

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2022**

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.)

5011 Gate Parkway, Building 100, Suite 100, Jacksonville, FL

(Address of principal executive offices)

32256

(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 per share	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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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 Act). Yes No

As of May 20, 2022 the issuer had a total of 12,006,873 shares of the registrant's common stock, \$0.01 par value, outstanding.

SG BLOCKS, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
SG BLOCKS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	<i>March 31,</i> <i>2022</i>	<i>December 31,</i> <i>2021</i>
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,146,418	\$ 13,024,381
Accounts receivable, net	2,424,501	2,917,646
Contract assets	133,395	41,916
Held for sale assets	4,392,541	—
Inventories	1,054,342	1,273,825
Prepaid expenses and other current assets	784,871	656,279
Total current assets	21,936,068	17,914,047
Property, plant and equipment, net	4,080,852	6,839,943
Project development costs and other non-current assets	449,961	923,172
Goodwill	1,309,330	1,309,330
Right-of-use asset	2,902,284	1,210,053
Long-term note receivable	829,384	720,137
Intangible assets, net	2,053,410	2,095,232
Deferred contract costs, net	101,963	112,159
Investment in non-marketable securities	700,000	200,000
Investment in and advances to equity affiliates	3,599,945	3,599,945
Total Assets	\$ 37,963,197	\$ 34,924,018
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,475,882	\$ 7,568,851
Contract liabilities	5,205,712	1,437,579
Lease liability, current maturities	481,223	337,469
Due to affiliates	—	264,451
Assumed liability	5,795	5,795
Short term note payable, net	1,984,902	1,971,960
Total current liabilities	13,153,514	11,586,105
Long-term note payable	750,000	750,000
Lease liability, net of current maturities	2,427,080	872,124
Total liabilities	16,330,594	13,208,229
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; 12,006,873 issued and outstanding as of March 31, 2022 and 11,986,873 issued and outstanding as of December 31, 2021	120,069	119,869
Additional paid-in capital	54,030,291	53,341,405
Accumulated deficit	(33,826,397)	(33,109,220)
Total SG Blocks, Inc. stockholders' equity	20,323,963	20,352,054
Non-controlling interest	1,308,640	1,363,735
Total stockholders' equity	21,632,603	21,715,789
Total Liabilities and Stockholders' Equity	\$ 37,963,197	\$ 34,924,018

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

SG BLOCKS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations

	<i>For the Three Months Ended March 31, 2022</i>	<i>For the Three Months Ended March 31, 2021</i>
	(Unaudited)	
Revenue:		
Construction services	\$ 1,668,384	\$ 3,137,715
Engineering services	50,386	93,949
Medical revenue	6,885,828	5,955,963
Total	<u>8,604,598</u>	<u>9,187,627</u>
Cost of revenue:		
Construction services	1,677,560	4,093,540
Engineering services	43,153	9,770
Medical revenue	4,397,450	4,527,692
Total	<u>6,118,163</u>	<u>8,631,002</u>
Gross profit	2,486,435	556,625
Operating expenses:		
Payroll and related expenses	1,144,187	827,522
General and administrative expenses	780,021	809,800
Marketing and business development expense	143,335	70,627
Pre-project expenses	—	10,133
Total	<u>2,067,543</u>	<u>1,718,082</u>
Operating profit/(loss)	418,892	(1,161,457)
Other income (expense):		
Interest expense	(48,849)	(363)
Interest income	12,783	17,470
Other income	118,902	—
Total	<u>82,836</u>	<u>17,107</u>
Income (loss) before income taxes	501,728	(1,144,350)
Income tax expense	—	—
Net income (loss)	<u>501,728</u>	<u>(1,144,350)</u>
Add: net income attributable to noncontrolling interests	1,218,905	889,527
Net loss attributable to common stockholders of SG Blocks, Inc.	<u>\$ (717,177)</u>	<u>\$ (2,033,877)</u>
Net loss per share attributable to SG Blocks, Inc.		
Basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.23)</u>
Weighted average shares outstanding:		
Basic and diluted	<u>11,998,334</u>	<u>8,744,469</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>SG Blocks Stockholders' Equity</i>	<i>Noncontrolling Interests</i>	<i>Total Stockholders' Equity</i>
	<i>Shares</i>	<i>Amount</i>					
Balance at December 31, 2020	8,596,189	\$ 85,962	\$ 40,443,840	\$ (22,276,546)	\$ 18,253,256	\$ 184,567	\$ 18,437,823
Stock-based compensation	—	—	286,186	—	286,186	—	286,186
Conversion of warrants to common stock	225,100	2,251	701,187	—	703,438	—	703,438
Net loss	—	—	—	(2,033,877)	(2,033,877)	889,527	(1,144,350)
Balance at March 31, 2021	<u>8,821,289</u>	<u>\$ 88,213</u>	<u>\$ 41,431,213</u>	<u>\$ (24,310,423)</u>	<u>\$ 17,209,003</u>	<u>\$ 1,074,094</u>	<u>\$ 18,283,097</u>
Balance at December 31, 2021	11,986,873	\$ 119,869	\$ 53,341,405	\$ (33,109,220)	\$ 20,352,054	\$ 1,363,735	\$ 21,715,789
Stock-based compensation	20,000	200	688,886	—	689,086	—	689,086
Noncontrolling interest distribution	—	—	—	—	—	(1,274,000)	(1,274,000)
Net income (loss)	—	—	—	(717,177)	(717,177)	1,218,905	501,728
Balance at March 31, 2022	<u>12,006,873</u>	<u>\$ 120,069</u>	<u>\$ 54,030,291</u>	<u>\$ (33,826,397)</u>	<u>\$ 20,323,963</u>	<u>\$ 1,308,640</u>	<u>\$ 21,632,603</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 Three Months Ended March 31, 2022</i>	<i>For the Three Months Ended March 31, 2021</i>
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ 501,728	\$ (1,144,350)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	104,825	91,190
Amortization of intangible assets	41,823	40,407
Amortization of deferred license costs	10,196	10,196
Amortization of Debt Issuance Costs	8,628	—
Bad Debt Expense	7,024	—
Interest income on long-term note receivable	(9,247)	(9,247)
Stock-based compensation	649,090	286,186
Loss on asset disposal	241	—
Changes in operating assets and liabilities:		
Accounts receivable	486,117	(581,299)
Contract assets	(91,479)	(599,441)
Inventories	219,483	(155,935)
Prepaid expenses and other current assets	(128,592)	(679,540)
Right of use asset	109,308	97,846
Accounts payable and accrued expenses	(2,052,971)	2,062,776
Contract liabilities	3,768,133	(641,412)
Due to affiliates	(264,451)	(863,151)
Lease liability	(102,829)	(97,342)
Net cash provided by (used in) operating activities	<u>3,257,027</u>	<u>(2,183,116)</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(922,865)	(862,090)
Purchase of intangible asset	—	(42,500)
Proceeds from sale of equipment	760	—
Repayment of promissory note	(100,000)	—
Payment on assumed liability of acquired assets	—	(85,798)
Project Development Costs	(338,885)	—
Investment in non-marketable securities	(500,000)	—
Net cash (used in) investing activities	<u>(1,860,990)</u>	<u>(990,388)</u>
Cash flows from financing activities:		
Proceeds from conversion of warrants to common stock	—	703,438
Distribution paid to NCI	(1,274,000)	—
Net cash (used in) provided by financing activities	<u>(1,274,000)</u>	<u>703,438</u>
Net increase (decrease) in cash and cash equivalents	122,037	(2,470,066)
Cash and cash equivalents - beginning of period	<u>13,024,381</u>	<u>13,010,356</u>
Cash and cash equivalents - end of period	<u>\$ 13,146,418</u>	<u>\$ 10,540,290</u>

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

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (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 building products developed with the Company’s proprietary technology and design and engineering expertise are generally stronger, more durable, environmentally sensitive, and erected in less time than traditional construction methods. The use of the SGBlocks building structure typically provides between four to six points towards the Leadership in Energy and Environmental Design (“LEED”) certification levels, including reduced site disturbance, resource reuse, recycled content, innovation in design and use of local and regional materials. Due to the ability of SGBlocks to satisfy such requirements, the Company believes the products produced utilizing its technology and expertise is a leader in environmentally sustainable construction.

There are three core product offerings that utilize the Company’s technology and engineering expertise. The first product offering involves GreenSteel™ modules, which are the structural core and shell of an SGBlocks building. The Company procures the containers, engineer required openings with structural steel reinforcements, paint the SGBlocks and then deliver them on-site, where the customer or a customer’s general contractor will complete the entire finish out and installation. The second product offering involves replicating the process to create the GreenSteel product and, in addition, installing selected materials, finishes and systems (including, but not limited to floors, windows, doors, interior painting, electrical wiring and fixtures, plumbing outlets and bathrooms, roofing system) and delivering SGBlocks pre-fabricated containers to the site for a third party licensed general contractor to complete the final finish out and installation. Finally, the third product offering is the completely fabricated and finished SGBlocks building (including but not limited to floors, windows, doors, interior painting, electrical wiring and fixtures, plumbing outlets and bathrooms, roofing systems), including erecting the final unit on site and completing any other final steps. The building is ready for occupancy and/or use as soon as installation is completed. Construction administration and/or project management services are typically included in the Company’s product offerings.

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

During 2020, the Company formed, SG Echo, LLC, a wholly owned subsidiary of the Company. SG Echo, LLC was formed to complete the business acquisition. The Company acquired substantially all the assets of Echo DCL, a Texas limited liability company, except for Echo’s real estate holdings for which the Company obtained a right of first refusal. Echo is a container/modular manufacturer based in Durant, Oklahoma specializing in the design and construction of permanent modular and temporary modular buildings and was one of the Company’s key supply chain partners. Echo caters to the military, education, administration facilities, healthcare, government, commercial and residential customers. This acquisition has allowed the Company to expand its reach for the Modules and offer an opportunity to vertically integrate a large portion of the Company’s cost of goods sold, as well as increase margins, productivity and efficiency in the areas of design, estimating, manufacturing and delivery and to become the manufacturer of the Company’s core container and modular product offerings. The Company also entered into a joint venture with Clarity Lab Solutions LLC., to provide clinical lab testing related to COVID-19.

As of January 2021 through the fourth quarter of 2021, the Company’s consolidated financial statements include the accounts of Chicago Airport Testing LLC (“CAT”). The Company had a variable interest in CAT as described further below. CAT is in the business of marketing, selling, distributing, leasing and otherwise commercially exploiting certain products and services in the COVID-19 testing and other medical industry.

In addition, during 2021, the Company formed SGB Development Corp. (“SG DevCorp”), which is wholly-owned by the Company. SG DevCorp was formed with the purpose of real property development utilizing the Company’s technologies. SG DevCorp has a minority interest in Norman Berry II Owners LLC and JDI-Cumberland Inlet LLC as described further below.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three months ended March 31, 2022 and 2021 (Unaudited)

Reverse Stock Split

On February 5, 2020, the Company effected a 1-for-20 reverse stock split of its then-outstanding common stock, which has since been converted. All share and per share amounts set forth in the condensed consolidated financial statements of the Company have been retroactively restated to reflect the 1-for-20 reverse stock split as if it had occurred as of the earliest period presented and unless otherwise stated, all other share and per share amounts for all periods presented in these condensed consolidated financial statements have been adjusted to reflect the reverse stock split effected in February 2020.

As of March 31, 2022, the Company had 12,006,873 shares of common stock issued and outstanding.

2. **Liquidity**

As of March 31, 2022, the Company had cash and cash equivalents of \$13,146,418 and a backlog of approximately \$7,591,863. See Note 11 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:

	2022
Within 1 year	<u>\$ 7,591,863</u>
Total Backlog	<u>\$ 7,591,863</u>

The Company has incurred losses since its inception and has negative operating cash flows. Management has taken several actions to ensure that the Company will continue as a going concern. As described below, the Company has recently been able to raise substantial cash through equity offerings. In addition, as further described in these consolidated financial statements, the Company has begun to recognize revenue from new revenue streams. Management believes that these actions will enable the Company to continue as a going concern.

The Company completed a public and concurrent private offering in October 2021, which resulted in net proceeds of approximately \$10,488,000. See Note 12 for a discussion on the public and concurrent private offering. The Company believes that it has adequate cash balances to meet obligations coming due in the next twelve months and further intends to meet its capital needs from revenue generated from operations and by containing costs, 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.

With the global spread of the ongoing novel coronavirus ("COVID-19") pandemic during 2020, the Company implemented business continuity plans designed to address and mitigate the impact of the COVID-19 pandemic on its employees and business. Any quarantines, the timing and length of containment and eradication solutions, travel restrictions, absenteeism by infected workers, labor shortages or other disruptions to the Company's suppliers and contract manufacturers or customers would likely adversely impact the Company's sales and operating results and result in further project delays. In addition, the pandemic could result in an economic downturn that could affect the demand for the Company's products. Order lead times could be extended or delayed and pricing could increase. Some products or services may become unavailable if the regional or global spread were significant enough to prevent alternative sourcing. Accordingly, the Company is considering alternative product sourcing in the event that product supply becomes problematic. The Company expects this global pandemic to have an impact on the Company's revenue and results of operations, the size and duration of which the Company is currently unable to predict. In addition, to the extent the ongoing COVID-19 pandemic adversely affects the Company's business and results of operations, it may also have the effect of heightening many of the other risks and uncertainties which the Company faces. The Company has been impacted by COVID-19 with supply chain distributions, absenteeism by infected workers and skilled labor shortages which has caused delays in projects and the Company could be further impacted if the COVID-19 pandemic continues.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

3. Summary of Significant Accounting Policies

Basis of presentation and principals of consolidation— The accompanying unaudited condensed 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 the Current Report on Form 10-Q and Article 8 Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. The condensed financial statements and notes should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on April 18, 2022. In the opinion of management, all adjustments, consisting of normal accruals, considered necessary for a fair presentation of the interim financial statements have been included. Results for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

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

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, stock warrants liabilities and allowance for credit losses. 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 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.

Reclassification – Certain prior year balances were reclassified to conform to current period presentation. There was no impact to income (loss) or cash flows as a result of these reclassifications.

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

1) Identify the contract with a customer

2) Identify the performance obligations in the contract

3) Determine the transaction price

4) Allocate the transaction price to performance obligations in the contract

5) Recognize revenue as performance obligations are satisfied

On certain contracts, 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). 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.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

For product or equipment sales, the Company applies recognition of revenue when the customer obtains control over such goods, which is at a point in time.

On October 3, 2019, the Company entered into an Exclusive License Agreement (“ELA”) pursuant to which it granted an exclusive license for its technology as outlined in the ELA. The ELA is described below. Under the ELA, the Company was to receive royalty payments based upon gross revenues earned by the licensee for commercialized products within the field of design and project management platforms for residential use, including single-family residences and multi-family residences, but excluding military housing. The Company has determined that the ELA granted the licensee a right to access the Company’s intellectual property throughout the license period (or its remaining economic life, if shorter), and thus recognizes revenue over time as the licensee recognized revenue and the Company has the right to payment of royalties. On June 15, 2021, the Company terminated the ELA that was executed on October 3, 2019 which is discussed below.

CMC Right of First Refusal Agreement

– On October 9, 2019, the Company entered into a Right of First Refusal Agreement (the “*Agreement*”) with CMC Development LLC (“*CMC*”), which had a term of two (2) years. Under the Agreement, the Company had a right of first refusal with respect to being engaged as a designer and builder of any real estate projects for which CMC has secured the rights to develop and in which CMC has a greater than fifty percent (50%) interest in the owner or developer entity and has the right to select the builder for such real estate project (the “*ROFR Rights*”). In exchange for such *ROFR Rights*, the Company agreed to issue to CMC 2,500 shares of restricted stock of the Company’s common stock, of which 1,250 shares vested on March 31, 2021 and the remaining 1,250 shares was to vest and be issued on September 30, 2021 unless the Agreement is earlier terminated. In the event that the Agreement was earlier terminated, CMC was entitled to receive the entire amount of such restricted stock that had vested as of such earlier termination date, but in no event less than 1,250 shares of such restricted stock. The Agreement also provided for customary indemnification and confidentiality obligations between the parties. The 2,500 shares of restricted stock of the Company’s common stock has yet to be issued to CMC.

The Agreement also provided that CMC has engaged the Company to build and

design, in the aggregate, approximately 100 residential and commercial units at 1100 Ridge Avenue, Atlanta, Georgia, which is known as the "Ridge Avenue, Atlanta Project." The total expected gross revenue to the Company for the project to be derived by CMC is approximately \$16,900,000. The project is a residential project but it was not subject to the recently terminated ELA. The planning stage of the project was initially delayed due to COVID-19. The Company is no longer participating on Ridge Avenue as CMC has decided to proceed with this project as a traditional construction build. The Company previously reported this as a cancellation within the Company's backlog footnote, see Note 11 on this discussion. No revenue has been recognized under the Agreement during the three months ended March 31, 2022 and 2021.

The Company entered into a joint venture agreement with Clarity Lab Solutions, LLC ("Clarity Labs") (the "JV") in the fourth quarter of 2020. Revenue from the activities of the JV is related to clinical testing services and is recognized when services have been rendered, which is at a point in time. Included in the consideration the Company expected to be entitled to receive, the Company estimates its contractual allowances, payer denials and price concessions. In addition, the Company formed Chicago Airport Testing, LLC which collected rental revenue from subleasing to a consortium of government entities assisting in COVID-19 testing. For the three months ended March 31, 2022 and 2021, the Company recognized approximately \$6,885,828 and \$5,863,358 related to activities through these two joint ventures, which is included in medical revenue on the accompanying consolidated statements of operations.

Disaggregation of Revenues

The Company's revenues are principally derived from construction and engineering contracts related to Modules, and medical revenue derived from lab testing and test kit sales. The Company's contracts are with customers in various industries. Revenue recognized at a point in time and recognized over time were \$6,885,828 and \$1,718,770, respectively, for the three months ending March 31, 2022. Revenue recognized at a point in time and recognized over time were \$5,965,413 and \$3,222,214, respectively, for the three months ending March 31, 2021.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

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

Three Months Ended March 31,				
Revenue by Customer Type	2022		2021	
Construction and Engineering Services:				
Government	\$ 39	—%	\$1,085,480	12%
Hotel	897,244	10%	170,426	2%
Medical - Construction	—	—%	251,560	3%
Multi-Family (includes Single Family)	77,626	1%	44,746	—%
Office	728,875	8%	177,392	1%
Retail	5,344	1%	42,015	1%
Special Use	9,642	—%	1,460,045	16%
Subtotal	1,718,770	20%	3,231,664	35%
Medical Revenue:				
Medical (lab testing, kit sales and equipment)	6,885,828	80%	5,955,963	65%
Total revenue by customer type	\$8,604,598	100%	\$9,187,627	100%

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 credit losses. 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.

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.

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.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31,
2022 and 2021 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

Deferred Contract Costs - Prior to entering into the ELA, the Company was subject to an agreement to construct and develop a certain property ("Original Agreement"), which now is subject to the ELA. Upon entering into the ELA, the Company is no longer obliged to its Original Agreement. Upon entering the ELA, the Company had an outstanding accounts receivable balance of \$306,143, which was forfeited and recognized this amount as deferred contract costs. This amount was offset by \$102,217, which was reimbursement from the licensee for project costs on this project. The Company incurred total deferred contract costs of \$203,926. The Company considered this amount an incremental cost of obtaining that ELA, because the Company expects to recover those costs through future royalty payments. The Company plans to amortize the asset over sixty months, which is the initial term of the ELA because the asset relates to the services transferred to the customer during the contract term. As of March 31, 2022, accumulated amortization related to deferred contract costs amounted to \$101,963. During the three months ended March 31, 2022 and 2021, amortization expense relating to the deferred contract costs amounted to \$10,196 and \$10,196, respectively, and is included in general and administrative expenses on the accompanying condensed consolidated statement of operations. As previously mentioned, the ELA was terminated on June 15, 2021 but the Company expects to recover the deferred contract costs from the Assignment of Limited Rights Under Membership Interest Redemption Agreement, dated June 15, 2021 as described below.

Exclusive License Agreement - On October 3, 2019, as amended on October 17, 2019, the Company entered into the ELA with CPF GP 2019-1 LLC (the "Licensee"), pursuant to which the Company granted the Licensee an exclusive license (the "License") solely within the United States and its legal territories to the Company's technology, intellectual property, any improvements thereto, and any related permits, in order to develop and commercialize products within the field of design and project management platforms for residential use, including single-family residences and multi-family residences, but excluding military housing. The Ridge Avenue Project has also been excluded from the License. The License Agreement has an initial term of five (5) years and will automatically renew for subsequent five (5) year periods. The License Agreement provides for customary terminating provisions, including the right by the Company to terminate if the Licensee fails to make minimum royalty payments (as described below).

In consideration for the License, during the initial term, the Licensee agreed to pay the Company a royalty of (x) five percent (5%) on the first \$20,000,000 of gross revenues

derived from the Licensee's commercialization of the License (net of customary discounts, sales taxes, delivery charges, and amounts for returns) (the "Gross Revenues"), (y) four and one-half percent (4.5%) on the next \$30,000,000 of Gross Revenues, and (z) five percent (5%) on all Gross Revenues thereafter (collectively, the "Royalty"), subject to the following minimum royalty payments determined on a cumulative basis during the initial term: \$500,000 in year 1, \$750,000 in year 2, \$1,500,000 in year 3, \$2,000,000 in year 4, and \$2,500,000 in year 5. In addition, to the extent the Licensee sublicensed any aspect of the License to a sub-licensee, the Licensee was obligated to pay to the Company fifty percent (50%) of all payments received by the Licensee from such sublicensee.

The ELA provided for customary indemnification obligations between the parties and further provides that the Licensee will indemnify the Company for any claims arising out of the commercialization of the License by the Licensee or any of its subsidiaries, contractors, or sublicensees.

On June 15, 2021, the Company terminated the ELA. In connection with the termination, the Company entered into a Settlement and Mutual Release Agreement (the "Settlement Agreement") with CPF, the general partner (the "Licensee") of CPF MF 2019-1 LLC ("CPF MF"), and Capital Plus Financial, LLC, a limited partner of the Licensee ("Capital Plus") and an Assignment of Limited Rights Under Membership Interest Redemption Agreement, dated June 15, 2021, with Capital Plus and the Licensee. Pursuant to the Settlement Agreement with CPF and Capital Plus, the ELA was terminated, the Company released CPF and CPF MF for any claims in exchange for releases from CPF and Capital Plus and the Company received an assignment of CPF's right under certain circumstances to a \$1.25 million redemption distribution from CPF MF under its Operating Agreement.

Business Combinations - The Company accounts for business acquisitions using the acquisition method of accounting in accordance with ASC 805 "Business Combinations", which requires recognition and measurement of all identifiable assets acquired and liabilities assumed at their fair value as of the date control is obtained. The Company determines the fair value of assets acquired and liabilities assumed based upon its best estimates of the acquisition-date fair value of assets acquired and liabilities assumed in the acquisition. Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. Subsequent adjustments to fair value of any contingent consideration are recorded to the Company's consolidated statements of operations. Costs that the Company incurs to complete the business combination are charged to

general and administrative
expenses as they are incurred.

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

Variable Interest Entities – The Company accounts for certain legal entities as variable interest entities (“VIE”). When evaluating a VIE for consolidation, the Company must determine whether or not there is a variable interest in the entity. Variable interests are investments or other interests that absorb portions of an entity’s expected losses or receive portions of the entity’s expected returns. If it is determined that the Company does not have a variable interest in the VIE, no further analysis is required and the VIE is not consolidated. If the Company holds a variable interest in a VIE, the Company consolidates the VIE when there is a controlling financial interest in the VIE and therefore are deemed to be the primary beneficiary. The Company is determined to have a controlling financial interest in a VIE when it has both the power to direct the activities of the VIE that most significantly impact the VIE economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to that VIE. This determination is evaluated periodically as facts and circumstances change.

On August 27, 2020 the Company entered into a joint venture agreement with Clarity Lab Solutions, LLC (“Clarity Labs”) (the “JV”). In consideration and subject to Clarity Lab’s services and commitments and provided the agreement remains valid and in force, and is not terminated, the Company agreed to issue 200,000 restricted shares of SGB common stock over a defined vesting period starting in December 1, 2020. The restricted shares of SGB common stock were not issued to Clarity Labs as certain capital commitments were not met. Clarity Labs is a licensed clinical laboratory that uses specialized molecular testing equipment and that focuses on the diagnosis and treatment of critical diseases, including COVID-19. Clarity Labs is also engaged in the business of manufacturing, importing and distributing various medical tests. Under the JV, the Company and Clarity Labs will jointly market, sell, and distribute certain products and services (“Clarity Mobile Venture”). As of December 31, 2021, \$502,958 was due to Clarity Labs for expenses paid on behalf of Clarity Mobile Venture, and is included in Due to Affiliates, Accounts Payable and Accrued Expenses on the accompanying consolidated balance sheets. In addition, during the year ended December 31, 2021, the Company recognized revenue of \$60,110 and other income of \$60,000 to Clarity Labs, of which none is included in accounts receivable as of December 31, 2021. The Company has determined it is the primary beneficiary of Clarity Mobile Venture and has thus consolidated the activities in its consolidated financial statements.

On January 18, 2021 the Company entered into an operating agreement to form CAT. The purpose of CAT was to market, sell, distribute, lease and otherwise commercially exploit certain products and services in the COVID-19 testing industry. The Company has determined it is the primary beneficiary of CAT and has thus consolidated the activities in its consolidated financial statements.

Investment Entities – On May 31, 2021, the Company’s subsidiary SG DevCorp agreed to contribute \$600,000 to acquire a 50% membership interest in Norman Berry II Owner LLC. The Company contributed \$350,329 and \$114,433 of the initial \$600,000 in the second quarter and third quarter of 2021 respectively, with the remaining \$135,238 funded in the fourth quarter of 2021. The purpose of Norman Berry II Owner LLC is to develop and provide affordable housing in the Atlanta, Georgia metropolitan area. The Company has determined it is not the primary beneficiary of “Norman Berry” and thus will not consolidate the activities in its consolidated financial statements. The Company will use the equity method to report the activities as an investment in its consolidated financial statements.

On June 24, 2021, the Company’s subsidiary, SG DevCorp, entered into an operating agreement with Jacoby Development for a 10% non-dilutable equity interest for JDI-Cumberland Inlet, LLC. The Company contributed \$3,000,000 for its 10% equity interest. The purpose of JDI-Cumberland Inlet, LLC is to develop a waterfront parcel in a mixed-use destination community. The Company has determined it is not the primary beneficiary of JDI-Cumberland Inlet, LLC and thus will not consolidate the activities in its consolidated financial statements. The Company will use the equity method to report the activities as an investment in its consolidated financial statements.

On February 24, 2022 the Company made a \$500,000 capital investment for a 1.2% ownership in Moliving, a nomadic hospitality solution company. The Company also executed a side agreement to build the first sixty Moliving units and an additional ninety units after the first sixty units are manufactured.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

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

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 \$13,146,418 and \$13,024,381 as of March 31, 2022 and December 31, 2021, respectively.

Short-term investment – The Company classifies investments consisting of a certificate of deposit with a maturity greater than three months but less than one year as short-term investment. The Company had no short-term investment as of March 31, 2022 or 2021, respectively.

Accounts receivable and allowance for credit losses – 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 accounts receivable at invoiced amounts.

The allowance for credit losses reflects the Company's best estimate of expected losses inherent in the accounts receivable balances. Management provides an allowance for credit losses 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 our estimates and could be material to our consolidated financial position, results of operations, and cash flows.

Inventory – Raw construction materials (primarily shipping containers and fabrication materials) 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. Medical equipment and COVID-19 test and testing supplies are valued at the lower of cost, (first-in, first-out method) or net realizable value. As of March 31, 2022 there was inventory of \$336,586 for construction materials, and \$717,756 of medical equipment and COVID-19 test and testing supplies. As of December 31, 2021 there was inventory of \$516,731 for construction materials, and \$757,094 of medical equipment and COVID-19 test and testing supplies.

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 performs a goodwill impairment test by comparing the fair value of the reporting unit with its carrying value and recognizes an impairment charge for the amount by which the carrying value exceeds the fair value, not to exceed the total amount of goodwill. The amount by which the carrying value of the goodwill exceeds its implied fair value, if any, is recognized as an impairment loss. There were no impairments during the three months ended March 31, 2022 or 2021. The Company has taken the recent COVID-19 pandemic into consideration when determining impairment.

Intangible assets – Intangible assets consist of \$2,766,000 of proprietary knowledge and technology, which is being amortized over 20 years. In addition, \$97,164 of trademarks, and \$47,800 of website costs are being amortized over 5 years. The Company evaluated intangible assets for impairment during the year ended December 31, 2021, and determined that there were no impairment losses. There was no impairment during the three months ended March 31, 2022. The accumulated amortization as of March 31, 2022 and 2021 was \$857,554 and \$690,262, respectively. The amortization expense for the three months ended March 31, 2022 and 2021 was \$41,823 and \$40,407, respectively. The estimated amortization expense for the successive five years is as follows:

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

3. Summary of Significant Accounting Policies (continued)

For the year ending December 31,:

2022	\$	121,147
2023		161,176
2024		160,469
2025		157,052
2026		139,716
Thereafter		1,313,850
	\$	<u>2,053,410</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 lives for significant classes of assets are as follows: computer and software 3 to 5 years, furniture and other equipment 5 to 7 years, automobiles 2 to 5 years, buildings held for lease 5 to 7 years, and equipment 5 to 29 years. Repairs and maintenance are charged to expense when incurred.

Held For Sale Assets— On May 10, 2021 the Company's subsidiary, SG DevCo acquired the Lago Vista, Texas property for \$3,576,130. Management has implemented a plan to sell this property, which meets all of the criteria required to classify it as Held for Sale. Including the project development costs associated with Lago Vista of \$816,410, the book value is now \$4,392,541.

Convertible instruments— The Company bifurcates conversion options from their host instruments and accounts for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

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

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 Three Months Ended March 31, 2022 and 2021 (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).

Transfer into and transfers out of the hierarchy levels are recognized as if they had taken place at the end of the reporting period.

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 are 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 condensed 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 such account and believes that it is not exposed to any significant credit risk on the account.

With respect to receivables, concentrations of credit risk are limited to a few customers in the construction industry. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers other than normal lien rights. At March 31, 2022 and December 31, 2021, 75% and 78%, respectively, of the Company's gross accounts receivable were due from two and four customers.

Revenue relating to two and two customers represented approximately 90% and 80% of the Company's total revenue for the three months ended March 31, 2022 and 2021, respectively.

Cost of revenue relating to two and two vendors represented approximately 28% and 28% of the Company's total cost of revenue for the three months ended March 31, 2022 and 2021, respectively. The Company believes it has access to alternative suppliers, with limited disruption to the business, should circumstances change with its existing suppliers.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

4. Accounts Receivable

At March 31, 2022 and December 31, 2021, the Company's accounts receivable consisted of the following:

	<u>2022</u>	<u>2021</u>
Billed:		
Construction services	\$ 2,370,435	\$ 2,293,187
Engineering services	11,795	86,388
Medical revenue	122,939	679,446
Retainage receivable	686,560	635,049
Other receivable	195,888	186,692
Total gross receivables	<u>3,387,617</u>	<u>3,880,762</u>
Less: allowance for credit losses	<u>(963,116)</u>	<u>(963,116)</u>
Total net receivables	<u>\$ 2,424,501</u>	<u>\$ 2,917,646</u>

Receivables are evaluated for collectability and allowances for potential losses are established or maintained on applicable receivables. The allowance of doubtful accounts was \$963,116 as of March 31, 2022 and December 31, 2021. There was \$7,024 in bad debt expense during the three months ended March 31, 2022. There were no write offs for the year ended December 31, 2021.

5. Contract Assets and Contract Liabilities

Costs and estimated earnings on uncompleted contracts, which represent contract assets and contract liabilities, consisted of the following at March 31, 2022 and December 31, 2021:

	<u>2022</u>	<u>2021</u>
Costs incurred on uncompleted contracts	\$ 7,004,438	\$ 4,272,425
Provision for loss on uncompleted contracts	391,703	2,238,578
Estimated earnings to date on uncompleted contracts	<u>(3,731,057)</u>	<u>(3,156,377)</u>
Gross contract assets	3,665,084	3,354,626
Less: billings to date	<u>(8,737,401)</u>	<u>(4,750,289)</u>
Net contract assets (liabilities) on uncompleted contracts	<u>\$ (5,072,317)</u>	<u>\$ (1,395,663)</u>

The above amounts are included in the accompanying condensed consolidated balance sheets under the following captions at March 31, 2022 and December 31, 2021.

	<u>2022</u>	<u>2021</u>
Contract assets	\$ 133,395	\$ 41,916
Contract liabilities	<u>(5,205,712)</u>	<u>(1,437,579)</u>
Net contract assets (liabilities)	<u>\$ (5,072,317)</u>	<u>\$ (1,395,663)</u>

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

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021(Unaudited)

6. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization and depreciated using the straight-line method over their useful lives. At March 31, 2022 and December 31, 2021, the Company's property, plant and equipment, net consisted of the following:

	<u>2022</u>	<u>2021</u>
Computer equipment and software	\$ 159,987	\$ 156,701
Furniture and other equipment	276,703	275,606
Leasehold improvements	15,400	15,400
Equipment and machinery	1,232,378	1,219,056
Automobiles	4,638	4,638
Building held for leases	196,416	196,416
Laboratory and temporary units	1,364,748	1,362,760
Land	893,786	3,576,130
Construction in progress	450,381	442,515
Property, plant and equipment	4,594,437	7,249,222
Less: accumulated depreciation	(513,585)	(409,279)
Property, plant and equipment, net	<u>\$ 4,080,852</u>	<u>\$ 6,839,943</u>

Depreciation expense for the three months ended March 31, 2022 and 2021 amounted to \$104,825 and \$91,190 respectively.

7. Notes Receivable

On January 21, 2020, CPF GP 2019-1 LLC ("CPF GP") issued to the Company a promissory note in the principal amount of \$400,000 (the "Company Note") and issued to Paul Galvin, the Company's Chairman and CEO, a promissory note in the principal amount of \$100,000 (the "Galvin Note"). The transaction closed on January 22, 2021, on which date the Company loaned CPF GP 2019-1 LLC \$400,000 and Mr. Galvin personally loaned CPF GP \$100,000 on behalf of the Company. The Company Note and Galvin Note were issued pursuant to that certain Loan Agreement and Promissory Note, dated October 3, 2019 (the "Loan Agreement"), as amended on October 15, 2019 and November 7, 2019 by and between the CPF GP and the Company, and bear interest at five percent (5%) per annum, payable, together with the unpaid principal amount of the promissory notes, on the earlier of the July 31, 2023 maturity date or upon the liquidation, redemption sale or issuance of a dividend upon the LLC interests in CPF MF 2019-1 LLC, a Texas limited liability company of which CPF GP is the general partner; provided, that the terms of the Galvin Note provide that all interest payments due to Mr. Galvin under the Galvin Note shall be paid directly to, and for the benefit of, the Company.

In April 2020, CPF GP issued to the Company a promissory note in the principal amount of \$250,000 (the "Company Note 2"). The transaction closed on April 15, 2021, on which date the Company loaned CPF GP 2019-1 LLC \$250,000. The Company Note was issued pursuant to that certain Loan Agreement and Promissory Note, dated October 3, 2019 (the "Loan Agreement 2"), as amended on October 15, 2019 and November 7, 2019 by and between the CPF GP and the Company, and bear interest at five percent (5%) per annum, payable, together with the unpaid principal amount of the promissory notes, on the earlier of the July 31, 2023 maturity date or upon the liquidation, redemption sale or issuance of a dividend upon the LLC interests in CPF MF 2019-1 LLC, a Texas limited liability company of which CPF GP is the general partner.

During the period ended March 31, 2022, the Galvin Note was assigned to the Company and the principal amount of \$100,000 was returned to Mr. Galvin. The Company has a promissory note in the principal amount of \$100,000 (the "Company Note 3") and the assignment occurred in January 2022. The promissory notes are unaffected by the Settlement and Mutual Release Agreement and remain in effect and outstanding in accordance with the terms of the notes evidencing such loans. See Note 3 for a discussion on the Settlement and Mutual Release Agreement and termination of the ELA with CPF.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

8. Notes Payable

On July 14, 2021, SG DevCorp, a subsidiary of the Company, issued a Real Estate Lien Note, in the principal amount of \$2,000,000 (the “Short-Term Note”), secured by a Deed of Trust, dated July 14, 2021 (the “Deed of Trust”), on the Company’s 50+ acre Lake Travis project site in Lago Vista, Texas and a related Assignment of Leases and Rents, dated July 8, 2021 (“Assignment of Rents”), for net loan proceeds of approximately \$1,948,234 after fees. The Short-Term Note has a term of one (1) year, provides for payments of interest only at a rate of twelve percent (12%) per annum and may be prepaid without penalty commencing nine (9) months after its issuance date. If the Short-Term Note is prepaid prior to nine (9) months after its issuance date, a 0.5% prepayment penalty is due. The Company capitalized \$20,000 in interest charges and \$4,314 in debt issuance costs as of March 31, 2022 related to the Lago Vista project in accordance with ASC 835-20. The Company capitalized \$112,348 in interest charges and \$23,727 in debt issuance costs as of December 31, 2021 related to the Lago Vista project in accordance with ASC 835-20.

On October 29, 2021, SG Echo, a subsidiary of the Company, entered into a Loan Agreement (“Loan Agreement”) with the Durant Industrial Authority (the “Authority”) pursuant to which it received \$750,000 to be used for renovation improvements related to the Company’s second manufacturing facility and issued to the Authority a non-interest bearing Forgivable Promissory Note in the principal amount of \$750,000 (the “Forgivable Note”). The Forgivable Note is due on April 29, 2029 and guaranteed by the Company, provided, if no event of default has occurred under the Forgivable Note or Loan Agreement, one-third (1/3) of the balance of the Forgivable Note will be forgiven on April 29, 2027, one-half (1/2) of the balance of the Forgivable Note will be forgiven on April 29, 2028, and the remainder of the balance of the Forgivable Note will be forgiven on April 29, 2029. The Loan Agreement includes a covenant by SG Echo to employ a minimum of 75 full-time employees in Durant Oklahoma and pay them no less than 1.5 times the federal minimum wage, and provides SG Echo 24 months to comply with the provision.

9. Leases

The Company leases an office, a manufacturing plant and certain equipment under non-cancelable operating lease agreements. The leases have remaining lease terms ranging from one year to ten years.

Supplemental balance sheet information related to leases is as follows:

Balance Sheet Location		March 31, 2022
Operating Leases		
Right-of-use assets, net		\$ 2,874,936
Current liabilities	Lease liability, current maturities	(461,584)
Non-current liabilities	Lease liability, net of current maturities	(2,420,401)
	Total operating lease liabilities	<u>\$ (2,881,985)</u>
Finance Leases		
Right-of-use assets		\$ 27,348
Current liabilities	Lease liability, current maturities	(19,639)
Non-current liabilities	Lease liability, net of current maturities	(6,679)
	Total finance lease liabilities	<u>\$ (26,318)</u>
Weighted Average Remaining Lease Term		
	Operating leases	7.4 years
	Finance leases	1.36 years
Weighted Average Discount Rate		
	Operating leases	3%
	Finance leases	3%

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

9. Leases (continued)

As the leases do not provide an implicit rate, the Company used an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments, which is reflective of the specific term of the leases and economic environment of each geographic region.

Anticipated future lease costs, which are based in part on certain assumptions to approximate minimum annual rental commitments under non-cancelable leases, are as follows:

Year Ending December 31:	Operating		Financing		Total
2022	\$	405,825	\$	15,120	\$ 420,945
2023		525,718		11,760	537,478
2024		523,722		—	523,722
2025		446,349		—	446,349
2026		207,379		—	207,379
Thereafter		1,119,904		—	1,119,904
Total lease payments		3,228,897		26,880	3,255,777
Less: Imputed interest		346,912		562	347,474
Present value of lease liabilities	\$	2,881,985	\$	26,318	\$ 2,908,303

Chicago Airport Testing has subleased its leased vacant area for a period of one year, the sublessee has the option to terminate at any time after the first six months. The sublessee elected to terminate the Agreement, effective as of July 31, 2021 and the Company has no remaining lease revenue from the sublessee.

10. Net Income (Loss) Per Share

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

At March 31, 2022, there were restricted stock units, options and warrants of 2,245,186, 36,436 and 2,025,520 respectively, outstanding that could potentially dilute future net income per share. Because the Company had a net loss as of March 31, 2022, it is prohibited from including potential common shares in the computation of diluted per share amounts. Accordingly, the Company has used the same number of shares outstanding to calculate both the basic and diluted loss per share. At March 31, 2021, there were options, including options to non-employees and non-directors, restricted stock units and warrants to purchase 36,436, 884,343 and 128,090 shares of common stock, respectively, outstanding that could potentially dilute future net income per share.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021(Unaudited)

11. Construction Backlog

The following represents the backlog of signed construction and engineering contracts in existence at March 31, 2022 and December 31, 2021, which represents the amount of revenue the Company expects to realize from work to be performed on uncompleted contracts in progress and from contractual agreements in effect at March 31, 2022 and December 31, 2021, respectively, on which work has not yet begun:

	2022	2021
Balance - beginning of period	\$ 3,217,909	\$ 25,117,461
New contracts and change orders during the period	6,092,724	3,191,335
Adjustments and cancellations, net	—	(18,297,197)
Subtotal	9,310,633	10,011,599
Less: contract revenue earned during the period	1,718,770	(6,793,690)
Balance - end of period	<u>\$ 7,591,863</u>	<u>\$ 3,217,909</u>

Backlog at December 31, 2021 included two contracts entered into during the third quarter of 2020 in the amount of approximately \$4 million and approximately \$2.95 million along with three contracts during the fourth quarter of 2020 in the amount of approximately \$2.7 million, \$0.80 million, and \$0.70 million. The Company executed one large contract in the first quarter of 2021 in the amount of approximately \$1.3 million, one large contract in the third quarter of 2021 of approximately \$0.87 million and had one large partial contract cancellation to an existing contract of approximately \$(1.3) million. The Company executed one large contract in the fourth quarter of 2021 in the amount of approximately \$0.78 million and had one contract cancellation in the amount of approximately \$16.9 million. On March 29, 2022, the Company entered into a contract with ATCO Structures & Logistics (USA) Inc. for \$5,954,950 that is reflected in the March 31, 2022 backlog. The Company expects that all of this revenue will be realized by December 31, 2022.

The Company's remaining backlog as of March 31, 2022 represents the remaining transaction price of firm contracts for which work has not been performed and excludes unexercised contract options.

The Company expects to satisfy its backlog which represents the remaining unsatisfied performance obligation on contracts as of March 31, 2022 over the following period:

	2022
Within 1 year	\$ 7,591,863
1 to 2 years	—
Total Backlog	<u>\$ 7,591,863</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.

12. Stockholders' Equity**Public Offerings –**

In October 2021, the Company closed a registered direct offering and concurrent private placement of its common stock (the "October Offering") that the Company effected pursuant to the Securities Purchase Agreement that it entered into on October 25, 2021 with an institutional investor and received gross proceeds of \$11.55 million. Pursuant to the terms of the Purchase Agreement, the Company issued to the investor (A) in a registered direct offering (i) 975,000 shares (the "Public Shares") of its Common Stock, par value \$0.01 per share (the "Common Stock"), and (ii) pre-funded warrants (the "Pre-Funded Warrants") to purchase up to 2,189,384 shares (the "Pre-Funded Warrant Shares") of Common Stock and (B) in a concurrent private placement, Series A warrants to purchase up to 1,898,630 shares (the "Common Stock Warrant Shares") of Common Stock (the "Common Stock Warrants," and together with the Public Shares and the Pre-Funded Warrants, the "Securities") (the "Offering"). The Pre-Funded Warrants were immediately exercisable at a nominal exercise price of \$ 0.001 and all Pre-Funded Warrants sold have been exercised. The Common Stock Warrants have an exercise price of \$ 4.80 per share, are exercisable upon issuance and will expire five years from the date of issuance. A.G.P./Alliance Global Partners (the "Placement Agent") acted as the exclusive placement agent for the transaction pursuant to that certain Placement Agency Agreement, dated as of October 25, 2021, by and between the Company and the Placement Agent (the "Placement Agency Agreement"), the Placement Agent received (i) a cash fee equal to seven percent (7.0%) of the gross proceeds from the placement of the Securities sold by the Placement Agent in the Offering and (ii) a non-accountable expense allowance of one half of one percent (0.5%) of the gross proceeds from the placement of the Gross Proceeds Securities sold by the Placement Agent in the Offering. The Company also reimbursed the Placement Agent's expenses up to \$50,000 upon closing the Offering. The net proceeds to the Company after deducting the Placement Agent's fees and the Company's estimated offering expenses was approximately \$10.5 million.

Securities Purchase Agreement – In April 2019, the Company issued 42,388 shares of its common stock at \$2.00 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 42,388 shares of common stock. The Company incurred \$379,816 in issuance costs from the offering and issued 4,239 warrants to the underwriters. The warrants are further discussed in Note 14.

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.

Underwriting Agreement – In August 2019, the Company issued 45,000 shares of its common stock at \$ 7.00 per share pursuant to the terms of an Underwriting Agreement (the "Underwriting Agreement") to the public. The Company incurred \$181,695 in issuance costs from the offering and issued warrants to purchase 2,250 shares of common stock to the underwriter. The warrants are further discussed in Note 14.

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

13. Segments and Disaggregated Revenue

	Construction	Medical	Development	Corporate and support	Consolidated
Fiscal Quarter Ended March 31, 2022					
Revenue	\$ 1,718,770	\$ 6,885,829	\$ —	\$ —	\$ 8,604,599
Cost of revenue	1,720,714	4,397,449	—	—	6,118,163
Operating expenses	109,163	18,973	281,988	1,657,419	2,067,543
Operating gain/loss	(111,107)	2,469,407	(281,988)	(1,657,419)	418,892
Other income (expense)	—	—	(40,000)	122,836	82,836
Income before income taxes	(111,107)	2,469,407	(321,988)	(1,534,583)	501,728
Net income attributable to non-controlling interest	—	1,218,905	—	—	1,218,905
Net loss attributable to common stockholders of SG Blocks, Inc.	\$ (111,107)	\$ 1,250,502	\$ (321,988)	\$ (1,534,583)	\$ (717,177)
Total assets	\$ 10,464,450	\$ 4,857,366	\$ 8,889,271	\$ 13,752,110	\$ 37,963,197
Depreciation and amortization	\$ 143,435	\$ 263,169	\$ 8,628	\$ —	\$ 165,473
Capital expenditures	\$ 24,100	\$ —	\$ 893,785	\$ 4,980	\$ 922,865
Inter-segment revenue elimination	\$ —	\$ 160,500	\$ —	\$ (160,500)	\$ —
	Construction	Medical	Development	Corporate and support	Consolidated
Fiscal Quarter Ended March 31, 2021					
Revenue	\$ 3,231,664	\$ 5,955,963	\$ —	\$ —	\$ 9,187,627
Cost of revenue	4,103,310	4,527,692	—	—	8,631,002
Operating expenses	6,150	159,254	—	1,552,678	1,718,082
Operating gain/loss	(877,796)	1,269,017	—	(1,552,678)	(1,161,457)
Other income (expense)	—	—	—	17,107	17,107
Income before income taxes	(877,796)	1,269,017	—	(1,535,571)	(1,144,350)
Net income attributable to non-controlling interest	—	889,527	—	—	889,527
Net loss attributable to common stockholders of SG Blocks, Inc.	\$ (877,796)	\$ 379,491	\$ —	\$ (1,535,571)	\$ (2,033,877)
Total assets	\$ 14,050,007	\$ 5,047,318	\$ 127,395	\$ 8,023,564	\$ 27,248,283
Depreciation and amortization	\$ 56,909	\$ 84,619	\$ —	\$ 265	\$ 141,793
Capital expenditures	\$ 477,882	\$ 36,890	\$ —	\$ 347,318	\$ 862,090

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
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14. Warrants

In conjunction with the June 2017 Public Offering, the Company issued to certain affiliates of the underwriters, as compensation, warrants to purchase an aggregate of 4,313 shares of common stock at an exercise price of \$25.00 per share. The warrants are exercisable at the option of the holder on or after June 21, 2018 and expire June 21, 2023. The fair value of warrants was calculated utilizing a Black-Scholes model and amounted to \$3,796. The fair market value of the warrants as of the date of issuance has been included in issuance costs in additional paid-in capital.

In conjunction with the Purchase Agreement in April 2019, the Company also sold warrants to purchase up to an aggregate of 42,388 shares of common stock at an initial exercise price of \$27.50 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 4,239 shares of common stock at an initial exercise price of \$27.50 per share. The warrants are exercisable at the option of the holder on or after October 29, 2019 and expire April 24, 2024.

In conjunction with the Underwriting Agreement in August 2019, the Company issued to the underwriter, as compensation, warrants to purchase an aggregate of 2,250 shares of common stock at an initial exercise price of \$1.25 per share. The warrants are exercisable at the option of the holder on or after February 1, 2020 and expire August 29, 2024.

In conjunction with the Underwriting Agreement in May 2020, the Company issued to the underwriter, as compensation, warrants to purchase an aggregate of 300,000 shares of common stock at an initial exercise price of \$1.14 per share. The warrants are exercisable at the option of the holder on or after November 6, 2021 and expire May 5, 2025.

In conjunction with the Purchase Agreement in October 2021, the Company also issued Series A warrants to purchase up to 1,898,630 shares of Common Stock in a concurrent private placement. The warrants have an exercise price of \$4.80 per share, exercisable at the option of the holder on or after October 26, 2021 and will expire five years from the date of issuance.

15. Share-based Compensation

On October 26, 2016, the Company's Board of Directors approved the issuance of up to 25,000 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 and as further amended on July 30, 2020 and as further amended on August 18, 2021, (the "Incentive Plan"). The Incentive Plan authorizes the issuance of up to 3,625,000 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 subsidiary, 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 Company's Compensation Committee of the Board of Directors. Each of the Company's employees, directors, and consultants are eligible to participate in the Incentive Plan. As of March 31, 2022, there were 1,343,377 shares of common stock available for issuance under the Incentive Plan.

Stock-Based Compensation Expense

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

	Three Months Ended	
	March 31,	
	2022	2021
Payroll and related expenses	\$ 649,090	\$ 286,186
Total	<u>\$ 649,090</u>	<u>\$ 286,186</u>

SG BLOCKS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

15. Share-based Compensation (continued)

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

	Three Months Ended	
	March 31,	
	2022	2021
Stock options	\$ —	\$ 2,666
Restricted Stock Units	649,090	283,520
Total	\$ 649,090	\$ 286,186

Stock-Based Option Awards

The Company has issued no stock-based options during the three months ended March 31, 2022 and 2021.

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

The following table summarizes stock-based option activities and changes during the three months ended March 31, 2022 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, 2021	36,436	24.80	78.71	5.34	—
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Cancelled	—	—	—	—	—
Outstanding – March 31, 2022	36,436	24.80	78.71	5.09	—
Exercisable – December 31, 2021	36,436	24.80	78.71	5.34	—
Exercisable – March 31, 2022	36,436	24.80	78.71	5.09	—

For the three months ended March 31, 2022 and 2021, the Company recognized stock-based compensation expense of \$0 and \$2,666, respectively, related to stock options. This expense is included in payroll and related expenses in the accompanying condensed consolidated statements of operations.

As of March 31, 2022, there was no unrecognized compensation costs related to non-vested stock options and all options have been expensed. The intrinsic value is calculated as the difference between the fair value of the stock price at year end and the exercise price of each of the outstanding stock options. The fair value of the stock price at March 31, 2022 was \$1.95 per share.

Notes to Condensed Consolidated Financial Statements
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15. Share-based Compensation (continued)**Restricted Stock Units**

On March 22, 2019, a total of 15,703 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 \$54.00 per share, which represents the closing price of the Company's common stock on February 26, 2019 as adjusted for stock splits. Restricted stock units granted to Mr. Galvin, Mr. Armstrong, Mr. Shetty, and an aggregate of six employees and one consultant of 6,139, 772, 5,729 and an aggregate of 3,063, 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 526 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 \$58.80 and \$55.20 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 as adjusted for stock splits. The restricted stock units granted on January 15, 2019 vested 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 vested 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 9,189 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 \$16.40 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.

On April 14, 2020, a total of 35,331 of restricted stock units were granted to Mr. Galvin, Mr. Armstrong, Mr. Sheeran, five employees and two consultants of the Company, under the Company's stock-based compensation plan, at the fair value of \$4.76 per share, which represents the closing price of the Company's common stock on April 14, 2020. Restricted stock units granted to Mr. Galvin, Mr. Armstrong, Mr. Sheeran, and an aggregate of five employees and one consultant of 11,331, 1,000, 3,000 and an aggregate of 8,000, respectively, will vest in full on the first anniversary of the vesting commencement date and one consultant received 12,000 restricted stock units that vested immediately on April 15, 2020. The fair value of these units upon issuance amounted to \$168,176.

On April 14, 2020, a total of 12,000 of restricted stock units were granted to three of the Company's non-employee directors, under the Incentive Plan, at the calculated fair value of \$4.76 per share, which represents the closing price of the Company's common stock on April 14, 2020. The restricted stock units granted on April 14, 2020 will fully vest on April 14, 2021, 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 fair value of these units upon issuance amounted to \$57,120.

On September 23, 2020, a total of 425,000 of restricted stock units were granted to Mr. Armstrong, Mr. Sheeran, seven employees and one consultant of the Company, under the Company's stock-based compensation plan, at the fair value of \$1.81 per share, which represents the closing price of the Company's common stock on September 23, 2020. Restricted stock units granted to Mr. Armstrong, Mr. Sheeran, and an aggregate of seven employees and one consultant of 50,000, 75,000 and an aggregate of 300,000, respectively, and 1/3 will vest on September 23, 2020, 1/3 on the one year anniversary of the grant date and 1/3 on the two year anniversary of the grant date. The fair value of these units upon issuance amounted to \$769,250.

SG BLOCKS, INC. AND SUBSIDIARIES

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15. Share-based Compensation (continued)

On November 11, 2020, a total of 46,826 of restricted stock units were granted to three of the Company's non-employee directors, under the Incentive Plan, at the calculated fair value of \$2.39 per share, which represents the closing price of the Company's common stock on November 11, 2020. The restricted stock units granted on November 11, 2020 will vest 1/2 on November 11, 2020 and 1/2 on the one year anniversary of the grant date, 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 fair value of these units upon issuance amounted to \$111,920.

On December 9, 2020, a total of 372,000 of restricted stock units were granted to Mr. Galvin, under the Company's stock-based compensation plan, at the fair value of \$3.28 per share, which represents the closing price of the Company's common stock on December 9, 2020. Restricted stock units granted to Mr. Galvin will vest 1/2 on December 9, 2020 and 1/2 on the first year anniversary of the grant date. The fair value of these units upon issuance amounted to \$1,220,160.

On October 1, 2021, a total of 1,214,500 of restricted stock units were granted to Mr. Galvin, Mr. Rogers, Mr. Armstrong, Mr. Sheeran, thirteen employees and three consultant of the Company, under the Company's stock-based compensation plan, at the fair value of \$3.38 per share, which represents the closing price of the Company's common stock on October 1, 2021. Restricted stock units granted to Mr. Galvin, Mr. Armstrong, Mr. Sheeran, and an aggregate of thirteen employees and two consultant of 350,000, 40,000, 100,000 and an aggregate of 475,000, respectively, vesting quarterly over two years from the anniversary of the grant date. Restricted stock units granted to Mr. Rogers and one consultant of 37,500 and 12,000 vest upon issuance date. Restricted stock units granted to Mr. Rogers of 200,000 vest monthly over a two-year period. The fair value of these units upon issuance amounted to \$4,105,010.

On October 1, 2021, a total of 59,170 of restricted stock units were granted to five of the Company's non-employee directors, under the Company's stock-based compensation plan, at the fair value of \$3.38 per share, which represents the closing price of the Company's common stock on October 1, 2021. The restricted stock units granted October 1, 2021 vesting monthly over one year and, if earlier, in full on the date of the Company's 2022 Annual Meeting of Stockholders.

On December 7, 2021, a total of 62,500 of restricted stock units were granted to five of the Company's non-employee advisory directors, under the Company's stock-based compensation plan, at the fair value of \$2.36 per share, which represents the closing price of the Company's common stock on December 7, 2021. The restricted stock units granted vest in equal monthly installments over one year period.

For the three months ended March 31, 2022 and 2021, the Company recognized stock-based compensation of \$649,090 and \$283,520 related to restricted stock units. This expense is included in the payroll and related expenses, general and administrative expenses, and marketing and business development expense in the accompanying condensed consolidated statement of operations.

The following table summarized restricted stock unit activities during the three months ended March 31, 2022:

	Number of Shares
Non-vested balance at January 1, 2022	1,274,137
Granted	—
Vested	212,999
Forfeited/Expired	17,500
Non-vested balance at March 31, 2022	<u>1,043,638</u>

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16. Commitments and Contingencies***Legal Proceedings***

The Company is subject to certain claims and lawsuits arising in the normal course of business. The Company assesses 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 our 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, advice of counsel, and available insurance coverage, the Company believes that the established accruals are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on the consolidated financial condition. 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 results of operations for a particular period, depending upon the size of the loss or the income for that particular period.

1.) Pizzarotti Litigation - On or about August 10, 2018 Pizzarotti, LLC filed a complaint against the Company and Mahesh Shetty, the Company's former President and CFO, 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. SG Blocks has likewise cross claimed against Phipps for indemnification and contribution, claiming that any damages to the Plaintiff were the result of the acts or omissions of Phipps and its principals.

Pizzarotti's suit arose from a contract dated April 3, 2018 that it executed with Phipps whereby Pizzarotti, a construction manager, engaged Phipps to perform stone procuring and tile work at a construction project located at 161 Maiden Lane, New York 10038. Pizzarotti's claims against the Company arise from a purported assignment agreement dated August 10, 2018, whereby Pizzarotti claims that the Company agreed to assume certain obligations of Phipps under a certain trade contract between Pizzarotti and Phipps & Co. Phipps' claims against the Company arise from a purported Assignment Agreement, dated as of May 30, 2018, between Pizzarotti, Phipps and the Company (the "Assignment Agreement"), pursuant to which, it is alleged, that the Company agreed to provide a letter of credit in connection with the sub-contracted work to be provided by Phipps to Pizzarotti.

The Company believes that the Assignment Agreement was void for lack of consideration and moved to dismiss the case on those and other grounds. On June 17, 2020, the New York Supreme Court entered an order dismissing certain claims against the Company brought by cross claimant Phipps & Co. Specifically, the court dismissed Phipps' claims for indemnification, contribution, fraud, negligence and negligent misrepresentation. The court did not dismiss Phipps' claim for breach of the Assignment Agreement. The issue of the validity of the Assignment Agreement, and the Company's defenses to the claims brought by the plaintiff Pizzarotti, and cross claimant Phipps, are being litigated. The Company maintains that the Assignment Agreement, to the extent valid and enforceable, was properly terminated and/or there are no damages, and, consequently, that the claims brought against the Company are without merit. The Company intends to continue to vigorously defend the litigation. The parties have engaged in written discovery but no depositions have been conducted as of yet. By motion dated February 24, 2021, Pizzarotti moved to stay the entire action pending the outcome of a separate litigation captioned *Pizzarotti, LLC v. FPG Maiden Lane, LLC et. al.*, Index No. 651697/2019, involving some of the same parties (but excluding the Company). Phipps cross moved to consolidate the two actions. The Company opposed both motions. On April 26, 2021, the court denied both motions and directed the parties to meet and confer concerning the scheduling of depositions. On May 10, 2021, the parties jointly filed with the court a proposed order providing the completion of depositions of all parties and nonparties by September 30, 2021. The court has not entered the proposed discovery order and no action has been taken by the plaintiff Pizzarotti nor the defendant-cross claimant Phipps since the proposed order was submitted. There are no scheduled hearings or conferences before the court at this time.

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 consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
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16. Commitments and Contingencies (continued)

2.) **ICON Construction Inc. v. SG Blocks, Inc, et. al.** - On or about June 8, 2021 ICON Construction Inc. (“ICON”) filed a complaint against the Company and Echo DCL LLC (“Echo DCL”), seeking unspecified damages, arising out of a certain asset purchase agreement entered into between ICON and Echo DCL on or about February 20, 2020 (the “ICON-Echo Asset Agreement”) whereby, *inter alia*, Echo DCL acquired all of the assets of ICON. On or about September 17, 2020, Echo DCL and SG Echo LLC entered into a certain asset purchase agreement (the “Echo Asset Agreement”) whereby, *inter alia*, SG Echo acquired all of the assets of Echo DCL. In the Echo Asset Agreement Echo DCL represented and warranted to SG Echo that it had good and marketable title to the assets, had full right and power to transfer same, and that the same were free and clear of any encumbrances except for a certain permitted lien held by BTH Bank.

ICON alleges that ECHO DCL breached the terms of the ICON-Echo Asset Agreement and that the Company agreed to assume Echo DCL’s liabilities obligations under the ICON-Echo Asset Agreement. Icon also claims a security interest in the assets conveyed to SG Echo by Echo DCL. The Company has filed an answer to the ICON complaint denying the allegations and raised eleven affirmative defenses and that it is entitled to indemnification and/or contribution from Echo DCL and its principal Michael Ames. The parties are currently engaged in discovery.

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 consolidated financial statements.

Vendor Litigation**1.) Teton Buildings, LLC**

(i) On January 1, 2019, SG Blocks commenced an action against Teton Buildings, LLC (“Teton”) in Harris County, Texas (“Teton Texas Action”) to recover approximately \$2,100,000 arising from defendant’s breach of the operative contract related to Heart of Los Angeles construction project in Los Angeles (the “HOLA Project”) entered into on or about June 2, 2017. The Petition brought claims of breach of contract, negligence, and breach of express warranty. In or about February 2022 SG Blocks dismissed without prejudice the Teton Texas Action.

(ii) On or about September 12, 2018, the Company entered into a Firm Price Quote and Purchase (the “GVL Contract”) with Teton to govern the manufacture and provision of 23 shipping containers and modular units (the “Teton GVL Modules”) for the Four Oaks Gather GVL project in South Carolina (the “GVL Project.”). The Company maintains that Teton breached the GVL Contract by (i) failing to timely deliver the Teton GVL Modules, (ii) delivering Teton GVL Modules that were defective in their design and manufacture, (iii) otherwise failed to meet South Carolina Building Code regulations and (iv) breached applicable warranties. As a result of the breach and defects in performance, design and manufacture by Teton, Company asserts that it has sustained approximately \$761,401.66 in actual and consequential damages, excluding attorney’s fees. On October 16, 2019, Teton filed for Chapter 11 in the United States Bankruptcy Court for Southern District of Texas, Houston Division styled *In re: Teton Buildings, LLC* and bearing the case number 19-35811. On February 11, 2020, the Company filed a proof of claim against Teton in the amount of \$2,861,401.66 arising from the HOLA Project and the GVL Contract. On or about March 16, 2020, the Bankruptcy Court converted Teton’s Chapter 11 reorganization case to a Chapter 7 liquidation case. On July 18, 2019, Ronald Sommers, the Chapter 7 Trustee, filed a Report of No Distribution stating that there is no property available for distribution to creditors. On August 20, 2019, the Bankruptcy Court closed the Teton bankruptcy case. As such, there is no prospect of any recovery against Teton.

On January 22, 2021, the Company filed a third-party complaint against Teton in the United States District Court for the Central District of California, Case No. 2:20-cv-03432 in the HOLA Action (described below), seeking to determine Teton’s liability in its capacity as a bankruptcy debtor in order to collect any damages payable from Teton’s liability insurance carrier or carriers. On July 23, 2021, the Company filed a First Amended Third-Party Complaint against Teton and other named third party defendants (see #2 below). Teton has been served with the First Amended Third-Party Complaint and on or about February 11, 2022, Teton filed an answer and affirmative defenses. The parties in the HOLA Action are currently conducting discovery.

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 consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

16. Commitments and Contingencies (continued)**2.) SG Blocks, Inc. v HOLA Community Partners, et. al**

On April 13, 2020, Plaintiff SG Blocks, Inc. (“SG Blocks” or the “Company”) filed a Complaint against HOLA Community Partners (“HCP”), Heart of Los Angeles Youth, Inc. (“HOLA”) (HCP and HOLA are collectively referred to as the “HOLA Defendants”), and the City of Los Angeles (“City”) in the United States District Court for the Central District of California, Case No. 2:20-cv-03432-ODW (“HOLA Action”). The Company asserted seven claims against HOLA Defendants arising out of and related to the HOLA Project, to wit, for: (1) breach of contract; (2) conversion; (3) default and judicial foreclosure under the Agreement as a security agreement; (4) misappropriation of trade secrets under California Civil Code section 3426; (5) misappropriation of trade secrets under 18 U.S.C. § 1836; and (6) intentional interference with contractual relations. On April 20, 2020, HOLA filed a separate action against the Company in the Los Angeles Superior Court arising out of the HOLA Project, asserting claims of (1) negligence; (2) strict products liability; (3) strict products liability, (4) breach of contract; (5) breach of express warranty; (6) violation of Business and Professions Code § 7031(b); and (7) violation of California’s unfair competition law, Business and Professions Code section 17200 (“UCL”) (“HOLA State Court Action”). The HOLA State Court Action was removed to the Central District of California and consolidated with the HOLA Action.

On January 22, 2021, the Company filed a Third-Party Complaint in the HOLA Action against Third-Party Defendants Teton Buildings, LLC, Avesi Construction, LLC, and American Home Building and Masonry Corp (“AHB”) for indemnity and contribution with respect to HOLA’s claims. The Company has also notified its general liability carrier Somp International regarding coverage concerning HOLA’s claims. On February 25, 2021, the Court entered an order dismissing the Company’s claims for (1) breach of contract; (2) conversion; (3) default and judicial foreclosure under the Agreement as a security agreement; (4) misappropriation of trade secrets under California Civil Code section 3426; (5) misappropriation of trade secrets under 18 U.S.C. § 1836; but denied dismissal of the Company’s claims for intentional interference with contractual relations. The Court also denied the Company’s motion to dismiss HOLA’s claims.

On March 12, 2021, the HOLA Defendants filed an answer to the Company’s complaint against it denying liability and asserting affirmative defenses. On March 12, 2021, the Company filed an answer to the HOLA Defendants’ First Amended Consolidated Complaint against it, denying liability and asserting affirmative defenses.

On April 26, 2021, the Company and the HOLA Defendants filed a Joint Stipulation to Dismiss HOLA Community Partners’ Sixth Claim for Relief (violation of California Business and Professions Code §7031(b)), with prejudice, pursuant to Fed. R. Civ. P. 41(a)(1)(A)(ii).

On July 23, 2021, the Company filed a First Amended Third-Party Complaint adding the following additional third party defendants seeking, *inter alia*, contractual indemnity, equitable indemnity; and contribution: American Home Building and Masonry Corp. (“American Home”), Anderson Air Conditioning, L.P. (“Anderson”), Broadway Glass and Mirror, Inc. (“Broadway”), Marne Construction, Inc. (“Marne”), The McIntyre Company (“McIntyre”), Dowell & Bradley Construction, Inc. dba J R Construction (“JR Construction”) Junior Steel Co. (“Junior Steel”) Saddleback Roofing, Inc. (“Saddleback”) Schindler Elevator Corporation (“Schindler”) U.S. Smoke & Fire Corp. (“U.S. Smoke”) and FirstForm, Inc. (“FirstForm”) (collectively the “Additional Third Party Defendants”).

On September 2, 2021, Schindler Elevator Corp. filed its answer to the First Amended Third-Party Complaint. On September 3, 2021, Junior Steel Co. filed its answer to the First Amended Third-Party Complaint. On September 7, 2021, Anderson Air Conditioning, L.P. filed its answer to the First Amended Third-Party Complaint. On October 6, 2021, the McIntyre Group filed its answer to the First Amended Third-Party Complaint.

On February 7, 2022, the Company filed a request for entry of a Clerk’s default against the following defendants: American Home Building and Masonry Corp., Avesi Construction, Marne Construction, Inc., Firstform, Inc., Dowell & Bradley Construction, Inc, Saddleback Roofing, Inc., and US Smoke and Fire Corp. On February 9, 2022, the court entered a clerk’s default pursuant to Federal Rule 55 against the following defendants: American Home Building and Masonry Corp. Avesi Construction, Dowel & Bradley Construction, Inc., Saddleback Roofing Inc. and US smoke and Fire Corp. The parties that have answered and appeared in the case are currently engaged in discovery. The cut-off for fact discovery has been extended to September 12, 2022, and a trial has been set for January 31, 2023.

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 outcome or possible recovery or 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 consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

16. Commitments and Contingencies (continued)**3.) SG Blocks, Inc. v. EDI International, PC-**

On June 21, 2019, SG Blocks filed a lawsuit against EDI International, PC, a New Jersey corporation, in the Superior Court of the State of California, County of Los Angeles, Central District, in connection with the parties' consulting agreement, dated June 29, 2016, pursuant to which EDI International, PC, was to provide, for a fee, certain architectural and design services for the HOLA Project. SG Blocks, Inc. claims that EDI International, PC, tortiously interfered with SG Blocks, Inc's economic relationship with HOLA Community Partners and Heart of Los Angeles Youth, Inc. EDI International, PC, filed a cross-complaint for alleged unpaid fees and tortious interference with EDI International, PC's contractual relationship with HOLA Community Partners and Heart of Los Angeles Youth, Inc. EDI International, PC's cross-complaint seeks in excess of \$30,428.71 in damages.

On July 8, 2020, SG Blocks, Inc. added PVE LLC as a defendant in the lawsuit, claiming PVE LLC is liable to the same extent as EDI International, PC. The case is currently in the discovery stage and a trial date has been set for May 2, 2022.

On May 14, 2021, EDI accepted the Company's Statutory Offer of Compromise, pursuant to California Code of Civil Procedures §998, to settle EDI's cross-claims. On July 26, 2021, the Company and EDI entered into a certain General Release agreement whereby in exchange for payment by the Company in the amount of \$67,125.83 EDI released SG Blocks from all liabilities and damages related to EDI's cross-claims. The Company continues to prosecute its claim against EDI for tortious interference with the Company's economic relationship with HOLA Community Partners and Heart of Los Angeles Youth, Inc. The parties are engaged in the discovery and a trial date has been set for September 6, 2022. The parties have agreed to mediate their dispute. Mediation has been scheduled to take place on or about May 17, 2022.

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 outcome or possible recovery or 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 consolidated financial statements.

Other Litigation**1.) Shetty v. SG Blocks, Inc. et. al., - Case No. 20-CV-00550, United States District Court, Eastern District of New York.**

On January 31, 2020, Mahesh Shetty, the Company's former President and Chief Financial Officer ("Former Employee"), filed suit against the Company and its Chairman and Chief Executive Officer, Paul Galvin, claiming (i) \$372,638 in unpaid wages and bonuses and (ii) \$300,000 due in severance (hereafter the "Action"). On March 25, 2020, the Former Employee filed an amended complaint raising additional claims of retaliation under the Fair Labor Standards Act, 29 U.S.C. §201 et. seq. ("FLSA"), and contractual indemnification. On April 27, 2020, the Company filed a motion to dismiss the Action. The Company asserted that the Former Employee agreed to accept (and did receive) restricted stock units of the Company's common stock in full satisfaction and payment of all alleged unpaid wages and bonuses that are claimed in the Action, and/or has otherwise been paid in full for all amounts claimed. The Company further maintained that the Former Employee's employment agreement precludes any entitlement to or liability for severance. On June 15, 2020, the Court entered a decision granting in part and denying in part the Company's motion to dismiss. Specifically, the Court dismissed the Former Employee's claim (i) for severance (in the amount of \$300,000) and unpaid wages pursuant to the FLSA, but denied dismissal of the Former Employee's claims for retaliation under the FLSA or unpaid wages allegedly due under the New York Labor Law.

On or about September 14, 2021, the Company and Former Employee entered into a settlement and release agreement resolving their respective claims. On September 14, 2021, the parties filed a joint motion seeking court approval of the settlement. By order dated February 8, 2022, the court approved the settlement. On February 9, 2022 the court closed the case.

Notes to Condensed Consolidated Financial Statements
For the Three Months Ended March 31, 2022 and 2021 (Unaudited)

16. Commitments and Contingencies (continued)**2.) SG Blocks, Inc. v. Osang Healthcare Company, Ltd.,**

On April 14, 2021, the Company commenced an action against Osang Healthcare Company, Ltd. ("Osang") in the United States District Court, Eastern District of New York, Case No. 21-01990 ("Osang Action"). The Company has asserted that Osang materially breached a certain Managed Supply Agreement ("MSA") entered into between the parties on October 12, 2020, pursuant to which the Company received on consignment two million (2,000,000) units of Osang's "Genefinder Plus RealAmp Covid-19 PCR Test" (the "Covid-19 Test") for domestic and international distribution. The Company has also asserted that Osang breached the covenant of good faith and fair dealing, fraudulently induced it to enter into the MSA, and violated §349 of the New York General Business Law's prohibition of deceptive business practices.

On June 18, 2021, Osang served a motion to dismiss the Osang Action pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure. On July 30, 2021, the Company served its opposition to the motion to dismiss. The motion has been fully briefed and submitted to the court and the parties are awaiting a ruling thereon. On January 10, 2022 the court entered an order staying discovery pending its ruling on the defendant's motion to dismiss.

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 outcome or possible recovery, if any, associated with the resolution of this litigation, and, accordingly, the Company has made no provision related to this matter in the consolidated financial statements.

Commitments

In April 2020, the Company entered into an amendment to its employment agreement, dated January 1, 2017, with Paul Gavin (the "Amendment"), to extend the term of employment to December 31, 2021, provide for an annual base salary of \$400,000 provide for a performance bonus structure for a bonus of up to 50% of base salary upon the Company's achievement of \$2,000,000 EBITDA and additional performance bonus payments for the achievement of EBITDA in excess of \$2,000,000 based on a percentage of the incremental increase in EBITDA (ranging from 10% of the incremental increase in EBITDA if the Company achieves over \$2,000,000 and up to \$7,000,000 in EBITDA, 8% of the incremental increase in EBITDA if the Company achieves over \$7,000,000 and up to \$12,000,000 in EBITDA and 3% of the incremental increase in EBITDA over \$12,000,000), provide for a profits-based additional bonus of up to \$250,000 in certain limited circumstances, and provide for one (1) year severance, plus a pro-rated amount of any unpaid bonus earned by him during the year as verified by the Company's principal financial officer, if Mr. Galvin is terminated without cause. At the Company's option, up to fifty (50%) percent of the EBITDA performance bonuses may be paid in restricted stock units if then available for grant under the Company's Stock Incentive Plan. All other terms of the employment agreement remain in full force and effect.

17. Subsequent Events

Subsequent to March 31, 2022, SG Echo, a subsidiary of SG Blocks, has broadened its relationship with a private client and received a purchase order for its largest contract to date. The purchase order is for more than 100 units and the Company expects to generate approximately \$6 million dollars of revenue from this contract. The units are scheduled to be completed by the end of Q2 2022.

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 unaudited condensed consolidated financial statements and related notes and schedules included elsewhere in this Quarterly Report on Form 10-Q and with our audited condensed consolidated financial statements and notes for the year ended December 31, 2021, which were included in our Annual Report on Form 10-K for the year then ended December 31, 2021, as filed with the Securities and Exchange Commission (the "SEC") on April 18, 2022 (the "2021 Form 10-K"). This discussion, particularly information with respect to our future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading "Special note regarding forward-looking statements" in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading "Risk Factors" in this Quarterly Report on Form 10-Q for a discussion for important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements.

Special note regarding forward-looking statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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, the impact of COVID-19, and related government "shelter-in-place" mandates and other restrictions on business and commercial activity and the adequacy of our insurance coverage; our ability to comply with the requirements of being a public company; 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 1A. Risk Factors" to this Quarterly Report on Form 10-Q as well as our 2021 Form 10-K, and other filings with the Securities 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. Forward-looking statements speak only as of the date of this report. 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.

Overview

We are a provider of Modular (as defined below) facilities. Prior to the COVID-19 pandemic, the Modules we supplied were primarily for retail, restaurant and military use and were manufactured by third party suppliers using our proprietary technology and design and engineering expertise, which modifies code-engineered cargo shipping containers and purpose-built modules for use for safe and sustainable commercial, industrial and residential building. With our acquisition in September 2020 of Echo DCL, LLC (“Echo”), one of our key supply chain providers, we now have more control over the manufacturing process and have increased our product offerings to add Modules made out of wood. In March 2020, in response to the COVID-19 pandemic we began increasing our focus on providing our Modules as health care facilities for deployable medical response solutions. Our partnership with Clarity Lab Solutions, LLC (“Clarity Labs”) in Boca Raton, Florida, a CLIA-certified laboratory, has allowed us to provide laboratory testing in our Modules. During 2021, we also began to focus on acquiring property to build multi-family housing communities that allows us to utilize the manufacturing services of Echo.

Prior to October 2019, our business model was solely a project-based construction model pursuant to which we were responsible for the design and construction of finished products that incorporated our technology primarily to customers in the retail, restaurant, military and education industries throughout the United States. In October 2019, we changed our business model for our residential building construction to a royalty fee model and entered into a five-year exclusive license with CPF GP 2019-1 LLC (“CPF”) under which CPF licensed on an exclusive basis our proprietary technology and intellectual property to develop and commercialize products in the United States (and its territories) for residential use, including, without limitation, single-family residences and multi-family residences, but excluding military housing. On June 15, 2021, we terminated the exclusive license by mutual agreement and ceased our royalty fee model.

Prior to the COVID-19 pandemic, our core customer base was comprised of architects, landowners, builders and developers who use our Modules in commercial and residential structures. Our cargo modified Modules allow for the redesign, repurpose and conversion of heavy-gauge steel cargo shipping containers into SGBlocks™, which are safe green building blocks for commercial, industrial, and residential building construction, rather than consuming new steel and lumber. Our technology and expertise is also used to purpose-build modules, or prefabricated steel modular units customized for use in modular construction (“SGPBMs” and, together with SGBlocks™, “Modules”), primarily to augment or complement an SGBlocks™ structure.

In March 2020, we began increasing our focus on providing our Modules as health care facilities for deployable medical response solutions. In May, we entered into a joint development agreement with Grimshaw Design to assist with the deployment of our D-Tec suite of prefabricated health facilities for on-site immediate COVID-19 testing. In September 2020, we entered the U.S. test lab market by forming a joint venture with Clarity Labs, a manufacturer and market leader of rapid diagnostic tests, to launch CLIA-certified laboratories. Our joint venture with Clarity Labs has allowed us to not only supply our D-Tec suite of prefabricated health facilities but also allows us to provide testing services at such facilities. We have supplied our building modular coronavirus testing centers and provide testing services for Los Angeles International Airport (LAX), Memorial in Wayne County, Michigan and have been selected as a Trusted Testing Partner (TTP) for Hawaii’s COVID-19 travel testing program.

In September 2020, we acquired substantially all the assets of Echo, a Texas limited liability company, except for Echo's real estate holdings for which we obtained a right of first refusal. Echo is a container/modular manufacturer based in Durant, Oklahoma specializing in the design and construction of permanent modular and temporary modular buildings and was one of our key supply chain partners. Echo catered to the military, education, administration facilities, healthcare, government, commercial and residential customers. This acquisition has allowed us to expand our reach for our Modules and has offered us an opportunity to vertically integrate a large portion of our cost of goods sold, as well as increase margins, productivity and efficiency in the areas of design, estimating, manufacturing and delivery.

Results of Operations

Our operations for the three months ended March 31, 2022 and 2021 may not be indicative of our future operations.

Three Months Ended March 31, 2022 and 2021:

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021
Total Revenue	\$ 8,604,598	\$ 9,187,627
Total Cost of revenue	(6,118,163)	(8,631,002)
Total Operating expenses	(2,067,543)	(1,718,082)
Total Operating profit (loss)	418,892	(1,161,457)
Total Other income (expense)	82,836	17,107
Add: Net profit attributable non-controlling interests	1,218,905	889,527
Net loss attributable to common stockholders of SG Blocks, Inc.	\$ (717,177)	\$ (2,033,877)

Revenue

During the quarter ended March 31, 2022, we derived revenue from the following three categories of sources: construction services, engineering services and medical revenue. The medical revenue source was a new source that commenced operations in the fourth quarter of 2020 and continued with strong revenue related to COVID-19 samples collected from our Clarity Mobile joint venture in the first quarter 2022. Total revenue for the three months ended March 31, 2022 was \$8,604,598 compared to \$9,187,627 for the three months ended March 31, 2021. This decrease of \$583,029 or approximately 6% was mainly driven by a decrease in revenue of approximately \$1,512,894 in construction revenue partially offset by an increase in medical revenue of \$929,865.

Cost of Revenue and Gross Profit

Cost of revenue was \$6,118,163 for the three months ended March 31, 2022, compared to \$8,631,002 for the three months ended March 31, 2021. The decrease of \$2,512,839 or a decrease of approximately 29%, was due to lower procurement and manufacturing costs of modifying containers and wood modular units, due to a decrease in the number of construction jobs in progress during the period. Partially offset by higher medical related testing volumes which required an increase in procurement of COVID-19 tests and testing supplies.

Gross profit was \$2,486,435 and \$556,625 for the three months ended March 31, 2022 and 2021, respectively.

Gross profit margin percentage increased to approximately 29% for the three months ended March 31, 2022 compared to approximately 6% for the three months ended March 31, 2021.

Payroll and Related Expenses

Payroll and related expenses for the three months ended March 31, 2022 were \$1,144,187 compared to \$827,522 for the three months ended March 31, 2021. This increase was primarily caused by an increase of approximately \$362,904 in stock-based compensation expense partially offset by a \$46,239 decrease in salaries.

Other Operating Expenses (General and administrative expenses, Marketing and business development expense, and Pre-project expenses)

Other operating expenses (general and administrative expenses, marketing and business development expenses, pre-project expenses) for the three months ended March 31, 2022 were 923,356 compared to 890,560 for the three months ended March 31, 2021.

Other Income (Expense)

Interest income for the three months ended March 31, 2022 was \$12,783 mainly derived from bank interest and interest associated with an outstanding note receivable. There was \$17,470 of interest income for the three months ended March 31, 2021. Interest expense for the three months ended March 31, 2022 and 2021 was \$48,849 and \$363, respectively.

Income Tax Provision

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

Impact of Inflation

The impact of inflation upon the Company's revenue and income (loss) from continuing operations during each of the past two fiscal years has not been material to its financial position or results of operations for those years because the Company does not maintain any inventories whose costs are affected by inflation.

Impact of Coronavirus (COVID-19)

With the global spread of the ongoing novel coronavirus ("COVID-19") pandemic beginning in 2020, we have implemented business continuity plans designed to address and mitigate the impact of the COVID-19 pandemic on our employees and business. The worldwide spread of the COVID-19 virus has resulted in a global slowdown of economic activity, which is likely to decrease demand for a broad variety of goods and services, including from our customers, while also resulting in delays in projects due to labor shortages and supplier disruptions for an unknown period of time until the disease is contained. To date, we have experienced some delays in projects due to COVID-19, which we expect to have an impact on our revenue and our results of operations, the size and duration of which we are currently unable to predict. Any quarantines, the timing and length of containment and eradication solutions, travel restrictions, absenteeism by infected workers, labor shortages or other disruptions to the suppliers and contract manufacturers or customers would likely adversely impact our sales, and operating results and result in further project delays. In addition, the pandemic could result in an economic downturn that could affect the ability of our customers and licensees to obtain financing and therefore impact demand for our products. Order lead times could be extended or delayed and increases we have experienced in pricing could continue to increase. Some products or services may become unavailable if the regional or global spread were significant enough to prevent alternative sourcing. Accordingly, we are considering alternative product sourcing in the event that product supply becomes problematic. We expect this global pandemic to have an impact on our revenue and results of operations, the size and duration of which we are currently unable to predict. In addition, to the extent the ongoing COVID-19 pandemic adversely affects our business and results of operations, it may also have the effect of heightening many of the other risks and uncertainties which we face.

Liquidity and Capital Resources

As of March 31, 2022 and December 31, 2021, we had an aggregate of \$13,146,418 and \$13,024,381, respectively, of cash and cash equivalents and short-term investments.

Historically, our operations have primarily been funded through proceeds from equity and debt financings, as well as revenue from operations.

In June 2017, we completed a public offering, resulting in net proceeds of approximately \$6,800,000 after deducting underwriting discounts and commissions and other expenses. In July 2017, in connection with a public offering, the underwriters exercised their option to purchase 11,250 additional shares of common stock. As a result of the exercise and closing of the option to purchase additional shares, total net proceeds from the public offering were approximately \$7,900,000 after deducting underwriting discounts and commissions and related expenses.

In April 2019, we issued 42,388 shares of our common stock at a price of \$22.00 per share through a Securities Purchase Agreement with certain institutional investors and accredited investors.

In August 2019, we issued 45,000 shares of our common stock at a price of \$17.00 per share pursuant to the terms of an Underwriting Agreement to the public.

Liquidity and Capital Resources (continued)

In December 2019, we completed the public offering where we issued 857,500 shares of common stock at a public offering price of \$3.00 per share resulting in net proceeds of approximately \$2,117,948 after deducting underwriting discounts and commissions and other expenses. In our November 2019 debt financing, we received a cash payment in the aggregate amount of \$375,000 pursuant to a Securities Purchase Agreement that we entered into with RedDiamond Partners LLC (the "Lender"), and we issued to the Lender a Debenture (the "Debenture") in the aggregate principal amount of \$480,770 (representing an original issue discount of 22%), which Debenture was secured by a security interest in all of our existing and future assets, subject to existing security interests and exceptions. We received net proceeds of approximately \$326,250 after deducting certain fees due to the placement agent and certain transaction expenses. The Debenture was repaid in full out of the proceeds of our December 2019 public offering.

On February 4, 2020, we entered into a Securities Purchase Agreement with an accredited investor, pursuant to which we issued to the investor a secured note in the aggregate principal amount of \$200,000 (the "Note"). The Note bears interest at a rate of nine percent (9%) per annum, is due on July 31, 2023, and is secured under a Pledge Agreement, dated February 4, 2020, entered into with the investor (the "Pledge Agreement") by a security interest in the royalty payable to us under that certain Exclusive License Agreement, dated October 3, 2019, with CPF GP 2019-1 LLC. We have the right to prepay the Note, in whole or in part, at any time and from time to time, without premium or penalty. During the third quarter of 2020, the Note to investor of \$200,000 and unpaid accrued interest of \$86,263 was converted into 73,665 shares of common stock.

In April 2020, we completed a public offering where we issued 440,000 shares of common stock at a public offering price of \$4.25 per share, which resulted in net proceeds of approximately \$1,522,339, after deducting underwriting discounts and commissions and other expenses related to the offering.

In May 2020, we sold an aggregate of 6,900,000 shares of our common stock at a public offering price of \$2.50 per share and on May 15, 2020, and received total net proceeds after deducting underwriting discounts and commissions and other offering expenses payable by us, were approximately \$15,596,141.

In October 2021, we see we received aggregate gross proceeds of \$11.55 million from our issuance to an investor (A) in a registered direct offering of (i) 975,000 shares of our common stock and (ii) pre-funded warrants to purchase an aggregate of 2,189,384 shares of common stock and (B) in a concurrent private placement Series A warrants to purchase up to 1,898,630 shares of Common Stock.

We continue to generate losses from operations. At March 31, 2022 and December 31, 2021 we had a cash balance and short-term investment of \$13,146,418 and \$13,024,381, respectively. As of March 31, 2022, our stockholders' equity was \$21,632,603, compared to \$21,715,789 as of December 31, 2021. Our net loss for the three months ended March 31, 2022 was \$717,177 and net cash provided by operating activities was \$3,257,027. We anticipate our cash balance is sufficient to last at least twelve months from the date of this Quarterly Report on Form 10-Q.

We may need to generate additional revenues or secure additional financing sources, such as debt or equity capital, to fund future growth, which financing may not be available on favorable terms or 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.

Cash Flow Summary

	Three Months Ended March 31,	
	2022	2021
Net cash provided by (used in):		
Operating activities	\$ 3,257,027	\$ (2,183,116)
Investing activities	(1,860,990)	(990,388)
Financing activities	(1,274,000)	703,438
Net increase (decrease) in cash and cash equivalents	\$ 122,037	\$ (2,470,066)

Operating activities provided net cash of \$3,257,027 during the three months ended March 31, 2022, and used net cash of \$2,183,116 during the three months ended March 31, 2021. Generally, our net operating cash flows fluctuate primarily based on changes in our profitability and working capital. Cash used in operating activities increased by approximately \$5,440,143.

Investing activities used net cash of \$1,860,990 during the three months ended March 31, 2022, and \$990,388 net cash in the three months ended March 31, 2021 an increase in cash used of \$870,602.

Financing activities used net cash of \$1,274,000 during the three months ended March 31, 2022. Financing activities provided \$703,438 net cash during the three months ended March 31, 2021.

We provide services to our construction and engineering customers in three separate phases: the design phase, the architectural and engineering phase and the construction phase. Each phase is independent of the other, but builds through a progression of concept through delivery of a completed structure. These phases may be embodied in a single contract or in separate contracts, which is typical of a design build process model. As of March 31, 2022, we had ten projects totaling \$7,591,863 under contract. Of these contracts, all ten projects combine all three phases or parts thereof and including construction. We expect that all of this revenue will be realized by December 31, 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. Our backlog increased by approximately \$4,373,954 from December 31, 2021 to March 31, 2022. We expect that all of this revenue will be realized by December 31, 2022. Backlog does not include COVID tests or testing services provided through our joint venture, Clarity Mobile Venture.

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

Off-Balance Sheet Arrangements

As of March 31, 2022 and December 31, 2021, we had no material off-balance sheet arrangements to which we are a party.

In the ordinary course of business, we enter into agreements with third parties that include indemnification provisions which, in our judgment, are normal and customary for companies in our industry sector. These agreements are typically with consultants and certain vendors. Pursuant to these agreements, we generally agree to indemnify, hold harmless, and reimburse indemnified parties for losses suffered or incurred by the indemnified parties with respect to actions taken or omitted by us. The maximum potential amount of future payments we could be required to make under these indemnification provisions is unlimited. We have not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of liabilities relating to these provisions is minimal. Accordingly, we have no liabilities recorded for these provisions as of March 31, 2022.

Critical Accounting Policies and New Accounting Pronouncements

Critical Accounting Estimates

Our condensed consolidated financial statements have been prepared using generally accepted accounting principles in the United States of America (“GAAP”). In connection with the preparation of the financial statements, we are required to make assumptions and estimates and apply judgments that affect the reported amounts of assets, liabilities, revenue, and expenses, and the related disclosures. We base our assumptions, estimates, and judgments on historical experience, current trends, and other factors that we believe to be relevant at the time the consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates, and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in “Note 3— Summary of Significant Accounting Policies” of the notes to our condensed consolidated financial statements included elsewhere in this report. We believe that the following accounting policies are the most critical in fully understanding and evaluating our reported financial results.

Share-based payments. We measure 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 the award is measured on the grant date. For non-employees, the fair value of the award is generally re-measured on interim financial reporting dates and vesting dates until the service period is complete. 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. We recognize 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.

Other derivative financial instruments. SGB 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 SGB’s own shares (physical settlement or net-share settlement), provided that such contracts are indexed to SGB’s own stock. SGB 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 SGB’s control) or (ii) give the counterparty a choice of net-cash settlement or settlement shares (physical settlement or net-cash settlement). SGB 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.

Critical Accounting Policies (continued)

Convertible instruments. SGB bifurcates conversion options from their host instruments and accounts for them as free-standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (i) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract; (ii) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable GAAP measures with changes in fair value reported in earnings as they occur; and (iii) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

SGB determined that the embedded conversion options that were included in the previously outstanding convertible debentures should be bifurcated from their host and a portion of the proceeds received upon the issuance of the hybrid contract has been allocated to the fair value of the derivative. The derivative was subsequently marked to market at each reporting date based on current fair value, with the changes in fair value reported in results of operations.

Revenue recognition – we determine, 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 we expect to be entitled in exchange for those goods or services. To achieve this core principle, we apply the following five steps in accordance with its revenue policy:

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

On certain contracts, we apply recognition of revenue over time, which is similar to the method we applied under previous guidance (i.e. percentage of completion). 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.

For product or equipment sales, we apply recognition of revenue when the customer obtains control over such goods, which is at a point in time.

On October 3, 2019, we entered into an Exclusive License Agreement (“ELA”) pursuant to which it granted an exclusive license for its technology as outlined in the ELA. The ELA is described below. Under the ELA, we will receive royalty payments based upon gross revenues earned by the licensee for commercialized products within the field of design and project management platforms for residential use, including single-family residences and multi-family residences, but excluding military housing. We have determined that the ELA grants the licensee a right to access our intellectual property throughout the license period (or its remaining economic life, if shorter), and thus recognizes revenue over time as the licensee recognizes revenue and we have the right to payment of royalties. No revenue has been recognized under the ELA for the three months ended March 31, 2022.

We entered into a joint venture agreement with Clarity Lab Solutions, LLC (“Clarity Labs”) (the “JV”) in the fourth quarter of 2020. Revenue from the activities of the JV is related to clinical testing services and is recognized when services have been rendered, which is at a point in time. In addition, we formed Chicago Airport Testing, LLC which collects rental revenue. Included in the consideration we expected to be entitled to receive, we estimate its contractual allowances, payer denials and price concessions. During the three months ending March 31, 2022, we recognized \$6,885,829 in revenue related to activities through the JV, which is included in medical revenue on the accompanying consolidated statements of operations.

Critical Accounting Policies (continued)

Goodwill – Goodwill represents the excess of reorganization value over the fair value of identified net assets upon emergence from bankruptcy. In accordance with the accounting guidance on goodwill, we perform our 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 value. Our evaluation of goodwill completed during the year ended December 31, 2021, resulted in no impairment loss. There was no impairment during the three months ended March 31, 2022.

Intangible assets – Intangible assets consist of \$2,766,000 of proprietary knowledge and technology which is being amortized over 20 years, \$97,164 of trademarks which is being amortized over 5 years, \$47,800 of website fees which is being amortized over 5 years. Our evaluation of intangible assets for impairment during the year ended December 31, 2021, determined that there were no impairment losses. There was no impairment during the three months ended March 31, 2022.

New Accounting Pronouncements

See Note 3 to the accompanying consolidated financial statements for all recently adopted and new accounting pronouncements.

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 loss on conversion of convertible debentures, change in fair value of financial instruments and stock 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.

Non-GAAP Financial Information (continued)

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net loss	\$ (717,177)	\$ (2,033,877)
Addback interest expense	48,849	363
Addback interest income	(12,783)	(17,470)
Addback depreciation and amortization	156,845	141,793
EBITDA (non-GAAP)	(524,266)	(1,909,191)
Addback litigation expense	114,383	81,219
Addback stock compensation expense	649,089	286,186
Adjusted EBITDA (non-GAAP)	<u>\$ 239,206</u>	<u>\$ (1,541,786)</u>

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures***Evaluation of Disclosure Controls and Procedures***

Management of SG Blocks, Inc., with the participation of our Principal Executive Officer who is also our 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 who is also our 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 who is also 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

Other than as described above, for the fiscal quarter ended March 31, 2022, there have been no changes in our internal control over financial reporting identified in connection with the evaluations required by Rule 13a-15(d) or Rule 15d-15(d) under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Interim Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The information included in "Note 16 - 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

Investing in our common stock involves a high degree of risk. You should consider carefully the following risks, together with all other information in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and notes thereto. If any of the following risks actually materializes, our operating results, financial condition and liquidity could be materially adversely affected. As a result, the trading price of our common stock could decline and you could lose part or all of your investment. The following information updates, and should be read in conjunction with, the information disclosed in Part I, Item 1A, "Risk Factors," contained in the Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 Form 10-K"). There have been no material changes from the risk factors disclosed in "Part I—Item 1A. Risk Factors" in our 2021 Form 10-K, except as follows:

If we are not successful in our efforts to increase sales or raise capital, we could experience a shortfall in cash over the next twelve months, and our ability to obtain additional financing on acceptable terms, if at all, may be limited.

At March 31, 2022 and December 31, 2021, we had cash and cash equivalents and a short-term investment, collectively, of \$13,146,418 and \$13,024,381, respectively. However, during the three months ended March 31, 2022 and year ended December 31, 2021, we reported a net loss of \$717,177 and \$10,832,674, respectively, and provided \$3,257,027 and used \$662,759 of cash for operations, respectively. If we are not successful with our efforts to increase revenue, we could experience a shortfall in cash over the next twelve months. If there is a shortfall, we may be forced to reduce operating expenses, among other steps, all of which would have a material adverse effect on our operations going forward.

We may also seek to obtain debt or additional equity financing to meet any cash shortfalls. The type, timing and terms of any financing we may select will depend on, among other things, our cash needs, the availability of other financing sources and prevailing conditions in the financial markets. However, there can be no assurance that we will be able to secure additional funds if needed and that, if such funds are available, the terms or conditions would be acceptable to us. If we are unable to secure additional financing, further reduction in operating expenses might need to be substantial in order for us to ensure enough liquidity to sustain our operations. Any equity financing would be dilutive to our stockholders. If we incur debt, we will likely be subject to restrictive covenants that significantly limit our operating flexibility and require us to encumber our assets. If we fail to raise sufficient funds and continue to incur losses, our ability to fund our operations, take advantage of strategic opportunities, or otherwise respond to competitive pressures will be significantly limited. Any of the above limitations could force us to significantly curtail or cease our operations, and you could lose all of your investment in our common stock. These circumstances have raise substantial doubt about our ability to continue as a going concern, and continued cash losses may risk our status as a going concern. Our consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

The loss of one or a few customers could have a material adverse effect on us.

A few customers have in the past, and may in the future, account for a significant portion of our revenues in any one year or over a period of several consecutive years. For example, for the three months ended March 31, 2022 approximately 90% of our revenue was generated from two customers and for the year ended December 31, 2021, approximately 80% of our revenue was generated from one customers. Although we have contractual relationships with many of our significant customers, our customers may unilaterally reduce or discontinue their contracts with us at any time. The loss of business from a significant customer could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We rely on certain vendors to supply us with materials and products that, if we were unable to obtain, could adversely affect our business.

We have relationships with key materials vendors, and we rely on suppliers for our purchases of products from them. Any inability to obtain materials or services in the volumes required and at competitive prices from our major trading partners, the loss of any major trading partner or the discontinuation of vendor financing (if any) may seriously harm our business because we may not be able to meet the demands of our customers on a timely basis in sufficient quantities or at all. Other factors, including reduced access to credit by our vendors resulting from economic conditions, may impair our vendors' ability to provide products in a timely manner or at competitive prices. We also rely on other vendors for critical services such as transportation, supply chain and professional services. Any negative impacts to our business or liquidity could adversely impact our ability to establish or maintain these relationships. For the three months ended March 31, 2022 and for the year ended December 31, 2021, there were no vendors, which represented 10% or more of our cost of revenue.

Our clients may adjust, cancel or suspend the contracts in our backlog; as such, our backlog is not necessarily indicative of our future revenues or earnings. In addition, even if fully performed, our backlog is not a good indicator of our future gross margins.

Backlog represents the total dollar amount of revenues we expect to record in the future as a result of performing work under contracts we have been awarded. 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. We include in backlog only those contracts for which we have reasonable assurance that the customer can obtain the permits for construction and can fund the construction. As of December 31, 2021, our backlog totaled approximately \$3.2 million and as of March 31, 2022, our backlog totaled approximately \$7.6 million. Our backlog is described more in detail in "Note 11—Construction Backlog" of the notes to our consolidated financial statements included elsewhere in this Quarterly Report. We cannot provide assurance that our backlog will be realized as revenues in the amounts reported or, if realized, will result in profits. In accordance with industry practice, substantially all of our contracts are subject to cancellation, termination or suspension at our customer's discretion. In the event of a project cancellation, we generally would not have a contractual right to the total revenue reflected in our backlog. Projects can remain in backlog for extended periods of time because of the nature of the project and the timing of the particular services required by the project. In addition, the risk of contracts in backlog being cancelled or suspended generally increases during periods of widespread economic slowdowns or in response to changes in commodity prices.

The contracts in our backlog are subject to changes in the scope of services to be provided and adjustments to the costs relating to the contracts. The revenue for certain contracts included in backlog is based on estimates. Additionally, our performance of our individual contracts can affect greatly our gross margins and, therefore, our future profitability. We can provide no assurance that the contracts in backlog, assuming they produce revenues in the amounts currently estimated, will generate gross margins at the rates we have realized in the past.

The issuance of shares of our common stock upon the exercise of outstanding options, warrants and restricted stock units may dilute the percentage ownership of the then-existing stockholders and may make it more difficult to raise additional equity capital.

At March 31, 2022, there were restricted stock units, options and warrants to purchase of 2,245,186, 36,436 and 2,025,520, respectively, outstanding that could potentially dilute future net income per share. Because we had a net loss as of March 31, 2022, we are prohibited from including potential shares of common stock in the computation of diluted per share amounts. Accordingly, we used the same number of shares outstanding to calculate both the basic and diluted loss per share. At March 31, 2021, there were options, including options to non-employees and non-directors, restricted stock units and warrants to purchase 36,436, 884,343 and 128,090 shares of common stock, respectively, outstanding that could potentially dilute future net income per share.

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

None that have not been previously disclosed in our filings with the SEC.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of SG Blocks, Inc. (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on July 7, 2016 (File No. 000-22563)).
3.2	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (incorporated herein by reference to Exhibit 3.2 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on July 7, 2016 (File No. 000-22563)).
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of SG Blocks, Inc. (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on February 28, 2017 (File No. 000-22563)).
3.4	Certificate of Amendment to Certificate of Designation, dated May 11, 2017 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on May 12, 2017 (File No. 001-38037)).
3.5	Certificate of Elimination of Series A Convertible Preferred Stock, dated December 13, 2018 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on December 17, 2018 (File No. 001-38037)).
3.6	Certificate of Amendment to the Amended and Restated Certificate of Incorporation dated June 5, 2019 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on June 5, 2019 (File No. 001-38037)).
3.7	Form of Certificate of Designation of the Series B Convertible Preferred Stock (incorporated herein by reference to Exhibit 3.7 to the Registration Statement on Form S-1/A (File No. 333-235295) as filed by SG Blocks, Inc. with the Securities and Exchange Commission on December 9, 2019).
3.8	Certificate of Amendment to the Amended and Restated Certificate of Incorporation, as amended, of SG Blocks, Inc. (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on February 5, 2020 (File No. 001-38037)).
3.9	Amended and Restated Bylaws of SG Blocks, Inc. dated June 4, 2021 (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K as filed by SG Blocks, Inc. with the Securities and Exchange Commission on June 7, 2021 (File No. 001-38037)).
31.1+	Certification by Chief Executive Officer and Interim Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification by Chief Executive Officer and Interim Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	Inline 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+	Inline XBRL Taxonomy Extension Schema Document.
101.CAL+	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

+ **Filed herewith.**

* This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

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

SG BLOCKS, INC.

(Registrant)

Date: May 24, 2022

By: /s/ Paul M. Galvin

Paul M. Galvin

Chairman of the Board, Chief Executive Officer and Interim Chief
Financial Officer

(Principal Executive Officer, Principal Financial Officer and
Principal Accounting Officer)

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

I, Paul M. Galvin, certify that:

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

Date: May 24, 2022

/s/ Paul M. Galvin

Paul M. Galvin
Chairman, Chief Executive Officer and Interim Chief Financial
Officer
(Principal Executive Officer, Principal Financial Officer and
Principal Accounting 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 quarter ended March 31, 2022 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 the Interim Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

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

May 24, 2022

/s/ Paul M. Galvin

Name: Paul M. Galvin
Title: Chairman, Chief Executive Officer and Interim Chief
Financial Officer
(Principal Executive Officer, Principal Financial Officer
and Principal Accounting 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 (the "Exchange Act"), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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.