

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

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2016

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: **033-02783-S**

**SIGMA LABS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**27-1865814**

(I.R.S. Employer  
Identification Number)

**3900 Paseo del Sol**

**Santa Fe, New Mexico 87507**

(Address of principal executive offices)

**(505) 438-2576**

(Registrant's telephone number, including area code):

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

Title of each class  
**Common Stock, par value \$0.001 per share**  
**Warrants to Purchase Common Stock,**  
**par value \$0.001 per share**

Name of each exchange on which registered  
**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None.

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

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and, will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. \$16,641,690.

The outstanding number of shares of common stock as of March 31, 2017 was 4,570,199, after giving effect to the 1-for-2 reverse stock split of the outstanding shares of the registrant’s common stock effected on February 15, 2017.

Documents incorporated by reference: Portions of the registrant’s definitive proxy statement relating to its 2017 annual meeting of stockholders (the “2017 Proxy Statement”) are incorporated by reference into Part III of this Annual Report on Form 10-K. The 2017 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

SIGMA LABS, INC.

FORM 10-K — FISCAL YEAR ENDED DECEMBER 31, 2016

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## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Report, including any documents which may be incorporated by reference into this Report, contains “Forward-Looking Statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “Forward-Looking Statements” for purposes of these provisions, including any projections of revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All Forward-Looking Statements included in this document are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any Forward-Looking Statement. In some cases, Forward-Looking Statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “intends,” “believes,” “estimates,” “potential,” or “continue,” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the Forward-Looking Statements contained herein are reasonable, there can be no assurance that such expectations or any of the Forward-Looking Statements will prove to be correct, and actual results could differ materially from those projected or assumed in the Forward-Looking Statements. Future financial condition and results of operations, as well as any Forward-Looking Statements are subject to inherent risks and uncertainties, including any other factors referred to in our press releases and reports filed with the Securities and Exchange Commission (“SEC”). All subsequent Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are described under “Risk Factors” and elsewhere in this report.

### Introductory Comment

Throughout this Annual Report on Form 10-K, unless otherwise indicated or the context otherwise requires, the term “B6 Sigma” refers to B6 Sigma, Inc., a Delaware corporation, which, until the short-form merger referenced below, was our wholly-owned, operating company acquired in September 2010; the terms the “Company,” “Sigma,” “we,” “us” and “our” refer to Sigma Labs, Inc., together with B6 Sigma, Inc. Prior to December 29, 2015, we conducted substantially all of our operations through B6 Sigma. On December 29, 2015, we completed a short-form merger of B6 Sigma into Sigma. As a result, B6 Sigma became part of Sigma and no longer exists as a subsidiary.

## PART I

### ITEM 1. BUSINESS.

#### Summary

Sigma is a software company that has developed quality assurance software known as PrintRite3D®, which Sigma believes solves the major problems that have prevented large-scale metal part production using 3D printers...real-time computer-aided inspection (CAI). GE Aviation, for example, has stated that it plans to commit \$3.5 billion by 2020 to, among other things, build a metal 3D production facility for its Leap engine and other engines to produce the applicable 3D printed parts. However, without companies like GE Aviation effectively being able to check each part for shape, density, strength and consistency real-time during the manufacturing process, we believe that such companies will not be able to address the major problems currently preventing large-scale metal 3D production. We believe that our software, which is positioned “inside” the 3D metal printer, solves these problems by assuring each part is being made to the specifications of the computer file *as it is being made*. We enable 3D prototyping to become 3D manufacturing. Instead of performing quality assurance (“QA”) post production, our PrintRite3D® software could fundamentally redefine conventional QA by embedding quality assurance and process control into the manufacturing process in real time. We have filed patent applications directed to our In-Process Quality Assurance™ (“IPQA®”) procedure for advanced manufacturing. In addition, we anticipate that our core PrintRite3D® software will enable our customers to combine their advanced manufacturing technologies with our 3D manufacturing QA to achieve both cost savings and stronger parts. Vertical markets that we believe would benefit from our technology and software include aerospace, defense, bio-medical, power generation, and oil & gas industries. We provide our software products to customers in the form of Software as a Service (“SaaS”).

#### About 3D Printing

3D printing (“3DP”) or additive manufacturing (“AM”) is changing the world by going directly from computer graphics to real parts. 3D printing has been applied to the manufacture of plastic parts for several years. 3D manufacturing of metal parts involves directing a laser or other energy source at a layer of powdered metal and melting it. These layers become melted together from the bottom up. Revenues attributable to 3D manufacturing for metal products were \$88.1 million in 2015 (Wohlers Report 2016, 3D Printing and Additive Manufacturing State of the Industry – Annual Worldwide Progress Report).

The application of 3D printing to high-tolerance, precision manufactured metal parts has only recently emerged. 3D printing of metal parts today represents only a minor percentage of all 3D manufacturing. However, we believe the greatest future growth for 3D printing appears to be in metal parts given the interest and investment being made by Fortune 100 companies, Federal government laboratories and agencies as well as university-based institutions. Emphasis from these high-end manufacturers and technology leaders is strongly focused on quality and precision manufacturing for high-tolerance parts. We believe the on-going success of 3D printing for metal parts will be highly dependent upon the quality assurance procedure used such as our PrintRite3D® methodology.

#### **About Quality Assurance in 3D Printing**

Current methods for providing quality are cost prohibitive because approximately 25% of parts produced by 3D printing need to be destroyed in the post-production quality control process. Additional costs are incurred by using non-traditional x-ray scanning technology on these parts. We offer our clients the ability to use real-time sensors to track each layer, and our software continuously analyzes the part so that when it is finished we know if it is production quality. We believe our PrintRite3D® software could reduce inspection costs by a factor of 10 and development time for new parts by 50% or more.

By using PrintRite3D® software, a high-precision manufacturer would have the ability to offer its customers, on an exclusive basis, product guarantees and assurances that its product was produced in compliance with stringent quality requirements. Initial orders have been received from GE Aviation, Honeywell Aerospace, Aerojet Rocketdyne, Woodward, Siemens and Pratt & Whitney.

We believe there is potential for our PrintRite3D® software to be incorporated into a majority of 3D metal printing devices made by companies like Electro-Optical Systems (“EOS”), Additive Industries, Concept Lasers, Trumpf Lasers, Renishaw, Sentrol, Farsoon and others.

#### **Sigma’s Cloud-Based IIoT Solutions**

The process of making a 3D printed part could start with our customers loading a CAD model of the part into the Cloud shown in “A” in Figure 1. Next, CAE/CAM instructions are sent to the 3D printer (see “B”, as shown in Figure 1). Metal powder in the machine is then deposited onto the build platform where a laser beam or other energy focused onto the build platform melts each successive layer of powder in 20-50 micron increments. Our CAI sensors (see “C” in Figure 1) detect, record, analyze and compare the part as it is being made layer-by-layer against the CAD specifications and physical reference points for quality assurance during the manufacturing. Our software certifies the shape, strength, and internal density of each part, which eliminates the need to: (1) destroy a large percentage of the parts during process validation and in post-production quality assurance; and (2) retain all of the metal as opposed to cutting pieces and wasting metal.

Our PrintRite3D® CAI web-based software (see “D” in Figure 1) is being designed to reside in the Cloud (see “A” in Figure 1) of the Industrial Internet of Things (“IIoT”). We enable manufacturing engineers to assure the part quality layer-by-layer, provide for manufacturing statistical process control and harvest, aggregate, and analyze Big Data from the manufacturing real-time data collected from our PrintRite3D® SENSORPAK™ (see “C” in Figure 1), as well as post-process manufacturing data collected by our customers (see “E” in Figure 1).

Our specialized sensor suite (see “C” in Figure 1), known as PrintRite3D® SENSORPAK™, is an IIoT-compliant edge computing device. It contains the modular hardware and software necessary to connect to “cyber-physical” objects (see “B” in Figure 1) living on the manufacturing floor. It allows for bi-directional information flow between the manufacturing floor and the Cloud (see “A” in Figure 1). It starts a million-fold data reduction that finishes with our PrintRite3D® CAI software, which provides customers with product guarantees and assurances that parts were produced in compliance with stringent quality standards. It can collect, analyze, aggregate, filter, and then further communicate data from the manufacturing floor to the Cloud (see “A” in Figure 1) and enable links to other areas (see “F” in Figure 1) of the IIoT.

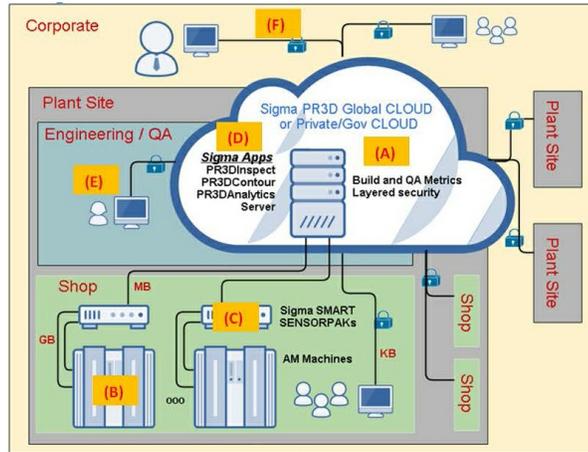


Figure 1. Sigma's Industrial IoT / PrintRite3D® Cloud Architecture

### Business Activities and Industry Applications

Our principal business activities include the continued development and commercialization of our PrintRite3D® suite of software apps, with our main focus currently on the 3DP and the AM industry as well as making operational the contract additive manufacturing business for metal 3DP. Our strategy is to continue to leverage our advanced manufacturing knowledge, experience and capabilities through the following means:

- Identify, develop and commercialize our quality assurance software Apps for advanced manufacturing technologies designed to assure part quality in real time as the part is being made and improve process control practices for a variety of industries;
- Provide manufacturing process engineering consulting services in respect of our PrintRite3D® CAI quality assurance software Apps for advanced manufacturing to customers that have needs in developing next-generation technologies for advanced manufacturing technologies; and
- Build and run a contract manufacturing division for metal 3DP beginning with our EOS M290 state-of-the-art metal printer.

We are presently engaged in the following industry sectors:

- Aerospace and defense manufacturing; and
- Energy and power generation.

We also seek to be engaged in the following industry sectors and have begun to develop relationships with leading manufacturers in each such sector:

- Bio-medical manufacturing;
- Automotive manufacturing; and
- Other markets such as firearms and recreational equipment.

We generate revenues through PrintRite3D® hardware and sensor sales and CAI software licensing of our PrintRite3D® technology to customers that seek to improve their manufacturing production processes, and through ongoing annual software upgrades and maintenance fees. Additionally, we generate revenues from our contract manufacturing activities in metal AM. By running a contract AM services operation, we are able to understand the current needs of our customers and where they are going with their next-generation product development efforts. Contract AM further allows us a means for continuing/self-funding our IPQA®-enabled R&D and product development activities for PrintRite3D® CAI software. We provide our AM contract manufacturing services to customers in the form of Quality as a Service (“QaaS”). Starting with our PrintRite3D® cloud-based SaaS model, customers will contract with us for CAE, CAM and CAI services to generate and establish a digital quality record (“DQR”) for AM built parts. Each DQR is cloud-based and allows for archiving and storage of quality data, access to our big data ANALYTICS™ software App for continuous quality monitoring and improvement, and automatic industry benchmarking while maintaining firewalls between company-specific data.

In late 2015, we launched two programs— an Early Adopter Program (“EAP”) and an Original Equipment Manufacturer (“OEM”) Partner Program – designed to broaden our market presence and speed adoption of our PrintRite3D® technology. The EAP was designed to attract end user customers who have an existing, installed base of 3D metal printers and to offer them incentivized pricing in return for feedback on initial and beta releases of our PrintRite3D® software Apps. Our OEM Partner Program was specifically designed for AM machine manufacturers seeking to embed our PrintRite3D® quality assurance software Apps directly into their machines for customers purchasing a turnkey solution for their new AM machine purchases.

We possess the resident expertise to provide manufacturing materials and process (M&P) engineering services and support to companies using our PrintRite3D® software Apps for metal AM. Accordingly, in addition to our primary business focus, we intend to generate revenues by providing such manufacturing engineering services and support to businesses licensing our PrintRite3D® software Apps.

Additionally, our President and Chief Executive Officer has worked at or with the Edison Welding Institute, the United States Department of Energy (“DOE”) national laboratories (including the Knolls Atomic Power Laboratory, Bettis Atomic Power Laboratory, Los Alamos National Laboratory and Sandia National Laboratory) over the last 32 years. Due to his work with the DOE, our President and Chief Executive Officer has developed extensive relationships with the DOE and its network of national laboratories. Accordingly, we expect to leverage these relationships in connection with licensing and developing technologies created at such national laboratories for commercialization in the private sector.

#### **Early-Stage Technology Commercialization and Market Positioning**

Since our inception in 2010, we have made progress in bringing early-stage disruptive technology from scientific concept and curiosity to practical reality, as described below.

##### **PrintRite3D® Quality Assurance Software for Computer-Aided Inspection of Metal Additive Manufacturing.**

We believe that AM will significantly impact the manufacturing landscape. AM results in very efficient metal utilization for parts made on-demand, and utilizes a wide variety of rapid prototyping methods. As a result of AM, parts can go straight from computer-aided designs (CAD) and 3D computer models to actual, physical parts through the use of computer-aided engineering (CAE) and computer-aided manufacturing (CAM) steps. However, there are severe challenges in connection with 3D printing of metal parts. Current manufacturing processes are not capable of making every part right the first time. Also, process consistency and repeatability require further development for metal parts and this is a typical case for emerging technologies. Although many industry experts have lamented that 3D Printing for metal parts is limited in current applications, we are developing our IPQA®-enabled technology into a hardware and software suite of products for CAI of AM known as PrintRite3D®, which we expect will address some these shortcomings and enable mass production for metals AM technology to be realized sooner than would otherwise be possible given its current state of maturity. PrintRite3D® comprises a suite of CAI software apps that address the three fundamental problems facing metal AM today, namely: assuring the metal integrity or quality of the product; assuring the as-built geometry of the product; and, increasing the productivity or speed of the AM process.

### **Contract Manufacturing for Metal Additive Manufacturing.**

According to the Wohlers 2016 Annual Report, industry growth in the service provider segment in 2015 was an estimated \$2.8 billion, an increase of 33% from \$2.105 billion in 2014. This market segment grew by 38.9% in 2014, 26.3% in 2013, and 36.4% in 2012. End users are still in the early stages of adding metal AM systems to supply production parts to aerospace and defense OEMs, such as GE Aviation (“GEA”), Honeywell Aerospace, Pratt & Whitney, and Siemens Turbomachinery. We believe that most AM machines produced through 2016 are still not well suited for production applications. They have limited feedback measurement and control sensors to guarantee part quality real time. Some of the latest machines available, such as EOS’s M290 machine, are beginning to be sold with limited advanced measurement system capability.

We believe that this service provider market segment represents an opportunity for us to capture significant portions of the demand for metal production parts. Accordingly, we acquired our first EOS M290 metal printing machine in 2014. Using the M280 as its base, the M290 adds improved energy efficiencies, faster build times, and slightly larger build platform capabilities. Through our EOS M290 machine, our customers will gain the benefits of many years of M280-proven applications while accessing the latest in DMLS® technology, as well as receiving parts certifiably produced using our state-of-the-art PrintRite3D® quality assurance software Apps. We provide our AM contract manufacturing services to customers in the form of Quality as a Service.

A detailed description of our technologies and business follows.

### **PrintRite3D® Quality Assurance Software for Additive Manufacturing**

#### **The Market**

An area of increasing interest in the manufacturing world is AM or 3DP. AM is a method of producing functional parts directly from computer design or CAD files without any tooling or other processing.

The sale of AM products and services is expected to exceed \$8.8 billion worldwide in 2017. The AM industry is expected to grow to about \$15.8 billion in 2019. In 2021, the AM industry is forecasted to grow to about \$26.5 billion, all according to the Wohlers 2016 Annual Report.

Metal parts are a rapidly growing segment of this overall market space as AM or 3D printing moves from just making models to making actual, fully functional parts. Large end users such as Honeywell Aerospace, GEA and Boeing Defense view AM as an enabling process for many components. A recent report in a series by Deloitte University Press on additive manufacturing published in Fall 2015 titled, “3D Opportunity For Quality Assurance and Parts Qualification”, states that, “[o]ne of the most important barriers is the qualification of AM-produced parts. So crucial is this issue, in fact, that many characterize quality assurance (QA) as the single biggest hurdle to widespread adoption of AM technology, particularly for metal.” We believe that OEM end user companies as well as first-tier suppliers cannot achieve their long-term AM production goals without advanced quality assurance and control technologies for metal AM parts because current quality control methods are not sufficient to reliably allow cost-effective manufacturing of safety- and performance-critical metal parts. We believe that our PrintRite3D® CAI technology would directly address this “important barrier” for metal parts and allow such AM applications to move forward. In response to this need, we have experienced an increase in our installed base of PrintRite3D® systems and we are beginning to provide material & process engineering services and support for our PrintRite3D® software licenses for our installed base at GEA, Honeywell Aerospace, Spartacus3D, Additive Industries, Aerojet Rocketdyne, 3D Material Technologies, LLC, Woodward, Siemens, Pratt & Whitney, and the Edison Welding Institute (“EWI”).

We have ongoing contracts that include a Phase 3 project with Honeywell Aerospace funded by the Defense Advanced Projects Agency (“DARPA”) on the application of our PrintRite3D® technology to performance-critical AM metal parts for aerospace. This project is vitally important because it provided an early opportunity to demonstrate how our IPQA®-enabled PrintRite3D® software Apps will reduce our customers’ reliance on unnecessary post process inspection, ultimately reducing costs and improving quality for AM of highly critical aerospace metal components. Also, we were a participant on a GEA led team of companies and universities, which was awarded a research contract by the National Additive Manufacturing Innovation Institute (“NAMII” or America Makes) titled, “In-Process Quality Assurance™ for Laser Powder Bed Production of Aerospace Components”. The contract has the stated objective of maturing our In Process Quality Assurance™ (IPQA®) technology for aerospace applications by leveraging a development approach incorporating multiple AM OEM machines, multiple superalloys, and multiple product intent aerospace components. In support of this effort, we were awarded related contracts from the subcontractor Aerojet Rocketdyne to install one of our PrintRite3D® systems and software Apps on a Concept Laser M2 metal AM machine at Aerojet Rocketdyne’s Canoga Park, California facility, as well as a contract from Honeywell Aerospace to make initial test specimens for reliability and repeatability testing using our EOS M290 printer. We were also part of a large research team, led by the Edison Welding Institute that was awarded a grant funded by the National Institute of Standards (“NIST”) to ensure that quality parts are produced and certified for use in products made by a variety of industries and their supply chains. The emphasis was on providing tools needed for additive manufacturing applications to progress from prototype to serial production. This program was successfully completed in Fall 2015. We are currently a subcontractor to Honeywell Aerospace who was awarded a program in 2015 by America Makes which is designed to address Design for Additive Manufacturing (“DFAM”) issues. In support of this program, we will use our EOS M290 printer to build canonical shapes and mechanical test specimens for evaluation by Honeywell Aerospace.

### **Technology and Competitive Advantage**

The evolution of AM from prototyping to volume manufacturing in production runs is occurring in, and led by, aerospace while also appearing in niche products such as medical appliances and replacement parts of diverse applications, including unavailable parts required by still deployed but aging technologies. A major problem for 3D metal products production-run manufacturing today is that traditional quality systems rely heavily on after-manufacture inspection procedures that lack strong statistical reliability in small lot manufacturing. Post-production non-destructive test instruments from ultrasound to CT Scans are either not effective or not cost efficient on many complex part configurations that take advantage of 3D capability, and in the case of CT scans, are prohibitively expensive for production cost efficiency. The most important feature of our PrintRite3D® is that it develops actionable quality and process control data of manufacturing information in real-time and, when no flaws are detected, can provide manufacturers and their end-users with a part-by-part quality certification backed up by a file of supporting data.

Our PrintRite3D® suite, as described below, is composed of hardware, software, data analytics, and proprietary algorithms. The hardware is an array of photodiodes, non-contact pyrometer, and a data processing unit that can be either sold with an AM manufacturing machine unit by an OEM manufacturer or retrofitted on customers’ sites.

- PrintRite3D® SENSORPAK™ – the auxiliary sensor and hardware kit that sits on every AM machine to collect the data to drive the software.
- PrintRite3D® INSPECT™ – software which verifies quality layer by layer.
- PrintRite3D® CONTOUR™ – software which assures the as-built geometry.

The following software modules are currently in development:

- PrintRite3D® ANALYTICS™ – software that harvests, aggregates, and analyzes big data from in-process manufacturing data and post-process manufacturing data.
- PrintRite3D® THERMAL™ – software which predicts the residual stress and distortion in the part.

The proprietary software and its embedded algorithms process the very substantial quantity of layer by layer data gathered and then informs operators of the Quality Compliance status of each part in a build. We have been active in patent protecting our in-depth data analysis and quality algorithms to link our analysis to root cause metallurgy for determining the granular quantification of the part conformance to metallurgical requirements such as tensile strength. Concurrent with assessing the internal quality features of all parts in a build, PrintRite3D® deploys its CONTOUR™ module that measures each part’s adherence to the configuration specification of both internal channels and external form. OEM machine manufacturers as well as control system manufacturers may use the Sigma data stream to direct machine performance adjustments.

We have developed a tool that enables companies using Additive Manufacturing equipment for metal parts to move from prototyping on into production runs by assuring quality in a uniquely reliable and cost effective fashion. Not only does PrintRite3D® enable a single AM machine to operate at high quality yields, by measuring the product of the manufacturing equipment rather than just the equipment settings, it also is a reliable method to assure and document uniform quality assurance of a single part's specification being manufactured by factories utilizing a number of different AM machines.

We believe that the broad domain coverage of our PrintRite3D® patents and metallurgical know-how make the licensing of our product suite to be the best means by which Additive Manufacturing OEM equipment manufacturers can offer in-process-quality-monitoring that certifies and documents the quality of all parts that pass continuous inspection. PrintRite3D® provides 3D metal manufacturing equipment makers with a patent protected data configuration of information that the manufacturers may use to adjust controls of their equipment in response to real-time quality information by, for example, precisely adjusting laser power to sustain manufacturing to design and specification.

Our IPQA®-enabled PrintRite3D® software Apps appear well suited to meet the needs of metal AM at this critical juncture in its development. Our technology will allow metal AM to be used during manufacturing of safety-critical or performance-critical metal parts, such as used in aerospace, defense and biomedical. Currently, these applications are difficult because the part quality cannot be completely guaranteed using today's conventional nondestructive inspection technologies, because using inspection after manufacturing is difficult, costly and does not find all defects of concern. Therefore, we believe that PrintRite3D® could be an enabler for metal AM to realize its full potential. We have unique and patent protected offerings in this field. Furthermore, as a greater number of these AM applications could be cloud-based, the PrintRite3D® technology is fully compatible with highly networked, cloud- or web-based implementation – subject to the data and intellectual property restrictions which may be imposed by some companies for competitive reasons.

Our proprietary PrintRite3D® software Apps have been demonstrated and tested at many manufacturing sites around the world. We believe these demonstrations have served to validate the underlying technology of PrintRite3D® INSPECT™ and SENSORPAK™ software and hardware modules, respectively. In addition, we have developed relationships with experienced aerospace companies in North America that have assisted in the validation of the underlying technology for our PrintRite3D® software App known as CONTOUR™.

We continue to work with General Electric under our Joint Technology Development Agreement (“JTDA”), dated April 10, 2013, to demonstrate and implement our in-process inspection technologies for additive manufactured jet engine components. We are continuing to work with Honeywell Aerospace on the separate development of our PrintRite3D® CONTOUR™ software App for metal-based AM under our Trial Evaluation Agreement with Honeywell Aerospace, which sets forth the parties' intent to use Honeywell's Advanced Manufacturing Engineering Center as a beta test site for our PrintRite3D® CONTOUR™ software module. In further support of this effort, in 2015 Honeywell Aerospace installed its second PrintRite3D® system on one of its Concept Laser M2 machines at their Advanced Manufacturing Engineering Center in Phoenix, Arizona.

We have expanded our market presence and associated installed base of PrintRite3D® systems through our EAP and our OEM Partner Program to include European companies in France, Germany and The Netherlands. These European partners' installations are key to our long term strategy to broaden its installed base through our EAP as well as gain market presence through embedded OEM offerings of our PrintRite3D® technology. Our PrintRite3D® product commercialization efforts reflect the strategic nature of our selective alliance partnerships.

We believe PrintRite3D® is uniquely positioned to grow into this market as its technology is platform independent and deployable with all currently known metal AM manufacturing units.

## **Business Model**

Our current commercialization strategy for PrintRite3D® products is:

- Enter into early adopter license agreements with high potential future AM equipment manufacturers and complex part AM manufacturing service bureaus;
- Enter into OEM license agreements for PrintRite3D® to be manufactured directly into the printers of major AM equipment manufacturers;
- Provide manufacturing engineering consulting services to third parties that have needs in developing quality assurance tactical methods for manufacturing; and
- Build and run a contract manufacturing division for metal AM commencing with our EOS M290 state-of-the art metal printer.

PrintRite3D® is designed to run on different machine platforms which allow us to maximize our product offering to the entire AM metal market. The target markets include OEMs both on the AM software side as well as OEM machine producers and end users.

We believe another much needed area for AM metal parts manufacturing is in software Apps for reducing design and development cycle times, saving the end customer time and money. In support of that, in 2016, we entered into a Technology Development Agreement with 3DSIM, LLC of Park City, Utah, to pursue commercial metal AM software opportunities for rapid qualification and part certification. These software Apps could form the underpinnings and backbone of a conceptual software App known as THERMAL™. We expect in the future to attempt to develop and offer a PrintRite3D® suite of Apps which would be specifically developed to improve part designs and reduce traditional trial and error design approaches for features such as distortion control.

To summarize, we have formed an operating division focused on real-time, advanced quality assurance solutions for additive manufacturing thereby increasing the value of the AM part. Although in the past our revenues have been generated mainly through engineering consulting services we provided to third parties, We have generated revenues from December 2013 through December 2016 through sales and licensing of our PrintRite3D® systems and software.

## **Contract Manufacturing for Metal Additive Manufacturing**

### **The Market**

According to the Wohlers 2016 Report, in 2015 the Additive Manufacturing industry's primary and secondary worldwide revenues were \$7.024 billion, up 22% from 2014. Wohlers forecasts that AM's primary revenues alone will top \$8.8 billion in 2017. Our initial target market within this burgeoning marketplace is the production of metal parts. According to figures for 2015, revenues attributable to metals for AM are estimated to be over 17% of the total revenues in the AM markets.

As demand continues to increase for AM prototyping services, contract AM service bureau providers that can deliver low-rate initial production capacity, and as commercial companies in highly-regulated industries begin to gain regulatory acceptance for AM designed parts, we believe there is a burgeoning need for contract manufacturing services to produce these much need metal AM parts. The existing service bureau for AM parts has become much smaller today as a result of merger and acquisition activities since 2012, and we believe what remains is small, fragmented and less capable than the first generation of service bureau providers.

Also launched in 2015, Arete-Sigma is a joint venture targeting contract AM manufacturing as it anchors the Company's entry into day-to-day AM manufacturing. The Company is pursuing business opportunities away from the joint venture utilizing its EOS M290 printer or like machines.

## **Technology and Competitive Advantage**

We currently have an AM 3D metal printing facility that employs state-of-the-art technology from the leading provider of metal AM systems, Electro-Optical Systems. While our current printing capacity is limited, we believe that a unique selling point or competitive advantage is our PrintRite3D® technology. Our EOS M290 printer is outfitted with our latest PrintRite3D®-enabled technology allowing us to provide customers with the necessary objective evidence of compliance to design intent, or QaaS data package, to ensure they can meet compliance with their design intent and ultimately end-user performance requirements for their highly-critical and demanding components. Our Quality as a Service starts with our PrintRite3D® cloud-based SaaS model. Customers will contract with Sigma to generate and establish a digital quality record for AM built parts based on Design for Additive Manufacturing (“DFAM”) principles. Each DQR is cloud-based and allows for archiving and storage of quality data, access to our big data ANALYTICS™ software App for continuous quality monitoring and improvement, and automatic industry benchmarking while maintaining firewalls between company-specific data. Our QaaS service benefits our customers by providing independent quality assurance and increased process intelligence and access to our latest big data sophisticated and proprietary ANALYTICS™ software Apps for trending and additional manufacturing intelligence.

## **Business Model**

We envision a business model comprising revenues from contract, metal AM manufacturing sales for prototyping services as well as QaaS sales for low-rate initial production parts requiring our PrintRite3D® digital quality records. These DQRs can be used by our customers for:

- Internal use at their captive AM facility to make parts;
- Incorporated as a quality requirement to their vendor base supplying AM parts; or
- Contract back to us to supply AM parts.

This model allows us to realize revenues through further PrintRite3D® software sales and licensing or revenues from contract AM manufacturing services. The target markets would be end users requiring high-end metal parts such as in the aerospace, bio-medical, power generation, and automotive markets.

To summarize, we have formed an operating division focused QaaS which is based on its contract additive manufacturing capability and its AM facility keeps us on the cutting edge of 3D metal additive manufacturing as we work with the market to develop state of the moment solutions and to characterize new materials and newly born DFAM parts. The operations are at an early stage, limited, and revenues are reflective of its early stage.

## **Recent Developments (in reverse chronological order)**

On March 29, 2017, we announced that we entered into a long term non-exclusive commercial agreement with Additive Industries B.V. of The Netherlands. As part of the multi-year agreement, anticipated to be worth several million dollars over the next few years, Additive Industries will join our previously-announced OEM Partner Program – embedding and reselling our PrintRite3D® software within our AM equipment.

In an effort to bring enhanced solutions for additive manufacturing (“AM”) to the aerospace and defense (“A&D”) sector and capitalize on growth in demand for 3D printed metal components within the A&D industry, we recently entered into a strategic alliance with Morf3D, a California-based company that specializes in additive engineering and manufacturing with metals and that provides advisory services in additive manufacturing strategy and technology adoption road-mapping. By leveraging our PrintRite3D® quality assurance software, we believe that Morf3D will be able to provide a means for its customers to increase AM production rates while ensuring consistent part quality, thereby better meeting the high quality demands of its aerospace customers. We also plan to work together with Morf3D to manufacture certain 3D printed parts. Morph3D has informed us that it is a party to development contracts with aircraft, space, medical and automotive customers, and that it expects to commence serial production contracts in 2017. We believe that by working together with Morf3D, we will be in a position to design, manufacture, and assure the quality of AM components across a number of important aerospace applications, which could lead to the generation of a meaningful amount of additional revenue for our company beginning in 2017.

On March 27, 2017, we completed funding a loan in the principal amount of \$500,000 to Morf3D pursuant to a Secured Convertible Promissory Note dated March 27, 2017 delivered by Morf3D to us. The loan bears interest at the rate of 7% per annum, is due and payable in full on March 27, 2018, is secured by certain assets of Morf3D, and is convertible at our option into 10% of the outstanding shares of the common stock of Morf3D unless Morf3D exercises its right under specified circumstances to repay all principal and accrued interest on the loan. The purpose of the loan is to provide working capital to Morf3D to, among other things, lease an EOS M 400 system for Morf3D for Morf3D to expand production for contracts related to AM of high-precision aerospace & defense components, in furtherance of our strategic alliance and in contemplation of a possible acquisition of or merger with Morf3D.

On February 21, 2017, we closed an underwritten public offering of 1,410,000 units, with each unit consisting of one share of our common stock and one warrant to purchase one share of common stock. The underwriter exercised the over-allotment option covering additional warrants to purchase up to 211,500 additional shares of common stock. Gross proceeds to us from the offering, including the exercise of the over-allotment option, were approximately \$5.8 million, before deducting underwriting discounts and commissions and other offering expenses payable by us.

On January 26, 2017, we announced that we signed a commercial agreement with Pratt & Whitney, a unit of United Technologies Corp., for our PrintRite3D® software along with participation by Pratt & Whitney in our Early Adopter Program.

On January 19, 2017, we announced that we entered into a long term non-exclusive commercial agreement with a leading European provider of cutting-edge products for additive manufacturing to join our previously-announced OEM Partner Program. Under the multi-year agreement – anticipated to be worth up to \$6 million over its duration – this undisclosed OEM will embed and resell Sigma's PrintRite3D® software within its AM equipment.

On December 21, 2016, we announced that we received a contract from Honeywell Aerospace as part of a previously-announced award with the Defense Advanced Research Project Agency (DARPA) for Open Manufacturing (OM) Phase III; Phase I and II were completed in 2014 and earlier in 2016, respectively. The DARPA OM program's goal is to develop an Integrated Computational Material Engineering (ICME) framework to accurately predict the properties of metal components produced using additive manufacturing (AM). Phase III work began in January 2017 and is expected to run through mid-2018, with a total award value to us of approximately \$0.4 million.

On November 15, 2016, we announced the release of our PrintRite3D® INSPECT™ quality assurance software version 2.0. We showcased this application at the Formnext international tradeshow in November 2016 in Frankfurt, Germany.

On November 14, 2016, we announced that we entered into an agreement with Siemens Industrial Turbomachinery AB (“SIT”) of Finspång, Sweden, a unit of Siemens AG (SIEGn.DE), for PrintRite3D® INSPECT® to be installed on a metal printer for evaluation and testing purposes. Specifically, we will install our PrintRite3D® technology at SIT in Finspong, Sweden. SIT provides the world with gas turbines and gas turbine based solutions for the sustainable and cost efficient production of electricity, steam and heat. In February 2016, SIT opened a dedicated workshop for additive manufacturing, development and repairs. The facility specializes in making turbomachinery components for high temperature applications, where accuracy and quality are critical to ensure operational performance. Siemens is a pioneer in the use of Selective Laser Melting (SLM) technology for the manufacture of high-performance metal parts.

On October 19, 2016, we closed a private placement of secured convertible notes in the aggregate principal amount of \$1,000,000 and three-year warrants to purchase up to 80,000 shares of our common stock, under a Securities Purchase Agreement with certain accredited investors. Aggregate gross proceeds, before expenses, to us were \$900,000.

On September 29, 2016, we announced receipt of a contract from Honeywell Aerospace under the previously-announced “America Makes” additive manufacturing (“AM”) research project with GE Aviation. The program, funded by the National Additive Manufacturing Innovation Institute (NAMII), uses our proprietary In-Process Quality Assurance™ (IPQA®) software for advanced AM monitoring and inspection. Under this contract, Sigma and Honeywell will further demonstrate the benefits of IPQA® using our PrintRite3D® software.

On July 6, 2016, we announced that Woodward, Inc. joined our EAP. Woodward obtained a non-exclusive license to use the complete suite of PrintRite3D® software modules – INSPECT™, CONTOUR™ and ANALYTICS™ – for one price, with preferred rates for future product license purchases.

On April 4 and 18, 2016, respectively, we announced that we entered into agreements with Creatz3D Pte Ltd. and Spartacus3D, a unit of France's Farinia Group, to expand our presence in Europe and Asia, respectively. Under our agreement with Creatz3D, Creatz3D serves as our non-exclusive sales and service agent in Singapore, Indonesia and Vietnam. Creatz3D is an authorized reseller of 3D printing systems and materials, AM solutions for metal components, and rapid prototyping software. As part of our agreement with Spartacus3D, Spartacus3D will serve as a demonstration, test and evaluation site for our PrintRite3D® commercialization and market adoption activities in Europe.

On March 7, 2016, we announced that we received a contract from Aerojet Rocketdyne, a subsidiary of Aerojet Rocketdyne Holdings, Inc., for a non-exclusive license of our PrintRite3D® software applications. Our technology will be utilized on Aerojet Rocketdyne's contract with the U.S. Air Force to define more efficient processes for qualifying AM components, and be evaluated for liquid-fueled rocket engine applications. Separately, we received an order from Aerojet Rocketdyne under the previously-announced "America Makes" additive manufacturing research project with GE Aviation. The program, funded by the National Additive Manufacturing Innovation Institute (NAMII), uses our proprietary In-Process Quality Assurance™ (IPQA®) software for advanced AM monitoring. This is the second PrintRite3D® system being deployed under America Makes, the first being with GE Aviation.

On January 27, 2016, we announced that we entered into a technology development agreement with 3DSIM, LLC to pursue commercial metal AM software opportunities for rapid qualification and part certification. 3DSIM, based in Park City, Utah, is a provider of simulation software for metal AM processes.

## Competition

We believe our technologies will be beneficial to several industries, including aerospace, defense, oil and gas, bio-medical, and power generation. However, developments by others may render our current and proposed technologies noncompetitive or obsolete, or we may be unable to keep pace with technological developments or other market factors. Additionally, our competitive position may be materially affected by our ability to develop or successfully commercialize certain technologies that we have identified for commercialization. Other general external factors may also impact the ability of our products to meet expectations or effectively compete, including pricing pressures.

We anticipate some of our principal competitors in the United States will include AM End Users, such as GE Aviation, Honeywell Aerospace, Rolls-Royce PLC, Pratt & Whitney; AM OEM equipment manufacturers, such as EOS, Concept Lasers, 3D Systems, Renishaw, Arcam and SLM; third party solution providers like Stratonics Inc., and Vibrant Corporation that specialize in designing and manufacturing quality control monitoring devices used in industrial applications. Most of these competitors have significantly greater research and development capabilities than we do, as well as substantially more sales, marketing and financial and managerial resources. These entities represent significant competition for us. In addition, acquisitions of, or investments in, competing companies by large corporations could increase such competitors' research, financial, manufacturing and other resources.

## Research and Development

Research and development costs are expensed as incurred. Our research and development expenses relate to our engineering activities, which consist of the development of our PrintRite3D® quality assurance technologies for specific customers and for the industry in general. During the years ended December 31, 2016 and 2015, we recognized \$92,992 and \$330,554, of research and development costs, respectively.

## Intellectual Property

We regard our patents, trademarks, domain names, trade secrets, know-how, and other intellectual property as critical to our success. We rely on a combination of patent, trademark, trade secret, other intellectual property law, confidentiality procedures, and contractual provisions with employees, partners, and others to protect the technology and other proprietary rights, information and know-how that comprise the core of our business. The below chart summarizes our issued patents. We are currently prosecuting ten foreign and U.S. patent applications related to our IPQA® technology and rapid qualification of additive manufacturing for metal parts. Eight of these ten patent applications published between November 2015 and January 19, 2017. There is no guarantee that the patent applications we have submitted will issue or that if issued, they will offer adequate protection under applicable law.

Title	Type	Patent No.
Controlled Weld Pool Volume Control of Welding Processes	US Utility	8,354,608
Structurally Sound Reactive Materials	US Utility	8,372,224
Composite Projectile	US Utility	8,359,979

## **Government Regulation**

Any contracts that we enter into with governmental agencies will be subject to a variety of federal, state and local laws and regulations. These regulations are aimed at preventing the inadvertent disclosure of munitions related data or the export of technical knowledge to foreign countries. The work we do with governmental units may also be subject to laws respecting the confidentiality of any classified or national security information we receive during the course of our activities under any government contract.

Additionally, with respect to our work with government agencies, our sales are driven by pricing based on costs incurred to produce products or perform services under contracts with the U.S. government. U.S. government contracts generally are subject to Federal Acquisition Regulations ("FAR"), agency-specific regulations that implement or supplement FAR, such as the DoD's Defense Federal Acquisition Regulations and other applicable laws and regulations. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, security, contract pricing and cost, contract termination and adjustment, and audit requirements. A contractor's failure to comply with these regulations and requirements could result in reductions of the value of contracts, contract modifications or termination, and the assessment of penalties and fines and could lead to suspension or debarment from government contracting or subcontracting for a period of time. In addition, government contractors are also subject to routine audits and investigations by U.S. government agencies such as the Defense Contract Audit Agency ("DCAA"). These agencies review a contractor's performance, cost structure, and compliance with applicable laws, regulations, and standards. The DCAA also reviews the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation, and information systems.

## **Employees**

As of March 31, 2017, we had 11 full-time employees and one part-time employee. We are actively searching for additional, qualified administrative and engineering staff, as well as sales and marketing staff, to support our expanding operations in the area of IPQA® for AM, as well as contract manufacturing in the AM service provider sector.

## **Properties**

We lease at 3900 Paseo del Sol, Santa Fe, New Mexico 87507, approximately (1) 1,300 square feet of office space at units C-15, C-16, C-17, C-20 and C-23 for a total monthly rent expense of approximately \$2,575 under the lease, which expires on July 31, 2017, (2) 708 square feet of production space at unit E-42, for a total monthly rent expense of approximately \$775 under the lease, which expires on September 30, 2017, (3) 708 square feet of production space at unit E-38, for a total monthly rent expense of approximately \$800 under the lease, which expires on December 31, 2017, and (4) 512 square feet of warehouse / production space at unit E-40, for a total monthly rent expense of approximately \$650 under the lease, which expires on September 30, 2017.

We believe that our facilities are suitable for our current needs.

## **Corporate Information**

Our principal executive offices are located at 3900 Paseo del Sol, Santa Fe, New Mexico 87507, and our current telephone number at that address is (505) 438-2576. Our website address is [www.sigmalabsinc.com](http://www.sigmalabsinc.com). The Company's annual reports, quarterly reports, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other information related to the Company, are available, free of charge, on that website as soon as we electronically file those documents with, or otherwise furnish them to, the SEC. The Company's website and the information contained therein, or connected thereto, are not and are not intended to be incorporated into this Annual Report on Form 10-K.

We incorporated as Messidor Limited in Nevada on December 23, 1985 and changed our name to Framewaves Inc. in 2001. On September 27, 2010, we changed our name from Framewaves Inc. to Sigma Labs, Inc.

## ITEM 1A. RISK FACTORS.

Investing in our securities involves a high degree of risk. Our business is subject to numerous risks. We caution you that the following important factors, among others, could cause our actual results to differ materially from those expressed in statements made by us or on our behalf in filings with the SEC, press releases or communications with investors and others. Any or all of our statements in this annual report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. The factors mentioned in the discussion below will be important in determining future results. Consequently, actual future results may vary materially from those anticipated in this annual report or our other public statements. You should carefully consider the risks described below, as well as the other information in this annual report, including our financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before deciding whether to invest in our securities. The occurrence of any of the events or developments described below could harm our financial condition, results of operations, business and prospects. In such an event, the market price of our securities could decline, and you could lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may have similar adverse effects on us.

### **Risks Related to Our Business**

#### **We have a limited operating history, are not currently profitable and may never become profitable.**

We have incurred losses in every reporting period since we commenced business operations in 2010 and expect to continue to incur significant losses for the foreseeable future. Our net loss for the year ended December 31, 2015 and 2016 was \$1,696,282 and \$2,196,834 respectively. As of December 31, 2016, our accumulated deficit was \$9,760,954. There is no assurance that any revenues we generate will be sufficient for us to become profitable or to maintain profitability. Our revenues for the year ended December 31, 2015 and 2016 were \$1,234,810 and \$966,422, respectively, and our operating expenses for those periods were \$2,717,650 and \$3,251,486 respectively. Our current revenues are not sufficient to fund our operations. We cannot predict when, if ever, we might achieve profitability and we are not certain that we will be able to sustain profitability, if achieved. If we fail to achieve or maintain profitability, the market price of our securities is likely to be adversely affected.

#### **We may require additional financing to continue our operations, and there is no assurance that we will be able to obtain such financing on acceptable terms, or at all.**

As of December 31, 2016, we had cash in the amount of \$398,391. In February 2017 we closed an underwritten public offering of 1,410,000 units consisting of one share of common stock and one warrant for gross proceeds of \$5,823,300. We believe that the net proceeds of approximately \$5.25 million from the offering, together with our existing cash and anticipated revenues, will be sufficient to fund our operations until at least January 2019, although there is no assurance that we will not require additional financing before that time. There is no assurance that any future financing that we require to fund our operations will be available on acceptable terms, or at all. Such financing, if in the form of equity, may be highly dilutive to our existing stockholders and may otherwise include onerous terms. Such financing, if in the form of debt, may include debt covenants and repayment obligations that are onerous and that adversely affect our business operations. If adequate funds are not available to us, we may be required to delay, limit or terminate our business operations.

#### **Our limited operating history makes evaluation of our business difficult.**

We commenced business operations in 2010 and are continuing to develop our technologies and to implement our business plan. Our ability to implement a successful business plan remains unproven, and there is no assurance that we will ever generate sufficient revenues to sustain our business. Our relatively short operating history, together with the other risks discussed in this “Risk Factors” section, may make it difficult for you to evaluate our business in connection with making a decision about whether to invest in our securities.

#### **We face the risks normally associated with a new business.**

We face all of the risks inherent in a new business, including the expenses, difficulties, complications and delays frequently encountered in connection with conducting new operations and efforts to develop and commercialize technologies. These uncertainties include developing our technologies and our brand name, raising capital to meet our working capital requirements and developing a customer base, among others. If we are not effective in addressing these risks, we will not be able to operate profitably in the future, and we may not have adequate working capital to meet our obligations as they become due.

**Our business may be adversely affected by a global economic downturn.**

Any economic downturn generally could cause a drop in government spending and business investment, which would have a material adverse effect on our business. Further, as a result of the current global economic situation, there may be a disruption or delay in performance by our third-party contractors and suppliers. If such third parties are unable to adequately satisfy their contractual commitments to us in a timely manner, our business could be adversely affected.

**We could incur significant damages if we are unable to adequately discharge our contractual obligations.**

Our failure to comply with contract requirements or to meet our clients' performance expectations on a contract could materially and adversely affect our financial performance and our reputation. This, in turn, would impact our ability to compete for new clients and contracts. Our failure to meet contractual obligations could also result in substantial actual and consequential damages under the terms of such contracts. In addition, some of our contracts require us to indemnify clients for our failure to meet performance standards and/or contain liquidated damages provisions and financial penalties related to performance failures. Although we do have liability insurance, the policy limits may not be adequate to provide protection against all such potential liabilities.

**We have financial exposure on our fixed-price contracts because we are required to complete a project even if the costs exceed the revenues we generate on a fixed-price contract.**

We presently provide and expect to provide services under fixed-price and performance-based arrangements. Generally, under our fixed-price contracts, we receive a specified fee regardless of our cost to perform under such contracts (compared with performance-based contracts under which we earn fees on a per-transaction basis). If we underestimate the cost to complete a contract, we will still be required to complete the work specified under such contract, which could result in a loss to us. To earn a profit on these fixed-price contracts, we must accurately estimate costs involved and assess the probability of meeting the specified objectives, realizing the expected units of work or completing individual transactions, within the contracted time period. We expect to recognize revenues on these contracts, including a portion of estimated profit, as costs are incurred.

**Requests for Proposals ("RFPs") to secure government contracts are time consuming to prepare and our ability to successfully respond to RFPs will impact our operations.**

To market our services to government clients, we will likely be required to respond to Requests for Proposals ("RFPs"). To do so effectively, we must estimate accurately our cost structure for servicing a proposed contract, the time required to establish operations and likely terms of the proposals submitted by competitors. We must also assemble and submit a large volume of information within an RFP's rigid timetable. Our ability to respond successfully to RFPs will greatly impact our business. There is no assurance that we will be awarded any contracts through the RFP process, or that our submitted RFPs will result in profitable contracts.

**Some of our clients may terminate our contracts prior to completion, which could result in revenue shortfalls and reduce profitability or cause losses on contracts.**

Many of our contracts with clients contain initial or base periods of one or more years, as well as option periods typically covering more than one-half of the contract's initial duration. However, such clients are under no obligation to exercise the option to extend the contract term. The profitability of some of our contracts could be adversely impacted if such options are not exercised and the contract term is not extended accordingly. Additionally, our contracts contain provisions permitting a client to terminate the contract on short notice, with or without cause. The unexpected termination of significant contracts could result in significant revenue shortfalls. If revenue shortfalls occur and are not offset by corresponding reductions in expenses, our business could be adversely affected. We cannot anticipate if, when or to what extent a client might terminate its contracts with us.

**We are subject to government audits, and our failure to comply with applicable laws, regulations and standards could subject us to civil and criminal penalties and administrative sanctions.**

The government agencies we contract with have the authority to audit and investigate our contracts with them. As part of that process, a government agency may review our performance on a contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. If the agency determines that we have improperly allocated costs to a specific contract, we will not be reimbursed for those costs and we will be required to refund the amount of any such costs that have been previously reimbursed. If a government audit identifies improper activities by us or we otherwise determine that these activities have occurred, we could be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with the government. Any adverse determination could adversely impact our ability to bid for RFPs in one or more jurisdictions.

**Unions may interfere with our ability to obtain contracts.**

Our success will depend in part on our ability to win profitable contracts to administer and manage programs that may have been previously administered by government employees. Many government employees, however, belong to labor unions with considerable financial resources and lobbying networks. Unions have in the past and are likely to continue to apply political pressure on legislators and other officials seeking to outsource government programs. Union opposition may result in fewer opportunities for us to service government agencies.

**We rely on our relationship with government agencies to obtain contracts, and there is no assurance that we will be able to maintain a satisfactory relationship with these agencies.**

To facilitate our ability to prepare bids in response to RFPs, we expect to rely in part on establishing and maintaining relationships with officials of various government entities and agencies. These relationships will enable us to provide informal input and advice to the government entities and agencies prior to the development of an RFP. We also expect to engage marketing consultants, including lobbyists, to establish and maintain relationships with elected officials and appointed members of government agencies. The effectiveness of these consultants may be reduced or eliminated if a significant political change occurs. We may be unable to successfully manage our relationships with government entities and agencies and with elected officials and appointees and any failure to do so may adversely affect our ability to bid successfully for RFPs.

**We face significant competition in bidding for government contracts from large national and international organizations.**

The government contracting industry is subject to intense competition. Many of our competitors are national and international in scope and have greater resources than we do. Substantial resources could enable certain competitors to “low bid” on government RFPs or to take other measures in an effort to gain market share. In addition, we may be unable to compete for a certain large government contract because we may not be able to meet an RFP’s requirement to obtain and post a large cash performance bond. Also, in some geographic areas, we face competition from smaller consulting firms with established reputations and political relationships. There is no assurance that we will compete successfully against our existing competitors or any new competitors.

**We may not be able to effectively control and manage our growth, which would negatively impact our operations.**

We have operated our current line of business for approximately six years, and we expect to grow in the near future as our business develops and becomes established. If our business grows as we anticipate, it will be necessary for us to manage our expansion in an orderly fashion. Any significant growth in our activities or in the market for our services will require extension of our managerial, operational, marketing and other resources. Future growth will also impose significant additional responsibilities upon the members of management to identify, recruit, maintain, integrate, and motivate new employees. Our failure to manage growth effectively may lead to operational inefficiencies that will have a negative effect on our profitability. Additionally, if our growth comes at the expense of providing quality service and generating reasonable profits, our ability to successfully bid for contracts and our profitability will be adversely affected. We cannot assure investors that we will be able to effectively manage any future growth we may experience.

**Failure to obtain adequate insurance coverage could put us at risk for uninsured losses.**

We currently have liability insurance. Some or all of our customers may require insurance as a requirement to conduct business with us. We may be unable to obtain or maintain adequate liability insurance on acceptable terms, if at all, and there is a risk that our insurance will not provide adequate coverage against our potential losses. Additionally, there are certain types of losses that may not be insurable at a cost that we can afford, and insurance may not be available at any cost with respect to certain losses. Claims or losses in excess of any insurance coverage we may obtain, or the lack of insurance coverage, could put us at risk of loss for any uninsured loss, which would have a material adverse effect on our business and financial condition.

**We are dependent on our President and Chief Executive Officer, and other key personnel, and the loss of any of these individuals could harm our business.**

We depend on Mark J. Cola, our President and Chief Executive Officer, as well as key scientific and other personnel. The loss of any of these individuals could harm our business and significantly delay or prevent the achievement of our business objectives. In addition, our delivery of services will be labor-intensive; when we are awarded a contract, we may need to quickly hire project leaders and project management personnel. The additional staff may also create a concurrent demand for increased administrative personnel. The success of our business will require that we attract, develop, motivate and retain:

- experienced and innovative executive officers;
- senior managers who have successfully managed or designed programs in the public sector; and
- information technology professionals who have designed or implemented complex information technology projects.

Innovative, experienced and technically proficient individuals are in great demand and are likely to remain a limited resource. We may be unable to continue to attract and retain desirable executive officers, senior managers, and technology professionals. Our inability to hire sufficient personnel on a timely basis or the loss of significant numbers of executive officers and senior managers could adversely affect our business.

**We may be dependent on cash flow and payments from customers in order to meet our expense obligations.**

A number of factors may cause our revenues, cash flow and operating results to vary from quarter to quarter, including the following:

- the progression of contracts;
- the levels of revenues earned on fixed-price and performance-based contracts (including any adjustments in expectations for revenue recognition on fixed-price contracts);
- the commencement, completion or termination of contracts during any particular quarter;
- the schedules of government agencies and large multinational corporations for awarding contracts;
- the failure of our customers to fulfill their obligations under contracts with us; and
- the term of awarded contracts and potential acquisitions.

Changes in the volume of activity and the number of contracts commenced, completed or terminated during any quarter may cause significant variations in our cash flow from operations because a significant portion of our expenses are fixed. Fixed expenses include, rent, payroll, insurance, employee benefits, taxes and other administrative costs and overhead. Moreover, we expect to incur significant operating expenses during the start-up and early stages of large contracts and typically do not receive corresponding payments in that same quarter.

**We may make acquisitions in the future that we are unable to effectively manage given our limited resources.**

We may choose to grow our business by acquiring other entities. We may be unable to manage businesses that we have acquired or to integrate them successfully without incurring substantial expenses, delays or other problems that could negatively impact our results of operations. Moreover, business combinations involve additional risks, including:

- diversion of management's attention;
- loss of key personnel;
- our becoming significantly leveraged as a result of the incurrence of debt to finance an acquisition;
- assumption of unanticipated legal or financial liabilities;
- unanticipated operating, accounting or management difficulties in connection with the acquired entities;
- amortization of acquired intangible assets, including goodwill; and
- dilution to existing stockholders and our earnings per share.

Also, client dissatisfaction or performance problems with an acquired firm could materially and adversely affect our reputation as a whole. Further, the acquired businesses may not achieve the revenues and earnings that we anticipated.

**We may be unable to develop or commercialize new and rapidly evolving technologies.**

Many of our activities involve developing products or processes that are based upon new, rapidly evolving technologies. The ability to commercialize or further develop these technologies could fail for a variety of reasons, both within and outside of our control.

**We may be unable to protect our intellectual property rights.**

Our success in part depends on the ability to protect our intellectual property and proprietary technology. To do so, we will be required to prosecute patent applications and maintain patents, obtain new patents and pursue trade secret and other intellectual property protection. We were awarded two U.S. patents with respect to our munitions technology. We were also awarded a U.S. patent with respect to our IPQA® technology. In addition, we filed ten foreign and U.S. patent applications pertaining to our IPQA® technology and rapid qualification of additive manufacturing for metal parts. Also, we filed a PCT patent application pertaining to the advanced dental implant technology. However, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. There can be no assurance that our program for protection of intellectual property and proprietary technology will be sufficient to protect our intellectual property and proprietary technology from competitors. Our business is also subject to the risk that our issued patents will not provide us with significant competitive advantages if, for example, a competitor were to independently develop or obtain similar or superior technologies. In addition, our issued patents may be challenged or infringed upon by third parties. The enforcement of intellectual property rights is subject to considerable uncertainty, and can be expensive and time-consuming. Patent reform laws and court decisions interpreting such laws, may create additional uncertainty around our ability to obtain and enforce patent protection. Any significant impairment of our intellectual property rights could harm our business and our ability to compete. The unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results. Proprietary trade secrets and unpatented know-how are also very important to our business, however, trade secrets are difficult to protect. Our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our confidential information to competitors, and confidentiality agreements may not provide an adequate remedy in the event of unauthorized disclosure of confidential or proprietary information.

**We may be sued by third parties who claim that we have infringed their intellectual property rights.**

We may be exposed to future litigation by third parties based on claims that our research, development and commercialization activities infringe the intellectual property rights of third parties to which we do not hold licenses or other rights, or that we have misappropriated the trade secrets of others. Any litigation or claims against us, whether or not valid, could result in substantial costs, and could place a significant strain on our financial and human resources. In addition, if successful, such claims could cause us to pay substantial damages. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation.

**Our services are subject to government regulation, changes in which may have an adverse effect on us.**

Our business activities subject us to a variety of federal, state and local laws and regulations. For example, we will be required to comply with applicable provisions of the International Traffic in Arms Regulations (“ITAR”), as well as other export controls and laws governing the manufacture and distribution of munitions technology. Despite the fact that we have applied for and received ITAR compliance, changes in the laws and regulations applicable to our business activities may have an adverse effect on our operations and profitability by making it more expensive and less profitable for us to do business. Additionally, the market for our services depends largely on federal and state legislative programs. These programs can be modified or amended at any time by acts of federal and state governments. Further, if additional programs are not proposed or enacted, or if previously enacted programs are challenged, repealed or invalidated, our growth strategy could be adversely impacted.

**Our bylaws contain provisions indemnifying our officers and directors against all costs, charges, and expenses incurred by them.**

Our Bylaws contain provisions with respect to the indemnification of our officers and directors against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by an officer or director, including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which he is made a party by reason of being or having been one of our directors or officers. To the extent that our directors’ and officers’ insurance policy does not provide reimbursement for such costs, charges, expenses and other amounts, we may incur substantial expenses in satisfying our indemnification obligations.

**Our operating costs could be significantly higher than we expect, and this could reduce our future profitability.**

In addition to general economic conditions, market fluctuations and international risks, significant increases in operating, development and implementation costs could adversely affect us due to numerous factors, many of which are beyond our control.

**A cyber incident could result in information theft, data corruption, operational disruption and/or financial loss.**

Businesses have become increasingly dependent on digital technologies to conduct day-to-day operations. At the same time, cyber incidents, including deliberate attacks or unintentional events, have increased. A cyber-attack could include gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption or result in denial of service on websites. We depend on digital technology, including information systems and related infrastructure, to process and record financial and operating data, and communicate with our employees and business partners. Our technologies, systems, networks, and those of our business partners may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of proprietary and other information, or other disruption of our business operations. Although to date we have not experienced any losses relating to cyber-attacks, there is no assurance that we will not suffer such losses in the future. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

## **Risks Related to Our Securities**

### **The price of our securities could be subject to volatility related or unrelated to our operations, which could result in substantial losses for purchasers of our securities in this offering.**

Between January 1, 2015 and March 31, 2017, the trading price of our common stock has ranged from a low of \$0.70 to a high of \$12.40, and could be subject to wide fluctuations in the future in response to various factors, some of which are beyond our control. The trading price of the warrants that we issued in our recent public offering could be subject to similar fluctuations as a result of such factors. These factors include those discussed previously in this “Risk Factors” section and others, such as:

- delays or failures in the commercialization of our current or future products and services;
- quarterly variations in our results of operations or those of our competitors;
- changes in our earnings estimates or recommendations by securities analysts or adverse publicity about us or our products or services;
- announcements by us or our competitors of new products and services, significant contracts, commercial relationships, acquisitions or capital commitments;
- adverse developments with respect to our intellectual property rights;
- commencement of litigation involving us or our competitors;
- any major changes in our board of directors or management;
- market conditions in our industry; and
- general economic conditions in the United States and abroad.

In addition, the stock market, in general, may experience broad market fluctuations, which may adversely affect the market price or liquidity of our securities.

### **We could be subject to securities class action litigation.**

Any sudden decline in the market price of our securities could trigger securities class action lawsuits against us. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the time and attention of our management would be diverted from our business and operations. We also could be subject to damages claims if we are found to be at fault in connection with a decline in our market price of our securities.

### **An active trading market in our securities may not develop, and you may therefore have difficulty selling your securities at a price that you determine is satisfactory.**

Although our common stock and the 2017 warrants are listed on The NASDAQ Capital Market, our common stock and warrants trade infrequently and in low volumes. The initial offering price of our securities was determined through our negotiations with the underwriters and may not be indicative of the prices that will prevail after this offering.

There is no assurance that such securities will trade in the public market at or above the public offering price. Furthermore, there is no assurance that an active trading market for any of our securities will develop or be sustained. If an active market for our securities does not develop or is not maintained, it may be difficult for you to sell your securities when you wish to sell them or at a price that you consider satisfactory. An inactive trading market may also impair our ability to raise capital to continue to fund operations by selling securities and may impair our ability to acquire other companies or technologies by using our securities as consideration.

### **There is no assurance that we will satisfy the continued listing requirements of The NASDAQ Capital Market.**

Even though our common stock and 2017 warrants are listed on The NASDAQ Capital Market, we cannot assure you that we will be able to satisfy the continued listing requirements of The NASDAQ Capital Market. For example, there is no assurance that our common stock will continue to have a bid price of at least \$1.00 per share, which is the minimum bid price under such continued listing requirements, or that we will be able to satisfy other quantitative continued listing requirements. If our securities are de-listed from The NASDAQ Capital Market, our stockholders could incur material adverse consequences such as reduced liquidity for their securities and reduced market prices for their securities. Following such de-listing, we could encounter increased difficulty in issuing additional securities at an attractive price, or at all, in order to fund our operations.

**You may experience additional dilution as a result of future equity offerings.**

In order to raise additional capital, we may in the future offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock at prices that may not be the same as the price per unit in this offering. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be lower than the price per unit paid by investors in this offering.

**We have broad discretion in the use of the net proceeds of our recent public offering and may not use them effectively.**

We intend to use our cash for the development of our products and service and to repay our outstanding promissory notes (if and to the extent the holders thereof demand repayment). We may also use a portion of the net proceeds from our February 2017 offering to acquire other products or businesses, although we are not currently a party to an agreement regarding any such acquisition. However, our management has broad discretion in the use of cash and will have the right to use our cash in ways that differ substantially from our current plans. Management may spend our cash in ways that do not improve our results of operations or enhance the value of our securities. The failure by management to apply funds effectively could result in financial losses that could have a material and adverse effect on our business and cause the market price of our securities to decline.

**We do not intend to pay dividends on our common stock, and your ability to achieve a return on your investment will depend on appreciation in the market price of our securities.**

We currently intend to invest our future earnings, if any, to fund our growth and not to pay any cash dividends on our common stock. Since we do not intend to pay dividends, your ability to receive a return on your investment will depend on any future appreciation in the market price of our securities. There is no assurance that our securities will appreciate in price.

**If securities or industry analysts do not publish research or reports about us, or if they issue adverse or misleading opinions regarding us or our securities, the market price of our securities and their trading volume could decline.**

If we do not obtain and maintain research coverage by securities and industry analysts, the market price for our securities may be adversely affected. The market price of our securities also may decline if any analyst who covers us issues an adverse or erroneous opinion regarding us, our business model, our intellectual property or our performance. If one or more analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause the market price of our securities and their trading volume to decline and possibly adversely affect our ability to engage in future financings.

**Our principal stockholders and management own a significant percentage of our common stock and will be able to significantly affect matters subject to stockholder approval.**

Based on shares outstanding as of December 31, 2016, our executive officers, directors, holders of 5% or more of our common stock and their respective affiliates will beneficially own in the aggregate approximately 13.4% of our outstanding shares of common stock. As a result of their stock ownership, these stockholders will have the ability to influence our management and policies, and are able to significantly affect the outcome of matters requiring stockholder approval such as elections of directors, amendments of our organizational documents or approvals of any merger, sale of assets or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

**Sales of a substantial number of shares of our common stock in the public market could cause our stock price to fall.**

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. As of December 31, 2016, we have 3,133,789 outstanding shares of common stock. Sales of a large number of the shares described in the preceding sentence, or the perception that a large number of shares may be sold, could have a material adverse effect on the trading price of our common stock.

**We will incur significant costs to ensure compliance with U.S. and NASDAQ reporting and corporate governance requirements.**

We will incur significant costs associated with our public company reporting requirements and with applicable U.S. and NASDAQ corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the SEC and NASDAQ. We expect all of these applicable rules and regulations to significantly increase our legal and financial compliance costs and to make some activities more time consuming and costly. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

**If we fail to maintain effective internal control over financial reporting, the market price of our securities may be adversely affected.**

As a public reporting company, we are required to establish and maintain effective internal control over financial reporting. Failure to establish such internal control, or any failure of such internal control once established, could adversely impact our public disclosures regarding our business, financial condition or results of operations. Any failure of our internal control over financial reporting could also prevent us from maintaining accurate accounting records and discovering accounting errors and financial frauds.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of our internal control over financial reporting. The standards that must be met for management to assess the internal control over financial reporting as effective are complex, and require significant documentation, testing and possible remediation to meet the detailed standards. We may encounter problems or delays in completing activities necessary to make an assessment of our internal control over financial reporting. If we cannot assess our internal control over financial reporting as effective, investor confidence and share value may be negatively impacted. In addition, management's assessment of internal control over financial reporting may identify weaknesses and conditions that need to be addressed in our internal control over financial reporting or other matters that may raise concerns for investors. Any actual or perceived weaknesses and conditions that need to be addressed in our internal control over financial reporting (including those weaknesses identified in our periodic reports), or disclosure of management's assessment of our internal control over financial reporting may have an adverse impact on the price of our securities.

**Provisions in our articles of incorporation and bylaws could discourage a takeover that stockholders may consider favorable and may lead to entrenchment of management.**

Our articles of incorporation and bylaws contain provisions that could delay or prevent changes in control or changes in our management without the consent of our board of directors. These provisions include the following:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the ability of our board of directors to authorize the issuance of additional shares of preferred stock and to determine the terms of those shares, including preferences and voting rights, without stockholder approval, which could adversely affect the rights of our common stockholders or be used to deter a possible acquisition of our company;
- the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
- the required approval of the holders of at least two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or repeal the provisions of our articles of incorporation and bylaws regarding the election and removal of directors;

- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, the president or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

These provisions could inhibit or prevent possible transactions that some stockholders may consider attractive.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable.

#### **ITEM 2. PROPERTIES.**

We lease at 3900 Paseo del Sol, Santa Fe, New Mexico 87507, approximately (1) 1,300 square feet of office space at units C-15, C-16, C-17, C-20 and C-23 for a total monthly rent expense of approximately \$2,575 under the lease, which expires on July 31, 2017, (2) 708 square feet of production space at unit E-42, for a total monthly rent expense of approximately \$775 under the lease, which expires on September 30, 2017, (3) 708 square feet of production space at unit E-38, for a total monthly rent expense of approximately \$800 under the lease, which expires on December 31, 2017, and (4) 512 square feet of warehouse / production space at unit E-40, for a total monthly rent expense of approximately \$650 under the lease, which expires on September 30, 2017.

We believe that our facilities are suitable for our current needs.

#### **ITEM 3. LEGAL PROCEEDINGS.**

We are not currently a party to any legal proceedings. However, we may occasionally become subject to legal proceedings and claims that arise in the ordinary course of our business. It is impossible for us to predict with any certainty the outcome of pending disputes, and we cannot predict whether any liability arising from pending claims and litigation will be material in relation to our financial position or results of operations.

#### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

## PART II

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

#### Market Information

Our common stock was quoted for trading on the OTCQB under the symbol "SGLB" during the preceding two fiscal years. On February 15, 2017, our common began trading on The Nasdaq Capital Market under the symbol "SGLB." The following table sets forth the high and low bid prices for our common stock for the periods indicated after giving effect to our 1-for-100 reverse stock split on March 17, 2016 and our 1-for-2 reverse stock split on February 15, 2017. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

<b>Fiscal Year Ended December 31, 2016</b>	<b>High Bid</b>	<b>Low Bid</b>
First Quarter	\$ 12.00	\$ 8.02
Second Quarter	\$ 9.50	\$ 4.90
Third Quarter	\$ 6.20	\$ 4.00
Fourth Quarter	\$ 5.60	\$ 1.40

<b>Fiscal Year Ended December 31, 2015</b>	<b>High Bid</b>	<b>Low Bid</b>
First Quarter	\$ 9.50	\$ 4.20
Second Quarter	\$ 12.50	\$ 7.00
Third Quarter	\$ 9.60	\$ 5.01
Fourth Quarter	\$ 8.94	\$ 5.00

#### Shareholders

As of March 31, 2017, there were approximately 538 holders of record of our common stock based on information provided by our transfer agent.

#### Dividends

We have not paid any dividends on our common stock to date and do not anticipate that we will pay dividends in the foreseeable future. Any payment of cash dividends on our common stock in the future will be dependent upon the amount of funds legally available, our earnings, if any, our financial condition, our anticipated capital requirements and other factors that the board of directors may think are relevant. However, we currently intend for the foreseeable future to follow a policy of retaining all of our earnings, if any, to finance the development and expansion of our business and, therefore, do not expect to pay any dividends on our common stock in the foreseeable future.

#### Recent Sales of Unregistered Securities

There were no sales by us of unregistered securities during the fiscal year ended December 31, 2016 other than those transactions previously reported to the SEC on the Company's quarterly reports on Form 10-Q and current reports on Form 8-K.

#### Repurchase of Shares

We did not repurchase any of our securities during the fiscal year ended December 31, 2016.

### ITEM 6. SELECTED FINANCIAL DATA.

Not applicable to a "smaller reporting company" as defined in Item 10(f)(1) of SEC Regulation S-K.

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

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported assets, liabilities, sales and expenses in the accompanying financial statements. Critical accounting policies are those that require the most subjective and complex judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. Such critical accounting policies, including the assumptions and judgments underlying them, are disclosed in Note 1 to the Financial Statements included in this Annual Report. However, we do not believe that there are any alternative methods of accounting for our operations that would have a material effect on our financial statements.

### Results of Operations

#### *Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015.*

We expect to generate revenue primarily by selling and licensing our manufacturing and materials technologies to businesses that seek to improve their manufacturing production processes and/or manipulate and improve the most functional characteristics of the materials and other input components used in their business operations. We also expect to generate revenues through contract AM manufacturing using our in-house metal 3D printing capability. However, we presently make limited sales of these technologies and services, which include limited sales of non-exclusive licenses to use our PrintRite3D® technologies, including under our recently established Early Adopter Program and OEM Partner Program, as described above. Our ability to generate revenues in the future will depend on our ability to further commercialize and increase market presence of our PrintRite3D® technologies. During the fiscal year ended December 31, 2016 ("fiscal 2016"), we generated an aggregate of \$966,422 in revenues, as compared to an aggregate of \$1,234,810 in revenues that were generated by us during the fiscal year ended December 31, 2015 ("fiscal 2015"). The decrease in revenue was primarily due to the completion of the GEA America Makes Program in 2016, providing only three months of revenue in 2016 (but twelve months in 2015), and the completion of the DARPA Phase II project in 2016, providing only eight months of revenue in 2016 (but twelve months in 2015). We generated revenues and financed our operations in fiscal 2016 and fiscal 2015 primarily from engineering consulting services we provided to third parties during these periods and through private sales of our common stock and debt securities. We expect that our revenue will increase in future periods as we seek to further commercialize and expand our market presence for our PrintRite3D®-related technologies, and obtain new contract manufacturing orders in connection with our EOS M290, as well as further perform on our engineering consulting contracts for the GEA lead National Additive Manufacturing Innovation Institute program, and continue to provide our services under our contracts with Honeywell Aerospace for the DARPA Period 2 program.

In fiscal 2016, we generated an aggregate of \$966,422 in revenue from consulting and other contracts. Specifically, we generated approximately (i) \$893,791 in revenue in connection with our PrintRite3D®-enabled engineering consulting services, and (ii) \$72,631 in revenue in connection with our contract manufacturing activities in metal 3DP.

In fiscal 2015, we generated an aggregate of \$1,234,810 in revenue from consulting and other contracts. Specifically, we generated approximately (i) \$1,164,709 in revenue in connection with our PrintRite3D®-enabled engineering consulting services, and (ii) \$70,101 in revenue in connection with our contract manufacturing activities in metal 3DP.

Our other general and administrative expenses for fiscal 2016 were \$1,790,096, as compared to \$1,282,952 in fiscal 2015. Our payroll expenses for fiscal 2016 were \$1,026,840, as compared to \$585,706 for fiscal 2015. Our expenses relating to non-cash compensation for fiscal 2016 were \$341,558, as compared to \$518,438 for fiscal 2015. Our research and development expenses for fiscal 2016 were \$92,992, as compared to \$330,554 for fiscal 2015.

General and administrative expenses principally include operating expenses and outside service fees, the largest component of which consists of services in connection with our obligations as an SEC reporting company, in addition to other legal, accounting, marketing and investor relations fees. The net increase in general and administrative expenses in fiscal 2016 as compared to fiscal 2015 is principally the result of an increase in legal fees in connection with our recent public offering, increases in investor relations expenditures and consultant services along with our continued development of our IPQA®-enabled PrintRite3D® technologies and our related efforts to expand our services. The net increase in payroll expenses in fiscal 2016 as compared to fiscal 2015 is principally the result of an increase in payroll expenses from the hiring of seven additional employees. The Company incurred \$341,558 of non-cash compensation expenses during 2016, \$141,054 of which was the result of the amortization of the fair market value of the shares of Company common stock issued to our employees and contractors pursuant to the Company's 2013 Equity Incentive Plan. The other \$200,504 was non-cash compensation expenses due to the vesting of outstanding stock options held by our employees pursuant to the Company's 2013 Equity Incentive Plan.

As a result of our increased operating activities, including as we seek further commercialization of our IPQA®-enabled PrintRite3D® technologies, and our increased marketing and sales efforts associated with such technologies, including with respect to our EAP and OEM Partner Program, and our contract manufacturing activities, our general and administrative expenses in the future are expected to continue to increase. Similarly, we anticipate that our payroll and non-cash compensation expenses will continue to increase as we engage more employees and other service providers to support our efforts to grow our business.

Our net loss for fiscal 2016 increased overall and totaled \$2,196,834, as compared to \$1,696,282 for fiscal 2015. The most significant factor in the increase in our net loss was the result of an increase in general and administrative expense of \$507,144 and an increase in payroll expenses of \$441,134, which were partially offset by other income of \$317,132 primarily due to the change in the fair value of derivative instruments, and decreases in our stock based compensation expenses and research and development expenses.

### **Liquidity and Capital Resources**

As of December 31, 2016, we had \$398,391 in cash and a working capital surplus of \$110,799, as compared to \$1,539,809 in cash and a working capital surplus of \$1,768,931 as of December 31, 2015.

On February 21, 2017, the Company closed an underwritten public offering of equity securities resulting in net proceeds of approximately \$5.25 million, after deducting underwriting discounts and commissions and other offering expenses payable by the Company.

We expect to generate revenue primarily by licensing our manufacturing and materials technologies to businesses that seek to improve their manufacturing production processes and/or manipulate and improve the most functional characteristics of the materials and other input components used in their business operations. We also expect to generate revenues by providing contract AM services using our EOS M290 metal AM system. However, for the period from our inception through December 31, 2016, we generated revenue and financed our operations primarily from PrintRite3D®-enabled engineering consulting services we provided during this period and through private sales of Sigma common stock and debt securities. During the remainder of 2017, we expect to further ramp up our operations and our commercialization and marketing efforts, which will increase the amount of cash we will use in our operations.

We expect that our continued development of our IPQA®-enabled PrintRite3D® technology will enable us to further commercialize this technology for the AM metal market in the remainder of 2017. However, until commercialization of our full suite of PrintRite3D® technologies, we plan to continue funding our development activities and operating expenses by licensing our PrintRite3D® systems and supporting field services, as applicable, and providing PrintRite3D®-enabled engineering consulting services concerning our areas of expertise (materials and manufacturing quality assurance and process control technologies) and contract manufacturing for metal AM, and through the use of proceeds from sales of our securities.

Cash flows used in operating activities in 2016 increased to \$1,962,314 from \$1,260,463 in 2015 due primarily to increases in payroll, general and administrative costs, as well as an increase in accounts payable and a decrease in revenues in 2016. The Company anticipates fewer losses in 2017, due to increased revenues, offset by increased salaries and related expenses in connection with additional employees and potential acquisitions. Cash flows used in investing activities decreased from \$161,797 in 2015 to \$79,104 in 2016 primarily due to fewer purchases of furniture and equipment. Cash flows provided by financing activities were the result of a private offering of debt securities in October 2016 that raised net proceeds of \$900,000. There were no cash flows used or provided by financing activities in 2015.

We have no credit lines as of March 31, 2017, nor have we ever had a credit line since our inception.

Based on the funds we have as of March 31, 2017, and the proceeds we expect to receive under our PrintRite3D®-enabled engineering consulting agreements, from selling or licensing our PrintRite3D® systems and software, and sales of contract AM manufacturing for metal AM parts, we believe that we will have sufficient funds to pay our administrative and other operating expenses through 2017. Until we are able to generate significant revenues and royalties from licensing our PrintRite3D®-enabled technologies and our contract AM manufacturing services, our ability to continue to fund our liquidity and working capital needs will be dependent upon revenues from existing and future PrintRite3D®-enabled engineering consulting contracts, possible strategic partnerships, contract manufacturing orders in connection with our EOS M290, and proceeds received from sales of our debt and/or securities. Accordingly, we may have to obtain additional capital from the sale of additional securities or by borrowing funds from lenders to fulfill our business plans. If we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common stock. There is no assurance that we will be successful in obtaining additional funding. If we fail to obtain sufficient funding when needed, we may be forced to delay, scale back or eliminate all or a portion of our commercialization efforts and operations.

Inflation and changing prices have had no effect on our continuing operations over our two most recent fiscal years.

We have no off-balance sheet arrangements as defined in Item 303(a) of Regulation S-K.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable to a “smaller reporting company.”

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

Financial Statements are referred to in Item 15, listed in the Index to Financial Statements and filed and included elsewhere herein as a part of this Annual Report on Form 10-K.

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

None.

#### **ITEM 9A. CONTROLS AND PROCEDURES.**

##### **Evaluation of Disclosure Controls and Procedures**

Rule 13a-15(e) under the Exchange Act defines the term “disclosure controls and procedures” as those controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based upon an evaluation of the effectiveness of our disclosure controls and procedures performed by our management, with the participation of our President and Chief Executive Officer, and Principal Financial and Accounting Officer, as of the end of the period covered by this annual report, our management concluded that our disclosure controls and procedures are effective at a reasonable assurance level in ensuring that information required to be disclosed by us in our reports is recorded, processed, summarized and reported within the required time periods. The foregoing conclusion is based, in part, on the fact that we are a small public company in the early stage of our business, with limited revenues and employees.

##### **Management’s Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) under the Exchange Act. Our management, with the participation of our President and Chief Executive Officer, and Principal Financial and Accounting Officer, conducted an evaluation of the effectiveness of our control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management’s evaluation under the framework, management has concluded that our internal control over financial reporting was effective as of December 31, 2016.

We continuously seek to improve and strengthen our control processes to ensure that all of our controls and procedures are adequate and effective. Any failure to implement and maintain improvements in the controls over our financial reporting could cause us to fail to meet our reporting obligations under the SEC's rules and regulations. Any failure to improve our internal controls to address the weakness we have identified could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our common stock.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to SEC rules that permit us to provide only management's report in this annual report.

There have been no changes in our internal controls over financial reporting during the fourth quarter of the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

The Company will hold its annual meeting of shareholders on June 7, 2017.

On March 27, 2017, we completed funding a loan in the principal amount of \$500,000 to Morf3D pursuant to a Secured Convertible Promissory Note dated March 27, 2017 delivered by Morf3D to us. The loan bears interest at the rate of 7% per annum, is due and payable in full on March 27, 2018, is secured by certain assets of Morf3D, and is convertible at our option into 10% of the outstanding shares of the common stock of Morf3D unless Morf3D exercises its right under specified circumstances to repay all principal and accrued interest on the loan. The Secured Convertible Promissory Note also contains representations, warranties, and affirmative and negative covenants of Morf3D and its principal stockholders. The purpose of the loan is to provide working capital to Morf3D to, among other things, lease an EOS M 400 system for Morf3D for Morf3D to expand production for contracts related to AM of high-precision aerospace & defense components, in furtherance of our strategic alliance and in contemplation of a possible acquisition of or merger with Morf3D.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item will be set forth in the Company's 2017 Proxy Statement to be filed with the SEC within 120 days after December 31, 2016 (the "2017 Proxy Statement") in connection with the solicitation of proxies for the Company's 2017 annual meeting of shareholders and is incorporated herein by reference.

The Company has a code of ethics that applies to all employees, including the Company's principal executive officer, principal financial officer, and principal accounting officer, as well as to the members of the Board of Directors of the Company. The code is available at [www.sigmalabsinc.com](http://www.sigmalabsinc.com). The Company intends to disclose any changes in, or waivers from, this code by posting such information on the same website or by filing a Form 8-K, in each case to the extent such disclosure is required by rules of the SEC or NASDAQ.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be set forth in the 2017 Proxy Statement.

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

The information required by this Item will be set forth in the 2017 Proxy Statement.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be set forth in the 2017 Proxy Statement.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item will be set forth in the 2017 Proxy Statement.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

Our financial statements and related notes thereto are listed and included in this Annual Report beginning on page F-1. The following documents are furnished as exhibits to this Form 10-K. Exhibits marked with an asterisk are filed herewith. The remainder of the exhibits previously have been filed with the SEC and are incorporated herein by reference.

<b>Exhibit Number</b>	<b>Description</b>
1.1	Underwriting Agreement, dated as of February 15, 2017, between the Company and Dawson James Securities, Inc. (filed as Exhibit 1.1 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
3.1	Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed September 17, 2010, and incorporated herein by reference).
3.2	Certificate of Correction to Amended and Restated Articles of Incorporation, as filed with the Nevada Secretary of State on May 25, 2011 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed June 1, 2011, and incorporated herein by reference).
3.3	Articles of Merger (filed as Exhibit 3.3 to the Company's Form 10-K, filed on March 16, 2016, for the fiscal year ended December 31, 2015, and incorporated herein by reference).
3.4	Certificate of Change Pursuant to NRS 78.209 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
3.5	Certificate of Amendment to Amended and Restated Articles of Incorporation (filed as Exhibit 3.2 to the Company's Form 10-Q, filed on May 12, 2016, for the period ended March 31, 2016, and incorporated herein by reference).
3.6	Certificate of Change Pursuant to NRS 78.209 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
3.7	Certificate of Designation of Rights, Preference and Privileges of Series A Convertible Preferred Stock (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
3.8	Amended and Restated Bylaws of the Company (filed as Exhibit 3.3 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
4.1	Warrant Agency Agreement, dated as of February 15, 2017, between the Company and Interwest Transfer Co., Inc. (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
4.2	Form of Warrant Certificate (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
4.3	Form of Unit Purchase Option (filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).
10.1	Asset Purchase Agreement dated April 17, 2010 between B6 Sigma, Inc. and Technology Management Company, Inc. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed November 12, 2010, and incorporated herein by reference).
10.2	2011 Equity Incentive Plan adopted by the Board of Directors as of March 9, 2011 (filed as Exhibit 10.1 to the Company's Form 10-Q, filed on May 16, 2011, for the period ended March 31, 2011, and incorporated herein by reference).*
10.3	2013 Equity Incentive Plan adopted by the Board of Directors as of March 15, 2013 (filed as Exhibit 10.9 to the Company's Form 10-K, filed on April 16, 2013, for the fiscal year ended December 31, 2012, and incorporated herein by reference).*
10.4	Form of Nonqualified Stock Option Agreement for the 2013 Equity Incentive Plan (filed as Exhibit 4.2 to the Company's Form S-8 Registration Statement, filed on July 24, 2014, and incorporated herein by reference).*
10.5	Form of Incentive Stock Option Agreement for the 2013 Equity Incentive Plan (filed as Exhibit 4.3 to the Company's Form S-8 Registration Statement, filed on July 24, 2014, and incorporated herein by reference).*
10.6	Form of Restricted Stock Agreement for the 2013 Equity Incentive Plan (filed as Exhibit 4.4 to the Company's Form S-8 Registration Statement, filed on July 24, 2014, and incorporated herein by reference).*
10.7	Employment Agreement, dated as of July 21, 2014, between Sigma Labs, Inc. and Amanda Cola, as amended as of July 21, 2015. (Filed as Exhibit 10.11 to the Company's Form 10-K, filed on March 16, 2016, for the fiscal year ended December 31, 2015, and incorporated herein by reference).*

- 10.8 Employment Offer Letter Agreement, effective August 10, 2015, between Sigma Labs, Inc. and Ronald Fisher. (Filed as Exhibit 10.12 to the Company's Form 10-K, filed on March 16, 2016, for the fiscal year ended December 31, 2015, and incorporated herein by reference).\*
- 10.9 Amendment to Sigma Labs, Inc.'s 2013 Equity Incentive Plan. (Filed as Exhibit 10.2 to the Company's Form 10-Q, filed on May 12, 2016, for the period ended March 31, 2016, and incorporated herein by reference).\*
- 10.10 Amendment to Sigma Labs, Inc.'s 2013 Equity Incentive Plan.\* \*\*
- 10.11 Form of Indemnification Agreement for directors and officers of Sigma Labs, Inc. (filed as Exhibit 10.12 to the Company's Registration Statement on Form S-1, filed on July 28, 2016, and incorporated herein by reference).\*
- 10.12 Employment Letter Agreement, effective July 18, 2016, between Sigma Labs, Inc. and Murray Williams. (filed as Exhibit 10.2 to the Company's Form 10-Q, filed on August 11, 2016, for the period ended June 30, 2016, and incorporated herein by reference).\*
- 10.13 Securities Purchase Agreement, dated as of October 17, 2016, by and among Sigma Labs, Inc. and the investors named therein (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 20, 2016, and incorporated herein by reference).
- 10.14 Form of Secured Convertible Note issued as of October 17, 2016 (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed October 20, 2016, and incorporated herein by reference).
- 10.15 Registration Rights Agreement, dated as of October 17, 2016, by and among Sigma Labs, Inc. and the investors named therein (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed October 20, 2016, and incorporated herein by reference).
- 10.16 Security Agreement, dated as of October 17, 2016, by and between Sigma Labs, Inc. and L 1 Capital Global Opportunities Master Fund Ltd, in its capacity as Collateral Agent (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed October 20, 2016, and incorporated herein by reference).
- 10.17 Form of Warrant issued to investors in connection with Securities Purchase Agreement dated October 17, 2016 (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed October 20, 2016, and incorporated herein by reference).
- 10.18 Employment Agreement entered into on February 16, 2017 between the Company and Mark J. Cola (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 21, 2017, and incorporated herein by reference).\*
- 23.1 Consent of Pritchett, Siler & Hardy, P.C.\*\*
- 31.1 Certificate of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*
- 31.2 Certificate of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.1 Certificate of principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 101.INS++ XBRL Instance Document.
- 101.SCH++ XBRL Taxonomy Extension Schema Document.
- 101.CAL++ XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF++ XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB++ XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE++ XBRL Taxonomy Extension Presentation Linkbase Document.

\* Indicates a management contract or compensatory plan or arrangement.

\*\* Filed herewith.

++ Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

#### ITEM 16. FORM 10-K SUMMARY.

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SIGMA LABS, INC.

March 31, 2017

By: /s/ Mark J. Cola  
Mark J. Cola  
President and Chief Executive Officer  
(Principal Executive Officer)

March 31, 2017

By: /s/ Murray Williams  
Murray Williams  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Mark J. Cola</u> Mark J. Cola	President and Chief Executive Officer (Principal Executive Officer) and Director	March 31, 2017
<u>/s/ Murray Williams</u> Murray Williams	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2017
<u>/s/ Sam Bell</u> Sam Bell	Director	March 31, 2017
<u>/s/ Frank Garofalo</u> Frank Garofalo	Director	March 31, 2017
<u>/s/ John Rice</u> John Rice	Director	March 31, 2017

## Index to Financial Statements

### Financial Statements:

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**PRITCHETT, SILER & HARDY, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL CORPORATION  
1438 NORTH HIGHWAY 89, SUITE 130  
FARMINGTON, UTAH 84025

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(801) 447-9572 FAX (801) 447-9578

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors  
Sigma Labs, Inc.  
Santa Fe, New Mexico

We have audited the accompanying balance sheets of Sigma Labs, Inc. as of December 31, 2016 and 2015 and the related statements of operations, stockholders' equity and cash flows for the years then ended. Sigma Labs, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sigma Labs, Inc. as of December 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*/s/ PRITCHETT, SILER & HARDY, P.C.*

**PRITCHETT, SILER & HARDY, P.C.**

Farmington, Utah  
March 31, 2017

**Sigma Labs, Inc.**  
**Condensed Balance Sheets**

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 398,391	\$ 1,539,809
Accounts Receivable, net	288,236	280,222
Inventory	187,241	20,129
Prepaid Assets	<u>36,056</u>	<u>38,687</u>
<b>Total Current Assets</b>	<b>909,924</b>	<b>1,878,847</b>
<b>Other Assets:</b>		
Property and Equipment, net	564,933	714,754
Intangible Assets, net	226,450	167,644
Investment in Joint Venture	500	9,222
Prepaid Stock Compensation	<u>167,562</u>	<u>418,547</u>
<b>Total Other Assets</b>	<b>959,445</b>	<b>1,310,167</b>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,869,369</u></b>	<b>\$ <u>3,189,014</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 112,175	\$ 38,393
Notes Payable, net of original issue discount \$79,886	561,834	-
Accrued Expenses	<u>125,116</u>	<u>71,523</u>
<b>Total Current Liabilities</b>	<b>799,125</b>	<b>109,916</b>
<b>Long-Term Liabilities</b>		
Derivative Liability	<u>93,206</u>	<u>-</u>
<b>Total Long-Term Liability</b>	<b>93,206</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>892,331</b>	<b>109,916</b>
<b>Stockholders' Equity</b>		
Preferred Stock, \$0.001 par; 10,000,000 shares authorized; None issued and outstanding	-	-
Common Stock, \$0.001 par; 7,500,000 shares authorized; 3,133,789 and 3,119,537 issued and outstanding at December 31, 2016 and 2015, respectively	3,135	3,120
Additional Paid-In Capital	10,734,857	10,640,098
Accumulated Deficit	<u>(9,760,954)</u>	<u>(7,564,120)</u>
<b>Total Stockholders' Equity</b>	<b>977,038</b>	<b>3,079,098</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>1,869,369</u></b>	<b>\$ <u>3,189,014</u></b>

**Sigma Labs, Inc.**  
**Condensed Statements of Operations**

	Years Ended December 31	
	2016	2015
Revenues	\$ 966,422	\$ 1,234,810
<b>COST OF REVENUE</b>	<b>228,902</b>	<b>214,004</b>
<b>GROSS PROFIT</b>	<b>737,520</b>	<b>1,020,806</b>
<b>EXPENSES:</b>		
Other General and Administration	1,790,096	1,282,952
Payroll Expense	1,026,840	585,706
Stock-Based Compensation	341,558	518,438
Research and Development	92,992	330,554
<b>Total Expenses</b>	<b>3,251,486</b>	<b>2,717,650</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest Income	355	1,340
Other Income	51,703	-
Other Income-Decrease in fair value of derivative liabilities	354,644	-
Other Expense - Debt discount amortization	(89,570)	-
Loss on Investment in Joint Venture	-	(778)
<b>Total Other Income</b>	<b>317,132</b>	<b>562</b>
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	<b>(2,196,834)</b>	<b>(1,696,282)</b>
Provision for income Taxes	-	-
<b>Net Loss</b>	<b>\$ (2,196,834)</b>	<b>\$ (1,696,282)</b>
<b>Net Loss per Common Share - Basic and Diluted</b>	<b>\$ (0.70)</b>	<b>\$ (0.54)</b>
<b>Weighted Average Number of Shares Outstanding - Basic and Diluted</b>	<b>3,125,022</b>	<b>3,114,241</b>

**Sigma Labs, Inc.**  
**Statement of Stockholders' Equity**  
**For The Years Ended December 31, 2016 and 2015**

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Totals</u>
Balance December 31, 2014	3,098,705	\$ 3,099	\$ 10,414,931	\$ (5,867,838)	\$ 4,550,192
Shares issued for services at a price of \$10.60	18,019	18	190,983	-	191,001
Shares issued for services at a price of \$11.80	1,250	1	14,749	-	14,750
Shares issued for services at a price of \$13.00	313	1	4,062	-	4,063
Shares issued for services at a price of \$12.30	1,250	1	15,373	-	15,374
Net loss for the year ended December 31, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,696,282)</u>	<u>(1,696,282)</u>
Balance December 31, 2015	3,119,537	3,120	10,640,098	(7,564,120)	3,079,098
Shares forfeited	(10,000)	(10)	(257,990)	-	(258,000)
Shares issued for services at a price of \$9.64	313	1	3,010	-	3,011
Shares issued for services at a price of \$9.74	1,540	2	14,997	-	14,999
Shares issued for services at a price of \$8.50	1,764	2	14,998	-	15,000
Shares issued for services at a price of \$6.10	1,230	1	7,499	-	7,500
Shares issued for services at a price of \$5.96	1,257	1	7,498	-	7,499
Fractional shares issued at reverse stock split	565	1	-	-	1
Stock options awarded to employees	-	-	200,504	-	200,504
Shares issued for services at a price of \$6.00	2,083	2	12,498	-	12,500
Shares issued for services at a price of \$5.92	15,500	15	91,745	-	91,760
Derivative value on issuance date - warrants and notes payable conversion feature	-	-	(447,850)	-	(447,850)
Debt discount on notes payable	-	-	447,850	-	447,850
Net loss for the twelve months ended December 31, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,196,834)</u>	<u>(2,196,834)</u>
Balance December 31, 2016	<u>3,133,789</u>	<u>\$ 3,135</u>	<u>\$ 10,734,857</u>	<u>\$ (9,760,954)</u>	<u>\$ 977,038</u>

**Sigma Labs, Inc. and Subsidiaries**  
**Condensed Statements of Cash Flows**

	<b>Years Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (2,196,834)	\$ (1,696,282)
<b>Adjustments to reconcile Net Income (Loss) to Net Cash used in operating activities:</b>		
<b>Noncash Expenses:</b>		
Amortization	6,526	2,308
Depreciation	172,315	166,744
Stock Compensation	(345,759)	518,438
Net effect of derivative liability and debt discount related to notes payable	354,644	-
Note payable original issue discount	20,114	-
Note payable debt discount amortization	89,570	-
<b>Change in assets and liabilities:</b>		
Accounts Receivable	(8,014)	(157,612)
Allowance for Doubtful Accounts	-	95,511
(Decrease in allowance for Doubtful Accounts)	-	(4,884)
Inventory	(167,112)	36,046
Prepaid Assets	2,631	23,702
Accounts Payable	73,782	(271,305)
Accrued Expenses	53,593	26,871
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,962,314)</b>	<b>(1,260,463)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of Furniture and Equipment	(22,494)	(78,471)
Purchase of Intangible Assets	(65,332)	(74,104)
Investment in Joint Venture	8,722	(10,000)
Loss on Investment in Joint Venture	-	778
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(79,104)</b>	<b>(161,797)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of notes payable	900,000	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>900,000</b>	<b>-</b>
<b>NET CASH DECREASE FOR PERIOD</b>	<b>(1,141,418)</b>	<b>(1,422,260)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>1,539,809</b>	<b>2,962,069</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 398,391</b>	<b>\$ 1,539,809</b>
<b>Supplemental Disclosure for Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ -	\$ -
Income Taxes	\$ -	\$ -
<b>Supplemental Schedule of Noncash Investing and Financing Activities:</b>		
Issuance of Common Stock for services	\$ 152,265	\$ -
Cancellation of Common Stock previously issued for services	\$ (258,000)	\$ -
Derivative Liability	\$ 93,206	\$ -

**SIGMA LABS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 1 – Summary of Significant Accounting Policies**

**Nature of Business** – On September 13, 2010 Sigma Labs, Inc., formerly named Framewaves, Inc., a Nevada corporation, acquired 100% of the shares of B6 Sigma, Inc. by exchanging 6.67 shares of Framewaves, Inc. restricted common stock for each issued and outstanding share of B6 Sigma, Inc. The acquisition has been accounted for as a “reverse purchase,” and accordingly the operations of Framewaves, Inc. prior to the date of acquisition have been eliminated. Unless otherwise indicated or the context otherwise requires, the term “B6 Sigma” refers to B6 Sigma, Inc., a Delaware corporation, which, until the short-form merger referenced below, was our wholly-owned, operating company acquired in September 2010; the terms the “Company,” “Sigma,” “we,” “us” and “our” refer to Sigma Labs, Inc., together with B6 Sigma, Inc. Prior to December 29, 2015, we conducted substantially all of our operations through B6 Sigma. On December 29, 2015, we completed a short-form merger of B6 Sigma into Sigma. As a result, B6 Sigma became part of Sigma and no longer exists as a subsidiary.

B6 Sigma, Inc., incorporated February 5, 2010, was founded by a group of scientists, engineers and businessmen to develop and commercialize novel and unique manufacturing and materials technologies. The Company believes that some of these technologies will fundamentally redefine conventional quality assurance and process control practices by embedding them into the manufacturing processes in real time, enabling process intervention and ultimately leading to closed loop process control. The Company anticipates that its core technologies will allow its clientele to combine advanced manufacturing quality assurance and process control protocols with novel materials to achieve breakthrough product potential in many industries including aerospace, defense, oil and gas, bio-medical, and power generation.

**Basis of Presentation** – The accompanying financial statements have been prepared by the Company in accordance with Article 8 of U.S. Securities and Exchange Commission Regulation S-X. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at December 31, 2016 and 2015 and for the periods then ended have been made.

**Reclassification** – Certain amounts in prior-period financial statements have been reclassified for comparative purposes to conform to presentation in the current-period financial statements.

**Loss Per Share** – The computation of loss per share is based on the weighted average number of shares outstanding during the period in accordance with ASC Topic No. 260, “Earnings Per Share.”

**Property and Equipment** – Property and equipment are stated at cost. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized upon being placed in service. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated life has been determined to be three years unless a unique circumstance exists, which is then fully documented as an exception to the policy.

**Fair Value of Financial Instruments** - The Company applies ASC 820, “Fair Value Measurements.” This guidance defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

**Fair Value of Financial Instruments** – The Company adopted ASC 820, *Fair Value Measurements and Disclosures*, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing US GAAP that requires the use of fair value measurements which establishes a framework for measuring fair value and expands disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

- Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data
- Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The carrying amounts reported in the balance sheets for the cash and cash equivalents, prepaid stock compensation, receivables accounts payable, and accrued liabilities each qualify as financial instruments and are a reasonable estimate of fair value because on the short period of time between the origination of such instruments and their expected realization and their current market rate of interest.

In addition, FASB ASC 825-10-25, *Fair Value Option* was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value.

Fair value of financial instruments is as follows:

	December 31, 2016		Date of Issuance October 17, 2016	
	Fair Value	Input Level	Fair Value	Input Level
Derivative liability – \$1 million of Notes issued October 17, 2016	\$56,557	Level 3	\$271,754	Level 3
Derivative liability – 160,000 warrants issued October 17, 2016	\$36,649	Level 3	\$176,096	Level 3

The derivative liability is the result of the \$1 million of Notes, and the 160,000 warrants, that were issued in October 2016, both of which contain anti-dilution provisions in the event the Company engages in specified transactions. The Notes mature on October 17, 2017 and the warrants expire on October 17, 2019. The following table presents a reconciliation of the derivative liability measured at fair value on a recurring basis using significant unobservable input (Level 3) on October 17, 2016 and December 31, 2016:

	Conversion feature derivative liability
Fair value on issuance date	\$ 447,850
Change in fair value	(354,644)
Balance December 31, 2016	<u>\$ 93,206</u>

At December 31, 2015, the Company had two outstanding warrants to purchase a total of 12,500 shares of common stock but the warrants did not contain anti-dilution provisions, and thus were not derivative liabilities. The fair value of one of the warrants of \$271,250 was expensed on the date of issuance in 2014, and was calculated using a Black-Scholes option pricing model with the following assumptions: expected life of two years, expected volatility of 201%, a risk-free interest rate of 0.39%, and an expected dividend yield of 0%. The fair value of the other warrant of \$36,250 was expensed on the date of issuance in 2014, and was calculated using a Black-Scholes option pricing model with the following assumptions: expected life of two years, expected volatility of 287%, a risk-free interest rate of 0.41%, and an expected dividend yield of 0%.

**Income Taxes** – The Company accounts for income taxes in accordance with ASC Topic No. 740, “Accounting for Income Taxes.”

The Company adopted the provisions of ASC Topic No. 740, “Accounting for Income Taxes,” at the date of inception on February 5, 2010. As a result of the implementation of ASC Topic No. 740, the Company recognized no increase in the liability for unrecognized tax benefits.

The Company has no tax positions at December 31, 2016 and 2015 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the year ended December 31, 2016, the Company recognized no interest and penalties. The Company had no accruals for interest and penalties at December 31, 2016 or 2015. All tax years starting with 2010 are open for examination.

**Loss Per Share** – The computation of loss per share is based on the weighted average number of shares outstanding during the period in accordance with ASC Topic No. 260, “Earnings Per Share.”

**Accounts Receivable and Allowance for Doubtful Accounts** - Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. We determine the allowance for doubtful accounts by identifying potential troubled accounts and by using historical experience and future expectations applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade accounts receivable previously written off are recorded as income when received. There no allowance for doubtful accounts at December 31, 2016 or 2015.

**Long-Lived and Intangible Assets** – Long-lived assets and certain identifiable definite life intangibles to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company continuously evaluates the recoverability of its long-lived assets based on estimated future cash flows and the estimated liquidation value of such long-lived assets, and provides for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the long-lived assets. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. No impairment was recorded in the years ended December 31, 2016 or 2015.

**Recently Enacted Accounting Standards** – The FASB established the Accounting Standards Codification (“Codification” or “ASC”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”). Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) issued under authority of federal securities laws are also sources of GAAP for SEC registrants.

Recent Accounting Standards Updates (“ASU”) through ASU No. 2015-01 contain technical corrections to existing guidance or affects guidance to specialized industries or situations. The Company has evaluated recently issued technical pronouncements and has determined that these updates have no current applicability to the Company or their effect on the financial statements would not have been significant.

**Cash Equivalents** - The Company considers all highly liquid investments with an original maturity of three months or less at date of purchase to be cash equivalents.

**Concentration of Credit Risk** - The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Organization Expenditures** – Organizational expenditures are expensed as incurred for SEC filings, but capitalized and amortized for income tax purposes.

**Stock Based Compensation** – The Company recognizes compensation costs to employees under ASC Topic No. 718, “Compensation – Stock Compensation.” Under ASC Topic No. 718, companies are required to measure the compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the period during which employees are required to provide services. Share based compensation arrangements may include stock options, grants of shares of common stock with and without restrictions, performance based awards, share appreciation rights and employee share purchase plans. As such, compensation cost is measured on the date of grant at its fair value. Such compensation amounts, if any, are amortized over the respective vesting periods of the option or stock grants. Unvested option or stock grants for compensation are included in the Statement of Stockholders’ Equity as a contra-equity account as “Deferred Compensation.”

Equity instruments issued to non-employees are recorded on the basis of the fair value of the instruments, as required by ASC Topic No. 505, "Equity Based Payments to Non-Employees." In general, the measurement date is either (a) when a performance commitment, as defined, is reached or (b) the earlier of the date that (i) the non-employee performance requirement is complete or (ii) the instruments are vested. The measured value related to the instruments is recognized over a period based on the facts and circumstances of each particular grant as defined in the FASB Accounting Standards Codification.

**Amortization** - Utility patents are amortized over a 17 year period. Patents which are pending are not amortized.

**Accounting Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated by management. Significant accounting estimates that may materially change in the near future are impairment of long-lived assets, values of stock compensation awards and stock equivalents granted as offering costs, and allowance for bad debts and inventory obsolescence.

**Revenue Recognition** - The Company's revenue is derived primarily from providing services under contracts. The Company recognizes revenue in accordance with ASC Topic No. 605 based on the following criteria: Persuasive evidence of an arrangement exists, services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. In general, the Company recognizes service revenue as significant services under the relevant arrangement have been performed.

**Deferred Stock Offering Costs** - Costs related to stock offerings (if any) are deferred and will be offset against the proceeds of the offering in additional paid-in capital. In the event a stock offering is unsuccessful, the costs relating to the offering will be written-off directly to expense.

**Inventory** - Inventories consist of raw materials used in the production of customized parts totaling \$187,241 and \$20,129, as of December 31, 2016 and 2015, respectively, and nominal work-in-process components which will be sold to customers. Inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) method.

**Research and Development** - Research and development costs are expensed as they are incurred. Research and development costs for the years ended December 31, 2016 and 2015 were \$92,992 and \$330,554, respectively.

## **NOTE 2 – Stockholders' Equity**

### **Common Stock**

In March 2015, the Company issued 5,000 shares of stock to a director. The Company also issued 2,500 shares of stock to an officer, and an aggregate of 10,519 shares of stock to two consultants, subject to vesting restrictions. The shares were issued pursuant to the 2013 Plan. The shares were valued at \$10.60 or \$191,000. During the years ended December 31, 2016 and 2015, 1,501 and 16,159 of the shares vested, respectively. The 1,501 shares unvested at December 31, 2015 (valued at \$15,905) was reflected as prepaid assets.

In August 2015, in conjunction with the hiring of Ron Fisher, the Company's Vice President of Business Development, the Company issued to Mr. Fisher 1,250 shares of common stock, subject to performance-based vesting restrictions.

In November 2015, the Company issued 313 shares of common stock to an employee valued at \$13.00 per share, or \$4,063, and issued 1,250 shares of common stock to an employee valued at \$12.30 per share, or \$15,375.

Effective March 17, 2016, our Amended and Restated Articles of Incorporation were amended pursuant to a Certificate of Change Pursuant to Nevada Revised Statutes 78.209 (the "Certificate of Change") filed with the Nevada Secretary of State. The Certificate of Change provided for both a reverse stock split of the outstanding shares of our common stock on a 1-for-100 basis (the "Reverse Stock Split"), and a corresponding decrease in the number of shares of our common stock that we are authorized to issue (the "Share Decrease").

As a result of the Reverse Stock Split, the number of issued and outstanding shares of our common stock decreased from 311,484,918 pre-Reverse Stock Split shares to 3,114,855 post-Reverse Stock Split shares (after adjustment for any fractional shares). Pursuant to the Share Decrease, the number of authorized shares of our common stock decreased from 375,000,000 to 3,750,000 shares of common stock. All amounts shown for common stock included in these financial statements are presented post-Reverse Stock Split.

In February 2016, the Company issued 313 shares of common stock to a new employee, valued at \$9.64 per share, or \$3,012.

In March 2016, the Company issued 1,540 shares of common stock to a consultant, valued at \$9.74 per share, or \$14,999.

In April 2016, the Company issued 1,764 shares of common stock to a consultant, valued at \$8.50 per share, or \$15,000.

In May 2016, the Company issued 1,230 shares of common stock to a consultant, valued at \$6.10 per share, or \$7,499.

In June 2016, the Company issued 1,257 shares of common stock to a consultant, valued at \$5.964 per share, or \$7,498.

In July 2016, the Company issued 2,083 shares of common stock to a consultant, valued at \$6.00 per share, or \$12,501.

In July 2016, the Company issued 15,500 shares of common stock to an employee, valued at \$5.92 per share, or \$91,760.

On April 28, 2016, the Company's Amended and Restated Articles of Incorporation were amended to increase the number of authorized shares of the Company's common stock from 3,750,000 to 7,500,000 shares of common stock. As of December 31, 2016, the Company had 7,500,000 shares of authorized common stock, \$0.001 par value per share.

As of December 31, 2016 and 2015, there were 3,133,789 and 3,119,537 shares of common stock issued and outstanding, respectively.

#### **Deferred Compensation**

During July 2014, the Company issued to three employees an aggregate of 30,000 shares of the Company's common stock, subject to restrictions, pursuant to the 2013 Plan. Such shares were valued at the fair value of \$774,000 or \$25.80 per share. This compensation is being expensed over the vesting period. As of December 31, 2016 and 2015, the balance of unvested compensation cost expected to be recognized was \$64,500 (2,500 shares valued at \$25.80) and \$387,000 (15,000 shares valued at \$25.80), respectively, and is recorded as a reduction of stockholders' equity. The unvested compensation is being recognized over the weighted average period of approximately 2 years (through July 2017).

In November 2014, the Company issued 7,500 shares of stock to a director, subject to restrictions, pursuant to the Company's 2013 Equity Incentive Plan (the "2013 Plan"). The shares were valued at \$18.80 or \$141,000. All shares vested during the year ended December 31, 2015.

As described under the Common Stock heading above, the Company issued 5,000 shares of stock to a director in March 2015. The Company also issued 2,500 shares of stock to an officer, and an aggregate of 10,519 shares of stock to two consultants, subject to vesting restrictions. The shares were issued pursuant to the 2013 Plan. The shares were valued at \$10.60 or \$191,000. 16,519 of the shares vested during the year ended December 31, 2015. The remaining 1,501 shares vested during the year ended December 31, 2016 (valued at \$15,905).

As described under the Common Stock heading above, in August 2015, the Company issued 1,250 shares of stock to an employee, subject to performance-based vesting restrictions, pursuant to the Company's 2013 Equity Incentive Plan (the "2013 Plan"). The shares were valued at \$11.80 or \$14,750. As of December 31, 2016, 1,000 of the 1,250 shares are unvested. All of the 1,250 shares were unvested as of December 31, 2015.

As of December 31, 2016 and 2015, the balance of unvested compensation cost expected to be recognized was \$167,562 and \$418,547, respectively and is recorded as prepaid stock compensation. The unvested compensation is being recognized over the weighted average period of approximately 2 years (through July, 2017).

#### **Preferred Stock**

The Company is authorized to issue 10,000,000 shares of preferred stock, \$0.001 par value. No shares of preferred stock were issued and outstanding at December 31, 2016 and 2015.

## Stock Options

On April 28, 2016, at the Annual Meeting of Stockholders of the Company, the Company's stockholders approved an amendment to the 2013 Plan to increase the number of shares of the Company's common stock reserved for issuance under the 2013 Plan by 319,269 shares of our common stock to a total of 375,000 shares (on a post-Reverse Stock Split basis). As of December 31, 2016, an aggregate of 750 shares and 199,669 shares of common stock were reserved for issuance under the 2011 Plan and the 2013 Plan, respectively.

During 2016, the Company granted a total of 73,688 options to 10 employees with vesting periods ranging from 3 to 4 years beginning March 14, 2017. In 2016, 2,938 options vested, and \$168,411 of compensation cost had been recognized during the year. As of December 31, 2016, there were options to purchase 101,188 shares outstanding under the plans. Of this amount, there are vested options exercisable into 2,938 shares of common stock. As of December 31, 2016, the Company had 200,419 shares reserved for future grant under its plans and there were no shares exercised during the years ended December 31, 2016 or 2015.

During 2015, the Company granted a total of 28,438 options to three employees with vesting periods ranging from one to four years beginning August 10, 2015. As of December 31, 2015, none of the option grants had vested, and only a nominal amount of compensation cost had been recognized during the year. The weighted average period over which total compensation cost of the options of \$306,796 will be recognized is 3.81 years. The weighted average exercise price of the options was \$11.88 and the weighted average fair value of the options on the dates of grant was \$11.82.

The Company generally grants stock options to employees and directors at exercise prices equal to the fair market value of the Company's stock on the dates of grant. Stock options are typically granted throughout the year and generally vest over four years of service and expire ten years from the date of the award, unless otherwise specified. The Company recognizes compensation expense for the fair value of the stock options over the requisite service period for each stock option award.

Total share-based compensation expense included in the consolidated statements of operations for the years ended December 31, 2016 and 2015 is \$341,558 and \$518,438, respectively. There was no capitalized share-based compensation cost as of December 31, 2016 and 2015, and there were no recognized tax benefits during the years ended December 31, 2016 and 2015.

To estimate the value of an award, the Company uses the Black-Scholes option-pricing model. This model requires inputs such as expected life, expected volatility and risk-free interest rate. The forfeiture rate also impacts the amount of aggregate compensation. These inputs are subjective and generally require significant analysis and judgment to develop. While estimates of expected life, volatility and forfeiture rate are derived primarily from the Company's historical data, the risk-free rate is based on the yield available on U.S. Treasury constant maturity rates with similar terms to the expected term of the stock option awards. The fair value of share-based awards was estimated using the Black-Scholes model with the following weighted-average assumptions for the years ended December 31, 2016 and 2015:

### Assumptions:

	<u>2016</u>	<u>2015</u>
Dividend yield	0.00	0.00
Risk-free interest rate	1.13-2.32%	2.24-2.32%
Expected volatility	67.3-78.9%	80.5-184%
Expected life (in years)	10	10

Option activity for the year ended December 31, 2016 was as follows:

	<u>Options</u>	<u>Weighted Average Exercise Price (\$)</u>	<u>Weighted Average Remaining Contractual Life (Yrs.)</u>	<u>Aggregate Intrinsic Value (\$)</u>
Options outstanding at December 31, 2015	28,438	11.90	9.65	-
Granted	73,688	7.09	9.53	-
Exercised	-	-	-	-
Forfeited or cancelled	<u>(938)</u>	13.00	-	-
Options outstanding at December 31, 2016	<u>101,188</u>	8.39	9.29	-
Options expected to vest in the future as of December 31, 2016	98,250	8.29	9.30	-
Options exercisable at December 31, 2016	<u>2,938</u>	11.78	8.78	-
Options vested, exercisable and options expected to vest at December 31, 2016	<u><u>101,188</u></u>	8.39	9.29	<u><u>-</u></u>

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock for those awards that have an exercise price currently below the \$3.24 closing price of our Common Stock on December 31, 2016. None of the options have an exercise price currently below \$3.24.

At December 31, 2016 and 2015, there was \$452,551 and \$619,300, respectively, of unrecognized share-based compensation expense related to unvested share options with a weighted average remaining recognition period of 9.29 and 9.65 years, respectively.

#### Warrants

At December 31, 2016, the Company had two outstanding warrants to purchase a total of 80,000 shares of common stock at an exercise price of \$8.10 per share. If not exercised, the warrants to purchase 80,000 shares will expire on October 17, 2019.

At December 31, 2015, the Company had two outstanding warrants to purchase a total of 12,500 shares of common stock at an exercise price of \$16.00 per share. Warrants to purchase 10,938 shares expired on January 10, 2016 and warrants to purchase 1,563 expired on June 4, 2016.

During the year ended December 31, 2015, a warrant to purchase 10,186 shares of common stock at an exercise price of \$30.00 per share as well as a warrant to purchase 71,297 shares of common stock at an exercise price of \$30.00 per share expired.

#### NOTE 3 – Notes Payable

Effective October 17, 2016, the Company entered into a Securities Purchase Agreement with two accredited investors (the "Investors") for the private placement by the Company of Secured Convertible Notes in the aggregate principal amount of \$1,000,000 (the "Notes") and warrants (the "Warrants") to purchase up to 80,000 shares (the "Warrant Shares") of the Company's common stock ("Common Stock") (subject to adjustment in certain circumstances), for aggregate gross proceeds, before expenses, to the Company of \$900,000 (the "Financing Transaction").

The Notes carry a one-time upfront interest charge of a total of \$100,000, which is being expensed to interest expense monthly over the 1-year term of the Notes and correspondingly increases in the Notes Payable balance each period. As of December 31, 2016, the Notes Payable balance is \$920,114. However, the effective Notes Payable balance is \$1 million since that is the amount we would have to pay in order to payoff the note anytime between now and the maturity date of October 17, 2017, in addition to accrued interest and a 15% pre-payment penalty.

The Notes carry an interest rate of 10% per annum, calculated on the basis of a 360-day year, based on the \$1 million Notes Payable effective balance. Such interest is payable every three months in cash, or, at the holder's option, in unrestricted shares of Common Stock, if a registration statement is then in effect for such shares of common stock.

In connection with the Financing Transaction, the Company entered into a Registration Rights Agreement, dated October 17, 2016, with the Investors (the "Registration Rights Agreement"), pursuant to which the Company agreed to file a registration statement related to the Financing Transaction with the Securities and Exchange Commission ("SEC") covering the resale of (i) the shares of Common Stock that will be issued to the Investors upon conversion of the Notes (the "Conversion Shares"), and (ii) the Warrant Shares that will be issued to the Investors upon exercise of the Warrants. The Notes are secured by the assets of the Company pursuant to a Security Agreement, dated October 17, 2016, between the Company and the "collateral agent" (as defined in the Notes) for the benefit of itself and each of the Investors.

The Notes are convertible into shares of Common Stock at a conversion price equal to the lesser of (i) the final unit price of the Company's proposed public offering initially filed with the SEC on July 28, 2016, and (ii) 150% of the closing price of the Common Stock as reported by the OTC Markets Group, Inc. on the date of issuance of the Notes (subject to adjustment as provided therein). As such, as of December 31, 2016, the conversion price of the Notes was \$8.10, which is 150% of the closing price of the Common Stock as reported by the OTC Markets Group, Inc. on the date of issuance.

Each Warrant has an initial exercise price equal to the lesser of (i) the final unit price of the Company's proposed public offering initially filed with the SEC on July 28, 2016, and (ii) 150% of the closing price of the Common Stock as reported by the OTC Markets Group, Inc. on the date of issuance of the Warrants (subject to adjustment as provided therein), which Warrants may be exercised on a cashless basis as provided in the Warrants. As such, as of December 31, 2016, the exercise price of the Warrants was \$4.05, which is 150% of the closing price of the Common Stock as reported by the OTC Markets Group, Inc. on the date of issuance.

#### NOTE 4 – Continuing Operations

The Company has sustained losses and has negative cash flows from operating activities since its inception. However, the Company has had increasing revenues in recent periods. In addition, the Company has raised significant equity capital and is currently securing new product lines to increase future revenues. On February 21, 2017, the Company closed an underwritten public offering of equity securities resulting in net proceeds of approximately \$5.25 million, after deducting underwriting discounts and commissions and other offering expenses payable by the Company. As such, the Company believes it has adequate working capital and cash to fund operations through 2017, and has entered into significant revenue contracts that are expected to generate cash flow in the near term.

#### NOTE 5 – Income Taxes

The Company accounts for income taxes in accordance with ASC Topic No. 740. This standard requires the Company to provide a net deferred tax asset or liability equal to the expected future tax benefit or expense of temporary reporting differences between book and tax accounting methods and any available operating loss or tax credit carryforwards. Income tax returns open for examination by the Internal Revenue Service consist of tax years ended December 31, 2012 through 2014.

The Company has available at December 31, 2016, unused operating loss carryforwards of approximately \$8,328,160, which may be applied against future taxable income and which expire in various years through 2035. However, if certain substantial changes in the Company's ownership should occur, there could be an annual limitation on the amount of net operating loss carryforward which can be utilized. The amount of and ultimate realization of the benefits from the operating loss carryforwards for income tax purposes is dependent, in part, upon the tax laws in effect, the future earnings of the Company and other future events, the effects of which cannot be determined. Because of the uncertainty surrounding the realization of the loss carryforwards, the Company has established a valuation allowance equal to the tax effect of the loss carryforwards and other temporary differences of approximately \$3,767,996 and \$2,914,526 at December 31, 2016 and 2015, respectively, and, therefore, no deferred tax asset has been recognized for the loss carryforwards. The change in the valuation allowance is approximately \$853,470 and \$659,006 for the years ended December 31, 2016 and 2015, respectively.

Deferred tax assets are comprised of the following:

	2016	2015
Deferred tax assets:		
NOL carryover	\$ 3,235,490	\$ 2,382,020
Impairments	33,931	33,931
Warrants	498,575	498,575
Valuation allowance	<u>(3,767,996)</u>	<u>(2,914,526)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>

The reconciliation of the provision for income taxes computed at the U.S. federal statutory tax rate (34%) to the Company's effective tax rate for the period ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Book Loss	\$ 746,924	\$ 576,736
State taxes	106,546	82,270
Deductible differences	-	-
Change in valuation allowance	<u>(853,470)</u>	<u>(659,006)</u>
Provision for Income Taxes	<u>\$ -</u>	<u>\$ -</u>

**NOTE 6 – Loss Per Share**

The following data show the amounts used in computing loss per share and the effect on income and the weighted average number of shares of dilutive potential common stock for the periods ended December 31, 2016 and 2015:

	<u>Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Loss from continuing Operations available to Common stockholders (numerator)	<u>\$ (2,196,834)</u>	<u>\$ (1,696,282)</u>
Weighted average number of common shares Outstanding used in loss per share during the Period (denominator)	<u>3,125,022</u>	<u>3,114,241</u>

Dilutive loss per share was not presented as the Company had no common equivalent shares for all periods presented that would affect the computation of diluted loss per share or its effect is anti-dilutive.

**NOTE 7 – Furniture and Equipment**

The following is a summary of property and equipment, purchased, used and depreciated over a three-year period, less accumulated depreciation, as of December 31, 2016 and 2015:

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Property and Equipment	\$ 993,843	\$ 966,936
Less: Accumulated Depreciation	<u>(428,910)</u>	<u>(252,182)</u>
Net Property and Equipment	<u>\$ 564,933</u>	<u>\$ 714,754</u>

Depreciation expense on property and equipment was \$172,315 and \$166,744 for the years ended December 31, 2016 and 2015, respectively.

**NOTE 8 – Intangible Assets**

The Company's intangible assets consist of Patents, Patent Pending Applications and Customer Contacts.

Provisional patent applications are not amortized until a patent has been granted. Once a patent is granted, the Company will amortize the related costs over the estimated useful life of the patent. If a patent application is denied, then the costs will be expensed at that time.

The customer contacts were acquired in a business acquisition on December 31, 2011 and were to be amortized over their estimated useful life of 3 years.

The following is a summary of definite-life intangible assets less accumulated amortization as of December 31, 2016 and 2015, respectively:

	Year Ended December 31,	
	2016	2015
Provisional Patent Applications	\$ 183,574	\$ 137,927
Patents	59,701	39,252
Customer Contacts	262,009	262,009
Less: Accumulated Amortization	<u>(278,833)</u>	<u>(271,544)</u>
Net Intangible Assets	<u>\$ 226,450</u>	<u>\$ 167,644</u>

Amortization expense on intangible assets was \$2,309 and \$2,308 for the years ended December 31, 2016 and 2015.

The estimated aggregate amortization expense for each of the succeeding years ending December 31 is as follows:

2017	2,309
2018	2,309
2019	2,309
2020	2,309
Thereafter	<u>18,172</u>
	<u>\$ 29,717</u>

#### NOTE 9 – Commitments and Contingencies

**Operating Leases** – The Company leases office and laboratory space under operating leases. Expense relating to these operating leases was \$56,025 and \$49,637 for the years ended December 31, 2016 and 2015, respectively. The future minimum lease payments required under non-cancellable operating leases at December 31, 2016 was \$40,275. The future minimum lease payments are due during the year 2017.

#### NOTE 10 – Concentrations

**Revenues** – During the years ended December 31, 2016 and 2015, the Company had the following significant customers who accounted for more than 10% each of the Company's revenue in at least one of the periods presented. The loss of the revenues generated by these customers would have a significant effect on the operations of the Company.

Customer	2016	2015
A	40.93%	42.93%
B	29.97%	10.06%
D	8.72%	19.57%
E	7.03%	3.04%
F	4.61%	3.85%

**Accounts Receivable** – The Company had the following significant customers who accounted for more than 10% each of the Company’s accounts receivable balance at December 31, 2016 and 2015, respectively.

Customer	2016	2015
A	75.74%	37.30%
B	5.31%	14.01%
C	5.24%	27.49%
D	4.12%	7.18%
E	3.18%	0%
F	3.0%	0%

**NOTE 11 - Joint Venture**

As previously reported in our Form 8-K filed with the SEC on July 6, 2015, we entered into an Operating Agreement and Statement of Work with Arete Innovative Solutions LLC (“Arete”). The Operating Agreement and Statement of Work governed the operations of Arete-Sigma LLC (the “Joint Venture”), a joint venture formed by us and Arete for the purpose of pursuing business opportunities related to AM utilizing our EOS M290 or like machines, including enabling and implementing sales and manufacturing transactions. Under the Operating Agreement and Statement of Work, among other matters reported in our Form 8-K and set forth in the Operating Agreement and Statement of Work, (i) each of Sigma and Arete held a 50% ownership interest in the Joint Venture, and (ii) the Joint Venture was managed by William F. Herman, President of Arete, subject to certain limitations. Based on the Operating Agreement, the Company held the non-controlling interest in the Joint Venture. Therefore, the Joint Venture was not consolidated, but rather was accounted for on the equity method of recording investments. During the years ended December 31, 2016 and 2015, net operations resulted in a loss on the investment of \$105 and \$778, respectively. The Company terminated the Joint Venture in 2016, but is continuing to pursue business opportunities related to AM utilizing the Company's EOS M290 or like machines.

**Note 12 - Defined Contribution Plan**

In 2014, the Company adopted a qualified 401(K) plan (Plan), in which all employees over the age of 21 may participate. The Company has elected to match 100% of each participant’s contribution up to 3% of salary, and 50% of the next 2% of salary contributed. The Company may also elect, on an annual basis, to make a discretionary contribution to the plan. Company matches and elective contributions vest to participant accounts as follows: 20% after two years of service, and 20% per year thereafter until the participant reaches 6 years of service, at which time, employer contributions vest 100%. The cost of matching contributions were \$35,488 in 2016 and \$18,315 in 2015.

**NOTE 13 – Subsequent Events**

In connection with their appointment to the Company’s Board of Directors, on January 10, 2017, the Company granted each of Sam Bell and Frank Garofalo 5,000 shares of common stock of the Company, under the Company’s 2013 Equity Incentive Plan, with such shares to vest in four equal, successive quarterly installments of 1,250 shares each, beginning on April 10, 2017, subject to the requirement that each of Messrs. Bell and Garofalo, as applicable, must remain a director of the Company.

Effective February 15, 2017, our Amended and Restated Articles of Incorporation were amended pursuant to a Certificate of Change Pursuant to Nevada Revised Statutes 78.209 (the “Certificate of Change”) filed with the Nevada Secretary of State. The Certificate of Change provided for both a reverse stock split of the outstanding shares of our common stock on a 1-for-2 basis (the “Reverse Stock Split”), and a corresponding decrease in the number of shares of our common stock that we are authorized to issue (the “Share Decrease”).

As a result of the Reverse Stock Split, the number of issued and outstanding shares of our common stock decreased from 6,307,577 pre-Reverse Stock Split shares to 3,153,801 post-Reverse Stock Split shares (after adjustment for any fractional shares). Pursuant to the Share Decrease, the number of authorized shares of our common stock decreased from 15,000,000 to 7,500,000 shares of common stock, \$0.001 par value per share.

On February 21, 2017, the Company closed an underwritten public offering of 1,410,000 units, with each unit consisting of one share of the Company's common stock and one warrant to purchase one share of common stock. The underwriter exercised the over-allotment option covering additional warrants to purchase up to 211,500 additional shares of common stock.

Gross proceeds to the Company from the offering, including the exercise of the over-allotment option, were approximately \$5.8 million, before deducting underwriting discounts and commissions and other offering expenses payable by the Company. Dawson James Securities, Inc. acted as the sole underwriter for the offering.

The shares and warrants described above were offered by Sigma Labs pursuant to a registration statement previously filed with and subsequently declared effective by the Securities and Exchange Commission ("SEC"). A final prospectus relating to the offering was filed with the SEC and is available on the SEC's website at <http://www.sec.gov>, or by contacting Dawson James: 1 N. Federal Hwy; Suite 500, Boca Raton, FL 33432, ATTN: Prospectus Department.

On February 14, 2017, in connection with the offering, The NASDAQ Stock Market LLC informed the Company that it had approved the listing of the Company's common stock and warrants on The NASDAQ Capital Market, effective as of February 15, 2017 (the "Listing"). The Company's common stock ceased trading on the OTCQB on February 15, 2017, and on such date the common stock and the above described warrants commenced trading on The NASDAQ Capital Market under the ticker symbols "SGLB" and "SGLBW," respectively.

On February 15, 2017, in conjunction with John Rice's appointment as a director of the Company, the Company issued Mr. Rice 5,231 shares of common stock, which shares will vest in four equal, successive quarterly installments beginning on the first quarterly anniversary of the grant date, provided that an installment will not vest if Mr. Rice is not a director of the Company as of the applicable quarterly anniversary date.

On February 16, 2017, the Company and Mark J. Cola entered into an employment agreement (the "Employment Agreement") for a three-year term, pursuant to which Mr. Cola will continue to serve as the Company's President, Chief Executive Officer and Chief Operating Officer. The Employment Agreement became effective as of the closing of the public offering described above. Under the Employment Agreement, Mr. Cola is entitled to receive an annual base salary of \$220,000, which will be subject to increase in the discretion of the board of directors or Compensation Committee based on its annual assessment of Mr. Cola's performance and other factors. Pursuant to the Employment Agreement, the Company granted Mr. Cola a stock option to purchase up to 123,750 shares of our common stock under the Company's 2013 Equity Incentive Plan, as amended, vesting in equal quarterly installments over an 18-month period. The Company agreed in the Employment Agreement that, on each of the first and second anniversaries of the effectiveness of the Employment Agreement, Mr. Cola will receive a stock option to purchase 61,875 shares of our common stock. Each stock option will have an exercise price equal to the closing price of our common stock on the date of grant and will vest and become exercisable in equal quarterly installments over an 18-month period, provided, in each case, that Mr. Cola remains an employee of the Company through such vesting date.

On March 27, 2017, we completed funding a loan in the principal amount of \$500,000 to Morf3D pursuant to a Secured Convertible Promissory Note dated March 27, 2017 delivered by Morf3D to us. The loan bears interest at the rate of 7% per annum, is due and payable in full on March 27, 2018, is secured by certain assets of Morf3D, and is convertible at our option into 10% of the outstanding shares of the common stock of Morf3D unless Morf3D exercises its right under specified circumstances to repay all principal and accrued interest on the loan. The Secured Convertible Promissory Note also contains representations, warranties, and affirmative and negative covenants of Morf3D and its principal stockholders. The purpose of the loan is to provide working capital to Morf3D to, among other things, lease an EOS M 400 system for Morf3D for Morf3D to expand production for contracts related to AM of high-precision aerospace & defense components, in furtherance of our strategic alliance and in contemplation of a possible acquisition of or merger with Morf3D.

**Amendment to Sigma Labs, Inc. 2013 Equity Incentive Plan**

The last sentence of Section 3 of the 2013 Equity Incentive Plan of Sigma Labs, Inc. is hereby amended in its entirety to read as follows:

"No eligible person shall be granted Options or other awards during any twelve-month period covering more than 300,000 shares."

**Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mark J. Cola, certify that:

1. I have reviewed this Quarterly Report on Form 10-K of Sigma Labs, 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 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: March 31, 2017

By: /s/ Mark J. Cola  
Name: Mark J. Cola  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

**Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Murray Williams, certify that:

1. I have reviewed this Quarterly Report on Form 10- K of Sigma Labs, 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 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: March 31, 2017

By: /s/ Murray Williams  
Name: Murray Williams  
Title: Chief Financial Officer, Treasurer  
(Principal Financial and Accounting Officer)

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

In connection with the accompanying Annual Report of Sigma Labs, Inc., (the "Company") on Form 10-K for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officers of the Company certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

(i) The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2017

By: /s/ Mark J. Cola  
Name: Mark J. Cola  
Title: President and Chief Executive Officer (Principal Executive Officer)

Date: March 31, 2017

By: /s/ Murray Williams  
Name: Murray Williams  
Title: Chief Financial Officer (Principal Financial and Accounting Officer)