restricted stock units. This expense is included in the payroll and related expenses in the accompanying condensed consolidated statement of operations. For the three months ended March 31, 2019 and 2018, the Company recognized \$54,315 and \$0 related to restricted stock units in lieu of accrued compensation.

The following table summarizes restricted stock unit activities during the three months ended March 31, 2019:

	<b>Number of Shares</b>
Non-vested balance at January 1, 2019	22,364
Granted	324,572
Vested	—
Forfeited/Expired	—
Non-vested balance at March 31, 2019	346,936

## SG BLOCKS, INC. AND SUBSIDIARIES

### Notes to Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

#### 12. Commitments and Contingencies

##### *Legal Proceedings*

The Company is subject to certain claims and lawsuits arising in the normal course of business. The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated, the Company records a liability in its consolidated financial statements. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, the Company does not record an accrual, consistent with applicable accounting guidance. Based on information currently available to the Company, advice of counsel, and available insurance coverage, the Company believes that its established accruals are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on its consolidated financial condition. The Company notes, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution of a matter will not exceed established accruals. As a result, the outcome of a particular matter or a combination of matters may be material to the Company's results of operations for a particular period, depending upon the size of the loss or the Company's income for that particular period.

*Pizzarotti Litigation* – On or about August 10, 2018, Pizzarotti, LLC filed a complaint against the Company and Mahesh Shetty, the Company's President, and others seeking unspecified damages for an alleged breach of contract by the Company and another entity named Phipps & Co. ("Phipps"). The lawsuit was filed as Pizzarotti, LLC. v. Phipps & Co., et al., Index No. 653996/2018 and commenced in the Supreme Court of the State of New York for the County of New York.

The claims against the Company arise from an Assignment Agreement, dated as of May 30, 2018, between Pizzarotti, Phipps and the Company (the "Assignment Agreement"), pursuant to which the Company intended to provide a letter of credit in exchange for an assignment of the proceeds from certain subcontracted work to be provided by Phipps to Pizzarotti. The Assignment Agreement was ultimately terminated, and the Company returned all payments to Phipps. Notwithstanding the above, Pizzarotti has sued seeking damages for nonperformance of the sub-contracted work and the return of a \$500,000 payment from Phipps.

The Company believes that the Assignment Agreement was properly terminated and believes that the claims brought against the Company and Mr. Shetty have no merit. The Company intends to vigorously defend the litigation.

Litigation is subject to many uncertainties, and the outcome of this action is not predicted with assurance. The Company is currently unable to predict the possible loss or range of loss, if any, associated with the resolution of this litigation, and, accordingly, the Company has made no provision related to this matter in the condensed consolidated financial statements.

*Vendor Litigation* – On January 1, 2019, SG Blocks filed a suit against Teton Buildings, LLC ("Teton") to recover breach of contract damages of approximately \$2,100,000 plus attorneys' fees related to the HOLA Community Partners construction project in Los Angeles, California (the "HOLA Project"), for which Teton was engaged by the Company to supply modular units in early 2017. The Company's complaint alleged that Teton failed to comply with specific product requirements with respect to the modular units for the HOLA Project and that Teton's delay and product quality resulted in damages. The Company's claims include breach of contract, negligence, and breach of express warranty. The lawsuit was filed as *SG Blocks, Inc. v. Teton Buildings, LLC*, Case Number 2019-02827 in the United States District Court for the Southern District of Texas.

SG Blocks believes it will prevail on the merits of the case. As with any litigation at this early stage, the cost of litigating and the outcome remain uncertain.

SG BLOCKS, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements**  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

**12. Commitments and Contingencies (continued)**

*HOLA Community Partners Matter*— There is an ongoing dispute between the Company and HOLA Community Partners, a California non-profit corporation, in connection with the parties' Construction and Delivery Agreement, dated June 1, 2017, pursuant to which HOLA Community Partners hired the Company for design, engineering, fabrication, and installation services for the construction of the HOLA Project. The Company claims that HOLA Community Partners owes the Company certain amounts due for work performed on the HOLA Project and extra costs incurred due to delays and impacts caused by HOLA Community Partners. HOLA Community Partners disputes the amounts owed, and claims that the Company failed to meet its contractual obligations. The parties are in ongoing settlement discussions. Neither party has commenced litigation as of the date of these condensed consolidated financial statements.

In addition, the Company is subject to other routine legal proceedings, claims, and litigation in the ordinary course of its business. Defending lawsuits requires significant management attention and financial resources and the outcome of any litigation, including the matters described above, is inherently uncertain. The Company does not, however, currently expect that the costs to resolve these routine matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.



SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
For the Three Months Ended March 31, 2019 and 2018 (Unaudited)

13. Subsequent Events

On April 25, 2019, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional investors (the "Investors") for the sale by the Company of 847,750 shares (the "Common Shares") of the Company's common stock, at a purchase price of \$1.10 per share. Concurrently with the sale of the Common Shares, pursuant to the Purchase Agreement, the Company also sold common stock purchase warrants to such Investors to purchase up to an aggregate of 847,750 shares of common stock (the "Warrants"). The Company sold the Common Shares and Warrants for aggregate gross proceeds of approximately \$932,525. Subject to certain beneficial ownership limitations, the Warrants will be initially exercisable on the six-month anniversary of the issuance date at an exercise price of \$1.375 per share, subject to adjustments as provided under the terms of the Warrants, and include a floor in the provision on voluntary adjustments to the then-current exercise price. The Warrants are exercisable for five years from the initial exercise date. The closing of the sales of these securities under the Purchase Agreement occurred on April 29, 2019.

The estimated net proceeds from the transactions were approximately \$692,248 after deducting certain fees due to the placement agent, discussed below, and the Company's estimated transaction expenses. The net proceeds will be used for working capital purposes. The Common Shares were offered and sold by the Company pursuant to an effective shelf registration statement on Form S-3, which was filed with the Securities and Exchange Commission (the "SEC") on December 18, 2018 and subsequently declared effective on February 7, 2019 (File No. 333-228882), and the base prospectus contained therein. The Company filed a prospectus supplement with the SEC in connection with the sale of the Common Shares.

The Warrants and the shares issuable upon exercise of the Warrants were sold without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemptions provided by Section 4(a)(2) of the Securities Act as transactions not involving a public offering and Rule 506 promulgated under the Securities Act as sales to accredited investors, and in reliance on similar exemptions under applicable state laws.

In connection with the transactions described above, the Company entered into a placement agency agreement (the "Placement Agency Agreement") with Roth Capital Partners, LLC ("Roth"), pursuant to which Roth agreed to serve as exclusive placement agent for the issuance and sale of the Common Shares and Warrants. The Company agreed to pay Roth an aggregate fee equal to 7.0% of the gross proceeds received by the Company from the sale of the securities in the transactions. Pursuant to the Placement Agency Agreement, the Company also agreed to grant to Roth or its designees warrants to purchase up to 10% of the aggregate number of shares of Common Stock sold in the transactions, or 84,775 shares (the "Roth Warrants"), which Roth Warrants shall be issued in two series of warrants (50% of the Roth Warrants in each series) and the second series of warrants shall vest ratably upon the exercise of the first series of warrants. The Roth Warrants have substantially the same terms as the Warrants, except that the Roth Warrants have an expiration date of April 25, 2024. The Roth Warrants and the shares issuable upon exercise of the Roth Warrants were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act as transactions not involving a public offering and in reliance on similar exemptions under applicable state laws. The Company also agreed to reimburse Roth for \$50,000 of its expenses incurred by it in connection with the offering.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Result of Operations

### Introduction and Certain Cautionary Statements

As used in this Quarterly Report, unless the context requires otherwise, references to the "Company," "we," "us," and "our" refer to SG Blocks, Inc. and its subsidiaries. The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with our condensed consolidated financial statements and related notes and schedules included elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2018, which were included in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on March 29, 2019 (the "2018 Form 10-K"). Statements contained in this Quarterly Report on Form 10-Q may use forward-looking terminology, such as "anticipates," "believes," "could," "would," "estimates," "may," "might," "plan," "expect," "intend," "should," "will," or other variations on these terms or their negatives. All statements other than statements of historical facts are statements that could potentially be forward-looking. The Company cautions that forward-looking statements involve risks and uncertainties and actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate or prediction is realized. Factors that could cause or contribute to such differences include, but are not limited to: general economic, political and financial conditions, both in the United States and internationally; our ability to obtain additional financing on acceptable terms, if at all, or to obtain additional capital in other ways; our ability to increase sales, generate income, effectively manage our growth and realize our backlog; competition in the markets in which we operate, including the consolidation of our industry, our ability to expand into and compete in new geographic markets and our ability to compete by protecting our proprietary manufacturing process; a disruption or cybersecurity breach in our or third-party suppliers' information technology systems; our ability to adapt our products and services to industry standards and consumer preferences and obtain general market acceptance of our products; product shortages and the availability of raw materials, and potential loss of relationships with key vendors, suppliers or subcontractors; the seasonality of the construction industry in general, and the commercial and residential construction markets in particular; a disruption or limited availability with our third party transportation vendors; the loss or potential loss of any significant customers; exposure to product liability, including the possibility that our liability for estimated warranties may be inadequate, and various other claims and litigation; our ability to attract and retain key employees; our ability to attract private investment for sales of product; the credit risk from our customers and our customers' ability to obtaining third-party financing if and as needed; an impairment of goodwill; the impact of federal, state and local regulations, including changes to international trade and tariff policies, and the impact of any failure of any person acting on our behalf to comply with applicable regulations and guidelines; costs incurred relating to current and future legal proceedings or investigations; the cost of compliance with environmental, health and safety laws and other local building regulations; our ability to utilize our net operating loss carryforwards and the impact of changes in the United States' tax rules and regulations; dangers inherent in our operations, such as natural or man-made disruptions to our facilities and project sites, and the adequacy of our insurance coverage; our ability to comply with the requirements of being a public company, including Nasdaq Capital Market listing requirements; fluctuations in the price of our common stock, including decreases in price due to sales of significant amounts of stock; potential dilution of the ownership of our current stockholders due to, among other things, public offerings or private placements by the Company or issuances upon the exercise of outstanding options or warrants and the vesting of restricted stock units; the ability of our principal stockholders, management and directors to potentially exert control due to their ownership interest; any ability to pay dividends in the future; potential negative reports by securities or industry analysts regarding our business or the construction industry in general; Delaware law provisions discouraging, delaying or preventing a merger or acquisition at a premium price; our ability to remain listed on the Nasdaq Capital Market and the possibility that our stock will be subject to penny stock rules; our classification as a smaller reporting company resulting in, among other things, a potential reduction in active trading of our common stock or increased volatility in our stock price; and any factors discussed in "Part II—Item 1 A. Risk Factors" to this Quarterly Report on Form 10-Q as well as our 2018 Form 10-K and other filings with the Securities and Exchange Commission. In addition, certain information presented below is based on unaudited financial information. There can be no assurance that there will be no changes to this information once audited financial information is available. As a result, readers are cautioned not to place undue reliance on forward-looking statements. The Company will not undertake to update any forward-looking statement herein or that may be made from time to time on behalf of the Company.

## Background

We are one of the leading design and construction services firms using code-engineered cargo shipping containers for safe and sustainable construction. We offer the construction industry a safer, greener, faster, longer-lasting and more economical alternative to conventional construction methods. We redesign, repurpose and convert heavy-gauge steel cargo shipping containers into SGBlocks™, which are safe green building blocks for commercial, industrial and residential building construction.

We fabricate modules for construction of buildings using either SGBlocks™, which are modified cargo shipping containers for use in construction, or SGPBMs, which are prefabricated steel modular units customized for use in modular construction primarily to augment or complement a SGBlocks™ structure.

When using SGBlocks™, we take existing steel shipping containers and repurpose them into modules that can be stacked, arranged, or configured to fit most structural applications. The use of these repurposed shipping containers allows architects, builders, and owners more design flexibility and greater construction efficiency than traditional methods of construction. SGBlocks™ also have a particular application in meeting safe, affordable and sustainable housing needs, especially in hurricane- and earthquake-prone areas.

When using SGPBMs, we customize an engineered steel structure to meet customer design and specifications, primarily to augment or complement a SGBlocks™ structure.

## Results of Operations

### Three Months Ended March 31, 2019 and 2018:

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Revenue	\$ 1,735,124	\$ 1,543,526
Cost of revenue	(1,191,019)	(1,379,930)
Operating expenses	(1,034,840)	(917,704)
Operating loss	(490,735)	(754,108)
Other income (expense)	—	4
Net loss	<u>\$ (490,735)</u>	<u>\$ (754,104)</u>

## Revenue

Total revenue for the three months ended March 31, 2019 was \$1,735,124 compared to \$1,543,526 for the three months ended March 31, 2018. This increase of \$191,598 or 12% was mainly driven by growth in the Company's retail and office contracts that were in progress or completed for the three months ended March 31, 2019 as compared to March 31, 2018. Revenue resulting from the Company's retail and office contracts increased by approximately \$1,177,689, which was offset by a decrease in revenue from the Company's school and special use contracts of \$1,058,141.

**Cost of Revenue and Gross Profit**

Cost of revenue was \$1,191,019 for the three months ended March 31, 2019 compared to \$1,379,930 for the three months ended March 31, 2018. The decrease of \$188,911 is primarily related to the lower cost of buying and modifying containers.

Gross profit was \$544,105 and \$163,596 for the three months ended March 31, 2019 and 2018, respectively.

Gross profit percentage increased to 31% for the three months ended March 31, 2019 compared to 11% for the three months ended March 31, 2018 primarily due to lower margins in the three months ended March 31, 2018 from a legacy contract.

**Payroll and Related Expenses**

Payroll and related expenses for the three months ended March 31, 2019 were \$638,550 compared to \$405,418 for the three months ended March 31, 2018. This increase was primarily caused by an increase in salaries and additional head count of \$129,472 and an increase in stock-based compensation expense of \$82,504 recognized during the three months ended March 31, 2019 compared to the three months ended March 31, 2018. We recognized \$162,493 in stock-based compensation expense for the three months ended March 31, 2019, compared to \$79,989 for March 31, 2018.

**Other Operating Expenses**

Other operating expenses for the three months ended March 31, 2019 were \$396,290 compared to \$512,286 for the three months ended March 31, 2018. The decrease resulted primarily from decreases in marketing and business development costs of approximately \$3,000, a decrease of approximately \$111,000 in amortization expense caused by customer contracts being fully amortized at the end of 2018 and an increase of approximately \$40,000 in board of directors compensation expense for the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

**Other Income (Expense)**

For the three months ended March 31, 2019, we recognized no interest income compared to \$4 during the three months ended March 31, 2018.

**Income Tax Provision**

A 100% valuation allowance was provided against the deferred tax asset consisting of available net operating loss carryforwards and, accordingly, no income tax benefit was provided.

## Liquidity and Capital Resources

As of March 31, 2019 and December 31, 2018, we had an aggregate of \$250,464 and \$1,368,395, respectively, of cash and cash equivalents. Our condensed consolidated financial statements have been prepared assuming we will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business.

Historically, our operations have primarily been funded through proceeds from equity and debt financings, as well as revenue from operations. In June and July 2017, we sold 1,725,000 shares of our common stock in a public offering, including an over-allotment option exercised by the underwriters. We received net proceeds of approximately \$7,900,000 after deducting underwriting discounts and commissions and related expenses. We incurred a total of \$1,565,386 in issuance costs in connection with the Public Offering. In addition, in April 2019, we closed a follow-on offering, pursuant to which we sold 847,750 shares of our common stock. In connection with the follow-on offering, we also sold common stock purchase warrants to purchase up to an aggregate of 847,750 shares of common stock. Such warrants were sold in a private placement pursuant to Section 4(a)(2) and Rule 506(b) under the Securities Act of 1933, as amended. We received net proceeds of approximately \$692,248 after deducting certain fees due to the placement agent and certain transaction expenses.

We anticipate that we will continue to generate losses from operations for the foreseeable future. As of March 31, 2019, our stockholders' equity was \$6,806,140, compared to \$7,080,067 as of December 31, 2018. Our net loss from operations for the three months ended March 31, 2019 was \$490,735 and net cash used in operating activities was \$1,117,931.

We are attempting to generate sufficient revenues, and may need to secure additional financing sources, such as debt or equity capital, to support our daily operations and fund future growth, which financing may not be available on favorable terms or at all. We currently have a Form S-3 shelf registration statement on file with the Securities and Exchange Commission. If we issue additional equity securities to raise funds, our existing stockholders may experience further dilution, and the new equity securities may have rights, preferences and privileges senior to those of our existing stockholders. If we issue debt securities to raise additional funds, we may incur debt service obligations, become subject to additional restrictions that limit or restrict our ability to operate our business or be required to encumber our assets. There can be no assurance that we will be able to raise any such capital on terms acceptable to us, if at all. We do not have any additional sources secured for future funding and if we are unable to raise the necessary capital at the times we require such funding, we may need to materially change our business plan, including delaying implementation of aspects of such business plan or curtailing or abandoning such business plan altogether.

Management believes that the actions presently being taken to further implement its business plan and generate sufficient revenues provide the opportunity for us to continue as a going concern. While we believe in the viability of our strategy to increase revenues and in our ability to raise additional funds, we cannot provide any assurances to that effect. Our ability to continue as a going concern is dependent upon our ability to further implement our business plan and generate sufficient revenues.

The condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

### Cash Flow Summary

	Three Month Ended March 31,	
	2019	2018
Net cash provided by (used in):		
Operating activities	\$ (1,117,931)	\$ (384,783)
Investing activities	—	26,853
Financing activities	—	—
Net increase (decrease) in cash and cash equivalents	\$ (1,117,931)	\$ (357,930)

Operating activities used net cash of \$1,117,931 in the three months ended March 31, 2019, and \$384,783 in the three months ended March 31, 2018. Generally, our net operating cash flows fluctuate primarily based on changes in our profitability and working capital. Cash used in operating activities increased by \$733,148 primarily from a decrease in working capital of \$970,000 and a net decrease of \$111,035 in amortization, offset by a decrease in net loss of \$263,369 and a net increase of \$82,504 in stock compensation expense in the three months ended March 31, 2019 compared to three months ended March 31, 2018.

Investing activities provided no net cash in the three months ended March 31, 2019, and net cash of \$26,853 in the three months ended March 31, 2018 primarily due to an increase in proceeds from short-term investments.

Financing activities provided no net cash in the three months ended March 31, 2019, and 2018.

We provide services to our customers in three separate phases: the design phase, the architectural and engineering phase and the construction phase. Each phase is independent of the other, but builds through a progression of concept through delivery of a completed structure. These phases may be embodied in a single contract or in separate contracts, which is typical of a design build process model. As of March 31, 2019, we had eleven projects totaling \$95,839,840 under contract, which, if they all proceed to construction, will result in our constructing approximately 677,536 square feet of container space. Of these contracts, two projects totaling approximately 32,320 square feet were in the architectural and engineering phase and nine projects totaling approximately 645,216 square feet were contracts combining all three phases or parts thereof and including construction. We expect that all of this revenue will be realized by June 30, 2021.

Backlog may fluctuate significantly due to the timing of orders or awards for large projects and is not necessarily indicative of future backlog levels or the rate at which backlog will be recognized as revenue. The decrease in backlog at March 31, 2019 from the prior year is primarily attributable to work in progress or completed contracts during the first quarter for approximately \$1,735,000.

There can be no assurance that our customers will decide to and/or be able to proceed with these construction projects, or that we will ultimately recognize revenue from these projects in a timely manner or at all.

#### **Off-Balance Sheet Arrangements**

As of March 31, 2019 and December 31, 2018, we had no material off-balance sheet arrangements to which we are a party.

#### **Critical Accounting Policies**

Our condensed consolidated financial statements have been prepared using generally accepted accounting principles in the United States of America ("GAAP"), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our condensed consolidated financial statements. A discussion of such critical accounting policies, which include share-based payments, derivative instruments, goodwill, intangible assets and revenue recognition, can be found in our 2018 Form 10-K. There have been no material changes in critical accounting policies from those disclosed in the 2018 Form 10-K.

#### **Non-GAAP Financial Information**

In addition to our results under GAAP, we also present EBITDA and Adjusted EBITDA for historical periods. EBITDA and Adjusted EBITDA are non-GAAP financial measures and have been presented as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We calculate EBITDA as net income (loss) before interest expense, income tax benefit (expense), depreciation and amortization. We calculate Adjusted EBITDA as EBITDA before certain non-recurring adjustments such as stock-based compensation expense.

EBITDA and Adjusted EBITDA are presented because they are important metrics used by management as one of the means by which it assesses our financial performance. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. These measures, when used in conjunction with related GAAP financial measures, provide investors with an additional financial analytical framework that may be useful in assessing us and our results of operations.

EBITDA and Adjusted EBITDA have certain limitations. EBITDA and Adjusted EBITDA should not be considered as alternatives to net income (loss), or any other measures of financial performance derived in accordance with GAAP. These measures also should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items for which these non-GAAP measures make adjustments. Additionally, EBITDA and Adjusted EBITDA are not intended to be liquidity measures because of certain limitations, including, but not limited to:

- They do not reflect our cash outlays for capital expenditures;
- They do not reflect changes in, or cash requirements for, working capital; and
- Although depreciation and amortization are non-cash charges, the assets are being depreciated and amortized and may have to be replaced in the future, and these non-GAAP measures do not reflect cash requirements for such replacements.

Other companies, including other companies in our industry, may not use such measures or may calculate one or more of the measures differently than as presented in this Quarterly Report on Form 10-Q, limiting their usefulness as a comparative measure.

In evaluating EBITDA and Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same or similar to some of the adjustments made in our calculations, and our presentation of EBITDA and Adjusted EBITDA should not be construed to mean that our future results will be unaffected by such adjustment. Management compensates for these limitations by using EBITDA and Adjusted EBITDA as supplemental financial metrics and in conjunction with our results prepared in accordance with GAAP. The non-GAAP information should be read in conjunction with our consolidated financial statements and related notes.

The following is a reconciliation of EBITDA and Adjusted EBITDA to the nearest GAAP measure, net loss:

	<b>Three Months Ended March 31, 2019</b>	<b>Three Months Ended March 31, 2018</b>
Net loss	\$ (490,735)	\$ (754,104)
Addback depreciation and amortization	39,446	148,247
EBITDA (non-GAAP)	(451,289)	(605,857)
Addback stock-based compensation expense	162,493	79,989
Adjusted EBITDA (non-GAAP)	<u>\$ (288,796)</u>	<u>\$ (525,868)</u>

**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

**ITEM 4. Controls and Procedures**

*Disclosure Controls and Procedures*

Management, with the participation of our Principal Executive Officer and Principal Financial Officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”). Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Principal Executive Officer and the Principal Financial Officer believe that the condensed consolidated financial statements and other information contained in this Quarterly Report on Form 10-Q present fairly, in all material respects, our business, financial condition and results of operations.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

The information included in "Note 12 - Commitments and Contingencies" of the Company's condensed consolidated financial statements included elsewhere in this Form 10-Q is incorporated by reference into this Item.

### ITEM 1A. Risk Factors

There have been no material changes from the risk factors disclosed in "Part I—Item 1A. Risk Factors" in our 2018 Form 10-K.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

### ITEM 3. Defaults Upon Senior Securities

None.

### ITEM 4. Mine Safety Disclosures

Not applicable.

### ITEM 5. Other Information

None.

### ITEM 6. Exhibits

#### EXHIBIT INDEX

Exhibit Number	Description
4.1	<a href="#">Form of Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on May 1, 2019).</a>
4.2	<a href="#">Form of Series A Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on May 1, 2019).</a>
10.1**	<a href="#">Securities Purchase Agreement, dated April 25, 2019, between SG Blocks, Inc. and the purchasers thereto (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on April 26, 2019).</a>
31.1+	<a href="#">Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2+	<a href="#">Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1*	<a href="#">Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS+	XBRL Instance Document - the instance document does not appear in the Interactive Data File as the XBRL tags are embedded within the Inline XBRL document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

+ Filed herewith.

\* Furnished herewith.

\*\* Exhibits and schedules to this exhibit have been omitted pursuant to Regulation S-K, Item 601(a)(5).



***SIGNATURE***

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

**SG BLOCKS, INC.**  
(Registrant)

Date: May 13, 2019

By: /s/ Mahesh S. Shetty  
Mahesh S. Shetty  
President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Paul M. Galvin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SG Blocks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2019

/s/ Paul M. Galvin

Paul M. Galvin  
Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Mahesh S. Shetty, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SG Blocks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2019

/s/ Mahesh S. Shetty

Mahesh S. Shetty

President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. §1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of SG Blocks, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul M. Galvin, the Chief Executive Officer of the Company, and I, Mahesh S. Shetty, the President and Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 13, 2019

/s/ Paul M. Galvin

Name: Paul M. Galvin  
Title: Chairman and Chief Executive Officer

May 13, 2019

/s/ Mahesh S. Shetty

Name: Mahesh S. Shetty  
Title: President and Chief Financial Officer

This certification accompanies each Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.