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

FORM 10-Q

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

For the quarterly period ended **September 30, 2012**

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: 000-22563

SG BLOCKS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4463937** (I.R.S. Employer Identification No.)
400 Madison Avenue, Suite 16C New York, NY (Address of principal executive offices)	**10017** (Zip Code)

(646) 747-2423
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 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.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of November 26, 2012, there were 41,985,950 shares of the registrant's common stock, $0.01 par value, outstanding.

EXPLANTORY NOTE

In connection with the filing of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, SG Blocks, Inc. ("SG Blocks") is relying on Release No. 68224 issued by the Securities and Exchange Commission (the "SEC"), titled "Order Under Section 17A and Section 36 of the Securities Exchange Act of 1934 Granting Exemptions from Specified Provisions of the Exchange Act and Certain Rules Thereunder," which provides that filings by registrants unable to meeting filing deadlines due to Hurricane Sandy and its aftermath shall be considered timely so long as the filing is made on or before November 21, 2012, and the conditions contained therein are satisfied. SG Blocks' headquarters and its independent accountants are located in New York, and accordingly SG Blocks was unable to file this report by November 14, 2012 on a timely basis due to disruptions caused by Hurricane Sandy.

SG BLOCKS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SG BLOCKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 282,293	$ 561,759
Short-term investment	39,215	39,110
Accounts receivable, net	335,117	143,320
Costs and estimated earnings in excess of billings on uncompleted contracts	8,107	66,454
Inventory	9,820	-
Prepaid expenses and other current assets	1,405	-
Total current assets	675,957	810,643
Equipment, net	6,680	8,058
Totals	$ 682,637	$ 818,701
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable and accrued expenses	$ 502,391	$ 558,277
Accrued compensation and related costs	-	73,888
Accrued interest, related party	18,373	12,219
Related party accounts payable and accrued expenses	69,834	86,885
Related party notes payable	73,500	73,500
Billings in excess of costs and estimated earnings on uncompleted contracts	81,117	-
Deferred revenue	120,900	-
Warrant liabilities	183,377	198,471
Total current liabilities	1,049,492	1,003,240
Commitments		
Stockholders' deficiency:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized; 0 issued and outstanding at September 30, 2012 and December 31, 2011	-	-
Common stock, $0.01 par value, 100,000,000 shares authorized; 41,985,950 issued and outstanding at September 30, 2012, 39,779,506 issued and outstanding at December 31, 2011	419,860	397,795
Common stock to be issued	14,000	-
Additional paid-in capital	5,927,294	4,688,417
Accumulated deficiency	(6,727,375)	(5,270,751)
Accumulated other comprehensive loss	(634)	-
Total stockholders' deficiency	(366,855)	(184,539)
Totals	$ 682,637	$ 818,701

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
Revenue:				
SG Block sales	$ 314,185	$ 212,030	$ 1,219,028	$ 2,735,629
Engineering services	23,965	2,550	618,719	6,740
Project management	35,100	14,350	142,573	79,244
	373,250	228,930	1,980,320	2,821,613
Cost of revenue:				
SG Block sales	236,483	192,234	923,252	2,370,930
Engineering services	37,659	1,398	541,309	2,111
Project management	31,527	6,137	128,986	44,041
	305,669	199,769	1,593,547	2,417,082
Gross profit	67,581	29,161	386,773	404,531
Operating expenses:				
Payroll and related expenses	358,918	228,708	1,073,808	697,305
General and administrative expenses	211,580	256,031	747,598	567,568
Marketing and business development expense	12,443	64,032	65,502	229,632
Pre-project expenses	9,627	11,583	32,020	56,748
Total	592,568	560,354	1,918,928	1,551,253
Operating loss	(524,987)	(531,193)	(1,532,155)	(1,146,722)
Other income (expense):				
Interest expense	(2,067)	(486)	(6,154)	(2,520)
Interest income	37	42	105	69
Change in fair value of warrant liabilities	1,160	(51,040)	34,224	(49,111)
Cancellation of trade liabilities and unpaid interest	-	31,235	31,447	61,733
Other income	-	-	25,000	-
Total	(870)	(20,249)	84,622	10,171
Loss before income taxes	(525,857)	(551,442)	(1,447,533)	(1,136,551)
Income tax expense	-	-	9,091	-
Net loss	$ (525,857)	$ (551,442)	$ (1,456,624)	$ (1,136,551)
Comprehensive loss				
Foreign currency translation adjustment	-	-	(634)	-
Total comprehensive loss	$ (525,857)	$ (551,442)	$ (1,457,258)	$ (1,136,551)
Net loss per share - basic and diluted:				
Basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)
Weighted average shares outstanding:				
Basic and diluted	41,985,950	35,949,838	41,137,769	34,351,290

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

SG BLOCKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN STOCKHOLDERS' DEFICIENCY

For the Nine Months Ended September 30, 2012 (Unaudited)

	$0.01 Par Value Common Stock		Common Stock to be	Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Issued	Capital	Deficiency	Loss	Total
Balance - December 31, 2011	39,779,506	$ 397,795	$ -	$4,688,417	$ (5,270,751)	$ -	$ (184,539)
Stock issued in private offering, net of warrant liabilities in the amount of $19,130 and closing costs in the amount of $36,072	2,166,444	21,665	-	681,388	-	-	703,053
Stock-based compensation	-	-	-	416,219	-	-	416,219
Issuance of common stock issued for settlement of related party accounts payable	40,000	400	-	67,382	-	-	67,782
Forgiveness of related party accrued compensation costs	-	-	-	73,888	-	-	73,888
Common stock to be issued	-	-	14,000	-	-	-	14,000
Foreign currency translation adjustment	-	-	-	-	-	(634)	(634)
Net loss	-	-	-	-	(1,456,624)	-	(1,456,624)
Balance - September 30, 2012	41,985,950	$ 419,860	$ 14,000	$5,927,294	$ (6,727,375)	$ (634)	$ (366,855)

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

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

For the Nine Months Ended September 30,	***2012*** *(Unaudited)*	***2011*** *(Unaudited)*
Cash flows from operating expenses:		
Net loss	$ (1,456,624)	$ (1,136,551)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	1,927	1,532
Interest income on short-term investment	(105)	-
Change in fair value of warrant liabilities	(34,224)	49,111
Stock-based compensation	416,219	-
Bad debts expense	53,111	15,653
Cancellation of trade liabilities and unpaid interest	(31,447)	(61,733)
Changes in operating assets and liabilities:		
Accounts receivable	(244,908)	(8,187)
Costs and estimated earnings in excess of billings on uncompleted contracts	58,347	-
Inventory	(9,820)	(134,368)
Prepaid expenses and other current assets	(1,405)	20,000
Accounts payable and accrued expenses	55,561	(154,482)
Accrued compensation and related costs	-	(140,310)
Accrued interest, related party	6,154	-
Accrued interest	-	(554)
Related party accounts payable and accrued expenses	50,731	(22,254)
Billings in excess of costs and estimated earnings on uncompleted contracts	81,117	(1,800)
Deferred revenue	120,900	376,543
Net cash used in operating activities	(934,466)	(1,197,400)
Cash flows used in investing activities		
Purchase of short-term investment	-	(39,069)
Purchase of equipment	(549)	(5,809)
Net cash used in investing activities	(549)	(44,878)
Cash flows from financing activities:		
Principal payments on short-term notes payable	-	(41,247)
Proceeds from issuances of common stock	-	1,200,000
Proceeds from common stock to be issued	14,000	-
Proceeds from issuance of common stock and warrants in private offering	642,183	-
Net cash provided by financing activities	656,183	1,158,753
Effect of exchange rate changes on cash	(634)	-
Net decrease in cash	(279,466)	(83,525)
Cash and cash equivalents - beginning of period	561,759	1,038,661
Cash and cash equivalents - end of period	$ 282,293	$ 955,136
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ -	$ -
Supplemental disclosure of non-cash financing activities:		
In connection with the private offering, $80,000 was paid for a prior liability which was included in accounts payable and accrued expenses.		
Issuance of common stock for settlement of debt	$ 67,782	$ -
Forgiveness of related party accrued compensation	$ 73,888	$ -

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

1. Description of Business

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

During 2012, the Company formed SG Blocks Sistema De Constucao Brasileiro LTDA. ("SG Brazil"), a wholly owned subsidiary of the Company. The Company formed SG Brazil in order to actively explore opportunities in Brazil.

The Company is a provider of code engineered cargo shipping containers modified for use in "green" construction. The Company also provides engineering and project management services related to the use of modified containers in construction.

2. Liquidity and Financial Condition

Through September 30, 2012, the Company has incurred an accumulated deficiency since inception of $6,727,375. At September 30, 2012, the Company had a cash balance of $282,293. At November 26, 2012, the Company had a cash balance of approximately $245,674.

Since the Company's inception, it has generated revenues from SG Block sales, engineering services, and project management.

The Company expects that through the next 10 to 16 months, the capital requirements to fund the Company's growth and to cover the operating costs of a public company will consume substantially all of the cash flows that it expects to generate from its operations, as well as from the proceeds of intended issuances of debt and equity securities. The Company further believes that during this period, while the Company is focusing on the growth and expansion of its business, the gross profit that it expects to generate from operations will not generate sufficient funds to cover anticipated operating costs. Accordingly, the Company requires external funding to sustain operations and to follow through on the execution of its business plan. However, there can be no assurance that the Company's plans will materialize and/or that the Company will be successful in funding estimated cash shortfalls through additional debt or equity capital and through the cash generated by the Company's operations. Given these conditions, the Company's ability to continue as a going concern is contingent upon it being able to secure an adequate amount of debt or equity capital to enable it to meet its cash requirements. In addition, the Company's ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered by entrants into established markets, the competitive environment in which the Company operates and the current capital raising environment.

Since inception, the Company's operations have primarily been funded through proceeds from equity and debt financings and sales activity. Although management believes that the Company has access to capital resources, there are currently no commitments in place for new financing at this time, and there is no assurance that the Company will be able to obtain funds on commercially acceptable terms, if at all.

During the nine months ended September 30, 2012, the Company raised $642,183 in net new funds through the issuance of common stock in conjunction with the March Private Placement and also received $14,000 for common stock to be issued. The proceeds from these issuances were used to fund the Company's operations and working capital needs. (See Note 8)

The Company intends to raise additional funds for the remainder of 2012 and 2013 through a private placement of its common stock. The additional capital would be used to fund the Company's operations, including the costs that it expects to incur as a public company. The current level of cash and operating margins is not enough to cover the existing fixed and variable obligations of the Company, so increased revenue performance and the addition of capital through issuances of securities are critical to the Company's success. Should the Company not be able to raise additional capital through a private placement or some other financing source, the Company would take one or more of the following actions to conserve cash: reduction in employee headcount, reduction in base salaries to senior executives and employees, and other cost reduction measures. Assuming that the Company is successful in its growth plans and development efforts, the Company believes that it will be able to raise additional funds through sales of its stock. There is no guarantee that the Company will be able to raise such additional funds on acceptable terms, if at all.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The Company's financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should it be unable to continue as a going concern.

3. Summary of Significant Accounting Policies

Interim financial information – The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. Results for the nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The condensed consolidated financial statements and notes should be read in conjunction with the financial statements and notes for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2012.

Reclassification – Certain prior period amounts have been reclassified to conform to the current period presentation.

Basis of consolidation – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, SG Building and SG Brazil. All intercompany balances and transactions have been eliminated.

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

Operating cycle – The length of the Company's contracts varies, but is typically between one to two years. Assets and liabilities relating to long-term contracts are included in current assets and current liabilities in the accompanying balance sheets as they will be liquidated in the normal course of contract completion, which at times could exceed one year.

Revenue recognition – The Company accounts for its long-term contracts associated with the design, engineering, manufacture and project management of building projects and related services, using the percentage-of-completion accounting method. Under this method, revenue is recognized based on the extent of progress towards completion of the long-term contract. The Company uses the cost to cost basis because management considers it to be the best available measure of progress on these contracts.

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

Contract costs include all direct material and labor costs and those indirect costs related to contract performance. General and administrative costs, marketing and business development expenses and pre-project expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenue when realization is probable and the amount can be reliably estimated.

The asset, “Costs and estimated earnings in excess of billing on uncompleted contracts,” represents revenue recognized in excess of amounts billed. The liability, “Billings in excess of costs and estimated earnings on uncompleted contracts,” represents billing in excess of revenue recognized.

The Company offers a one-year warranty on completed contracts. The Company has not incurred any material losses for warranties to date and nor does it anticipate incurring any material losses for warranties that are currently outstanding. Accordingly, no warranty reserve is considered necessary for any of the periods presented.

The Company also supplies repurposed containers to its customers. In these cases, the Company serves as a supplier to its customers for standard and made to order products that it sells at fixed prices. Revenue from these contracts is generally recognized when the products have been delivered to the customer, accepted by the customer and collection is reasonably assured. Revenue is recognized upon completion of the following: an order for product is received from a customer; written approval for the payment schedule is received from the customer and the corresponding required deposit or payments are received; a common carrier signs documentation accepting responsibility for the unit as agent for the customer; and the unit is delivered to the customer’s shipping point.

Amounts billed to customers in a sales transaction for shipping and handling are classified as revenue. Products sold are generally paid for based on schedules provided for in each individual customer contract including upfront deposits and progress payments as products are being manufactured.

Funds received in advance of meeting the criteria for revenue recognition are deferred and are recorded as revenue when they are earned.

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

Cash and cash equivalents – The Company considers cash and cash equivalents to include all short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less upon acquisition.

Accounts receivable – Accounts receivable are receivables generated from sales to customers and progress billings on performance type contracts. Amounts included in accounts receivable are deemed to be collectible within the Company's operating cycle. Management provides an allowance for doubtful accounts based on the Company's historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have been exhausted and the prospects for recovery are remote.

The Company has a factoring agreement in place as of September 30, 2012 and December 31, 2011. The agreement provides for the Company to receive an advance of 75% of any accounts receivable that it factors. On August 13, 2012, the factoring agreement was increased for up to $1,000,000 for credit worthy retail clients. The factoring agreement also provides for discount fees ranging from 2.5% to 7.5% of the face value of any accounts receivable factored. The factoring agreement is with recourse except in an instance which the customer is insolvent. The agreement expires January 2013, and will be automatically extended for successive periods of one year unless either party formally cancels. For the nine months ended September 30, 2012 and 2011 there has been no activity with regard to this agreement.

Inventory – Raw construction materials (primarily shipping containers) are valued at the lower of costs (first-in, first-out method) or market. Finished goods and work-in-process inventories are valued at the lower of costs or market, using the specific identification method.

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

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

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

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

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

Financial liabilities measured at fair value on a recurring basis are summarized below:

	September 30, 2012	Quoted prices in active market for identical assets (Level l)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant Liabilities	$ 183,377	$ -	$ -	$ 183,377

	December 31, 2011	Quoted prices in active market for identical assets (Level l)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant Liabilities	$ 198,471	$ -	$ -	$ 198,471

Warrant liabilities are measured at fair value using the lattice pricing model and are classified within Level 3 of the valuation hierarchy. For fair value measurements categorized within Level 3 of the fair value hierarchy, the Company's Chief Financial Officer, who reports to the Chief Executive Officer, determine its valuation policies and procedures. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's Chief Financial Officer and are approved by the Chief Executive Officer.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Beginning balance	$ 198,471	$ 112,349
Aggregate fair value of conversion option liabilities and warrants issued	19,130	-
Change in fair value of conversion option liabilities and warrants	(34,224)	49,111
Settlement of conversion option liabilities included in additional paid in capital	-	-
Ending balance	$ 183,377	$ 161,460

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

The significant assumptions and valuation methods that the Company used to determine fair value and the change in fair value of the Company's derivative financial instruments are discussed in Note 9.

The Company presented the warrant liabilities at fair value on its condensed consolidated balance sheets, with the corresponding changes in fair value recorded in the Company's condensed consolidated statements of operations for the applicable reporting periods. As disclosed in Note 9, the Company computed the fair value of the derivative liability at the date of issuance and the reporting dates of September 30, 2012 and December 31, 2011 using both the Black-Scholes option pricing and lattice pricing methods. The value calculated using the lattice pricing method is within 1% of the value determined under the Black-Scholes method.

The Company developed the assumptions that were used as follows: The fair value of the Company's common stock was obtained from publically quoted prices as well as valuation models developed by the Company. The results of the valuation were assessed for reasonableness by comparing such amount to sales of other equity and equity linked securities to unrelated parties for cash and intervening events affected in the price of the Company's stock. The term represents the remaining contractual term of the derivative; the volatility rate was developed based on analysis of the Company's historical stock price volatility and the historical volatility rates of several other similarly situated companies (using a number of observations that was at least equal to or exceeded the number of observations in the life of the derivative financial instrument at issue); the risk free interest rates were obtained from publicly available US Treasury yield curve rates; the dividend yield is zero because the Company has not paid dividends and does not expect to pay dividends in the foreseeable future.

Share-based payments **–** The Company records the expense of share-based payment awards at fair value on the date of grant and recognizes compensation expense over the service period for awards expected to vest. The fair value of restricted stock is determined based on the number of shares granted and the fair value of our common stock on date of grant. The recognized expense is net of expected forfeitures.

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

Foreign currency translation – The Company's international subsidiary considers its local currency to be its functional currency. Assets and liabilities of the Company's subsidiary operating in a foreign country are translated into U.S. dollars using both the exchange rate in effect at the balance sheet date or historical date, as applicable. Results of operations are translated using the average exchange rates prevailing throughout the period. The effects of exchange rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are included in stockholders' equity deficiency as a component of accumulated other comprehensive loss, while gains and losses resulting from foreign currency translations are included in operations.

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

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

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

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

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

With respect to receivables, concentrations of credit risk are limited to a few customers in the construction industry. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers other than normal lien rights. At September 30, 2012 and December 31, 2011, 55% and 57%, respectively, of the Company's accounts receivable were due from three and one customers, respectively. Two of those customers' balances have subsequently been received in full.

Revenue relating to one customer represented approximately 86% and 93% of the Company's total revenue for the three months ended September 30, 2012 and 2011, respectively. Revenue relating to two and three customers represented approximately 76% and 87% of the Company's total revenue for the nine months ended September 30, 2012 and 2011, respectively. During the nine months ended September 30, 2012 24% of the Company's total revenue was recognized by SG Brazil.

Costs of revenue relating to one vendor, who is a related party and disclosed in Note 12, represented approximately 76% and 78% of the Company's total cost of revenue for the three months ended September 30, 2012 and 2011. Cost of revenue relating to one unrelated vendor represented approximately 10% of the Company's total cost of revenue for the three months ended September 30, 2011. Costs of revenue relating to one vendor, who is a related party and disclosed in Note 12, represented approximately 50% and 34% of the Company's total cost of revenue for the nine months ended September 30, 2012 and 2011, respectively. Cost of revenue relating to two unrelated vendors represented approximately 52% of the Company's total cost of revenue for the nine months ended September 30, 2011. The Company believes it would be able to use other vendors at reasonable comparable terms if needed.

4. Accounts Receivable

At September 30, 2012 and December 31, 2011, the Company's accounts receivable consisted of the following:

	2012	2011
Billed:		
SG Block sales	$ 179,826	$ 137,560
Engineering services	168,682	33,317
Project management	68,061	19,578
Unbilled:		
Engineering services	21,674	-
Project management	-	2,880
Total gross receivables	438,243	193,335
Less: allowance for doubtful accounts	(103,126)	(50,015)
Total net receivables	$ 335,117	$ 143,320

5. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consist of the following at September 30, 2012 and December 31, 2011:

	2012	2011
Costs incurred on uncompleted contracts	$ 27,504	$ 424,477
Estimated earnings	19,282	41
	46,786	424,518
Less: billings to date	(119,796)	(358,064)
	$ (73,010)	$ 66,454

The above amounts are included in the accompanying balance sheets under the following captions at September 30, 2012 and December 31, 2011.

	2012	2011
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 8,107	$ 66,454
Billings in excess of cost and estimated earnings on uncompleted contracts	(81,117)	-
	$ (73,010)	$ 66,454

5. Costs and Estimated Earnings on Uncompleted Contracts *(continued)*

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

6. Related Party Notes Payable

On March 26, 2009, the Company entered into a $50,000 revolving credit promissory note (the "Revolver") with Vector Group Ltd. ("Vector"), a principal stockholder of the Company. The loan bears interest at 11% per annum and was due on December 31, 2012. During the nine months ended September 30, 2012, the Revolver was extended for a year, with a maturity date of December 31, 2013. On January 26, 2011, the Company and Vector entered into an amendment to the Revolver increasing the amount that the Company may borrow from $50,000 to $100,000. As of September 30, 2012 and December 31, 2011, the balance due to Vector amounted to $73,500. As of September 30, 2012 and December 31, 2011, accrued interest related to the Revolver amounted to $18,373 and $12,219, respectively, and is included in accrued interest, related party on the accompanying condensed consolidated balance sheets.

Interest expense for other related party notes payable amounted to $2,067 for the three months ended September 30, 2012, and $6,154 for the nine months ended September 30, 2012.

7. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of the common shares issuable upon the exercise of stock options and warrants. Potentially dilutive common shares are excluded from the calculation if their effect is antidilutive. At September 30, 2012 there were options and warrants to purchase 9,287,501 and 1,160,607 shares of common stock, respectively, outstanding which could potentially dilute future net income (loss) per share. At September 30, 2011 there were warrants to purchase 1,044,584 shares of common stock outstanding which could potentially dilute future net income (loss) per share.

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

Basic and diluted net loss per share was calculated as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss	$ (525,857)	$ (551,442)	$ (1,456,624)	$ (1,136,551)
Weighted average shares outstanding - basic	41,985,950	35,949,838	41,137,769	34,351,290
Dilutive effect of stock options and warrants	-	-	-	-
Weighted average shares outstanding - diluted	41,985,950	35,949,838	41,137,769	34,351,290
Net loss per share - basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.03)

8. Stockholders' Equity

Private Placements **–** In March 2012, the Company issued 1,463,572 shares of its common stock at $0.35 per share through a private placement (the "March Private Placement"). The Company incurred $28,642 in closing costs from the March Private Placement and also issued warrants valued at $14,675 to Ladenburg Thalmann & Co. Inc. ("Ladenburg"), the placement agent for the March Private Placement (see Note 9).

As part of the March Private Placement, in May 2012, the Company issued an additional 702,872 shares of its common stock at $0.35. The Company incurred $7,430 in closing costs from this issuance, and also issued warrants valued at $4,455 to Ladenburg (see Note 9).

Also, in July 2012, as part of the March Private Placement, the Company received proceeds of $14,000 for 40,000 shares of common stock to be issued.

On September 29, 2012, the Company approved a subsequent equity sale reset provision for the common stock issued in connection with the March Private Placement. If the Company sells or grants any option to purchase, or sells or grants any right to re-price, or otherwise disposes of or issues, any common stock or any common stock equivalents, entitling any person or entity to acquire shares of common stock at an effective price per share that is lower than $.35 per share (such lower price hereinafter called the " Reduced Base Price "), then the purchasers of common stock during the period commencing January 1, 2012 thru December 31, 2012 shall be entitled to receive additional shares of Common Stock that reduces their per share purchase price to the Reduced Base Price.

The maximum amount that could be raised through the March Private Placement is $1,000,000. As of September 30, 2012, the Company raised $772,255 through the March Private Placement.

In April 2012, two stockholders of the Company forgave $73,888 of accrued compensation costs to the Company. The substance of the forgiveness was to provide the Company with additional capital. Accordingly, forgiveness of the accrued compensation costs is reported as a $73,888 increase in paid-in capital.

9. Warrants

In conjunction with a private placement in October 2010 (the "2010 Private Placement"), the Company issued warrants to Ladenburg, the placement agent for the 2010 Private Placement. The warrants entitle Ladenburg to purchase up to a total of 1,044,584 shares of common stock for $0.25 per share. The warrants expire October 28, 2015. The warrants are exercisable, at the option of the holder, at any time prior to their expiration. The fair value of warrants issued to placement agents was calculated utilizing the probability weighted binomial method. The warrants issued to Ladenburg contain provisions that make them redeemable for cash by the holder of the warrant under certain circumstances that are not within the control of the Company. Accordingly, the fair market value of the warrants as of the date of issuance has been classified as liabilities. The fair value of the 2010 Private Placement warrants as of September 30, 2012 was $167,133.

9. Warrants *(continued)*

In conjunction with the March Private Placement, the Company issued warrants to Ladenburg in March 2012. The warrants entitle Ladenburg to purchase up to a total of 86,323 shares of common stock for $0.35 per share and expire March 27, 2017. The Company also issued warrants to Ladenburg in May 2012 in connection with the additional 702,872 shares of common stock issued in the March Private Placement. These warrants entitle Ladenburg to purchase 29,700 shares of common stock at $0.35 per share and expire May 22, 2017.

The warrants are exercisable, at the option of the holder, at any time prior to their expiration. The fair value of warrants issued to placement agents was calculated utilizing the probability weighted binomial method. The warrants issued to Ladenburg contain provisions that make them redeemable for cash by the holder of the warrant under certain circumstances that are not within the control of the Company. Accordingly, the fair market value of the warrants as of the date of issuance has been classified as liabilities. The fair value of the March Private Placements warrants at September 30, 2012 was $16,243.

The change in fair value of the warrants of $1,160 and $34,224 is included in the accompanying condensed consolidated statement of operations for the three and nine months ended September 30, 2012, respectively.

The significant assumptions which the Company used to measure the fair value of warrants at September 30, 2012 is as follows:

Stock price	$	0.35
Term		3.08- 4.64 Years
Volatility		50%
Risk-free interest rate		0.31 – 0.62%
Exercise prices	$	0.25-0.35
Dividend yield		0.00%

10. Stock Options and Grants

2011 Plan – On July 27, 2011, in connection with the Merger, the Company obtained the written consent of holders of a majority of its outstanding common stock approving the 2011 Incentive Stock Plan (the "2011 Plan"). The 2011 Plan covers up to 8,000,000 shares of common stock, and all officers, directors, employees, consultants and advisors are eligible to be granted awards under the 2011 Plan. An incentive stock option may be granted under the 2011 Plan only to a person who, at the time of the grant, is an employee of the Company or its subsidiaries. The 2011 Plan expires on July 26, 2021, and is administered by the Company's Board. As of September 30, 2012, there were 133,928 shares of common stock available for issuance under the 2011 Plan.

A summary of stock option activity under the 2011 Plan as of September 30, 2012 and changes during the nine months then ended are presented below:

	Shares	Weighted Average Fair Value Per Share	Weighted Average Exercise Price Per Share	Weighted Average Remaining Terms (in years)	Aggregate Intrinsic Value
Outstanding – December 31, 2011	5,407,500	$ 0.09	$ 0.20		
Granted	3,880,001	0.14	0.57		
Exercised	-	-	-		
Cancelled	-	-	-		
Outstanding – September 30, 2012	9,287,501	$ 0.11	$ 0.36	9.28	$ 818,775
Exercisable – December 31, 2011	1,719,167	$ 0.09	$ 0.20	9.86	$ 307,083
Exercisable – September 30, 2012	3,012,500	$ 0.11	$ 0.36	9.28	$ 260,425

For the three months and nine months ended September 30, 2012, the Company recognized stock-based compensation expense of $166,835 and $416,219, respectively, which is included in payroll and related expenses in the accompanying condensed consolidated statements of operations.

As of September 30, 2012, there was $473,820 of total unrecognized compensation costs related to non-vested stock options, which will be expensed over a weighted average period of 1.25 years. The intrinsic value is calculated as the difference between the fair value as of December 31, 2011 and the exercise price of each of the outstanding stock options. The fair value at September 30, 2012 and December 31, 2011 was $0.35 per share and $0.38 per share, respectively, as determined by using a weighted value between the income approach method, the public company market multiple method, and a fair value method developed by the Company.

10. Stock Options and Grants *(continued)*

On January 2, 2012, the Chief Executive Officer of the Company was granted an option to purchase 2,000,000 shares of the Company's Common Stock with an exercise price of $0.75 ("CEO Options"). One-third of the options vest upon the grant date, the second third vests on the first anniversary date of the grant date, and the remaining third vests on the second anniversary of the grant date.

On March 20, 2012, three employees of the Company were granted options to purchase a total of 215,000 shares of the Company's Common Stock with an exercise price of $0.50. These options were granted under the same terms of the CEO Options.

On March 21, 2012, seven employees and directors of the Company were granted options to purchase 155,000 shares of the Company's Common Stock with an exercise price of $0.50. These options were granted under the same terms of the CEO Options.

During 2011, the Company executed a two year consulting agreement with a consultant, to act as a Senior Advisor of the Company. In consideration for the services to be performed under the agreement, the Company shall on the last business day of each month during the term, grant the consultant an option to purchase 10,000 shares of the Company's Common Stock with an exercise price equal to fair market value. The terms of these options are the same as the CEO Options. During the nine months ending September 30, 2012, the consultant was granted options to purchase 90,000 shares of the Company's Common Stock with exercise prices ranging from $0.30 to $0.40.

During the nine months ended September 30, 2012, the Company's board of directors approved the issuance of up to an additional 2,000,000 shares of the Company's common stock in the form of restricted stock or options. These options generally have the same terms and conditions as those provided under the 2011 Plan, however, the authorization of these options is not subject to shareholder approval. The issuance of these options will be approved by the Company's board of directors on a case-by-case basis. As of September 30, 2012, there were 578,571 shares of common stock available for issuance under this approval.

In connection with the forgoing, on June 20, 2012, four consultants of the Company were granted options to purchase 195,000 shares of the Company's Common Stock with an exercise price of $0.28. These options were granted separate and apart from the 2011 Plan and were not granted from the shares available under the Company's 2011 Plan. One-third of the options vest upon the grant date, the second third vests on December 20, 2012 and the remaining third vests on June 20, 2013.

10. Stock Options and Grants *(continued)*

On August 7, 2012, eight executives and directors of the Company were granted options to purchase 125,001 shares of the Company's Common Stock with an exercise price of $0.35. These options were granted under the same terms of the CEO Options.

On August 10, 2012, two consultants of the Company were granted options to purchase 1,100,000 shares of the Company's Common Stock with an exercise price of $0.35. These options were granted under the same terms of the CEO Options.

The fair value of the stock-based option awards granted during the nine months ended September 30, 2012 were estimated at the date of grant using the Black-Scholes option valuation model with the following assumptions:

Expected dividend yield	0.00%
Expected stock volatility	50%
Risk-free interest rate	0.59 – 1.22%
Expected life	5.25 - 10 years

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

11. Commitments

Operating lease – The Company leases office space in New York City to conduct its business. The lease began in October 2011 and expires October 31, 2016, with rent escalations. Non-contingent rent increases are being amortized over the life of the lease on a straight line basis. The Company also had previous office space in New York City from November 2010 through September 2011. The rental expense charged to operations for the three month ended September 30, 2012 and 2011 amounted to $28,217 and $18,000, respectively. The rental expense charged to operations for the nine months ended September 30, 2012 and 2011 amounted to $84,651 and $54,000, respectively. Future minimum rental payments on this lease are as follows for the years ending December 31,:

2013	$	111,469
2014		115,483
2015		121,312
2016		103,535
	$	451,799

12. Related Party Transactions

ConGlobal Industries, Inc. is a minority stockholder of the Company and provides containers and labor on domestic projects. The Company recognized Cost of Goods Sold of $238,578 and $156,468, for services ConGlobal Industries, Inc. rendered during the three months ended September 30, 2012 and 2011, respectively. The Company recognized Cost of Goods Sold of $803,149 and $820,616, for services ConGlobal Industries, Inc. rendered during the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012 and December 31, 2011, $69,834 and $12,628, respectively, of such expenses are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

12. Related Party Transactions *(continued)*

The Lawrence Group is a minority stockholder of the Company and is a building design, development and project delivery firm. For the year ended December 31, 2011, $67,782 of pre-project expenses were included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet. On April 24, 2012, this amount was converted into 40,000 shares of the Company's Common Stock.

The Company has accrued certain reimbursable expenses of owners of the Company. Such expenses amounted to $6,474 for the year ended December 31, 2011 and are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

13. Cancellation of Trade Liabilities and Unpaid Interest

For the three months and nine months ended September 30, 2012 and 2011, the Company recognized debt forgiveness income of $0, $31,235, $31,447 and $61,733, respectively, as shown on the accompanying statements of operations, which represents forgiveness of trade accounts payable resulting from settlement agreements with vendors.

14. Subsequent Events

Subsequent to September 30, 2012, the Company received proceeds of $60,250 for 172,143 shares of its common stock to be issued at $0.35.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction and Certain Cautionary Statements

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with our condensed consolidated financial statements and related notes and schedules included elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended December 31, 2011, which were included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, intensified competition and/or operating problems in its operating business projects and their impact on revenues and profit margins or additional factors, and those discussed in Part II, Item 1A "Risk Factors" and elsewhere this Quarterly Report on Form 10-Q. In addition, certain information presented below is based on unaudited financial information. There can be no assurance that there will not be changes to this information once audited financial information is available.

Organization

On July 27, 2011, the Company entered into the Merger Agreement (the "Merger Agreement") by and among CDSI Merger Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of the Company ("CDSI Merger Sub"), SG Building, Inc., a Delaware corporation (known as SG Blocks, Inc. prior to the Merger) ("SG Building"), and certain stockholders of SG Building. The Merger Agreement provided for the merger of CDSI Merger Sub with and into SG Building, with SG Building surviving the Merger and becoming a wholly-owned subsidiary of the Company (the "Merger"). Upon consummation of the Merger on November 4, 2011, SG Building became the principal operating business of the Company and the Company was renamed SG Blocks, Inc. The Merger was a reverse merger that is being accounted for as a recapitalization of SG Building, and accordingly SG Building is deemed to be the accounting acquirer.

The following summaries of the Merger and related transactions, the Merger Agreement and the other agreements entered into by the parties are qualified in their entirety by reference to the text of the applicable agreements.

On November 4, 2011, pursuant to the terms of the Merger Agreement, the Merger was consummated and CDSI Merger Sub was merged with and into SG Building, with SG Building surviving the Merger and becoming a wholly-owned subsidiary, and only operating business of the Company. In connection with the Merger, (i) each of the 1,786,000 shares of SG Building common stock which were outstanding immediately prior to the effective date of the Merger were exchanged for 20.1851851852 shares of the Company's common stock and (ii) each of the 51,750 outstanding SG Building warrants were cancelled and substituted with Company warrants of a similar tenor to purchase an aggregate of 1,044,584 shares of the Company's common stock. Also, in connection with the Merger, 408,750 shares of the Company's common stock were issued for services related to the Merger.

The number of shares of common stock of the Company issued and outstanding immediately following the consummation of the Merger on November 4, 2011 is summarized as follows:

	Number of Shares
SG Building shares outstanding prior to the Merger	1,786,000
Share exchange ratio (20.1851851852 to 1)	20.1851851852x
	36,050,764
SG Blocks shares outstanding prior to the Merger	3,269,992
Shares issued in connection with the Merger	408,750
	39,729,506

In connection with the Merger Agreement, the Company entered into an escrow agreement with former shareholders of SG Building in order to provide for any payment to which the Company may be entitled with respect to post-closing rights to indemnification under the Merger Agreement. Under the terms of the escrow agreement, the former stockholders of SG Building placed in escrow (with an independent escrow agent) a total of 817,500 shares of common stock received by them in the Merger. Such shares of common stock held in escrow were the Company's sole remedy for rights to indemnification under the Merger Agreement. No claims for indemnification were asserted by the Company within the escrow period, and accordingly the escrowed shares were released from escrow in April 2012.

General

SG Building, our wholly-owned subsidiary, offers the construction industry a safer, greener, faster, longer lasting and more economical alternative to conventional construction methods. SG Building redesigns, repurposes, and converts heavy-gauge steel cargo shipping containers into safe green building blocks for commercial, industrial, and residential building construction.

SG Building is a provider of code engineered cargo shipping containers that it modifies and delivers to meet the growing demand for safe and green construction. Rather than consuming new steel and lumber, SG Building capitalizes on the structural engineering and design parameters a shipping container must meet and repurposes them for use in building.

During 2012, the Company formed SG Blocks Sistema De Constucao Brasileiro LTDA. ("SG Brazil"), a wholly owned subsidiary of the Company. SG Brazil was formed in order to actively explore opportunities in Brazil.

Results of Operations

Nine Months Ended September 30, 2012 and 2011:

Nine Months Ended September 30:

	2012	2011	Change
Loss from operations	(1,532,155)	(1,146,722)	(385,433)
Other income	84,622	10,171	74,451
Income tax expense	(9,091)	–	(9,091)
Net Loss	(1,456,624)	(1,136,551)	(320,073)

Revenue

Revenue for the nine months ended September 30, 2012 was $1,980,320 compared to $2,821,613 for the nine months ended September 30, 2011. This decrease of $841,293 results mainly from a block “green steel” sale to one customer in the amount of $1,425,000 being recognized during the nine months ended September 30, 2011, partly offset by an engineering job to one customer in the amount of $477,297 being recognized during the nine months ended September 30, 2012.

Cost of Revenue and Gross Profit

Cost of revenue decreased by $823,535 to $1,593,547 for the nine months ended September 30, 2012 from $2,417,082 for the nine months ended September 30, 2011. The decrease in cost of revenue results primarily from $1,361,197 of block “green steel” costs being recognized for one customer during the nine months ended September 30, 2011, offset by $454,568 of engineering costs being recognized for one customer during the nine months ended September 30, 2012. Gross profit decreased slightly to $386,773 for the nine months ended September 30, 2012 compared to $404,531 for the nine months ended September 30, 2011. The gross profit percentage increased by 6% to 20% for the nine months ended September 30, 2012, compared to 14% for the nine months ended September 30, 2011. The gross profit percentage was lower during 2011 primarily due to a block “green steel” sale in the amount of $1,425,000 being recognized at a gross profit percentage of 5%.

Payroll and Related Expense

Payroll and related expense for the nine months ended September 30, 2012 was $1,073,808 compared to $697,305 for the nine months ended September 30, 2011. The increase of $376,503 principally results from recognition of stock compensation expense for stock options granted during the period. During the nine months ended September 30, 2012, $416,219 of stock compensation expense was recognized. Also, payroll expense for management employees was lower during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 due to the fact that the Company is trying to lower costs.

Other Operating Expenses

Other operating expense for the nine months ended September 30, 2012 was $845,120 compared to $853,948 for the nine months ended September 30, 2011. The significant changes from the nine months ended September 30, 2011 to the nine months ended September 30, 2012 are the following: approximately $30,000 increase in rent expense, approximately $55,000 increase in professional fees, approximately $37,000 increase in bad debt expense, approximately $25,000 decrease in pre-prjoect expenses, approximately $164,000 decrease in marketing and business development expenses, and approximately $57,000 increase in other operating expenses.

Interest Expense

Interest expense for the nine months ended September 30, 2012 was $6,154 compared to $2,520 for the nine months ended September 30, 2011.

Other income

During the nine months ended September 30, 2012 and 2011 there was other income recognized from a cancellation of trade liabilities and accrued interest of $31,447 and $61,733, respectively. Additionally during the nine months ended September 30, 2012 and 2011 there was other income (expense) of $34,224 and $(49,111), respectively, recognized due to a change in fair value of financial instruments.

Also during the nine months ended September 30, 2012 there was other income of $25,000 recognized from insurance proceeds in relation to a damaged shipping container home from a prior year.

Income Tax Expense

During the nine months ended September 30, 2012, $9,091 was accrued for income taxes relating to the profit recognized in the Company's Brazilian subsidiary. The amount accrued was based on the income tax rates in Brazil.

Three Months Ended September 30, 2012 and 2011:

Three Months Ended September 30:

	2012	2011	Change
Loss from operations	(524,987)	(531,193)	6,206
Other income	(870)	(20,249)	19,379
Income tax expense	-	–	-
Net Loss	(525,857)	(551,442)	25,585

Revenue

Revenue for the three months ended September 30, 2012 was $373,250 compared to $228,930 for the three months ended September 30, 2011. This increase of $144,320 results mainly from more block “green steel” jobs being completed during the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Cost of Revenue and Gross Profit

Cost of revenue increased by $105,900 to $305,669 for the three months ended September 30, 2012 from $199,769 for the three months ended September 30, 2011. The increase in cost of revenue results primarily from more block “green steel” jobs and more engineering jobs being completed during the three months ended September 30, 2012 as compared to the three months ended September 30, 2011. Gross profit increased to $67,581 for the three months ended September 30, 2012 compared to $29,161 for the three months ended September 30, 2011. Gross profit increased primarily due to revenue being recognized from approximately 20 block “green steel” jobs during the three months ended September 30, 2012, compared to revenue being recognized from approximately 10 block “green steel” jobs during the three months ended September 30, 2011 Gross profit percentage increased by 5% to 18% for the three months ended September 30, 2012, compared to 13% for the three months ended September 30, 2011.

Payroll and Related Expense

Payroll and related expense for the three months ended September 30, 2012 was $358,918 compared to $228,708 for the three months ended September 30, 2011. The increase of $130,210 principally results from recognition of stock compensation expense for stock options granted during the period. During the three months ended September 30, 2012, $166,835 of stock compensation expense was recognized. Also, payroll expense for management employees was lower during the three months ended September 30, 2012 compared to the three months ended September 30, 2011 due to the fact that the Company is trying to lower costs.

Other Operating Expenses

Other operating expense for the three months ended September 30, 2012 decreased to $233,650 compared to $331,646 for the three months ended September 30, 2011. The decrease of $97,996 primarily consists of a decrease of approximately $70,000 in professional fees.

Interest Expense

Interest expense for the three months ended September 30, 2012 was $2,067 compared to $486 for the three months ended September 30, 2011.

Other income

During the three months ended September 30, 2011 there was other income recognized from a cancellation of trade liabilities and accrued interest of $31,235. Additionally during the three months ended September 30, 2012 and 2011 there was other income (expense) of $1,160 and $(51,040), respectively, recognized due to a change in fair value of financial instruments.

Income Tax Provision

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

Impact of Inflation

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

Liquidity and Capital Resources

Since SG Building's inception in 2008, SG Building has generated losses from operations and the Company anticipates that it will continue to generate losses from operations for the foreseeable future. As of September 30, 2012 and December 31, 2011, the Company's stockholders' deficiency was approximately $367,000 and $185,000, respectively. The Company's net loss from operations for the nine months ended September 30, 2012 was $1,532,155. Net cash used in operating activities was $934,466 for the nine months ended September 30, 2012.

Through September 30, 2012, the Company has incurred an accumulated deficiency since inception of $6,727,375. At September 30, 2012, the Company had a cash balance of $282,293.

Since the Company's inception, it has generated revenues from SG Block sales, engineering services, and project management.

The Company expects that through the next 10 to 16 months, the capital requirements to fund the Company's growth and to cover the operating costs of a public company will consume substantially all of the cash flows that it expects to generate from its operations, as well as from the proceeds of intended issuances of debt and equity securities. The Company further believes that during this period, while the Company is focusing on the growth and expansion of its business, the gross profit that it expects to generate from operations will not generate sufficient funds to cover these anticipated operating costs. Accordingly, the Company requires external funding to sustain operations and to follow through on the execution of its business plan. However, there can be no assurance that the Company's plans will materialize and/or that the Company will be successful in funding estimated cash shortfalls through additional debt or equity capital and through the cash generated by the Company's operations. Given these conditions, the Company's ability to continue as a going concern is contingent upon it being able to secure an adequate amount of debt or equity capital to enable it to meet its cash requirements. In addition, the Company's ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered by entrants into established markets, the competitive environment in which the Company operates and the current capital raising environment.

Since inception, the Company's operations have primarily been funded through proceeds from equity and debt financings and sales activity. Although management believes that the Company has access to capital resources, there are currently no commitments in place for new financing at this time, and there is no assurance that the Company will be able to obtain funds on commercially acceptable terms, if at all.

During the nine months ended September 30, 2012, the Company raised $642,183 in net new funds through the issuance of common stock in conjunction with the March Private Placement, and also received $14,000 for common stock to be issued. The proceeds from these issuances were used to fund the Company's operations and working capital needs.

The Company intends to raise additional funds for the remainder of 2012 and 2013 through a private placement of its common stock. The additional capital would be used to fund the Company's operations, including the costs that it expects to incur as a public company. The current level of cash and operating margins is not enough to cover the existing fixed and variable obligations of the Company, so increased revenue performance and the addition of capital through issuances of securities are critical to the Company's success. Should the Company not be able to raise additional capital through a private placement or some other financing source, the Company would take one or more of the following actions to conserve cash: reduction in employee headcount, reduction in base salaries to senior executives and employees, and other cost reduction measures. Assuming that the Company is successful in its growth plans and development efforts, the Company believes that it will be able to raise additional funds through sales of its stock. There is no guarantee that the Company will be able to raise such additional funds on acceptable terms, if at all.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The Company's financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should it be unable to continue as a going concern.

Off –Balance Sheet Arrangements

As of September 30, 2012 and December 31, 2011, the Company had no material off-balance sheet arrangements other than operating leases to which SG Building is a party.

In the ordinary course of business, SG Building enters into agreements with third parties that include indemnification provisions which, in its judgment, are normal and customary for companies in its industry sector. These agreements are typically with consultants and certain vendors. Pursuant to these agreements, SG Building generally agrees to indemnify, hold harmless, and reimburse indemnified parties for losses suffered or incurred by the indemnified parties with respect to actions taken or omitted by SG Building. The maximum potential amount of future payments SG Building could be required to make under these indemnification provisions is unlimited. SG Building has not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of liabilities relating to these provisions is minimal. Accordingly, the Company has no liabilities recorded for these provisions as of September 30, 2012.

Critical Accounting Estimates and New Accounting Pronouncements

Critical Accounting Estimates

Our condensed consolidated financial statements have been prepared with generally accepted accounting principles in the United States ("GAAP"), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our condensed consolidated financial statements. A discussion of such critical accounting policies, which include share-based payments, derivative instruments, and revenue recognition can be found in our Annual Report on Form 10-K for the year ended December 31, 2011. There have been no material changes to the policies noted above as of the Quarterly Report on Form 10-Q for the period ended September 30, 2012.

Related Party Transactions

ConGlobal Industries, Inc. is a minority stockholder of the Company and provides containers and labor on domestic projects. The Company recognized Cost of Goods Sold of $238,578 and $156,468, for services ConGlobal Industries, Inc. rendered during the three months ended September 30, 2012 and 2011, respectively. The Company recognized Cost of Goods Sold of $803,149 and $820,616, for services ConGlobal Industries, Inc. rendered during the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012 and December 31, 2011, $69,834 and $12,628, respectively, of such expenses are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

The Lawrence Group is a minority stockholder of the Company and is a building design, development and project delivery firm. For the year ended December 31, 2011, $67,782 of pre-project expenses are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheet. On April 24, 2012, this amount was converted into 40,000 shares of the Company's Common Stock.

The Company has accrued certain reimbursable expenses of owners of the Company. Such expenses amounted to $6,474 for the year ended December 31, 2011 and are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

Transactions with Vector

Prior to consummation of the Merger, certain accounting and related finance functions were performed on behalf of the Company by employees of Vector, the Company's pre-Merger principal stockholder. Expenses incurred relating to these functions were allocated to the Company and paid as incurred to Vector based on management's best estimate of the cost involved. The amounts allocated were immaterial for the nine months ended September 30, 2011.

On March 26, 2009, the Company entered into a $50,000 Revolving Credit Promissory Note (the " **Revolver** ") with Vector due December 31, 2012. During the nine months ended September 30, 2012, the Revolver was extended for a year, with a maturity date of December 31, 2013. The loan bears interest at 11% per year. On January 26, 2011, the Company and Vector entered into an amendment to the Revolver increasing the amount that it may borrow thereunder from $50,000 to $100,000. As of September 30, 2012, the Revolver had $73,500 of principal and $18,373 of interest outstanding.

As a pre-Merger stockholder of SG Building and now a stockholder of the Company, Vector received 2,018,519 shares of Company common stock in exchange for the SG Building common stock it held at the time of the Merger. Messrs. Lampen and Kirkland are each executive officers of Vector.

Transactions with Ladenburg

During the first fiscal quarter of 2012, the Company engaged Ladenburg as its placement agent to conduct a best efforts private placement of the Company's common stock at a valuation of $0.35 per share (the March Private Placement). In connection with the March Private Placement, Ladenburg has and will receive compensation based on the following components: (a) a cash commission equal to 6% of the aggregate purchase price of the shares sold to all investors at each closing (or a lesser percentage with respect to certain investors, as agreed upon between the Ladenburg and the Company) and will be issued a five-year warrant to purchase shares of Common Stock of the Company equal to nine percent (9%) of the total number of shares sold to all investors at such closing (or a lesser percentage in the event certain investors invest, as agreed upon between Ladenburg and the Company), (b) the shares of Common Stock underlying the warrants issued to the Ladenburg will have the same registration rights as the investors with respect to their shares and (c) at the initial closing, the Company reimbursed Ladenburg for its reasonable expenses incurred in connection with the offering.

On March 28, 2012, we received net proceeds of $433,608 from the March Private Placement. On May 23, 2012, we received additional net proceeds of $208,575 from the March Private Placement.

Mr. Lampen is the president and chief executive officer of Ladenburg's parent company. Additionally, Vector, beneficially owns approximately 8% of the Ladenburg Thalmann Financial Services Inc., the parent company and sole owner of Ladenburg.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures.

Management, with the participation of our Principal Executive Officer and Principal Financial Officer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934, as amended (the "Exchange Act")) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"). Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms and (ii) is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Notwithstanding the conclusion that our disclosure controls and procedures were not effective as of the end of the period covered by this Quarterly Report, the Principal Executive Officer and the Principal Financial Officer believe that the condensed consolidated financial statements and other information contained in this Quarterly Report present fairly, in all material respects, our business, financial condition and results of operations.

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

In connection with the audit of our fiscal 2011 consolidated financial statements, our independent auditors identified certain significant deficiencies that together constitute a material weakness in our disclosure controls and procedures. These significant deficiencies primarily relate to our (i) difficulty in generating data in a form and format that facilitates the timely analysis of information needed to produce accurate financial reports, (ii) difficulty in applying complex accounting and financial reporting and disclosure rules required under GAAP and the SEC reporting regulations, and (iii) limited segregation of duties. These significant deficiencies together constitute a material weakness in our disclosure controls and procedures.

During the year ended December 31, 2011 and subsequent interim period, we have taken certain steps in an effort to correct these material weaknesses, including hiring of a Chief Financial Officer who has significant experience with publicly-held companies. Although this is an important step towards improving the application of complex accounting principles, the preparation of financial reports and the segregation of duties, additional time is still required to fully implement additional internal controls procedures and test their operating effectiveness before we can definitively conclude that we have remediated our deficiencies. Because these remediation steps have not yet been completed, we have performed additional analyses and other procedures to ensure that our consolidated financial statements contained in this Quarterly Report were prepared in accordance with GAAP and applicable SEC regulations.

We believe that our weaknesses in internal control over financial reporting and our disclosure controls relate in part to the fact that prior to the Merger, SG Building was a small, privately-held company and was not subject to public company disclosure requirements, including the requirement to report on internal control over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act of 2002 and Item 308 of Regulation S-K. Because the Merger closed near the end of the 2011 fiscal year, our internal controls are still in a state of transition as we work diligently to integrate and assimilate all of our operations and work to remedy the significant deficiencies that together constitute a material weakness in our internal control over financial reporting.

(b) Changes in Internal Control over Financial Reporting

Notwithstanding our remedial actions and integration of our financial reporting systems following the Merger, there was no change in our internal control over financial reporting that occurred during the third quarter of 2012 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

None.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before making an investment decision. If any of the following risks or uncertainties occur, our business, prospects, financial condition or operating results could be materially adversely affected, the trading price of our common stock could decline, and you may lose all or part of your investment. In assessing the risks described below, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our consolidated financial statements and the related notes and schedules, before deciding to purchase any shares of our common stock.

Risks Relating to the Company

If we are not successful in our efforts to increase sales or raise capital, we will experience a shortfall in cash over the next twelve months and our ability to raise capital may be limited.

As of September 30, 2012 and December 31, 2011, SG Building, our wholly-owned subsidiary, had cash and cash equivalents of $282,293 and $561,759, respectively. However, over the nine months ended September 30, 2012 and fiscal year ended December 31, 2011, we had a net loss of $1,456,624 and $1,909,575, respectively. We incurred additional losses during the quarter ended September 30, 2012. If we are not successful with our marketing efforts to increase sales, we will experience a shortfall in cash over the next twelve months. If necessary, we will implement a plan to fund such a deficit which could include, among other things, reducing operating expenses in an amount sufficient to operate the business for a reasonable period of time. During the nine months ended September 30, 2012, we received net proceeds of $642,183 from a private placement, and also received $14,000 for common stock to be issued. We may also seek to obtain debt or additional equity financing to address any shortfalls in our cash. The type, timing and terms of the financing we may select will depend on, among other things, our cash needs, the availability of other financing sources and prevailing conditions in the financial markets. However, there can be no assurance that we would be able to secure additional funds if needed and that if such funds are available, whether the terms or conditions would be acceptable to us. In such case, the further reduction in operating expenses might need to be substantial in order for us to ensure enough liquidity to sustain our operations. It will also be difficult for us to make any acquisitions unless we can raise additional capital. Any financing would be dilutive to our stockholders.

The Company has identified cost reduction measures which when implemented would result in a reduction in employee headcount, reduction in base salaries to senior executives and employees, and other cost savings measures. These actions have been implemented and have begun to result in annual cost savings.

We have incurred net losses in certain prior periods and there can be no assurance that we will generate income in the future.

Our ability to achieve profitability will depend upon our ability to generate and sustain substantially increased revenues. We may incur operating losses in the future as we execute our growth strategy. We intend to make significant expenditures related to marketing, expansion of our website, hiring of additional personnel, and development of our technology and infrastructure. Although SG Building generated revenue from continuing operations during the fiscal year ended December 31, 2010 and the fiscal year ended December 31, 2011, it has incurred net losses of $1,247,644 and $1,909,575, respectively, during such periods. For the fiscal year ended December 31, 2010 and the fiscal year ended December 31, 2011, we (prior to giving effect to the Merger of CDSI Merger Sub with and into SG Building (formerly SG Blocks, Inc.)) incurred net losses of $35,204 and $118,460, respectively, during such periods. Over the nine months ended September 30, 2012, we had a net loss of $1,456,624. The likelihood that we will generate net income in the future must be considered in light of the difficulties facing the construction and construction management industries as a whole, economic conditions, the competitive environment in which we operate and the other risks and uncertainties discussed in this Quarterly Report on Form 10-Q. Our operating results for future periods are subject to numerous uncertainties, and it may not achieve sufficient revenues to sustain or increase profitability on a quarterly or annual basis.

We have a history of losses.

We have reported an operating loss in each of our fiscal quarters since inception. There is a risk that we will continue to incur operating losses.

We are dependent on the services of key personnel, and the unexpected loss of their services may adversely affect its operations.

Our success depends highly upon the personal efforts and abilities of our senior management team, specifically the efforts of Paul Galvin, the Company's Chief Executive Officer and Director, and Stevan Armstrong, the Company's President and Chief Operating Officer and Director. The loss of the services of one or more of these individuals could have a material adverse effect on our business. Our ability to achieve profitability and generate increased revenue will depend upon our ability to retain, and attract if necessary, experienced management personnel.

An investor in our common stock must consider the uncertainties facing early stage companies in highly regulated industries.

An investor in our common stock must consider the uncertainties facing early stage companies in highly regulated industries. These uncertainties include:

- an evolving business model that makes future success uncertain and an investment in our common stock highly speculative;
- the lack of a well-developed brand that may limit our ability to attract customers;

- the potential development of a comparable product and lack of barriers to entry by better funded competitors; and
- our new corporate organization, regulatory requirements and its anticipated growth could lead to management distractions and higher than expected operating expenses.

Our business is susceptible to adverse weather conditions and natural disasters.

Our construction projects are susceptible to, and are significantly affected by, adverse weather conditions and natural disasters such as hurricanes, tornadoes, earthquakes, droughts, floods and fires. These adverse weather conditions and natural disasters can cause delays and increased costs in the construction of new buildings. If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruption or losses resulting from adverse weather or natural disasters, our business and results of operations will be adversely affected. In addition, damage to new buildings caused by adverse weather or a natural disaster can cause our insurance costs to increase.

Our failure to successfully complete the integration of SG Building or any other businesses acquired in the future could have a material adverse effect on our business, financial condition and operating results.

Any financing required for acquisitions could dilute the interests of our existing holders of our common stock, result in an increase in our indebtedness or both. Acquisitions may entail numerous risks, including:

- difficulties in assimilating acquired operations or products, including the loss of key employees from acquired businesses;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with supplies and customers; and
- risks of entering markets in which we have limited or no prior experience.

Our failure to successfully complete the integration of SG Building or any other acquired business could have a material adverse effect on our business, financial condition and operating results. In addition, there can be no assurance that we will be able to identify suitable acquisition candidates or consummate acquisitions on favorable terms.

We rely on ConGlobal Industries, Inc. to supply us with containers used in our business and the unexpected termination of our exclusive 10 year Collaboration and Supply contract with ConGlobal to provide these containers would have a negative impact on our business.

We rely on ConGlobal to supply us with containers and other resources used in our business and if this relationship were to unexpectedly end, or if the ConGlobal Agreement were to be unexpectedly terminated, such event could have a negative impact on our business while our alternate sources of supply are being implemented.

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

We have relationships with key materials vendors, and we rely on suppliers for our purchases of products from them. Any inability to obtain materials or services in the volumes required and at competitive prices from our major trading partners, the loss of any major trading partner, or the discontinuation of vendor financing (if any) may seriously harm our business because we may not be able to meet the demands of our customers on a timely basis in sufficient quantities or at all. Other factors, including reduced access to credit by our vendors resulting from economic conditions, may impair our vendors' ability to provide products in a timely manner or at competitive prices. We also rely on other vendors for critical services such as transportation, supply chain and professional services. Any negative impacts to our business or liquidity could adversely impact our ability to establish or maintain these relationships.

Risks Relating to our Business

We depend on the availability and skill of subcontractors, their willingness to work with us, and their selection of suitable and quality building materials.

We rely on subcontractors to perform the actual construction of our building projects, and in many cases, to select and obtain raw materials. Despite our detailed specifications and quality control procedures, in some cases, improper construction processes or defective materials may be used to finish construction of our building projects. We may need to spend money to remediate such problems when they are discovered. Defective products widely used by the construction industry can result in the need to perform extensive repairs to large numbers of buildings. Though subcontracts are written to protect us from substandard performance or materials, pervasive problems could adversely affect our business. The cost to us in complying with its warranty obligations in these cases may be significant if it is unable to recover the cost of repair from subcontractors, materials suppliers and insurers. Further, the timing and quality of our construction depends on the availability and skill of subcontractors. Although we believe that our relationships with our suppliers and subcontractors are good, there can be no assurance that skilled subcontractors will continue to be available at reasonable rates and in the areas in which we conducts our operations. The inability to contract with skilled subcontractors or general contractors at reasonable costs on a timely basis could limit our ability to build and deliver buildings and could erode our profit margins and adversely affect our results of operations and cash flows.

We may have difficulty protecting our proprietary technology.

Intellectual property and proprietary technology are important to the success of our business. We rely primarily on trade secrets to protect our intellectual property and proprietary technology. While we intend to make the appropriate filings and protect our intellectual property and proprietary technology, there can be no assurance that we will be able to so. In addition, it is difficult to protect against or monitor all possible misappropriations and unauthorized access to our intellectual property and technology. To date, we have ordered prior art on five potential intellectual property claims. Significant challenges in protecting our intellectual property and technology are posed by (a) funding limitations and (b) our rapidly evolving adaptation to new product/market/technology challenges. Dissemination or dilution of the aforementioned intellectual property and technology could have an adverse effect on our business, financial condition, results of operations and liquidity.

Growth of operations may strain resources and if we fail to manage growth successfully, our business could be adversely affected.

Increased orders for our product have placed, and may continue to place, a strain on our operational, financial and managerial resources and personnel. Any failure to manage growth effectively could have a material adverse effect on our business, operating results, financial condition and liquidity.

Our exposure to foreign currency rate risks and inflation could materially and adversely affect our business, financial condition and results of operations.

We may be exposed to foreign currency exchange rate risks and inflation with respect to our sales, profits, and assets and liabilities denominated in currencies other than the U.S. dollar as a result of possible international operations. As a result, we may suffer losses as a result of foreign currency rate fluctuations.

Our revenue growth rate depends on our ability to execute our business plan.

We may not be able to identify and maintain the necessary relationships within the industries in which we participate. Our ability to execute our business plan also depends on other factors, including the ability to:

- negotiate and maintain contracts and agreements with acceptable terms;
- implement terms of contracts and agreements according to original specifications;
- hire and train qualified personnel and retain key employees;
- maintain an affordable labor force;
- maintain marketing and development costs at affordable rates;
- ensure the availability of project financing; and
- effectively compete within domestic and international markets.

Failure to properly perform any of the foregoing may have a material adverse effect on our business, operating results, financial condition and liquidity.

We face continuous pricing pressure from our customers and our competitors. This will affect our margins and therefore our profitability and cash flow unless we can efficiently manage our manufacturing costs and market our products based on superior quality.

Our customers often make purchase decisions based on product pricing. Many of our competitors have significantly greater financial resources than we have, and as a result may be able to withstand the adverse effect of discounted pricing and reduced margins in order to build market share. While one of our strategies is to offer competitive pricing in order to retain and increase market share, and to seek to manage its manufacturing efficiently to sustain acceptable margins, we may not be able to maintain appropriate prices or to manage product manufacturing costs sufficiently to sustain acceptable margins. Similarly, we also seek to compete based on product quality rather than just price, but we may not be successful in these efforts. This could adversely affect our profitability, liquidity and market share.

The sale and export of products to a foreign country involves inherent operational risks that may not be adequately covered by insurance.

We can give no assurance that we will be adequately insured against all risks or that our insurers will pay a particular claim. The cost of insurance on foreign business may be substantial and could decrease profitability. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable rates in the future. We may also be subject to claims by our customers involving disputes or situations that are beyond its control. There is also a possibility of fraudulent claims or other illicit activities involving our transactions. Any of these potentialities may give rise to a loss for which we are not insured, or adequately insured.

Our liability for estimated warranties may be inadequate, which could materially and adversely affect our business, financial condition and results of operations.

As a construction manager, we are subject to construction defect and warranty claims arising in the ordinary course of its business. These claims are common in the construction management industry and can be costly. At this time, the third party providers offer guarantees and warranties in accordance with industry standards that flow through to our clients. Although we maintain reserves for such claims, which to date have been adequate, there can be no assurance that warranty expense levels will remain at current levels or that such reserves will continue to be adequate. A large number of warranty claims exceeding our current warranty expense levels could have a material adverse effect on our results of operations.

We can be adversely affected by failures of persons who act on our behalf to comply with applicable regulations and guidelines.

Although we expect all of our associates (i.e., employees), officers and directors to comply at all times with all applicable laws, rules and regulations, there are instances in which subcontractors or others through whom we do business may engage in practices that do not comply with applicable regulations or guidelines. It is possible that our associates may become aware of these practices but do not take steps to prevent them. If we learn of practices relating to buildings it constructs that do not comply with applicable regulations or guidelines, we will move actively to stop the non-complying practices as soon as possible and we will take disciplinary action with regard to our associates who were aware of the practices, including in some instances terminating their employment. However, regardless of the steps we take, we may be subject to fines or other governmental penalties, and our reputation may be injured.

The cyclical and seasonal nature of the construction and construction management industries causes our revenues and operating results to fluctuate, and we expect this cyclicality and seasonality to continue in the future.

The construction and construction management industries are highly cyclical and seasonal and is influenced by many international, national and regional economic factors including the availability of consumer and wholesale financing, seasonality of demand, consumer confidence, interest rates, income levels and general economic conditions, including inflation and recessions. As a result of the foregoing factors, our revenues and operating results fluctuate, and we currently expect them to continue to fluctuate in the future. Moreover, we have and may continue to experience operating losses during cyclical downturns in the construction and construction management market.

We may not be paid all amounts owed to us by our customers.

If the financial condition of our customers were to deteriorate, resulting in their inability or unwillingness to pay amounts owed to us, or if our customers are otherwise unable or unwilling to pay us, or if bankruptcy courts require us to refund amounts paid to us, our earnings and financial position could be negatively impacted.

Risks Relating to the Construction and Construction Management Industries

The construction management industry suffers from a lack of third-party financing, and our financial condition and results of operations could be negatively affected if additional third-party financing for the purchases of our buildings does not become available.

Our business and earnings depend substantially on our client's ability to obtain financing for the development of their construction projects. The availability and cost of such financing is further dependent on the number of financial institutions participating in the industry, the departure of financial institutions from the industry, the financial institutions' lending practices, the strength of the domestic and international credit markets generally, governmental policies and other conditions, all of which are beyond our control. In light of the current economic climate, some of our projects may not be successful in obtaining additional funds in a timely manner, on favorable terms or at all. The availability of borrowed funds, especially for construction financing, has been greatly reduced, and lenders may require project developers to invest increased amounts of equity in a project in connection with both new loans and the extension of existing loans. Unfavorable changes in the availability and terms of financing in the industry will have a material adverse effect on certain privately financed projects.

Our results of operations also depend on the ability of our potential privately financed customers to obtain loans for the purchase of new buildings. Over the past few years, lenders have tightened the credit underwriting standards which have reduced lending volumes. If this trend continues, it would negatively impact our sales. Our sales depend in large part on the availability and cost of financing. In addition, where our potential customers must sell their existing buildings or real estate in order to develop the new buildings, increases in mortgage costs and/or lack of availability of mortgages could prevent buyers of potential customers' existing buildings from obtaining the mortgages they need to complete their purchases, which would result in our potential customers' inability to make purchases from us. If our potential buyers cannot obtain suitable financing, our sales and results of operations would be adversely affected.

The construction and construction management industries are highly competitive, and competition may increase the adverse effects of industry conditions.

We operate in a very competitive environment, which is characterized by competition from numerous local, regional and national builders and others in the real estate development business around the world. We may compete for financing, raw materials and skilled management and labor resources. We also compete with the rental market, as well as with the resale, or "previously owned," building market, which has increased significantly due to the large number of foreclosures due to the current economic downturn. An oversupply of buildings available for sale and the heavy discounting of building prices by some of our competitors could adversely affect demand for our buildings and our results of operations. Increased competition could require us to further increase our selling incentives and/or reduce our prices which could negatively affect our profits.

Government regulations and legal challenges may delay the start or completion of our projects, increase our expenses or limit our building activities, which could have a negative impact on our operations.

Various domestic and international rules and regulations concerning building, zoning, sales and similar matters apply to and/or affect the construction and construction management industries. Governmental regulation affects construction activities as well as sales activities, mortgage lending activities and other dealings with consumers. These industries also have experienced an increase in domestic state and local legislation and regulations that limit the availability or use of land. Municipalities may also restrict or place moratoriums on the availability of utilities, such as water and sewer taps. In some areas, municipalities may enact growth control initiatives, which will restrict the number of building permits available in a given year. In addition, we may be required to apply for additional approvals or modify our existing approvals because of changes in local circumstances or applicable law. If governments in locations in which we operate take actions like these, it could have an adverse effect on our business by causing delays, increasing our costs or limiting our ability to operate in those areas. Further, we may experience delays and increased expenses as a result of legal challenges to our proposed projects, whether brought by governmental authorities or private parties. Failure to comply with laws or regulations applicable to or affecting us, or the passage in the future of new and more stringent laws affecting us, may adversely affect our financial condition or results of operations.

Supply risks and shortages relating to labor and materials can harm our business by delaying construction and increasing costs.

Though the availability of talented consultants and subcontractors is high in the current economic environment, the construction and construction management industries from time to time have experienced significant difficulties with respect to:

- shortages of qualified trades people and other labor;
- changes in laws relating to union organizing activity;
- inadequately capitalized or uninsured local subcontractors;
- shortages of materials;

- volatile or sustained increases in the cost of raw materials, including containers, traditional finish materials which are significant components of its construction costs;

- lack of availability of adequate utility infrastructure and services; and

- transportation cost increases.

These difficulties can, and often do, cause unexpected short-term increases in construction costs and cause construction delays. In addition, to the extent our subcontractors incur increased costs associated with higher insurance premiums and compliance with regulations, these costs may be passed on to us. We are generally unable to pass on any unexpected increases in construction costs to those customers who have already entered into sales contracts, as those contracts generally fix the price of the building at the time the contract is signed. Pricing competition, oversupply of new and existing buildings and tightening mortgage qualifications, among other factors may restrict our ability to pass on any additional costs, and may negatively impact its profit margins.

We have not experienced any work stoppages due to strikes by unionized workers, but there is no assurance that there will not be any work stoppages due to strikes or other job actions in the future.

Risks Relating to the Merger

As a result of the merger between a wholly-owned subsidiary of the Company and SG Building in November 2011, we have become subject to more reporting requirements of federal securities laws, which can be expensive.

As a result of the merger between a wholly-owned subsidiary of the Company and SG Building in November 2011, we have become an operating company. Accordingly, we may be subject to more information and reporting requirements of the Securities Exchange Act of 1934 and other Federal securities laws, including compliance with the Sarbanes-Oxley Act. The costs of preparing and filing annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission (including reporting of the Merger) and furnishing audited reports to stockholders may increase and may cause our expenses to be higher.

In addition, it may be time consuming, difficult and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal controls and other finance personnel in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act, we may not be able to obtain the independent registered public accountant certifications required by the Sarbanes-Oxley Act.

Because we were previously a shell company and acquired an operating entity by means of a reverse merger with one of our subsidiaries, we may not be able to attract the attention of major brokerage firms.

There may be risks associated with us formerly being a shell company and acquiring an operating entity through a "reverse merger". Securities analysts of major brokerage firms may not provide coverage of us since there is no incentive to brokerage firms to recommend the purchase of our common stock. No assurance can be given that brokerage firms will, in the future, want to conduct any secondary offerings on our behalf.

Risks Relating to our Common Stock

Our stock price may be volatile.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- technological innovations or new products by us or our competitors;
- intellectual property disputes;
- additions or departures of key personnel;
- sales of our common stock;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- industry developments;
- economic and other external factors; and
- period-to-period fluctuations in our financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Our limited operating history makes evaluating our common stock more difficult, and therefore, investors have limited information upon which to rely.

We have limited historical data upon which to forecast operating expenses or future needs and operating results. Our limited operating history will make it difficult for investors to evaluate our business and prospects. Investors must consider our prospects in light of the risks, expenses and difficulties we face as an early stage company with a limited operating history, new organizational structure and operating in a highly regulated and competitive industry.

Our directors, executive officers and affiliated persons beneficially own a substantial number of shares of our common stock, which gives them significant control over certain major decisions upon which its stockholders may vote and may discourage an acquisition of the Company.

Our executive officers, directors and affiliated persons beneficially own a substantial number of shares of our common stock. The interests of our officers, directors and affiliated persons (as stockholders) may differ from the interests of other stockholders. As a result, these officers, directors and affiliated persons will have significant influence over all corporate actions requiring stockholder approval, irrespective of how other stockholders may vote, including the following actions:

- elect or defeat the election of the our directors;
- amend or prevent amendment the our Amended and Restated Certificate of Incorporation or By-Laws;
- effect or prevent a merger, sale of assets or other corporate transaction; and
- control the outcome of any other matter submitted to the stockholders for vote.

Management's ownership of a substantial number of shares of our common stock may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could reduce its stock price or prevent our stockholders from realizing a premium over its stock price.

Trading of our common stock may be restricted by Blue Sky eligibility and our common stock may be deemed a "penny stock", which would make it more difficult for the Company's investors to sell their shares.

We currently are not Blue Sky eligible in certain states so trading of the Company's stock in such states may be restricted. In addition, our common stock is subject to the "penny stock" rules adopted under section 15(g) of the Securities Exchange Act. The penny stock rules apply to non-Nasdaq companies whose common stock trades at less than $5.00 per share or that have tangible net worth of less than $5,000,000 ($2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If we remain subject to the penny stock rules for any significant period, that could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of the common stock. In addition, the Blue Sky eligibility rules may discourage investor interest in and limit the marketability of, the common stock.

Furthermore, for companies whose securities are quoted on the OTC Bulletin Board of the National Association of Security Dealers, Inc., it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to obtain needed capital.

Sale of a substantial number of shares of the common stock may cause the price of our common stock to decline.

If our stockholders sell substantial amounts of the common stock in the public market, the market price of our common stock could fall. These sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that it deems reasonable or appropriate.

The exercise of outstanding warrants and options will dilute the percentage ownership of then-existing stockholders.

As of September 30, 2012, there are outstanding Warrants to purchase 1,160,607 shares of common stock and options to purchase 9,287,501 shares of common stock. Options to purchase 7,866,072 shares were granted under our 2011 Incentive Stock Plan. The exercise of such outstanding warrants and options would dilute the then-existing stockholders' percentage ownership of the Company's stock, and any sales in the public market of common stock underlying such securities could adversely affect prevailing market prices for the common stock. Moreover, the terms upon which the Company would be able to obtain additional equity capital could be adversely affected since the holders of such securities can be expected to exercise them at a time when the Company would, in all likelihood, be able to obtain any needed capital on terms more favorable to the Company than those provided by such securities.

The issuance of additional securities by the Board will dilute the ownership interests of our current stockholders and could discourage the acquisition of the Company.

Our Board, without any action by our stockholders, is authorized to designate and issue additional classes or series of capital stock (including classes or series of preferred stock) as it deems appropriate and to establish the rights, preferences and privileges of such classes or series. The issuance of any new class or series of capital stock would not only dilute the ownership interest of our current stockholders but may also adversely affect the voting power and other rights of holders of common stock. The rights of holders of preferred stock and other classes of common stock that may be issued may be superior to the rights of the holders of the existing class of common stock in terms of the payment of ordinary and liquidating dividends and voting rights.

In addition, the ability of the Board to designate and issue such undesignated shares could impede or deter an unsolicited tender offer or takeover proposal regarding the Company and the issuance of additional shares having preferential rights could adversely affect the voting power and other rights of holders of common stock and render more difficult the removal of current management, even if such removal may be in the stockholders' best interests.

Additional equity offerings may dilute current stockholders.

As a result of acquisitions or additional capital raisings, we may issue additional securities or instruments that may by convertible into or exercisable or exchangeable for, or otherwise entitle the holder thereof to receive common stock. The issuance of such additional securities will dilute the ownership of our then current stockholders.

If we do not implement necessary internal control over financial reporting in an efficient and timely manner, or if we discover deficiencies and weaknesses in existing systems and controls, we could be subject to regulatory enforcement and investors may lose confidence in our ability to operate in compliance with existing internal control rules and regulations, either of which could result in a decline in our stock price.

It may be difficult to design and implement effective internal control over financial reporting for combined operations as the Company integrates the business of SG Building it acquired as a result of the Merger, and perhaps other acquired businesses in the future. In addition, differences in existing controls of acquired businesses may result in weaknesses that require remediation when internal controls over financial reporting are combined.

If we fail to maintain an effective system of internal control, we may be unable to produce reliable financial reports or prevent fraud. If we are unable to assert that its internal control over financial reporting is effective at any time in the future, or if our independent registered public accounting firm is unable to attest to the effectiveness of internal controls, is unable to deliver a report at all or can deliver only a qualified report, we could be subject to regulatory enforcement and investors may lose confidence in our ability to operate in compliance with existing internal control rules and regulations, either of which could result in a decline in the our stock price.

We do not expect to pay dividends in the future. Any return on investment may be limited to the value of our common stock.

We have never paid nor do we expect in the foreseeable future to pay any dividends.

There is a limited trading market for our common stock.

Our common stock has been quoted on the OTC Bulletin Board since 1999 and is currently quoted under the symbol "SGBX". Prior to November 9, 2011, our common stock was quoted under the symbol "CDSI." There is a limited trading market in our shares and a stockholder could likely find it difficult to sell or to obtain quotations as to prices of our common stock. During 2010, the average daily trading volume of our common stock was approximately 1,209 shares, with 207 days of 252 trading days having no trading activity. Since the consummation of the Merger on November 4, 2011 there has been limited trading volume of our common stock, and on many days there has been no trading activity in our common stock.

No assurances can be given that our common stock will continue to be quoted on the OTC Bulletin Board or that an orderly trading market will be maintained for our common stock.

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

During the first fiscal quarter of 2012, the Company conducted a best efforts private placement of the Company's common stock at a valuation of $0.35 per share (the March Private Placement). On March 28, 2012, we received net proceeds of $433,608 from the private placement. We issued 1,463,572 shares of our common stock in connection with this March Private Placement. On May 23, 2012, we received additional proceeds of $208,585 from the March Private Placement. We issued 702,872 shares of our common stock in connection with this offering. Also, in July, 2012, we received $14,000 for common stock to be issued in connection with the March Private Placement. The proceeds from this offering will be used to support the Company's business growth and for general working capital requirements. As additional consideration for services by Ladenburg, the placement agent in the March Private Placement, the Company issued warrants to purchase 86,323 shares of our common stock for $0.35 per share to Ladenburg (the "March Warrants"). The March Warrants expire on March 27, 2017. Ladenburg also received warrants to purchase 29,700 shares our common stock for $0.35 per share on May 23, 2012 (the "May Warrants"). The May Warrants expire on May 22, 2017. The March Warrants and May Warrants have registration rights and contain redemption provisions that make them redeemable for cash by the holder of the warrant under certain circumstances that are not within the control of the Company. The Warrants are governed by the terms of a Warrant Agreement between the Company the Ladenburg. The warrants are exercisable, at the option of the holder, at any time prior to their expiration. The issuance of the shares and March Warrants and May Warrants in March Private Placement was exempt from the registration requirements under the Securities Act, pursuant to Section 4(2) thereof, because the transaction did not involve a public offering.

During the three months ended September 30, 2012, the Company issued the following options to purchase the Company's common stock to consultants, directors, officers and employees of the Company:

Recipient	**Date**		**Exercise Price**	**Amount**
Edmund P. Giambastiani, Jr. - Consultant	07/31/2012	$	0.30	10,000
	08/31/2012	$	0.35	10,000
	09/30/2012	$	0.40	10,000
Stevan Armstrong – President, Chief Operating Officer and Director	08/07/2012	$	0.35	14,286
Jennifer Strumingher – Chief Administrative Officer	08/07/2012	$	0.35	14,286
Richard Lampen – Director	08/07/2012	$	0.35	14,286
J. Bryant Kirkland III – Director	08/07/2012	$	0.35	17,857
Joseph Tacopina – Director	08/07/2012	$	0.35	14,286
J. Scott Magrane – Director	08/07/2012	$	0.35	17,857
Christopher Melton – Director	08/07/2012	$	0.35	17,857
Brian Wasserman – Chief Financial Officer and Director	08/07/2012	$	0.35	14,286
SGBlocksdt LLC – Consultant	08/10/2012	$	0.35	1,000,000
Alexco - Consultant	08/10/2012	$	0.35	100,000
TOTAL				**1,255,001**

Options to purchase 28,572 shares of the Company's common stock were awarded pursuant to the Company's 2011 Incentive Stock Plan. One third of the options vest upon grant, the second third vests on the first anniversary of the grant date, and the remaining third vests on the second anniversary of the grant date. The remaining 1,226,429 options were awarded by approval of the Company's board of directors. These options generally have the same terms and conditions as provided under the 2011 Incentive Stock Plan (See Note 10). The aggregate number of such options granted to consultants is 1,130,000 options. The aggregate number of such options granted to the Company's directors and officers is 125,001. The issuance of such options was exempt from the registration requirements under the Securities Act, pursuant to Section 4(2) thereof, because the transaction did not involve a public offering.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

See "Item 2. Unregistered Sales of Equity Securities and Use of Proceeds" regarding the unregistered sale of equity securities, which is incorporated herein by reference.

During November 2012, the Company sold and issued shares of common stock, at a price of $0.35 per share, in the following transactions with directors of the Company:

Date of Sale	**Director**	**Number of Shares**
November 14, 2012	Christopher Melton	85,000
November 19, 2012	J. Bryant Kirkland III	28,572
November 19, 2012	Richard J. Lampen	30,000
November 19, 2012	J. Scott Magrane	28,571

The Company received total proceeds of $60,250 from the sale of shares to its directors in November 2012. The proceeds from these sales will be used to support the Company's business growth and for general working capital requirements. The issuances of these shares are exempt from the registration requirements under the Securities Act, pursuant to Section 4(2) thereof, because the transactions did not involve a public offering.

Item 6. Exhibits

31.2+	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS#+	XBRL Instance Document.
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.

\+ **Transmitted herewith.**

\# **This exhibit will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Company specifically incorporates it by reference.**

SIGNATURE

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

SG BLOCKS, INC.
(Registrant)

Date: November 26, 2012

By: /s/Brian Wasserman
Brian Wasserman
Chief Financial Officer
(Duly Authorized Officer and Principal Financial and
Chief Accounting Officer

Exhibit 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul M. Galvin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SG Blocks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

5. The registrant's other certifying officer(s) 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.

November 26, 2012

/s/ Paul M. Galvin
Name:Paul M. Galvin
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian Wasserman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SG Blocks, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

5. The registrant's other certifying officer(s) 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.

November 26, 2012

s/ Brian Wasserman
Name:Brian Wasserman
Title: Chief Financial Officer

Exhibit 32.1

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

In connection with the quarterly report of SG Blocks, Inc., (the “Company”) on Form 10-Q for the period ended June 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul M. Galvin, the Chief Executive Officer of the Company, and I, Brian Wasserman, the Chief Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

November 26, 2012	/s/ Paul M. Galvin Name: Paul M. Galvin Title: Chief Executive Officer
November 26, 2012	s/ Brian Wasserman Name: Brian Wasserman Title: Chief Financial Officer

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

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