

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

FORM 10-Q

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

For the quarterly period ended **June 30, 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, 14th Floor, Brooklyn, NY

(Address of principal executive offices)

11201

(Zip Code)

(646) 240-4235

(Registrant's telephone number, including area code)

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

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

As of August 5, 2019, there were 6,007,791 shares of the registrant's common stock, \$0.01 par value, outstanding.

SG BLOCKS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2019

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

SG BLOCKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	<i>June 30, 2019</i>	<i>December 31, 2018</i>
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 173,902	\$ 1,368,395
Accounts receivable, net	1,448,506	1,746,326
Costs and estimated earnings in excess of billings on uncompleted contracts	20,801	260,325
Prepaid expenses and other current assets	230,294	986,687
Total current assets	<u>1,873,503</u>	<u>4,361,733</u>
Property, plant and equipment, net	65,036	71,337
Goodwill	4,162,173	4,162,173
Intangible assets, net	2,371,367	2,443,929
Total Assets	<u>\$ 8,472,079</u>	<u>\$ 11,039,172</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,669,328	\$ 2,624,218
Billings in excess of costs and estimated earnings on uncompleted contracts	184,429	1,334,887
Total current liabilities	<u>1,853,757</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, 25,000,000 shares authorized as of June 30, 2019 and 300,000,000 shares authorized as of December 31, 2018; 5,107,791 issued and outstanding as of June 30, 2019 and 4,260,041 issued and outstanding as of December 31, 2018	51,079	42,601
Additional paid-in capital	18,692,964	17,700,743
Accumulated deficit	(12,125,721)	(10,663,277)
Total stockholders' equity	<u>6,618,322</u>	<u>7,080,067</u>
Total Liabilities and Stockholders' Equity	<u>\$ 8,472,079</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 June 30, 2019</i>	<i>For the Three Months Ended June 30, 2018</i>	<i>For the Six Months Ended June 30, 2019</i>	<i>For the Six Months Ended June 30, 2018</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue:				
Block sales	\$ —	\$ 42,799	\$ —	\$ 42,799
Construction services	675,170	2,262,998	2,333,244	3,806,526
Engineering services	52,738	—	129,788	—
Total	<u>727,908</u>	<u>2,305,797</u>	<u>2,463,032</u>	<u>3,849,325</u>
Cost of revenue:				
Block sales	—	33,084	—	33,084
Construction services	435,671	2,241,141	1,594,900	3,621,071
Engineering services	24,919	—	56,709	—
Total	<u>460,590</u>	<u>2,274,225</u>	<u>1,651,609</u>	<u>3,654,155</u>
Gross profit	267,318	31,572	811,423	195,170
Operating expenses:				
Payroll and related expenses	645,627	572,612	1,284,177	978,029
General and administrative expenses	506,664	555,087	839,664	981,362
Marketing and business development expense	84,216	97,541	131,575	178,588
Pre-project expenses	2,520	45,000	18,451	49,964
Total	<u>1,239,027</u>	<u>1,270,240</u>	<u>2,273,867</u>	<u>2,187,943</u>
Operating loss	(971,709)	(1,238,668)	(1,462,444)	(1,992,773)
Other income (expense):				
Interest income	—	—	—	4
Other income	—	5,764	—	5,764
Total	<u>—</u>	<u>5,764</u>	<u>—</u>	<u>5,768</u>
Loss before income taxes	(971,709)	(1,232,904)	(1,462,444)	(1,987,005)
Income tax expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net loss	<u>\$ (971,709)</u>	<u>\$ (1,232,904)</u>	<u>\$ (1,462,444)</u>	<u>\$ (1,987,005)</u>
Net loss per share - basic and diluted:				
Basic and diluted	<u>\$ (0.20)</u>	<u>\$ (0.29)</u>	<u>\$ (0.32)</u>	<u>\$ (0.47)</u>
Weighted average shares outstanding:				
Basic and diluted	<u>4,837,629</u>	<u>4,260,041</u>	<u>4,552,004</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 – March 31, 2019</i>	4,260,041	\$ 42,601	\$ 17,917,551	\$ (11,154,012)	\$ 6,806,140
Stock-based compensation	—	—	231,182	—	231,182
Issuance of common stock, net of issuance costs	847,750	8,478	544,231	—	552,709
Net loss	—	—	—	(971,709)	(971,709)
<i>Balance – June 30, 2019</i>	<u>5,107,791</u>	<u>\$ 51,079</u>	<u>\$ 18,692,964</u>	<u>\$ (12,125,721)</u>	<u>\$ 6,618,322</u>
<i>Balance – December 31, 2018</i>	4,260,041	\$ 42,601	\$ 17,700,743	\$ (10,663,277)	\$ 7,080,067
Stock-based compensation	—	—	447,990	—	447,990
Issuance of common stock, net of issuance costs	847,750	8,478	544,231	—	552,709
Net loss	—	—	—	(1,462,444)	(1,462,444)
<i>Balance – June 30, 2019</i>	<u>5,107,791</u>	<u>\$ 51,079</u>	<u>\$ 18,692,964</u>	<u>\$ (12,125,721)</u>	<u>\$ 6,618,322</u>
	<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 – March 31, 2018</i>	4,260,041	\$ 42,601	\$ 17,384,518	\$ (6,573,357)	\$ 10,853,762
Stock-based compensation	—	—	85,325	—	85,325
Net loss	—	—	—	(1,232,904)	(1,232,904)
<i>Balance – June 30, 2018</i>	<u>4,260,041</u>	<u>\$ 42,601</u>	<u>\$ 17,469,843</u>	<u>\$ (7,806,261)</u>	<u>\$ 9,706,183</u>
<i>Balance – December 31, 2017</i>	4,260,041	\$ 42,601	\$ 17,304,529	\$ (5,819,256)	\$ 11,527,874
Stock-based compensation	—	—	165,314	—	165,314
Net loss	—	—	—	(1,987,005)	(1,987,005)
<i>Balance – June 30, 2018</i>	<u>4,260,041</u>	<u>\$ 42,601</u>	<u>\$ 17,469,843</u>	<u>\$ (7,806,261)</u>	<u>\$ 9,706,183</u>

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 Six Months Ended June 30, 2019</i>	<i>For the Six Months Ended June 30, 2018</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cash flows from operating activities:		
Net loss	\$ (1,462,444)	\$ (1,987,005)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	6,301	1,879
Amortization of intangible assets	72,562	294,632
Bad debt expense (benefit)	(54,000)	—
Interest income on short-term investment	—	(4)
Stock-based compensation	339,361	165,314
Changes in operating assets and liabilities:		
Accounts receivable	351,820	778,191
Costs and estimated earnings in excess of billings on uncompleted contracts	239,524	(70,217)
Prepaid expenses and other current assets	756,393	(52,436)
Accounts payable and accrued expenses	(846,261)	(159,237)
Billings in excess of costs and estimated earnings on uncompleted contracts	(1,150,458)	(847,580)
Net cash used in operating activities	<u>(1,747,202)</u>	<u>(1,876,463)</u>
Cash flows from investing activities:		
Proceeds from short-term investment	—	30,037
Purchase of property, plant and equipment	—	(3,784)
Net cash provided by investing activities	<u>—</u>	<u>26,253</u>
Cash flows from financing activities:		
Proceeds from public stock offering, net of issuance costs	552,709	—
Net cash provided by financing activities	<u>552,709</u>	<u>—</u>
Net decrease in cash and cash equivalents	(1,194,493)	(1,850,210)
Cash and cash equivalents - beginning of period	<u>1,368,395</u>	<u>4,870,824</u>
Cash and cash equivalents - end of period	<u>\$ 173,902</u>	<u>\$ 3,020,614</u>
Supplemental disclosure of non-cash operating activities:		
Non cash conversion of accrued salary to restricted stock units	<u>\$ 108,629</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 Six Months Ended June 30, 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[™], code engineered cargo shipping containers that the Company modifies for use in construction. Rather than consuming new steel and lumber, SGBlocks[™] 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[™], “Modules”), which are prefabricated steel modular units created specifically for use in modular construction, unlike the shipping containers used to create SGBlocks[™].

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 Six Months Ended June 30, 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 June 30, 2019, the Company had cash and cash equivalents of \$173,902 and a backlog of \$70.8 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:

	2019
Within 1 year	\$ 14,324,626
1 to 2 years	34,500,000
Thereafter	21,944,107
Total Backlog	<u>\$ 70,768,733</u>

The Company completed an equity offering in April 2019, which resulted in net proceeds of approximately \$52,709. See Note 9 for a discussion of the offering. The Company completed an equity offering in August 2019, which resulted in net proceeds of approximately \$87,000. See Note 13 for a discussion of the offering. The Company believes that it has adequate cash balances to meet obligations 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. 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.

On July 1, 2019, the Company received a letter from The Nasdaq Stock Market LLC ("Nasdaq") notifying the Company that, because the closing bid price for the Company's common stock listed on Nasdaq was below \$1.00 for 30 consecutive business days, the Company no longer meets the minimum bid price requirement for continued listing on Nasdaq under Nasdaq Listing Rule 5550(a)(2), which requires a minimum bid price of \$1.00 per share.

Pursuant to Nasdaq Listing Rule 5810(c)(3)(A), the Company has been granted a grace period of 180 calendar days, or until December 30, 2019, to regain compliance with the minimum closing bid price requirement for continued listing. To regain compliance, the closing bid price of the Company's shares of common stock must meet or exceed \$1.00 per share for at least ten consecutive business days during this 180-day grace period.

If the Company does not regain compliance with Rule 5550(a)(2) by December 30, 2019, the Company may be eligible for an additional 80-calendar day compliance period. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for The Nasdaq Capital Market, except for the minimum bid price, and provide written notice to Nasdaq of its intent to cure the deficiency during this second compliance period, by effecting a reverse stock split, if necessary. However, if it appears to the Nasdaq staff that the Company will not be able to cure the deficiency, or if the Company is otherwise not eligible, Nasdaq will provide notice to the Company that its common stock will be subject to delisting.

The Company intends to monitor the closing bid price of its common stock and consider its available options in the event that the closing bid price of its common stock remains below \$1.00 per share. There can be no assurance that the Company will be able to regain compliance with the minimum bid price requirement or maintain compliance with the other listing requirements.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements For the Six Months Ended June 30, 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 six months ended June 30, 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 ASU2016-02. 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 June 30, 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 Six Months Ended June 30, 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 Six Months Ended June 30, 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; and
- 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 June 30,			
	2019		2018	
Multi-Family	\$ 41,319	6 %	\$ 210,814	9 %
Office	82,294	11 %	229,727	10 %
Retail	606,725	83 %	416,976	18 %
School	—	— %	1,100,403	48 %
Special Use	—	— %	330,965	14 %
Other	(2,430)	— %	16,912	1 %
Total revenue by customer type	\$ 727,908	100 %	\$ 2,305,797	100 %

Revenue by Customer Type	Six Months Ended June 30,			
	2019		2018	
Multi-Family	\$ 112,191	5 %	\$ 210,814	5 %
Office	1,207,897	49 %	593,356	15 %
Retail	1,137,384	46 %	531,920	14 %
School	—	— %	1,860,238	48 %
Special Use	6,812	— %	636,085	17 %
Other	(1,252)	— %	16,912	1 %
Total revenue by customer type	\$ 2,463,032	100 %	\$ 3,849,325	100 %

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 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 \$173,902 as of June 30, 2019 and \$1,368,395 as of December 31, 2018.

Short-term investment – The Company classifies any investment with a maturity greater than six months but less than one year as a short-term investment. The Company had no short-term investments as of June 30, 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.

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 June 30, 2019 or December 31, 2018.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2019 and 2018 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

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 June 30, 2019 and 2018 was \$1,541,753 and \$1,174,205, respectively. The amortization expense for the three months ended June 30, 2019 and 2018 was \$36,281 and \$147,316, respectively. The amortization expense for the six months ended June 30, 2019 and 2018 was \$72,562 and \$294,632, respectively. The estimated amortization expense for the successive five years is as follows:

For the year ended December 31,

2019	\$ 72,562
2020	145,124
2021	145,124
2022	140,800
2023	139,007
Thereafter	1,728,750
	<u>\$ 2,371,367</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) provide 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) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share 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.

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.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements For the Six Months Ended June 30, 2019 and 2018 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

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 June 30, 2019 and December 31, 2018, 89% and 76%, respectively, of the Company's gross accounts receivable were due from two customers.

Revenue relating to two customers represented approximately 91% and 60% of the Company's total revenue for the three months ended June 30, 2019 and 2018, respectively. Revenue relating to two and one customers represented approximately 87% and 48% of the Company's total revenue for the six months ended June 30, 2019 and 2018, respectively.

Cost of revenue relating to three and two vendors represented approximately 92% and 73% of the Company's total cost of revenue for the three months ended June 30, 2019 and 2018, respectively. Cost of revenue relating to three and two vendors represented approximately 92% and 60% of the Company's total cost of revenue for the six months ended June 30, 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 Six Months Ended June 30, 2019 and 2018 (Unaudited)

4. Accounts Receivable

At June 30, 2019 and December 31, 2018, the Company's accounts receivable consisted of the following:

	June 30, 2019	December 31, 2018
Billed:		
Block sales	\$ —	\$ 14,723
Construction services	1,373,493	1,619,498
Engineering services	307,991	400,877
Retainage receivable	544,911	543,417
Other receivable	8,006	7,706
Total gross receivables	2,234,401	2,586,221
Less: allowance for doubtful accounts ⁽¹⁾	(785,895)	(839,895)
Total net receivables	<u>\$ 1,448,506</u>	<u>\$ 1,746,326</u>

⁽¹⁾ 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 \$785,895 as of June 30, 2019. There was no provision for doubtful accounts, \$54,000 collected for doubtful accounts and no write offs for the six months ended June 30, 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 June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Costs incurred on uncompleted contracts	\$ 11,636,297	\$ 11,307,975
Estimated earnings to date on uncompleted contracts	1,299,731	838,615
Gross contract assets	12,936,028	12,146,590
Less: billings to date	(13,099,656)	(13,221,152)
Net contract assets (liabilities)	<u>\$ (163,628)</u>	<u>\$ (1,074,562)</u>

The above amounts are included in the accompanying consolidated balance sheets under the following captions at June 30, 2019 and 2018:

	June 30, 2019	December 31, 2018
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 20,801	\$ 260,325
Billings in excess of costs and estimated earnings on uncompleted contracts	(184,429)	(1,334,887)
Net contract assets (liabilities)	<u>\$ (163,628)</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 Six Months Ended June 30, 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 June 30, 2019 and December 31, 2018, the Company's property, plant and equipment, net consisted of the following:

	June 30, 2019	December 31, 2018
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	(37,636)	(31,335)
Property, plant and equipment, net	<u>\$ 65,036</u>	<u>\$ 71,337</u>

Depreciation expense for the six months ended June 30, 2019 and 2018 amounted to \$6,301 and \$1,879, 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 June 30, 2019, there were options, including options granted to non-employees and non-directors, restricted stock units and warrants to purchase 1,080,059, 530,712 and 1,018,775 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 and six months ended June 30, 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 June 30, 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 Six Months Ended June 30, 2019 and 2018 (Unaudited)

8. Construction Backlog

The following represents the backlog of signed construction and engineering contracts in existence at June 30, 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 June 30, 2019 and December 31, 2018, respectively, on which work has not yet begun:

	June 30, 2019	December 31, 2018
Balance - beginning of period	\$ 97,657,379	\$ 76,659,029
New contracts and change orders during the period, net	145,745	58,805,877
Adjustments and cancellations, net	(24,571,359)	(29,616,815)
Subtotal	73,231,765	105,848,091
Less: contract revenue earned during the period	(2,463,032)	(8,190,712)
Balance - end of period	<u>\$ 70,768,733</u>	<u>\$ 97,657,379</u>

Backlog at June 30, 2019 included two large contracts entered into by the Company during the third quarter of 2017 in the amounts of approximately \$55 million and \$15 million, respectively. The Company expects that all of this revenue will be realized by June 30, 2022. 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. During the second quarter of 2019, the Company moved a \$25.0 million contract out of backlog after receiving a cancellation notice from the customer. The customer has requested arbitration to resolve contractual issues related to pricing and scope of work performed on the contract.

The Company's remaining backlog as of June 30, 2019 represents the remaining transaction price of firm contracts for which work has not been performed and excludes unexercised contract options. As of June 30, 2019, the aggregate amount of the transaction price allocated to backlog was \$70,768,733.

The Company expects to satisfy its backlog which represents the remaining unsatisfied performance obligation on contracts as of June 30, 2019 over the following period:

	2019
Within 1 year	\$ 14,324,626
1 to 2 years	34,500,000
Thereafter	21,944,107
Total Backlog	<u>\$ 70,768,733</u>

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 Six Months Ended June 30, 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.

Securities Purchase Agreement – In April 2019, the Company issued 847,750 shares of its common stock at \$1.10 per share through a Securities Purchase Agreement (the “Purchase Agreement”) with certain institutional investors and accredited investors. Concurrently with the sale of the common stock, 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 Company incurred \$379,816 in issuance costs from the offering and issued 84,775 warrants to the underwriters. The warrants are further discussed in Note 10.

Decrease in Authorized Shares – On June 5, 2019, at the Company’s annual meeting of stockholders, the stockholders approved an amendment to the Company’s amended and restated certificate of incorporation to decrease the number of authorized shares of common stock from 300,000,000 to 25,000,000 shares. Following the meeting, on June 5, 2019, the Company filed a certificate of amendment to the amended and restated certificate of incorporation to decrease its authorized shares of common stock accordingly. There was no change to the number of authorized shares of preferred stock.

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 \$63,796. The fair market value of the warrants as of the date of issuance has been included in issuance costs in additional paid-in capital.

In conjunction with the Purchase Agreement in April 2019, the Company also sold warrants to purchase up to an aggregate of 847,750 shares of common stock at an initial exercise price of \$1.375 per share. The warrants are exercisable at the option of the holder on or after October 29, 2019 and expire October 29, 2024. The Company issued to certain affiliates of the underwriters, as compensation, warrants to purchase an aggregate of 84,775 shares of common stock at an initial exercise price of \$1.375 per share. The warrants are exercisable at the option of the holder on or after October 29, 2019 and expire April 24, 2024.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 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 June 30, 2019, there were 836,426 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Payroll and related expenses	\$ 170,118	\$ 85,325	\$ 332,611	\$ 165,314
Marketing and business development expenses	6,750	—	6,750	—
Total	\$ 176,868	\$ 85,325	\$ 339,361	\$ 165,314

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Stock options	\$ 40,098	\$ 85,325	\$ 72,196	\$ 165,314
Restricted stock units	136,770	—	267,165	—
Total	\$ 176,868	\$ 85,325	\$ 339,361	\$ 165,314

Stock-Based Option Awards

The fair value of the stock-based option awards granted during the six months ended June 30, 2019 and 2018, were estimated at the date of grant using the Black-Scholes option valuation model with the following assumptions:

	2019	2018
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 Six Months Ended June 30, 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 six months ended June 30, 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
Outstanding – December 31, 2018	1,105,059	\$ 1.24	\$ 4.06	8.41	\$ —
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Cancelled	(25,000)	—	—	—	—
Outstanding – June 30, 2019	1,080,059	1.24	4.05	7.90	\$ —
Exercisable – December 31, 2018	949,355	1.23	4.00	8.30	—
Exercisable – June 30, 2019	997,273	\$ 1.24	\$ 4.03	7.85	\$ —

For the three months ended June 30, 2019 and 2018, the Company recognized stock-based compensation expense of \$40,098 and \$85,325, respectively, related to stock options. For the six months ended June 30, 2019 and 2018, the Company recognized stock-based compensation expense of \$72,196 and \$165,314, respectively, related to stock options. This expense is included in payroll and related expenses in the accompanying consolidated statements of operations.

As of June 30, 2019, there was \$91,717 of total unrecognized compensation costs related to non-vested stock options, which will be expensed over a weighted average period of less than 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 June 30, 2019 was \$0.72 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 Six Months Ended June 30, 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 vested on June 5, 2019 as 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, respectively, 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.

Effective June 5, 2019, a total of 183,780 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 \$0.82 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 on June 5, 2019 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.

For the three months ended June 30, 2019 and 2018, the Company recognized stock-based compensation expense of \$136,770 and \$0 related to restricted stock units. For the six months ended June 30, 2019 and 2018, the Company recognized stock-based compensation expense of \$267,165 and \$0 related to restricted stock units. This expense is included in the payroll and related expenses and marketing and business development expenses in the accompanying condensed consolidated statement of operations. For the six months ended June 30, 2019 and 2018, the Company recognized \$108,629 and \$0, respectively, related to restricted stock units in lieu of accrued compensation.

The following table summarizes restricted stock unit activities during the six months ended June 30, 2019:

	Number of Shares
Non-vested balance at January 1, 2019	22,364
Granted	508,349
Vested	(27,792)
Forfeited/Expired	—
Non-vested balance at June 30, 2019	502,921

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements For the Six Months Ended June 30, 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. On or about April 1, 2019, Phipps filed cross-claims against the Company and Mr. Shetty asserting claims for indemnification, contribution, fraud, negligence, negligent misrepresentation, and breach of contract.

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. Discovery in the matter is ongoing.

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 Six Months Ended June 30, 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.

Vendor Litigation— On June 21, 2019, SG Blocks filed suit against EDI International, PC ("EDI") arising out of EDI's interference with SG Blocks' contractual and economic relations with HOLA Community Partners and the Heart of Los Angeles Youth, Inc., related to the HOLA Project, for which EDI was engaged to provide certain design and engineering services to SG Blocks. In the lawsuit, SG Blocks asserts claims for intentional interference with economic advantage, negligent interference with economic advantage, and intentional interference with contractual relations and seeks to recover from EDI damages in excess of \$1,274,752. The lawsuit was filed as SG Blocks, Inc. v. EDI International, PC Which Will Do Business In California As EDI International California et al., Case No. 19STCV21725, in the Superior Court of California, County of Los Angeles.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Six Months Ended June 30, 2019 and 2018 (Unaudited)

13. Subsequent Events

On July 29, 2019, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with ThinkEquity, a division of Fordham Financial Management, Inc. (the “Underwriter”), for the sale by the Company of 900,000 shares of the Company’s common stock at a purchase price of \$0.85 per share to the public. Pursuant to the terms of the Underwriting Agreement, the Company agreed to issue common stock purchase warrants to ThinkEquity or its designees to purchase 45,000 shares of common stock, representing the number of shares of common stock equal to 5.0% of the total number of shares sold in the offering. The Company sold the common stock for aggregate gross proceeds of approximately \$765,000. The warrants will be exercisable beginning six (6) months after the date of issuance and expire five (5) years after the date of the prospectus supplement filed in connection with the offering. The warrants will be exercisable at a price per share of \$1.0625, which is equal to 125% of the initial public offering price of the shares sold in the offering. The warrants may be exercised in whole or in part, and provides for “cashless” exercise, “piggyback” registration rights for two (2) years from the date of the initial exercise date of the warrants, a one-time demand registration right on Form S-3 when available for five (5) years from the date of the Underwriting Agreement and customary anti-dilution protection in the event of stock splits, stock dividends, recapitalizations and the like.

The estimated net proceeds to the Company from the offering are expected to be approximately \$587,000, after deducting underwriting discounts and commissions and non-accountable expenses payable by the Company. The closing of the sales of these securities under the Underwriting Agreement occurred on August 1, 2019. The offering was made pursuant to the Company’s effective registration statement on Form S-3 (Registration Statement No. 333-228882) previously filed with and declared effective by the Securities and Exchange Commission and a prospectus supplement and accompanying prospectus filed with the SEC.

The Underwriting Agreement contains customary representations, warranties and agreements by the Company, customary conditions to closing, indemnification obligations of the Company and the Underwriter, including for liabilities under the Securities Act of 1933, as amended (the “Securities Act”), other obligations of the parties and termination provisions. The representations, warranties and covenants contained in the Underwriting Agreement were made only for purposes of such agreement and as of specific dates, were solely for the benefit of the parties to such agreement and may be subject to limitations agreed upon by the contracting parties. The warrants and the shares issuable upon exercise of the warrants will be 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.

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

Six Months Ended June 30, 2019 and 2018:

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenue	\$ 2,463,032	\$ 3,849,325
Cost of revenue	(1,651,609)	(3,654,155)
Operating expenses	(2,273,867)	(2,187,943)
Operating loss	(1,462,444)	(1,992,773)
Other income (expense)	—	5,768
Net loss	<u>\$ (1,462,444)</u>	<u>\$ (1,987,005)</u>

Revenue

Total revenue for the six months ended June 30, 2019 was \$2,463,032 compared to \$3,849,325 for the six months ended June 30, 2018. This decrease of \$1,386,293 or 36% was mainly driven by a decline in revenue resulting from the Company's school and special use contracts for the six months ended June 30, 2019 as compared to June 30, 2018. Revenue resulting from the Company's retail and office contracts increased by approximately \$1,220,005, which was offset by a decrease in revenue from the Company's school and special use contracts of \$2,489,511.

Cost of Revenue and Gross Profit

Cost of revenue was \$1,651,609 for the six months ended June 30, 2019 compared to \$3,654,155 for the six months ended June 30, 2018. The decrease of \$2,002,546 is primarily related to the lower revenues and the lower procurement and manufacturing costs of modifying containers.

Gross profit was \$811,423 and \$195,170 for the six months ended June 30, 2019 and 2018, respectively.

Gross profit percentage increased to 33% for the six months ended June 30, 2019 compared to 5% for the six months ended June 30, 2018 primarily due to lower margins in the six months ended June 30, 2018 from a legacy contract.

Payroll and Related Expenses

Payroll and related expenses for the six months ended June 30, 2019 were \$1,284,177 compared to \$978,029 for the six months ended June 30, 2018. This increase was primarily caused by an increase in salaries and additional head count of \$109,547 and an increase in stock-based compensation expense of \$167,297 recognized during the six months ended June 30, 2019 compared to the six months ended June 30, 2018. We recognized \$332,611 in stock-based compensation expense for the six months ended June 30, 2019, compared to \$165,314 for the six months ended June 30, 2018.

Other Operating Expenses

Other operating expenses include professional fees, marketing and business development, pre-project and depreciation and amortization expenses. During the six months ended June 30, 2019, other operating expenses were \$989,690 compared to \$1,209,914 for the six months ended June 30, 2018. The decrease resulted primarily from a decrease in marketing and business development costs of approximately \$47,000, a decrease in pre-project expenses of approximately \$31,513 and a decrease of approximately \$222,600 in amortization expense caused by customer contracts being fully amortized at the end of 2018, offset by an increase of approximately \$89,000 in legal fees for the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Other Income (Expense)

For the six months ended June 30, 2019, we recognized no other income compared to \$5,768 during the six months ended June 30, 2018.

Three Months Ended June 30, 2019 and 2018:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018
Revenue	\$ 727,908	\$ 2,305,797
Cost of revenue	(460,590)	(2,274,225)
Operating expenses	<u>(1,239,027)</u>	<u>(1,270,240)</u>
Operating loss	(971,709)	(1,238,668)
Other income (expense)	—	5,764
Net loss	<u>\$ (971,709)</u>	<u>\$ (1,232,904)</u>

Revenue

Total revenue for the three months ended June 30, 2019 was \$727,908 compared to \$2,305,797 for the three months ended June 30, 2018. This decrease of \$1,577,889 or 68% was mainly driven by a decline in the Company's school and special use contracts for the three months ended June 30, 2019 as compared to three months ended June 30, 2018. Revenue resulting from the Company's retail contracts increased by approximately \$189,749, which was offset by a decrease in revenue from the Company's office, school, special use and multi-family contracts of \$1,748,296.

Cost of Revenue and Gross Profit

Cost of revenue was \$460,590 for the three months ended June 30, 2019 compared to \$2,274,225 for the three months ended June 30, 2018. The decrease of \$1,813,635 is primarily related to the lower revenues and the lower procurement and manufacturing costs of modifying containers.

Gross profit was \$267,318 and \$31,572 for the three months ended June 30, 2019 and 2018, respectively.

Gross profit percentage increased to 37% for the three months ended June 30, 2019 compared to 1% for the three months ended June 30, 2018 primarily due to lower margins in the three months ended June 30, 2018 from a legacy contract.

Payroll and Related Expenses

Payroll and related expenses for the three months ended June 30, 2019 were \$645,627 compared to \$572,612 for the three months ended June 30, 2018. This increase was primarily caused by an increase in stock-based compensation expense of \$84,793 recognized during the three months ended June 30, 2019 compared to the three months ended June 30, 2018. We recognized \$170,118 in stock-based compensation expense for the three months ended June 30, 2019, compared to \$85,325 for the three months ended June 30, 2018.

Other Operating Expenses

Other operating expenses include professional fees, marketing and business development, pre-project and depreciation and amortization expenses. Other operating expenses for the three months ended June 30, 2019 were \$593,400 compared to \$697,628 for the three months ended June 30, 2018. The decrease resulted primarily from a decrease in marketing and business development costs of approximately \$13,325, a decrease in professional fees related to directors' fees of \$48,125, a decrease in pre-project development expense of \$42,480, and a decrease of approximately \$111,300 in amortization expense caused by customer contracts being fully amortized at the end of 2018, offset by an increase of approximately \$116,281 in legal fee expense for the three months ended June 30, 2019 compared to the three months ended June 30, 2018.

Other Income (Expense)

We recognized no other income during the three months ended June 30, 2019 compared to \$5,764 during the three months ended June 30, 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 June 30, 2019 and December 31, 2018, we had an aggregate of \$173,902 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 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 \$552,709 after deducting certain fees due to the placement agent and certain transaction expenses.

In addition, in August 2019, we closed a follow-on offering, pursuant to which we sold 900,000 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 45,000 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 \$587,000 after deducting certain underwriting discounts and commissions and non-accountable expenses due to the underwriter and certain transaction expenses.

We anticipate that we will continue to generate losses from operations for the foreseeable future. As of June 30, 2019, our stockholders' equity was \$6,618,322, compared to \$7,080,067 as of December 31, 2018. Our net loss from operations for the six months ended June 30, 2019 was \$1,462,444 and net cash used in operating activities was \$1,747,202.

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, under which we currently have limited capacity to issue additional shares. 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.

Additionally, as previously announced, on July 1, 2019, we received a letter from the Nasdaq Stock Market LLC ("Nasdaq") that, because the closing bid price for our common stock was below \$1.00 for 30 consecutive business days, we no longer met the minimum bid price requirement for continued listing on Nasdaq. In accordance with Nasdaq listing rules, we were granted a 180 calendar day grace period, or until December 30, 2019, to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of our common stock must meet or exceed \$1.00 per share for at least ten consecutive business days during this 180-day grace period. We intend to monitor the closing bid price of our common stock and consider our available options in the event that the closing bid price of our common stock remains below \$1.00 per share. There can be no assurance that we will be able to regain compliance with the minimum bid price requirement or maintain compliance with the other listing requirements.

Cash Flow Summary

	Six Month Ended June 30,	
	2019	2018
Net cash provided by (used in):		
Operating activities	\$ (1,747,202)	\$ (1,876,463)
Investing activities	—	26,253
Financing activities	552,709	—
Net increase (decrease) in cash and cash equivalents	<u>\$ (1,194,493)</u>	<u>\$ (1,850,210)</u>

Operating activities used net cash of \$1,747,202 in the six months ended June 30, 2019, and \$1,876,463 in the six months ended June 30, 2018. Generally, our net operating cash flows fluctuate primarily based on changes in our profitability and working capital. Cash used in operating activities decreased by \$129,261, primarily due to a decrease in working capital of \$297,702 and a net decrease of \$222,070 in amortization, offset by a decrease in net loss of \$524,561 and a net increase of \$174,047 in stock compensation expense in the six months ended June 30, 2019 compared to six months ended June 30, 2018.

Investing activities provided no net cash in the six months ended June 30, 2019, and net cash of \$26,253 in the six months ended June 30, 2018 primarily due to an increase in proceeds from short-term investments.

Financing activities provided net cash of \$552,709 in the six months ended June 30, 2019, and no net cash in six months ended June 30, 2018. Cash provided by financing activities increased by \$552,709 due to an increase in proceeds from the issuance of common stock.

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 June 30, 2019, we had nine projects totaling \$70,768,733 under contract, which, if they all proceed to construction, will result in our constructing approximately 405,536 square feet of container space. Of these contracts, all nine projects combine all three phases or parts thereof and including construction. We expect that all of this revenue will be realized by June 30, 2022.

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 June 30, 2019 from the prior year is primarily attributable to the Company moving a contract of approximately \$25,000,000 out of backlog after receiving a cancellation notice from the customer. The Company had work in progress or completed contracts during the first six months of 2019 for approximately \$2,463,000.

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 June 30, 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:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Net loss	\$ (971,709)	\$ (1,232,904)	\$ (1,462,444)	\$ (1,987,005)
Addback depreciation and amortization	39,417	148,264	78,863	296,511
EBITDA (non-GAAP)	(932,292)	(1,084,640)	(1,383,581)	(1,690,494)
Addback stock compensation expense	176,868	85,325	339,361	165,314
Adjusted EBITDA (non-GAAP)	<u>\$ (755,424)</u>	<u>\$ (999,315)</u>	<u>\$ (1,044,220)</u>	<u>\$ (1,525,180)</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, except as follows:

Our failure to meet the continued listing requirements of the Nasdaq Capital Market could result in a delisting of our common stock.

Our common stock is listed on the Nasdaq Capital Market, which imposes, among other requirements, a minimum bid requirement. On July 1, 2019, we received a letter from Nasdaq that, because the closing bid price for our common stock was below \$1.00 for 30 consecutive business days, we no longer met the minimum bid price requirement for continued listing on Nasdaq. Under Nasdaq Listing Rule 5810(c)(3)(A), we were granted a 180 calendar day grace period, or until December 30, 2019, to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of our common stock must meet or exceed \$1.00 per share for at least ten consecutive business days during this 180-day grace period. There can be no assurance that we will be able to regain compliance or that Nasdaq will grant us a further extension of time to regain compliance, if necessary.

The delisting of our common stock from Nasdaq may make it more difficult for us to raise capital on favorable terms in the future, or at all. Such a delisting would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so. Further, if our common stock were to be delisted from the Nasdaq Capital Market, our common stock would cease to be recognized as a covered security, and we would be subject to additional regulation in each state in which we offer our securities. Moreover, there is no assurance that any actions that we take to restore our compliance with the Nasdaq minimum bid requirement would stabilize the market price or improve the liquidity of our common stock, prevent our common stock from falling below the Nasdaq minimum bid price required for continued listing again or prevent future non-compliance with Nasdaq's listing requirements.

There can be no assurance that we will continue to meet the minimum bid price requirement, or any other requirement in the future. If we fail to meet the minimum bid price requirement, or other applicable Nasdaq listing requirements, including maintaining minimum levels of stockholders' equity or market values of our common stock, our common stock could be delisted. Delisting from the Nasdaq Capital Market would cause us to pursue eligibility for trading of our common stock on other markets or exchanges, or on an over-the-counter market. In such case, our stockholders' ability to trade or obtain quotations of the market value of our common stock would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices of these securities. There can be no assurance that our common stock, if delisted from the Nasdaq Capital Market, would be listed on a national securities exchange, a national quotation service or the over-the-counter markets. Delisting from the Nasdaq Capital Market could also result in negative publicity, make it more difficult for us to raise additional capital, adversely affect the market liquidity of our common stock, decrease securities analysts' coverage of us or diminish investor, supplier and employee confidence. In addition, our stock could become a "penny stock," which would make trading of our common stock more difficult.

Our operating results will be subject to fluctuations and are inherently unpredictable.

In order to return to profitability, we will need to generate and sustain higher revenue while maintaining reasonable cost and expense levels. In our most recent quarter we experienced a loss. We do not know if our revenue will grow, or if it will grow sufficiently to outpace our expenses, which we expect to increase as we expand our operational capacity. We may not be able to become profitable on a quarterly or an annual basis. Our quarterly revenue and operating results will be difficult to predict and have in the past fluctuated from quarter to quarter. The amount, timing and mix of project sales, often for a single medium or large-scale project, may cause large fluctuations in our revenue and other financial results. Further, our revenue mix of high margin materials sales versus lower margin projects can fluctuate dramatically quarter to quarter, which may adversely affect our revenue and financial results in any given period. Finally, our ability to meet project completion schedules for an individual project and the corresponding revenue impact under the percentage-of-completion method of recognizing revenue, may similarly cause large fluctuations in our revenue and other financial results. This may cause us to miss any future guidance announced by us.

We base our planned operating expenses in part on our expectations of future revenue, and a significant portion of our expenses are fixed in the short-term. If revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses for that quarter, which would harm our operating results for that quarter. This may cause us to miss any guidance announced by us.

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
Description

Exhibit Number	Description
3.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation of SG Blocks, Inc., dated June 5, 2019 (incorporated herein by reference to Exhibit 3.1 of the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on June 5, 2019).
4.1	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).
4.2	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).
4.3	Form of Representative's Warrant Agreement (incorporated herein by reference to Exhibit 4.1 of the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on July 31, 2019).
10.1**	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).
10.2♦+	Form of Restricted Share Unit Agreement.
10.3♦+	Form of Restricted Share Unit Agreement (Special Bonus).
31.1+	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

+ Filed herewith.

* Furnished herewith.

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

♦ Includes compensatory plan or arrangement.

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: August 14, 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: August 14, 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: August 14, 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 June 30, 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.

August 14, 2019

/s/ Paul M. Galvin

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

August 14, 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.

SG BLOCKS, INC.
RESTRICTED SHARE UNIT AGREEMENT

Summary of Restricted Share Unit Grant

SG Blocks, Inc. (the “Company”) grants to the Grantee named below, in accordance with the terms of SG Blocks, Inc. Stock Incentive Plan, as amended (the “Plan”), and this Restricted Share Unit Agreement (the “Agreement”), the following number of Restricted Share Units, on the Date of Grant set forth below:

Name of Grantee:	[●]
Number of Restricted Share Units:	[●]
Date of Grant:	[●]
Vesting Dates:	December 31, 2019

Terms of Agreement

1. Grant of Restricted Share Units. Subject to and upon the terms, conditions, and restrictions set forth in this Agreement and in the Plan, the Company hereby grants to the Grantee as of the Date of Grant, the total number of share units (the “Restricted Share Units”) set forth above. Each Restricted Share Unit shall represent the right to receive one share of the Company’s common stock, par value \$0.01 per share (“Share”), and shall at all times be equal in value to one Share. The Restricted Share Units shall be credited in a book entry account established for the Grantee until payment in accordance with Section 3 hereof.

2. Vesting. The Restricted Share Units shall vest in full on the Vesting Date, provided that the Grantee shall have remained in the continuous employment or other service of the Company or a Subsidiary (“Continuous Service”) through the Vesting Date. The Restricted Share Units shall vest in full if, prior to the Vesting Date and during the Grantee’s Continuous Service, he or she dies or becomes “disabled” within the meaning of Section 409A of the Internal Revenue Code (the “Code”) or his or her employment or service is terminated by the Company without Cause (as defined in the Plan). The Restricted Share Units shall be forfeited automatically without further action or notice if, prior to the Vesting Date, the Grantee ceases to be employed by the Company or a Subsidiary, except as otherwise provided in the immediately preceding sentence. Notwithstanding the foregoing, the Board or Compensation Committee (the “Committee”) may accelerate the vesting of Restricted Share Units at any time.

3. Payment. The Company shall deliver to the Grantee (or the Grantee’s estate in the event of death) the Shares underlying the vested Restricted Share Units in January 2020. The Company’s obligations with respect to the vested Restricted Share Units shall be satisfied in full upon the delivery of the Shares underlying the Restricted Share Units.

4. Transferability. The Restricted Share Units may not be transferred, assigned, pledged or hypothecated in any manner, or be subject to execution, attachment or similar process, by operation of law or otherwise, unless otherwise provided under the Plan. Any purported transfer or encumbrance in violation of the provisions of this Section 4 shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Restricted Share Units.

5. Dividend, Voting and Other Rights. The Grantee shall not possess any incidents of ownership (including, without limitation, dividend and voting rights) in the Shares underlying the Restricted Share Units until such Shares have been delivered to the Grantee in accordance with Section 3 hereof. The obligations of the Company under this Agreement will be merely that of an unfunded and unsecured promise of the Company to deliver Shares in the future, and the rights of the Grantee will be no greater than that of an unsecured general creditor. No assets of the Company will be held or set aside as security for the obligations of the Company under this Agreement.

6. Payment of Dividend Equivalents. From and after the Date of Grant and until the earlier of (a) the time when the Restricted Share Units are paid in accordance with Section 3 hereof or (b) the time when the Grantee's right to payment of the Restricted Share Units is forfeited in accordance with Section 2 hereof, on the date that the Company pays a cash dividend (if any) to holders of Shares generally, the Grantee shall be entitled to a cash amount equal to the product of (i) the dollar amount of the cash dividend paid per Share on such date and (ii) the total number of unpaid Restricted Share Units credited to the Grantee as of such date (the "Dividend Equivalent"). The Dividend Equivalent shall be paid to the Grantee at the same time that the related dividend is paid to the holders of Shares. Dividend Equivalents will be subject to any required withholding for federal, state, local, foreign or other taxes.

7. No Retention Rights. Nothing contained in this Agreement shall confer upon the Grantee any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor limit or affect in any manner the right of the Company and its Subsidiaries to terminate the employment or adjust the compensation of the Grantee.

8. Relation to Other Benefits. Any economic or other benefit to the Grantee under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or a Subsidiary.

9. Taxes and Withholding. To the extent the Company or any Subsidiary is required to withhold any federal, state, local, foreign or other taxes in connection with the delivery of Shares under this Agreement, then the Company or Subsidiary (as applicable) shall retain a number of Shares otherwise deliverable hereunder with a value equal to the applicable tax withholding (based on the Fair Market Value of the Shares on the date of delivery); provided that in no event shall the value of the Shares retained exceed the amount of taxes required to be withheld based on the maximum statutory tax rates in the Grantee's applicable taxing jurisdictions. If the Company or any Subsidiary is required to withhold any federal, state, local or other taxes at any time other than upon delivery of the Shares under this Agreement, then the Company or Subsidiary (as applicable) shall have the right in its sole discretion to (a) require the Grantee to pay or provide for payment of the required tax withholding, or (b) deduct the required tax withholding from any amount of salary, bonus, incentive compensation or other amounts otherwise payable in cash to the Grantee (other than deferred compensation subject to Section 409A of the Code).

10. Adjustments. The number and kind of Shares deliverable pursuant to the Restricted Share Units are subject to adjustment as provided in Section 15 of the Plan.

11. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws and listing requirements with respect to the Restricted Share Units; provided, however, notwithstanding any other provision of this Agreement, and only to the extent permitted under Section 409A of the Code, the Company shall not be obligated to deliver any Shares pursuant to this Agreement if the delivery thereof would result in a violation of any such law or listing requirement.

12. Amendments. Subject to the terms of the Plan, the Committee may modify this Agreement upon written notice to the Grantee. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. Notwithstanding the foregoing, no amendment of the Plan or this Agreement shall adversely affect in any material way the rights of the Grantee under this Agreement without the Grantee's consent unless the Committee determines, in good faith, that such amendment is required for the Agreement to either be exempt from the application of, or comply with, the requirements of Section 409A of the Code, or as otherwise may be provided in the Plan.

13. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

14. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior written or oral communications, representations and negotiations in respect thereto. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein, have the right to determine any questions which arise in connection with the grant of the Restricted Share Units.

15. Successors and Assigns. Without limiting Section 4, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Grantee, and the successors and assigns of the Company.

16. Governing Law. The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflict of laws thereof.

17. Use of Grantee's Information. Information about the Grantee and the Grantee's participation in the Plan may be collected, recorded and held, used and disclosed for any purpose related to the administration of the Plan. The Grantee understands that such processing of this information may need to be carried out by the Company and its Subsidiaries and by third party administrators whether such persons are located within the Grantee's country or elsewhere, including the United States of America. The Grantee consents to the processing of information relating to the Grantee and the Grantee's participation in the Plan in any one or more of the ways referred to above.

18. Electronic Delivery. The Grantee hereby consents and agrees to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered under the Plan. The Grantee understands that, unless earlier revoked by the Grantee by giving written notice to the Secretary of the Company, this consent shall be effective for the duration of the Agreement. The Grantee also understands that he or she shall have the right at any time to request that the Company deliver written copies of any and all materials referred to above at no charge. The Grantee hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Grantee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its duly authorized officer and the Grantee has also executed this Agreement, as of the Date of Grant.

SG BLOCKS, INC.

By: _____

Paul M. Galvin

Chief Executive Officer and Chairman of the Board

By signing below, you acknowledge that a copy of the Plan and Prospectus, and the Company's most recent Annual Report and Proxy Statement (the "Prospectus Information") either have been received by you or are available for viewing at www.sgblocks.com and you consent to receiving this Prospectus Information electronically, or, in the alternative, agree to contact Mahesh Shetty at (646) 240-4235 to request a paper copy of the Prospectus Information at no charge. You also represent that you are familiar with the terms and provisions of the Prospectus Information and hereby accept the award on the terms and conditions set forth herein and in the Plan. The terms and conditions of the Plan and this Agreement constitute a legal contract that will bind both you and the Company as soon as you accept the award.

GRANTEE

Date: _____

SG BLOCKS, INC.
RESTRICTED SHARE UNIT AGREEMENT
(Special Bonus)

Summary of Restricted Share Unit Grant

SG Blocks, Inc. (the “Company”) grants to the Grantee named below, in accordance with the terms of SG Blocks, Inc. Stock Incentive Plan, as amended (the “Plan”), and this Restricted Share Unit Agreement (the “Agreement”), the following number of Restricted Share Units, on the Date of Grant set forth below:

Name of Grantee:	[●]
Number of Restricted Share Units:	[●]
Date of Grant:	[●]
Vesting Dates:	December 31, 2020, December 31, 2021 and December 31, 2022

Terms of Agreement

1. Grant of Restricted Share Units. Subject to and upon the terms, conditions, and restrictions set forth in this Agreement and in the Plan, the Company hereby grants to the Grantee as of the Date of Grant, the total number of share units (the “Restricted Share Units”) set forth above. Each Restricted Share Unit shall represent the right to receive one share of the Company’s common stock, par value \$0.01 per share (“Share”), and shall at all times be equal in value to one Share. The Restricted Share Units shall be credited in a book entry account established for the Grantee until payment in accordance with Section 3 hereof.

2. Vesting. The Restricted Share Units shall vest in three equal installments on each of the Vesting Dates set forth above (subject to rounding conventions adopted by the Company from time-to-time) (each, a “Vesting Date”), provided that the Grantee shall have remained in the continuous employment or other service of the Company or a Subsidiary (“Continuous Service”) through the applicable Vesting Date. The Restricted Share Units shall vest in full if, prior to a Vesting Date and during the Grantee’s Continuous Service, he or she dies or becomes “disabled” within the meaning of Section 409A of the Internal Revenue Code (the “Code”) or his or her employment or service is terminated by the Company without Cause (as defined in the Plan). The Restricted Share Units that have not yet vested shall be forfeited automatically without further action or notice if the Grantee ceases to be employed by the Company or a Subsidiary, except as otherwise provided in the immediately preceding sentence. Notwithstanding the foregoing, the Board or Compensation Committee (the “Committee”) may accelerate the vesting of Restricted Share Units at any time.

3. Payment. The Company shall deliver to the Grantee (or the Grantee’s estate in the event of death) the Shares underlying the vested Restricted Share Units within 30 days after the date that the Restricted Share Units become vested in accordance with Section 2. The Company’s obligations with respect to the vested Restricted Share Units shall be satisfied in full upon the delivery of the Shares underlying the Restricted Share Units.

4. Transferability. The Restricted Share Units may not be transferred, assigned, pledged or hypothecated in any manner, or be subject to execution, attachment or similar process, by operation of law or otherwise, unless otherwise provided under the Plan. Any purported transfer or encumbrance in violation of the provisions of this Section 4 shall be void, and the other party to any such purported transaction shall not obtain any rights to or interest in such Restricted Share Units.

5. Dividend, Voting and Other Rights. The Grantee shall not possess any incidents of ownership (including, without limitation, dividend and voting rights) in the Shares underlying the Restricted Share Units until such Shares have been delivered to the Grantee in accordance with Section 3 hereof. The obligations of the Company under this Agreement will be merely that of an unfunded and unsecured promise of the Company to deliver Shares in the future, and the rights of the Grantee will be no greater than that of an unsecured general creditor. No assets of the Company will be held or set aside as security for the obligations of the Company under this Agreement.

6. Payment of Dividend Equivalents. From and after the Date of Grant and until the earlier of (a) the time when the Restricted Share Units are paid in accordance with Section 3 hereof or (b) the time when the Grantee's right to payment of the Restricted Share Units is forfeited in accordance with Section 2 hereof, on the date that the Company pays a cash dividend (if any) to holders of Shares generally, the Grantee shall be entitled to a cash amount equal to the product of (i) the dollar amount of the cash dividend paid per Share on such date and (ii) the total number of unpaid Restricted Share Units credited to the Grantee as of such date (the "Dividend Equivalent"). The Dividend Equivalent shall be paid to the Grantee at the same time that the related dividend is paid to the holders of Shares. Dividend Equivalents will be subject to any required withholding for federal, state, local, foreign or other taxes.

7. No Retention Rights. Nothing contained in this Agreement shall confer upon the Grantee any right with respect to continuance of employment or other service with the Company or any Subsidiary, nor limit or affect in any manner the right of the Company and its Subsidiaries to terminate the employment or adjust the compensation of the Grantee.

8. Relation to Other Benefits. Any economic or other benefit to the Grantee under this Agreement or the Plan shall not be taken into account in determining any benefits to which the Grantee may be entitled under any profit-sharing, retirement or other benefit or compensation plan maintained by the Company or a Subsidiary.

9. Taxes and Withholding. To the extent the Company or any Subsidiary is required to withhold any federal, state, local, foreign or other taxes in connection with the delivery of Shares under this Agreement, then the Company or Subsidiary (as applicable) shall retain a number of Shares otherwise deliverable hereunder with a value equal to the applicable tax withholding (based on the Fair Market Value of the Shares on the date of delivery); provided that in no event shall the value of the Shares retained exceed the amount of taxes required to be withheld based on the maximum statutory tax rates in the Grantee's applicable taxing jurisdictions.

10. Adjustments. The number and kind of Shares deliverable pursuant to the Restricted Share Units are subject to adjustment as provided in Section 15 of the Plan.

11. Compliance with Law. The Company shall make reasonable efforts to comply with all applicable federal and state securities laws and listing requirements with respect to the Restricted Share Units; provided, however, notwithstanding any other provision of this Agreement, and only to the extent permitted under Section 409A of the Code, the Company shall not be obligated to deliver any Shares pursuant to this Agreement if the delivery thereof would result in a violation of any such law or listing requirement.

12. Amendments. Subject to the terms of the Plan, the Committee may modify this Agreement upon written notice to the Grantee. Any amendment to the Plan shall be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. Notwithstanding the foregoing, no amendment of the Plan or this Agreement shall adversely affect in any material way the rights of the Grantee under this Agreement without the Grantee's consent unless the Committee determines, in good faith, that such amendment is required for the Agreement to either be exempt from the application of, or comply with, the requirements of Section 409A of the Code, or as otherwise may be provided in the Plan.

13. Severability. In the event that one or more of the provisions of this Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.

14. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior written or oral communications, representations and negotiations in respect thereto. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan shall govern. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Committee acting pursuant to the Plan, as constituted from time to time, shall, except as expressly provided otherwise herein, have the right to determine any questions which arise in connection with the grant of the Restricted Share Units.

15. Successors and Assigns. Without limiting Section 4, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives and assigns of the Grantee, and the successors and assigns of the Company.

16. Governing Law. The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware, without giving effect to the principles of conflict of laws thereof.

17. Use of Grantee's Information. Information about the Grantee and the Grantee's participation in the Plan may be collected, recorded and held, used and disclosed for any purpose related to the administration of the Plan. The Grantee understands that such processing of this information may need to be carried out by the Company and its Subsidiaries and by third party administrators whether such persons are located within the Grantee's country or elsewhere, including the United States of America. The Grantee consents to the processing of information relating to the Grantee and the Grantee's participation in the Plan in any one or more of the ways referred to above.

18. Electronic Delivery. The Grantee hereby consents and agrees to electronic delivery of any documents that the Company may elect to deliver (including, but not limited to, prospectuses, prospectus supplements, grant or award notifications and agreements, account statements, annual and quarterly reports, and all other forms of communications) in connection with this and any other award made or offered under the Plan. The Grantee understands that, unless earlier revoked by the Grantee by giving written notice to the Secretary of the Company, this consent shall be effective for the duration of the Agreement. The Grantee also understands that he or she shall have the right at any time to request that the Company deliver written copies of any and all materials referred to above at no charge. The Grantee hereby consents to any and all procedures the Company has established or may establish for an electronic signature system for delivery and acceptance of any such documents that the Company may elect to deliver, and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Grantee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its duly authorized officer and the Grantee has also executed this Agreement, as of the Date of Grant.

SG BLOCKS, INC.

By: _____

Paul M. Galvin
Chief Executive Officer and Chairman of the Board

By signing below, you acknowledge that a copy of the Plan and Prospectus, and the Company's most recent Annual Report and Proxy Statement (the "Prospectus Information") either have been received by you or are available for viewing at www.sgblocks.com and you consent to receiving this Prospectus Information electronically, or, in the alternative, agree to contact Mahesh Shetty at (646) 240-4235 to request a paper copy of the Prospectus Information at no charge. You also represent that you are familiar with the terms and provisions of the Prospectus Information and hereby accept the award on the terms and conditions set forth herein and in the Plan. The terms and conditions of the Plan and this Agreement constitute a legal contract that will bind both you and the Company as soon as you accept the award.

GRANTEE

Date: _____