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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

OR

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

Commission file number: 001-38015

Sigma Labs, Inc.
(Exact name of registrant as specified in its charter)

NEVADA	27-1865814
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

3900 Paseo del Sol
Santa Fe, NM 87507
(Address of principal executive offices)

(505) 438-2576
(Registrant's telephone number)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	SGLB	The NASDAQ Stock Market LLC
Warrants to Purchase Common Stock, par value $0.001 per share	SGLBW	The NASDAQ Stock Market LLC

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

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

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

Large accelerated filer	[ ]	Accelerated Filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]
Emerging growth company	[ ]		

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of July 22, 2020, the issuer had 3,926,362 shares of common stock outstanding.

SIGMA LABS, INC.

FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Sigma Labs, Inc.
Condensed Balance Sheets
(Unaudited)

	June 30, 2020	December 31, 2019
ASSETS		
Current Assets:		
Cash	$ 2,445,766	$ 86,919
Accounts Receivable, net	286,405	55,540
Inventory	585,640	598,718
Prepaid Assets	118,031	199,727
Total Current Assets	**3,435,842**	**940,904**
Other Assets:		
Property and Equipment, net	117,006	128,723
Intangible Assets, net	644,286	569,341
Investment in Joint Venture	-	500
Long-Term Prepaid Asset	52,000	52,000
Total Other Assets	813,292	**750,564**
TOTAL ASSETS	**$ 4,249,134**	**$ 1,691,468**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 295,220	$ 727,114
Notes Payable	-	50,000
Deferred Revenue	99,588	139,447
Accrued Expenses	272,442	122,658
Total Current Liabilities	667,250	**1,039,219**
Long-Term Liabilities:		
CARES Act Deferred Payroll Tax Liability	22,072	-
Total Long-Term Liabilities	22,072	-
TOTAL LIABILITIES	**689,322**	**1,039,219**
Stockholders' Equity		
Preferred Stock, \$0.001 par; 10,000,000 shares authorized; 333 and 0 issued and outstanding, respectively	1	-
Common Stock, \$0.001 par; 12,000,000 shares authorized; 3,926,362 and 1,403,759 issued and outstanding, respectively	3,926	1,404
Additional Paid-In Capital	33,151,829	26,746,439
Accumulated Deficit	(29,595,944)	(26,095,594)
Total Stockholders' Equity	**3,559,812**	**652,249**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 4,249,134**	**$ 1,691,468**

See accompanying notes to condensed financial statements.

Sigma Labs, Inc.
Condensed Statements of Operations
(Unaudited)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
REVENUES	$ 167,688	$ 33,582	$ 389,418	$ 98,032
COST OF REVENUE	57,684	60,625	302,387	157,180
GROSS PROFIT (LOSS)	**110,004**	**(27,043)**	**87,031**	**(59,148)**
OPERATING EXPENSES:				
Salaries & Benefits	605,295	581,356	1,257,492	1,093,916
Stock-Based Compensation	270,818	220,360	424,989	474,566
Operating R&D Costs	111,647	118,845	165,335	264,117
Investor & Public Relations	171,287	157,318	409,555	315,107
Legal & Professional Service Fees	219,007	218,919	430,515	403,489
Office Expenses	78,843	184,068	226,590	350,178
Depreciation & Amortization	17,970	49,203	35,983	97,586
Other Operating Expenses	51,687	38,994	135,736	77,203
Total Operating Expenses	**1,526,554**	**1,569,064**	**3,086,195**	**3,076,162**
LOSS FROM OPERATIONS	(1,416,550)	(1,596,107)	(2,999,164)	(3,135,310)
OTHER INCOME (EXPENSE)				
Interest Income	31	7,016	882	12,798
State Incentives	151,657	-	151,657	51,877
Exchange Rate Gain (Loss)	(31)	(2,264)	(1,422)	(2,710)
Interest Expense	(6,244)	(2,136)	(6,675)	(4,258)
Loss on Dissolution of Joint Venture	(201)	-	(201)	
Other Income	361,700	-	361,700	-
Total Other Income (Expense)	**506,912**	**2,616**	**505,941**	**57,707**
LOSS BEFORE PROVISION FOR INCOME TAXES	**(909,638)**	**(1,593,491)**	**(2,493,223)**	**(3,077,603)**
Provision for income Taxes	-	-	-	-
Net Loss	**$ (909,638)**	**$ (1,593,491)**	**$ (2,493,223)**	**$ (3,077,603)**
Preferred Dividends	(691,880)	-	(1,007,127)	-
Net Loss Applicable to Common Stockholders	**$ (1,601,518)**	**$ (1,593,491)**	**$ (3,500,350)**	**$ (3,077,603)**
Net Loss per Common Share – Basic and Diluted	**$ (0.49)**	**$ (1.50)**	**$ (1.48)**	**$ (3.10)**
Weighted Average Number of Shares Outstanding – Basic and Diluted	3,256,098	1,077,759	2,359,862	1,006,381

See accompanying notes to condensed financial statements.

Sigma Labs, Inc.
Condensed Statements of Cash Flows
(Unaudited)

	Six Months Ended	
	June 30, 2020	**June 30, 2019**
OPERATING ACTIVITIES		
Net Loss	$ (2,493,223)	$ (3,077,603)
Adjustments to reconcile Net Loss to Net Cash used in operating activities:		
Noncash Expenses:		
Depreciation and Amortization	35,983	97,586
Stock Based Compensation	424,989	474,150
Securities Issued for Third Party Services	54,924	-
Change in assets and liabilities:		
Accounts Receivable	(230,865)	818
Interest Receivable	-	27,038
Inventory	13,078	(330,340)
Prepaid Assets	81,695	(1,463)
Accounts Payable	(431,893)	150,567
Deferred Revenue	(39,860)	27,275
Accrued Expenses	149,785	(105,678)
NET CASH USED IN OPERATING ACTIVITIES	(2,435,387)	**(2,737,650)**
INVESTING ACTIVITIES		
Purchase of Property and Equipment	(11,474)	(23,796)
Purchase of Intangible Assets	(87,736)	(107,124)
Payment Received from Notes Receivable	-	15,000
Dissolution of Joint Venture	500	-
NET CASH USED IN INVESTING ACTIVITIES	(98,710)	**(115,920)**
FINANCING ACTIVITIES		
Gross Proceeds from Public and Private Issuances of Securities	3,600,000	2,521,220
Less Offering Costs	(820,228)	(326,890)
Payment of Note Payable	(50,000)	-
Proceeds from Exercise of Warrants	2,141,100	75,848
Deferral of Payroll Taxes under the CARES Act	22,072	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,892,944	**2,270,178**
NET CHANGE IN CASH FOR PERIOD	2,358,847	**(583,392)**
CASH AT BEGINNING OF PERIOD	86,919	1,279,782
CASH AT END OF PERIOD	**$ 2,445,766**	**$ 696,390**
Supplemental Disclosures:		
Noncash investing and financing activities disclosure:		
Issuance of Common Shares for Conversion of Preferred Shares and Preferred Dividends	$ 3,417,967	$ -
Issuance of Securities for services	$ 62,794	$ 153,000
Disclosure of cash paid for:		
Interest	$ 9,359	$ 2,514
Income Taxes	$ -	$ -

See accompanying notes to condensed financial statements.

Sigma Labs, Inc.
Statement of Stockholders' Equity
For the Three and Six Months Ended June 30, 2020 and 2019
(Unaudited)

For the Three Months Ended June 30, 2020 and June 30, 2019

	Preferred Stock		Common Stock		Additional		
	Shares Outstanding	Preferred Stock	Shares Outstanding	Common Stock	Paid-in Capital	Accumulated Deficit	Total
Balances, March 31, 2020	1,378	$ 2	1,817,834	$ 1,818	$ 29,425,382	$ (27,994,426)	$ 1,432,776
Net Loss	-	-	-	-	-	(909,638)	(909,638)
Common Shares Sold in Public Offering	-	-	493,027	493	1,499,507	-	1,500,000
Preferred Stock Dividends	-	-	323,624	323	691,557	(691,880)	-
Common Shares issued for Conversion of Preferred Shares	(2,729)	(2)	1,280,360	1,281	(1,279)	-	-
Preferred Shares issued for Exercise of Preferred Warrants	1,684	1	-	-	1,641,899	-	1,641,900
Securities Issued for Third Party Services	-	-	-	-	15,306	-	15,306
Stock Options Awarded to Employees	-	-	-	-	262,950	-	262,950
Common Shares Awarded to Employees	-	-	11,517	11	7,859	-	7,870
Offering Costs	-	-	-	-	(391,352)	-	(391,352)
Balances, June 30, 2020	333	$ 1	3,926,362	$ 3,926	$ 33,151,829	$ (29,595,944)	$ 3,559,812

	Preferred Stock		Common Stock		Additional		
	Shares Outstanding	Preferred Stock	Shares Outstanding	Common Stock	Paid-in Capital	Accumulated Deficit	Total
Balances, March 31, 2019	-	$ -	1,053,759	$ 1,054	$ 23,518,514	$ (21,258,857)	$ 2,260,711
Net Loss	-	-	-	-	-	(1,593,491)	(1,593,491)
Shares Sold in Private Placement	-	-	40,000	40	514,960	-	515,000
Shares Issued for Services	-	-	-	-	75,000	-	75,000
Stock Options Awarded to Employees	-	-	-	-	144,944	-	144,944
Balances, June 30, 2019	-	$ -	1,093,759	$ 1,094	$ 24,253,419	$ (22,852,348)	$ 1,402,165

For the Six Months Ended June 30, 2020 and June 30, 2019

	Preferred Stock		Common Stock		Additional		
	Shares Outstanding	Preferred Stock	Shares Outstanding	Common Stock	Paid-in Capital	Accumulated Deficit	Total
Balances, December 31, 2019	-	$ -	1,403,759	$ 1,404	$ 26,746,439	$ (26,095,594)	$ 652,249
Net Loss	-	-	-	-	-	(2,493,223)	(2,493,223)
Common Shares Sold in Public Offering	-	-	493,027	493	1,499,507	-	1,500,000
Preferred Shares Sold in Private Offering	1,973	3	-	-	2,099,997		2,100,000
Preferred Stock Dividends	-	-	410,425	410	1,006,717	(1,007,127)	-
Common Shares issued for Conversion of Preferred Shares	(3,836)	(4)	1,601,877	1,602	(1,598)	-	-
Preferred Shares issued for Exercise of Preferred Warrants	2,196	2	-	-	2,141,098	-	2,141,100
Securities Issued for Third Party Services	-	-	2,500	3	54,921	-	54,924
Stock Options Awarded to Employees	-	-	-		417,120	-	417,120
Common Shares Awarded to Employees	-	-	11,517	11	7,859	-	7,870
Offering Costs					(820,228)	-	(820,228)
Issuance of Fractional Shares from Reverse Split	-	-	3,257	3	(3)	-	-
Balances, June 30, 2020	333	$ 1	3,926,362	$ 3,926	$ 33,151,829	$ (29,595,944)	$ 3,559,812

	Preferred Stock		Common Stock		Additional		
	Shares Outstanding	Preferred Stock	Shares Outstanding	Common Stock	Paid-in Capital	Accumulated Deficit	Total
Balances, December 31, 2018	-	$ -	877,663	$ 878	$ 21,509,306	$ (19,774,745)	$ 1,735,439
Net Loss	-	-	-	-	-	(3,077,603)	(3,077,603)
Shares Sold in Public Offering	-	-	140,080	140	1,679,190	-	1,679,330
Shares Sold in Private Placement			40,000	40	514,960		515,000
Shares issued for Exercise of Warrants	-	-	7,023	7	75,841	-	75,848
Shares Issued for Cashless Exchange of UPO's	-	-	8,843	9	(9)	-	-
Shares Issued for Services	-	-	20,150	20	152,980	-	153,000
Stock Options Awarded to Employees	-	-	-	-	321,150	-	321,150
Balances, June 30, 2019	-	$ -	1,093,759	$ 1,094	$ 24,253,419	$ (22,852,348)	$ 1,402,165

See accompanying notes to condensed financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Business -Sigma Labs, Inc., formerly named Framewaves, Inc., a Nevada corporation, was founded by a group of scientists, engineers and businessmen to develop and commercialize novel and unique manufacturing and materials technologies. Sigma 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. The terms the “Company,” “Sigma,” “we,” “us” and “our” refer to Sigma Labs, Inc.

Basis of Presentation - The accompanying financial statements have been prepared by the Company in accordance with Generally Accepted Accounting Principles (“GAAP”) in the United States of America. 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 June 30, 2020 and 2019 and for the periods then ended have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The Company suggests these condensed financial statements be read in conjunction with the December 31, 2019 audited financial statements and notes thereto included in the Company’s Form 10-K. The results of operations for the periods ended June 30, 2020 and 2019 are not necessarily indicative of the operating results for the full year.

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.” Shares underlying the Companies outstanding warrants, options and preferred shares were excluded due to the anti-dilutive effect they would have on the computation. At June 30, 2020 and 2019, the Company had the following common shares underlying these instruments:

	Six Months Ended June 30,	
	2020	2019
Warrants	1,845,722	362,061
Preferred Stock Warrants	2,147,277	-
Stock Options	486,720	110,820
Preferred Stock	61,651	-
Convertible Note Payable	-	2,500
Total Underlying Common Shares	4,541,370	475,381

The following data shows 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 June 30, 2020 and 2019:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Net Loss per Common Share - Basic and Diluted	$ (0.49)	$ (1.50)	(1.48)	$ (3.10)
Loss from continuing Operations available to Common stockholders (numerator)	$ (1,601,518)	$ (1,593,491)	(3,500,350)	$ (3,077,603)
Weighted average number of common shares Outstanding used in loss per share during the Period (denominator)	3,256,098	1,077,759	2,359,862	1,006,381

Recently Enacted Accounting Standards - The FASB established the 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 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.

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.

NOTE 2 – Inventory

At June 30, 2020 and December 31, 2019, the Company's inventory was comprised of:

	June 30, 2020	**December 31, 2019**
Raw Materials	$ 170,530	$ 173,102
Work in Process	16,072	92,493
Finished Goods	399,038	333,123
Total Inventory	**$ 585,640**	**$ 598,718**

NOTE 3 - Notes Payable

On January 31, 2020, the Company paid off its Secured Convertible Promissory Note in full in the amount of $56,458, including accrued interest of $1,458 and a late fee penalty of $5,000.

NOTE 4 – Paycheck Protection Plan Loan

On April 14, 2020, the Company was granted a loan from BOKF, NA dba Bank of Oklahoma in the aggregate amount of $361,700, pursuant to the Paycheck Protection Program (the **"**PPP**"**) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (the **"**CARES Act**"**), which was enacted March 27, 2020. Under the terms of the PPP, PPP loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgiveness period.

As of June 30, 2020, the Company has used the entire loan proceeds to fund its payroll expenses. As a result, the Company believes that it has met the PPP eligibility criteria for forgiveness and has concluded that the loan represents, in substance, a government grant that is expected to be forgiven. As such, in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", the Company has recognized the entire loan amount as Other Income at June 30, 2020.

The Company does not anticipate taking any action that would cause any portion of the loan to be ineligible for forgiveness. However, to the extent that any amount is deemed unforgivable, such amount is payable over two to five years at an interest rate of 1%, with a deferral of payments for the first six months.

NOTE 5 - Stockholders' Equity

Common Stock

Effective February 27, 2020, our Articles of Incorporation were amended to provide for a reverse stock split of the outstanding shares of our common stock on a 1-for-10 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"). The effects of the stock split have been retroactively reflected to all periods presented.

On March 27, 2020, at a special shareholders' meeting, our authorized shares of common stock were increased from 2,250,000 to 8,000,000. At our annual shareholders' meeting held on June 15, 2020, our authorized shares of common stock were increased from 8,000,000 to 12,000,000.

On April 6, 2020, the Company closed a public offering of equity securities in which it issued 493,027 shares of common stock and pre-funded warrants to purchase up to 22,438 shares of the Company's common stock. The Company also issued Series A Warrants to purchase an aggregate of 515,465 shares of the Company's common stock pursuant to a private placement. In connection with this offering, the Company issued Dawson James Securities, Inc., its Placement Agent, a warrant to purchase an aggregate of 41,237 shares of the Company's Common Stock (which amount is based on the number of Common Shares and shares underlying the Pre-Funded Warrants) at an exercise price of $3.64 per share. Net proceeds to the Company after deducting offering expenses were approximately $1,230,000.

In the second quarter of 2020, the Company issued 1,280,360 shares of common stock in exchange for the conversion of 1,684 shares of Series D Convertible Preferred stock, and 323,624 shares of common stock as in-kind payment of preferred stock dividends.

In April 2020, the Company granted 11,517 shares of common stock to employees under the 2013 Equity Incentive Plan. Such shares will vest on December 31, 2020 as long as the grantee is employed by the Company on that date.

In the first quarter of 2020, the Company issued 321,517 shares of common stock in exchange for the conversion of 1,107 shares of Series D Convertible Preferred stock, and 86,801 shares of common stock as in-kind payment of preferred stock dividends.

In February 2020, the Company issued 2,500 shares of common stock valued at $8.70 per share to MHZCI, LLC, an investor relations firm engaged by the Company, as partial compensation for services to be rendered.

In January 2019, the Company issued a total of 200,000 shares of common stock to directors valued at $1.50 per share, or $300,000, with such shares to vest ratably over four quarterly instalments, subject in each case to such director's continuing service as a director.

Also in January 2019, the Company issued 88,431 shares of common stock upon the cashless exercise of Unit Purchase Options issued in our June 2018 public offering.

In January and February 2019, the Company issued a total of 70,230 shares of common stock upon the exercise of 70,230 warrants having an exercise price of $1.08 resulting in gross cash proceeds of $75,848.

In March 2019, the Company issued 1,500 shares of common stock to the Company's Vice President of Business Development in connection with his achievement of performance milestones, with such shares vesting immediately.

Also in March 2019, the Company closed a public offering of equity securities in which it issued 1,400,800 shares of common stock and warrants to purchase a total of 420,240 shares of common stock resulting in net proceeds of approximately $1,679,230, after deducting placement agent commissions and other offering expenses payable by the Company.

In May 2019, the Company closed a private placement of equity securities in which it issued 400,000 shares of common stock and warrants to purchase a total of 220,000 shares of common stock resulting in net proceeds of approximately $515,000, after deducting placement agent commissions and other offering expenses payable by the Company.

Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock, $0.001 par value. 333 and 0 shares of preferred stock were issued and outstanding at June 30, 2020 and 2019, respectively.

In January 2020, the Company entered into a Securities Purchase Agreement (the "SPA") with certain institutional investors (the "Institutional Private Placement"). Pursuant to the SPA, the Company issued and sold 1,640 shares of the Company's newly created Series D Convertible Preferred Stock (the "Series D Preferred Stock"). Under the Certificate of Designations for the Series D Preferred Stock, the Series D Preferred Stock has an initial stated value of $1,000 per share (the "Stated Value"). Dividends accrue at a dividend rate of 9% per annum (subject to increase upon the occurrence (and during the continuance) of certain triggering events described therein) and, on a monthly basis, shall be payable in kind by the increase of the Stated Value of the Series D Preferred Shares by said amount. The holders of the Series D Preferred Shares will have the right at any time to convert all or a portion of the Series D Preferred Shares (including, without limitation, accrued and unpaid dividends and make-whole dividends through the third anniversary of the closing date) into shares of the Company's Common Stock at the conversion price then in effect, which is $2.50 (subject to adjustment for stock splits, dividends, recapitalizations and similar events and full ratchet price protection). In addition, a holder may at any time, alternatively, convert all, or any part, of its Series D Preferred Shares at an alternative conversion price, which equals the lower of the applicable conversion price then in effect, and the greater of (x) $1.80 and (y) 85% of the average volume weighted average price ("VWAP") of the Common Stock for a five (5) trading day period prior to such conversion. Upon the occurrence of certain triggering events, described in the Certificate of Designations, including, but not limited to payment defaults, breaches of transaction documents, failure to maintain listing on the Nasdaq Capital Market, and other defaults set forth therein, the Series D Preferred Shares would become subject to redemption, at the option of a holder, at a 125% premium to the underlying value of the Series D Preferred Shares being redeemed

At June 30, 2020 there were 0 shares of Series D Convertible Preferred stock outstanding.

Concurrent with the Institutional Private Placement, the Company entered into a Securities Purchase Agreement (the "SPA") with certain of its directors and the Company's largest shareholder (the "Other Private Placement"). Pursuant to the SPA, the Company issued and sold 333 shares of the Company's newly created Series E Convertible Preferred Stock (the "Series E Preferred Stock"). Dividends accrue at a dividend rate of 9% per annum and, on a monthly basis, shall be payable in kind by the increase of the Stated Value of the Series E Preferred Shares by said amount. The Series E Preferred Stock is initially convertible into 48,544 shares of Common Stock.

At June 30, 2020, all of the issued Series E Convertible Preferred Stock were outstanding, which if converted as of June 30, 2020, including the make-whole dividends, would have resulted in the issuance of 61,651 shares of common stock.

Deferred Compensation

In previous years and in the six months ended June 30, 2020, the Company issued to various employees, directors, and contractors shares of the Company's common stock, subject to restrictions, pursuant to the 2013 Equity Incentive Plan (the "2013 Plan"). Such shares are valued at the fair value at the date of issue. The fair value is expensed as compensation over the vesting period and recorded as an increase to stockholders' equity. During the six months ended June 30, 2020 and June 30, 2019, $7,870 and $153,000, respectively, of the unvested compensation cost related to these issues was recognized.

At June 30, 2020, there was $15,740 of unrecognized deferred compensation expense to be recognized over the remainder of the year.

Stock Options

On June 15, 2020, 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 650,000 shares of our common stock to a total of 890,000 shares.

In August 2019, the Company terminated its 2011 Equity Incentive Plan.

As of June 30, 2020, an aggregate of 436,720 shares of common stock were reserved for issuance under the 2013 Plan.

During the six months ended June 30, 2020, the Company granted options to purchase a total of 335,183 shares of common stock to 19 employees and 4 consultants with vesting periods ranging from immediately upon issuance to 3 years beginning June 15, 2020.

During the six months ended June 30, 2019, the Company granted options to purchase a total of 286,925 shares of common stock to 18 employees and 1 consultant with vesting periods ranging from immediately upon issuance to 4 years beginning January 2019.

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 five 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 statements of operations for the six months ended June 30, 2020 and 2019 is $424,989 and $474,566 of which $417,119 and $321,149 is related to stock options, respectively.

The fair value of share-based awards was estimated using the Black-Scholes model with the following weighted-average assumptions for the six months ended June 30, 2020 and 2019:

Assumptions:

	2020	2019
Dividend yield	0.00	0.00
Risk-free interest rate	.22-1.52%	1.90-2.54%
Expected volatility	113.8-117.2%	105.2-106.1%
Expected life (in years)	5	5

Option activity for the six months ended June 30, 2020 and the year ended December 31, 2019 was as follows:

	Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value ($)
Options outstanding at December 31, 2018	82,627	24.90	6.47	60,090
Granted	100,335	12.50	4.79	
Exercised	-	-	-	
Forfeited or cancelled	(2,050)	16.80	-	
Options outstanding at December 31, 2019	180,912	18.11	5.09	25,988
Granted	335,183	2.58	4.94	52,214
Exercised	-	-	-	-
Forfeited or cancelled	(29,375)	28.01		
Options outstanding June 30, 2020	486,720	6.82	4.70	62,384
Options expected to vest in the future as of June 30, 2020	305,715	5.23	4.82	41,480
Options exercisable at June 30, 2020	181,005	9.51	4.49	20,904
Options vested, exercisable, and options expected to vest at June 30, 2020	486,720			62,384

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 $2.67 closing price of our common stock on June 30, 2020. 324,833 of the 2020 option grants have an exercise price currently below $2.67.

At June 30, 2020, there was $1,088,934 of unrecognized share-based compensation expense related to unvested share options with a weighted average remaining recognition period of 3.13 years.

Stock Appreciation Rights

On June 23, 2020, the board of directors (the “Board”) of the Company adopted the Sigma Labs, Inc. 2020 Stock Appreciation Rights Plan (the “Plan”). The purposes of the Plan are to: (i) enable the Company to attract and retain the types of employees, consultants and directors (collectively, “Service Providers”) who will contribute to the Company’s long range success; (ii) provide incentives that align the interests of Service Providers with those of the shareholders of the Company; and (iii) promote the success of the Company’s business. The Plan provides for incentive awards that are only made in the form of stock appreciation rights payable in cash (“SARs”). No shares of common stock were reserved in connection with the adoption of the Plan since no shares will be issued pursuant to the Plan.

SARs may be granted to any Service Provider. A SAR is the right to receive an amount equal to the Spread with respect to a share of the Company’s common stock (“Share”) upon the exercise of the SAR. The “Spread” is the difference between the exercise price per share specified in a SAR agreement on the date of grant and the fair market value per share on the date of exercise of the SAR. The exercise price per share will not be less than 100% of the fair market value of a Share on the date of grant of the SAR. The administrator of the Plan will have the authority to, among other things, prescribe the terms and conditions of each SAR, including, without limitation, the exercise price and medium of payment and vesting provisions, and to specify the provisions of the SAR Agreement relating to such grant.

On June 23, 2020, the Company granted, pursuant to the Plan, (i) 60,094 SARs to its President and Chief Executive Officer, (ii) 12,019 SARs to its Vice President of Business Development, (iii) 24,038 SARs to its Chief Technology Officer, and (iv) 18,028 SARs to its Chief Financial Officer. The exercise price of each such SAR is $2.63, which was the closing price of the Company’s common stock on the date of grant. Such SARs expire on the fifth anniversary of the grant date and may be settled only in cash. Additionally, each such SAR will vest and become exercisable in three equal (as closely as possible) installments on each of the first, second and third anniversaries of the grant date, subject, in each case, to the applicable SAR holder being in the continuous employ of the Company on the applicable vesting date, and, in the event of a Change in Control (as defined in the Plan), will become immediately vested and exercisable as long as the applicable holder is in the Company’s employ immediately prior to the Change in Control, and will otherwise be on such other terms set forth in the form of Stock Appreciation Rights Agreement.

The Company recognizes compensation expense and a corresponding liability for the fair value of the SARs over the requisite service period for each SAR award. The SAR’s are revalued at each reporting date in accordance with ASC 718 “Compensation-Stock Compensation”, and any changes in fair value are reflected in income as of the applicable reporting date.

The fair value of SAR awards was estimated using the Black-Scholes model with the following weighted-average assumptions for the six months ended June 30, 2020:

Assumptions:

	2020
Dividend yield	0.00
Risk-free interest rate	.22%
Expected volatility	116.9%
Expected life (in years)	5

SARs activity for the six months ended June 30, 2020 was as follows:

	SARs	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (Yrs.)	Aggregate Intrinsic Value ($)
SARs outstanding at December 31, 2019	-	-	-	-
Granted	114,179	2.63	4.98	-
Exercised	-	-	-	-
Forfeited or cancelled	-	-		
SARs outstanding June 30, 2020	114,129	2.63	4.98	5,709
SARs expected to vest in the future as of June 30, 2020	114,179	2.63	4.98	5,709
SARs exercisable at June 30, 2020	-	-	-	-
SARs vested, exercisable, and options expected to vest at June 30, 2020	114,179	2.63	4.98	5,709

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 $2.67 closing price of our common stock on June 30, 2020. All of the 2020 SARs grants have an exercise price currently below $2.67.

At June 30, 2020, there was $236,419 of unrecognized share-based compensation expense related to unvested SARs with a weighted average remaining recognition period of 2.98 years.

Warrants

Warrant activity for the six months ended June 30, 2020 and 2019 was as follows:

	Warrants	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (Yrs.)
Warrants outstanding at December 31, 2018	305,060	27.50	3.86
Granted	64,024	16.00	4.94
Exercised	(7,023)	10.80	-
Forfeited or cancelled	-	-	-
Warrants outstanding at June 30, 2019	362,061	25.80	3.63
Warrants outstanding at December 31, 2019	363,727	25.60	3.12
Granted	1,481,995	3.22	5.14
Exercised	-		
Forfeited or cancelled	-		
Warrants outstanding at June 30, 2020	1,845,722	7.64	4.64

In connection with its January 2020 private placement, the Company issued 6,156 warrants to purchase its Series D Preferred Stock (the Preferred Warrants"). The Preferred Warrants have an exercise price of $975 per warrant and expire on February 15, 2021. Pursuant to the terms of the Securities Purchase Agreement, the Company forced the exercise of 512 warrants on March 27, 2020. During the second quarter, an additional 1,684 warrants were exercised, resulting in the issuance of 1,603,984 shares of common stock. As of June 30, 2020, there were 3,960 Preferred Warrants outstanding, which if exercised would result in the issuance of 3,960 shares of Series D Convertible Preferred Stock. The Series D Convertible Preferred stock, including make-whole dividends, was convertible into 2,147,277 shares of common stock on June 30, 2020.

NOTE 6 - Subsequent Events

The Company performed an evaluation of subsequent events through the date of filing of these condensed financial statements with the SEC. There were no material subsequent events which affected, or could affect, the amounts or disclosures in the condensed financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-looking statements

This Quarterly Report, including any documents which may be incorporated by reference into this Report, contains "Forward-Looking Statements." All statements other than statements of historical fact are "Forward-Looking Statements" for purposes of these provisions, including any projections of revenue 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 the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and elsewhere in this report.

Corporation Information

Our principal executive offices are located at 3900 Paseo del Sol, Santa Fe, New Mexico 87507, and our telephone number is (505) 438-2576. Our website address is 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 (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 Quarterly Report on Form 10-Q.

2020 Developments

In 2020, we reported several events, including the following (in reverse chronological order):

On July 15, 2020, we signed a global agreement with a major printer manufacturer headquartered in Europe who will designate their printers as PrintRite3D Ready, allowing us to leverage their sales force of over 800 people who will actively promote our technology as their preferred monitoring solution.

On May 4, 2020, we announced that effective April 30, 2020, we appointed Mark K. Ruport as President and Chief Executive Officer. Mr. Ruport will continue to serve as a member of the Board of Directors. As part of the transition, John Rice stepped aside from his position as President and Chief Executive Officer and will continue in his role as the non-executive Chairman of the Board of Directors of Sigma Labs. This completed the management transition process that started in December 2019 when Mr. Ruport joined the Company to bring his extensive experience in developing and employing a multi-layered distribution model to selling enterprise software on a global scale.

On April 6, 2020, the Company closed a public offering of equity securities in which it issued 493,027 shares of common stock and pre-funded warrants to purchase up to 22,438 shares of the Company's common stock. The Company also issued Series A Warrants to purchase an aggregate of 515,465 shares of the Company's common stock pursuant to a private placement. In connection with this offering, the Company issued Dawson James Securities, Inc., its Placement Agent, a warrant to purchase an aggregate of 41,237 shares of the Company's Common Stock (which amount is based on the number of Common Shares and shares underlying the Pre-Funded Warrants) at an exercise price of $3.64 per share. Net proceeds to the Company after deducting offering expenses were approximately $1,230,000.

On March 24, 2020, we announced that we were awarded two U.S. patents for our industry-leading technology, PrintRite3D®. These two patents, (1) Systems and Methods for Additive Manufacturing Operations; and (2) Systems and Methods for Measuring Radiated Thermal Energy During an Additive Manufacturing Operation further advanced the ability of our software to detect defects and anomalies during the manufacturing process, saving time, money and waste and accelerating the transition of AM to serial production.

On March 5, 2020, we announced that wehave agreed with Materialise NV, a leading provider of additive manufacturing software and of sophisticated 3D printing services, to evolve our previously announced memorandum of understanding (MOU) to cooperate on the integration of the Materialise MCP Controller with Sigma Labs' PrintRite3D® technology and have further agreed to enter into a binding joint sales agreement to begin beta customer commercialization of the integrated PrintRite3D® and Materialise Control Platform (MCP) product. The MCP is an embedded hardware and software solution that addresses the growing need for broader and more straightforward control over the additive manufacturing process by giving full control to the end-user. The companies are near completion of the integration and are now positioned to offer a unique product solution for retrofit of existing machines, OEM machine integration and closed loop control.

On March 3, 2020, we announced that we were awarded a contract to implement our PrintRite3D Real-Time Melt Pool Analytics technology at Northwestern University. In collaboration with two university research centers at Northwestern University, Northwestern Initiative on Manufacturing Science and Innovation (NIMSI) and Center for Hierarchical Materials Design (CHiMaD), Sigma Labs will integrate the PrintRite3D system to a DMG Mori LASERTEC12 Selective Laser Melting machine. Researchers at NIMSI have developed computer-integrated systems for innovative manufacturing processes, including subtractive, deformation-based and additive processes.

Sigma Labs and Northwestern will collaborate to further validate the performance and capabilities Sigma's technology to identify real-time defect formations during the printing process. The DMG MORI LASERTEC 12 SLM machine, is yet another new platform for Sigma Labs, further proving out PrintRite3D's position as the agnostic in process quality system that can be deployed on all major laser powderbed brands and is setting the standard for third party independent quality assurance monitoring of metal additive manufacturing systems.

On February 26, 2020, we announced that we were awarded a contract with the Mississippi State University Center for Advanced Vehicular Systems (CAVS), a world-class interdisciplinary research center that uses state-of-the-art technology to address engineering challenges facing U.S. mobility industries The Mississippi State University Center for Advanced Vehicular Systems will install PrinteRite3D on a Renishaw AM400 machine, a new OEM platform for Sigma Labs, further proving out PrintRite3D's platform interoperability potential to an increasingly large machine base. Per the terms of the agreement, in addition to any research or commercial applications of PrintRite3D®, CAVS has agreed to serve as a real-world test bed for new product improvements that Sigma will roll out over time.

On January 28, 2020, pursuant toa securities purchase agreement with certain institutional investors, the investors purchased shares of a newly created series of the Company's preferred stock, warrants to purchase the Company's common stock and warrants to purchase such preferred stock for total gross cash proceeds to the Company of $1.6 million. Additionally, on January 28, 2020, pursuant to a securities purchase agreement, the Company's largest shareholder and certain of its directors purchased shares of another new series of the Company's preferred stock and warrants to purchase the Company's common stock for total gross cash proceeds to the Company of $500,000.

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 amounts in the accompanying consolidated financial statements and related notes. These estimates and assumptions have a significant impact on our consolidated financial statements. Actual results could differ materially from those estimates. 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. Our significant accounting policies are disclosed in Note 1 to the Financial Statements included in this Quarterly Report on Form 10-Q. 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

Three Months Ended June 30, 2020 and June 30, 2019

We expect to generate revenue primarily by selling and licensing our IPQA technologies, selling technical support services, contract manufacturing and selling specialty parts and studies to businesses that seek to improve their manufacturing production processes and production-run quality yields. Our ability to generate revenues in the future will depend on our ability to further commercialize and increase market presence of our PrintRite3D® technologies, and it will depend on whether key prospective customers continue to move from AM metal prototyping to production.

During the three months ended June 30, 2020, we recognized revenue of $167,688, as compared to $33,582 in revenue recognized during the same period in 2019, an increase of $134,106. The increase is primarily due to a PrintRite3D® unit sale, as well as revenue recognized under the legacy Rapid Test and Evaluation (“RTE”) program and an in-house RTE during the quarter.

Our Cost of Revenue for the three months ended June 30, 2020 and 2019 was $57,684 and $60,625, respectively, a decrease of $2,941. The decrease is primarily attributable to the reclassification of $43,510 of costs to inventory, partially offset by the cost of the PrintRite3D® unit sale during the quarter, as well as the ongoing support of legacy RTE programs, including equipment upgrades and additional labor costs.

Sigma's total operating expenses for the three months ended June 30, 2020 were $1,526,554 as compared to $1,569,064 for the same period in 2019, a decrease of $42,510.

Salary and benefits costs were $605,295 for the three months ended June 30, 2020 compared to $581,356 for the same period in 2019, an increase of $23,939. This 4.1% cost increase correlates to an increase in executive management salary during a now completed transition period, employee salary increases that were effective in the second half of 2019, and an employee who was a consultant during the same period in 2019, partially offset by a decrease in average employee headcount of three between the two periods.

Stock-based compensation was $270,818 for the three months ended June 30, 2020 compared to $220,360 for the same period in 2019, a $50,458, or 22.9% increase, primarily due to additional options granted to employees during the quarter, as well as stock grants to employees related to the 15% salary deferral in place between May 1, 2020 and September 30, 2020.

Research and development expenditures of $111,647 were incurred during the three months ended June 30, 2020 compared to $118,845 in the same period of 2019, a $7,198 decrease. The decrease is due to substantially completed product development compared to the same period in 2019, as well as reduced spending to conserve cash, partially offset by a write-off of $20,600 in obsolete inventory and $18,101 in parts and materials used in testing.

Investor & Public Relations expenses of $171,287 were incurred during the three months ended June 30, 2020, as compared to $157,318 incurred during the same period in 2019. The increase of $13,969 is primarily due to $33,306 in expenses incurred in connection with an Investor Relations consultant, and $6,700 due to the SOLVE, advertising campaign, partially offset by a reduction in trade show expenses.

Legal & Professional fees incurred in the three months ended June 30, 2020 were $219,007 compared to $218,919 incurred during the same period in 2019. Expenses incurred during the quarter include costs incurred in connection with the Paycheck Protection Plan loan, Nasdaq compliance, our April financing and our Annual Shareholders Meeting, offset by lower recruiting expenses of $63,154 as there were no new employee hires during the quarter.

Office expenses incurred during the three months ended June 30, 2020 were $78,843 compared to $184,068 incurred during the same period in 2019, a decrease of $105,225, or 57.2%. The decrease is primarily due to decreased travel costs of $118,084 as a result of the COVID-19 pandemic, partially offset by $12,900 of amortization expense related to our membership in the United Kingdom's National Centre for Additive Manufacturing.

Depreciation and Amortization expense for the three months ended June 30, 2020 was $17,970, compared to $49,203 for the same period in 2019. The primary reason for the decrease is that our 3D metal printer was fully depreciated in November of 2019.

Other Operating Expenses were $51,687 for the three months ended June 30, 2020, compared to $36,994 incurred during the same period in 2019. The increase is primarily due to higher insurance premiums in 2020, in particular, our Director's & Officers insurance policy.

In the three months ended June 30, 2020, our net other income & expense was net income of $506,912 compared to net other income of $2,616 in 2019. The 2020 net positive contribution is primarily from $151,657 in New Mexico state job incentive credits, and $361,700 from the recognition of our PPP loan as a government grant. The grant was recognized during the quarter as the related payroll costs were incurred, and the Company has complied with all conditions attached to the grant.

Sigma's net loss applicable to common stockholders for the three months ended June 30, 2020 totaled $1,601,518 as compared to $1,593,491 for the same period of 2019, a $8,027 increase. The second quarter 2020 preferred dividends contributed $691,880 to the loss increase, offset by a decrease in the net operating loss for the quarter of $179,557, and an increase in other income of $504,294.

Six Months Ended June 30, 2020 and 2019

During the six months ended June 30, 2020, we recognized revenue of $389,418 compared to $98,032 during the same period of 2019. The primary contributors to the $291,386 increase were an increase in PrintRite3D® unit sales contributing $181,387, and RTE revenue of $102,064.

Our cost of revenue for the six months ended June 30, 2020 was $302,387 compared to $157,180 during the same period in 2019. The increase of $145,207 is primarily due to the cost associated with our increase in PrintRite3D® unit sales, as well as the ongoing support of legacy RTE programs, including equipment upgrades and additional labor costs.

Sigma's total operating expenses for the six months ended June 30, 2020 were $3,086,195 compared to $3,076,162 for the same period in 2019, a $10,033 increase.

Payroll costs for the six months ended June 30, 2019 were $1,257,492 compared to $1,093,916 for the same period in 2019, an increase of $163,576. The increase is primarily due to higher average employee headcount during the first quarter of 2020, plus additional executive management salaries of $51,667 during the now completed transition, an employee who was a consultant during the same period in 2019, employee salary increases became effective in the second half of 2019, and $6,907 of expense related to the Stock Appreciation Rights plan.

Stock-based compensation for the six months ended June 30, 2020 was $424,989 compared to $474,566 for the same period in 2019, a $49,577 decrease, primarily due to zero stock-based compensation issued to our directors to-date in 2020.

During the six months ended June 30, 2020, Sigma incurred research and development expenditures of $165,335 compared to $264,117 in the same period of 2019. The $98,782 decrease in these expenditures during the first six months of 2020 is a result of the substantially completed product development compared to the same period in 2019, as well as reduced spending to conserve cash.

Investor and Public Relations expenses incurred in the six months ended June 30, 2020 were $409,555, compared to $315,107 during the same period in 2019. The $94,448 increase in the six-month comparative expenditures results primarily from expenses incurred in connection with the March 27, 2020 Special Meeting of Shareholders, as well as $33,306 in expenses incurred in connection with an Investor Relations consultant, and $6,700 due to the SOLVE advertising campaign.

Legal and Professional fees incurred in the six months ended June 30, 2020 were $430,515, compared to $403,489 incurred during the same period in 2019, an increase of $27,026, or 6.7%. Legal fees increased by $117,276 due to our January financing and April financings, the February 2020 reverse stock split, the March 2020 Special Shareholders Meeting, and various Nasdaq-related compliance issues, partially offset by reduced recruiting expenses of $63,185 and lower consulting and IT support expenses of $30,352.

During the six months ended June 30, 2020, Sigma's office expenses were $226,590 compared to $350,178 in the same period of 2019. The $123,588 decrease in these expenditures primarily resulted from $162,332 in reduced travel to the COVID-19 pandemic, $34,280 in reduced office supplies and computer hardware expenses, partially offset by $26,000 of amortization expense related to our membership in the United Kingdom's National Centre for Additive Manufacturing, and amortization of our annual Nasdaq membership fee of $28,248.

Depreciation and Amortization expense for the six months ended June 30, 2020 was $35,983, compared to $97,586 for the same period in 2019. The primary reason for the decrease is that our 3D metal printer was fully depreciated in November of 2019.

In the six months ended June 30, 2020, our net other income & expense was net income of $505,941, as compared to net income of $57,707 during the same period in 2019. The increase is primarily a result of increased New Mexico state job incentive credits of $99,780 plus $361,700 from the recognition of our PPP loan as a government grant. The grant was recognized during the quarter as the related payroll costs were incurred, and the Company has complied with all conditions attached to the grant.

Sigma's net loss applicable to common shareholders for the six months ended June 30, 2020 totaled $3,500,350 as compared to $3,077,603 for the same period in 2019, a $422,747 increase. Contributing to this increase were preferred dividends of $1,007,127, partially offset by a decrease in our net operating loss of $136,146 and an increase in other net income of $448,234.

We financed our operations during the three and six months ended June 30, 2020 and 2019 primarily from revenue generated from PrintRite3D® system sales and engineering consulting services we provided to third parties during these periods and through sales of our common and preferred stock. 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.

Liquidity and Capital Resources

As of June 30, 2020, we had $2,445,766 in cash and working capital of $2,768,591, as compared with $86,919 in cash and a working capital deficit of $98,315 as of December 31, 2019.

Our major sources of funding have been proceeds from public and private offerings of our equity securities (both common stock and preferred stock), and from warrant exercises.

On April 14, 2020 we were granted a loan from BOKF, NA dba Bank of Oklahoma in the aggregate amount of $361,700, pursuant to the Paycheck Protection Program (the **"**PPP**"**) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (the **"**CARES Act**"**), which was enacted March 27, 2020. Under the terms of the PPP, PPP loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. As of June 30, 2020, the Company has used the entirety of the loan proceeds for purposes consistent with the PPP and has not taken any actions that it believes will reduce the amount eligible for forgiveness. As such, the Company believes that the entire amount of the loan will be forgiven. However, to the extent any portion of the loan is determined to be ineligible for forgiveness, such unforgiven portion of the loan is payable over 2-5 years at an interest rate of 1%, with a deferral of payments for the first six months.

On April 6, 2020, the Company closed an offering of equity securities in which the Company sold and issued to certain institutional investors (a) 493,027 shares of the Company's common stock (the "Common Shares") and pre-funded warrants (the "Pre-funded Warrants") to purchase up to 22,438 shares of the Company's common stock, and (b) Series A Warrants (the "Private Warrants") to purchase an aggregate of 515,465 shares of the Company's common stock pursuant to a private placement resulting in net proceeds of approximately $1,230,000. If all of the Private Warrants are exercised by the holders thereof, the potential gross cash proceeds to us will be $1,288,663.

In January 2020, we completed two private placements consisting of shares of our newly created Series D and Series E Preferred Stock, warrants to purchase additional shares of Series D Preferred Stock and warrants to purchase shares of our Common Stock resulting in net cash proceeds to us of approximately $1,711,124. On March 27, 2020, pursuant to the terms of the Agreement, we forced the exercise of a portion of the warrants to purchase our Series D Preferred Stock which resulted in net cash proceeds to the Company of $460,000. Additionally, during the second quarter of 2020, 1,684 preferred warrants were exercised by institutional investors, resulting in net proceeds to the Company of $1,510,548. If all of the remaining warrants to purchase shares of Series D Preferred Stock and Common Stock are exercised by the holders thereof, the potential gross cash proceeds to us will be $5,810,000.

Depending on the amount, if anything, we receive from such exercises and the timing thereof, and the amount of revenues we are able to generate, we may need to raise additional amounts to fund our operations, maintain compliance with the NASDAQ listing requirements and implement our business plan. There is no assurance as to the amount and availability of any required future financing or the terms thereof. Such financing, if in the form of equity, may be highly dilutive to our existing stockholders and may otherwise include onerous terms. If in the form of debt, such financing may include covenants and repayment obligations which may be difficult to meet and that could adversely affect our business operations. There is also significant uncertainty from the affect that the novel coronavirus ("COVID-19") may have on the availability and type of financing. To the extent that funds are not available to us, we may be required to delay, limit or terminate our business operations and lose our NASDAQ listing.

As the second quarter of 2020 progressed, the Company continued to be adversely affected by the COVID-19 global economic slowdown, which has resulted in lower revenue than anticipated. Several customers have delayed purchase orders, and although they have not been cancelled, the timing of when they might be received is uncertain. Two key industries with which we do business, aerospace and oil and gas, have experienced a reduction in the global demand for their products due to the pandemic. We have also experienced delays in purchase orders from universities and research institutes. As a result of the decrease in the demand for our products from customers and potential customers in these and other industries, the Company expects to generate less revenue in the short-term. It is impossible to know at this time how long companies will limit capital expenditures and if the industries that have been most negatively affected will resume normal purchasing. However, due to the need to have more flexibility in supply chains with the ability to respond quickly to shortages in parts or products, many predict that the crisis will accelerate the adoption of 3D printing, which would be a positive trend for the Company.

To offset the effects of decreased short-term revenue, the Company has taken several steps to reduce cash outflows. Effective May 1, 2020, the Company implemented a firm-wide salary deferral program, whereby 15% of all employees' salaries will be deferred through September 30, 2020. The Company currently expects to repay such deferrals in October 2020. The Company has also deferred directors' cash compensation for the first six months of 2020 to the end of the year. Our limited ability to travel to customers' onsite locations to install or upgrade our products has not only lowered our travel expenditures, but has required us to start using newer technologies to instruct users to do certain maintenance tasks, resulting in increasing our overall efficiency. We have also reduced our expenditures for conferences and trade shows and eliminated certain marketing expenses.

During the remainder of 2020, we therefore expect to sustain our operations and our commercialization and marketing efforts without material increase in our cash burn rate. We expect that continued enhancements of our IPQA®-enabled PrintRite3D® technology, including the June 2020 release of version 6.0, will further enable us to commercialize this technology into the AM metal market in 2020. To support the commercialization of our PrintRite3D® technology, 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 through the use of proceeds from sales of our securities.

Net Cash Used in Operating Activities

Net cash used in operating activities during the six months ended June 30, 2020 decreased to $2,435,387 from $2,737,650 during the same period in 2019, a $302,263 decrease. Decreased net loss contributed $584,380 toward this reduced use of cash, and decreased inventory purchases contributed $343,418. Partially offsetting these decreases were decreases in accounts payable and accrued expenses of $326,997, a decrease in deferred revenue of $67,135, and an increase in accounts receivable of $231,683.

Net Cash Used/Provided by Investing Activities

Net cash used by investing activities during the six months ended June 30, 2020 was $98,710, which compares to $115,920 of cash used by investing activities during the same period of 2019, a decrease of $17,210. This is primarily attributable to lower patent costs and reduced purchases of furniture and equipment.

Net Cash Used/Provided by Financing Activities

Cash provided by financing activities during the six months ended June 30, 2020 increased to $4,892,944 from $2,270,178 during the same period in 2019 due to the receipt of $5,741,100 of proceeds less $820,228 of offering costs, in connection with our January 2020 and April 2020 private and public offerings and exercise of Preferred Warrants. The deferral of payroll taxes pursuant to the CARES Act provided an additional $22,072 in funds. Partially offsetting these cash receipts was the payment of the remaining outstanding principal balance on our convertible note payable of $50,000. Cash provided by financing activities during the same period in 2019 resulted from the receipt of $2,521,220 in proceeds less $326,890 of offering costs in connection with our March 2019 and May 2019 offerings, and $75,848 in proceeds from the exercise of warrants to purchase common stock in January and February of 2019.

Our ability to continue to fund our liquidity and working capital needs will be dependent upon the success of our efforts to generate revenues from existing and future PrintRite3D®-proof-of-concept contracts, follow-on contracts resulting from successful proof-of-concept engagements, possible strategic partnerships, and by obtaining additional capital from the sale of 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. The Company is unable to predict the effect that the COVID-19 outbreak may have on its access to the financing markets. 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.

We have no credit lines as of July 23, 2020, nor have we ever had a credit line since our inception.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures and changes in internal controls over financial reporting.

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 Chief Executive Officer, and our Principal Financial and Accounting Officer, as of the end of the period covered by this quarterly 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. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the three months ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Not applicable.

ITEM 1A. RISK FACTORS.

You should consider the "Risk Factors" included under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 24, 2020.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

3.1	Certificate of Amendment to Amended and Restated Articles of Incorporation, as amended, of Sigma Labs, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 2, 2020 and incorporated herein by reference).
3.2	Certificate of Amendment to Amended and Restated Articles of Incorporation, as amended, of Sigma Labs, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 19, 2020 and incorporated herein by reference).
4.1	Form of Pre-Funded Warrant (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 3, 2020, and incorporated herein by reference).
4.2	Form of Common Stock Purchase Warrants (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed April 3, 2020, and incorporated herein by reference).
4.3	Form of Placement Warrant (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed April 7, 2020, and incorporated herein by reference).
10.1	Securities Purchase Agreement, dated as of April 2, 2020, between the Company and Purchasers (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 3, 2020, and incorporated herein by reference).
10.2	Placement Agency Agreement dated as of April 2, 2020 between the Company and Dawson James (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed April 3, 2020, and incorporated herein by reference).
10.3	Consulting Agreement, dated as of May 1, 2020, between Sigma Labs, Inc. and John Rice (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 4, 2020, and incorporated herein by reference).
10.4	Sigma Labs, Inc. 2013 Equity Incentive Plan, as Amended (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 19, 2020 and incorporated herein by reference).*
10.5	Sigma Labs, Inc. 2020 Stock Appreciation Rights Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 29, 2020 and incorporated herein by reference).*
10.6	Form of Stock Appreciation Rights Agreement (Employees; 2020 Stock Appreciation Rights Plan) (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 29, 2020 and incorporated herein by reference).*
10.7	Form of Stock Appreciation Rights Agreement (Non-employee Directors; 2020 Stock Appreciation Rights Plan) (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 29, 2020 and incorporated herein by reference).
31.1	Rule 13a-14(a) Certification of Principal Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
31.2	Rule 13a-14(a) Certification of Principal Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.**
32.1	Certification 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 Schema Document.
101.CAL	XBRL Calculation Linkbase Document.
101.DEF	XBRL Definition Linkbase Document.
101.LAB	XBRL Labels Linkbase Document.
101.PRE	XBRL Presentation Linkbase Document.

* Indicates a management contract or compensatory plan or arrangement.
** Filed herewith.
*** Furnished herewith and not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

	SIGMA LABS, INC.
July 23, 2020	By: */s/ Mark K Ruport* Mark K. Ruport President and Chief Executive Officer (Principal Executive Officer)
July 23, 2020	By: */s/ Frank Orzechowski* Frank Orzechowski Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

Exhibit 31.1

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

I, Mark K. Ruport, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sigma Labs, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 23, 2020

By:	*/s/ Mark K. Ruport*
Name:	Mark K. Ruport
Title:	President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

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

I, Frank Orzechowski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sigma Labs, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 23, 2020

By:	*/s/ Frank Orzechowski*
Name:	Frank Orzechowski
Title:	Chief Financial Officer, Treasurer (Principal Financial and Accounting Officer)

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Mark K. Ruport, the Chief Executive Officer, and Frank Orzechowski, the Chief Financial Officer, of Sigma Labs, Inc. (the "Company"), hereby certify, that, to their knowledge:

1. The Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (the "Report") of the Company fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934; and

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

/s/ Mark K. Ruport	*/s/ Frank Orzechowski*
Mark K. Ruport President and Chief Executive Officer (Principal Executive Officer)	Frank Orzechowski Chief Financial Officer, Treasurer (Principal Financial and Accounting Officer)
July 23, 2020	July 23, 2020