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, 2014**

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	**95-4463937**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3 Columbus Circle, 16th Floor New York, NY	**10019**
(Address of principal executive offices)	(Zip Code)

(212) 520-6218
(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 10, 2014, there were 42,773,093 shares of the registrant's common stock, $0.01 par value, outstanding.

SG BLOCKS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SG BLOCKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 1,280,370	$ 594,248
Short-term investment	39,399	39,375
Accounts receivable, net	308,439	246,519
Inventory	33,597	34,052
Prepaid expenses and other current assets	23,717	15,493
Total current assets	1,685,522	929,687
Equipment, net	11,904	11,867
Security deposit	12,000	12,000
Debt issuance costs, net	31,223	44,830
Totals	$ 1,740,649	$ 998,384
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable and accrued expenses	$ 217,591	$ 306,144
Accrued interest, related party	34,767	28,636
Accrued interest	-	9,458
Related party accounts payable and accrued expenses	163,897	244,858
Related party notes payable	73,500	73,500
Convertible debentures, net of discounts of $0 and $269,388	-	1,802,612
Billings in excess of costs and estimated earnings on uncompleted contracts	4,882	24,349
Deferred revenue	325,714	379,765
Conversion option liabilities	519,946	2,873
Warrant liabilities	1,004,220	214,738
Total current liabilities	2,344,517	3,086,933
Convertible debentures, net of discounts of $951,357	3,044,343	-
Total liabilities	5,388,860	3,086,933
Commitments		
Stockholders' deficiency:		
Preferred stock, $0.01 par value, 5,000,000 shares authorized; 0 issued and outstanding at September 30, 2014 and December 31, 2013	-	-
Common stock, $0.01 par value, 300,000,000 shares authorized; 42,773,093 issued and outstanding at September 30, 2014, 43,223,093 issued and outstanding at December 31, 2013	427,731	432,231
Additional paid-in capital	6,852,493	6,679,298
Accumulated deficiency	(10,928,435)	(9,200,078)
Total stockholders' deficiency	(3,648,211)	(2,088,549)
Totals	$ 1,740,649	$ 998,384

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 INCOME (LOSS)

	For the Three Months Ended September 30,		*For the Nine Months Ended September 30,*	
	2014 (Unaudited)	*2013 (Unaudited)*	*2014 (Unaudited)*	*2013 (Unaudited)*
Revenue:				
SG Block sales	$ 3,585,248	$ 911,760	$ 5,089,272	$ 1,867,584
Engineering services	61,593	-	143,158	20,095
Project management	217	820,441	89,461	2,422,310
	3,647,058	1,732,201	5,321,891	4,309,989
Cost of revenue:				
SG Block sales	2,756,424	788,628	3,897,188	1,534,496
Engineering services	55,188	-	99,472	15,275
Project management	10,708	726,533	76,179	2,533,672
	2,822,320	1,515,161	4,072,839	4,083,443
Gross profit	824,738	217,040	1,249,052	226,546
Operating expenses:				
Payroll and related expenses	357,643	332,878	867,540	1,009,971
General and administrative expenses	214,013	151,460	552,245	528,721
Marketing and business development expense	54,939	33,982	118,538	89,412
Pre-project expenses	-	2,476	22,815	36,770
Total	626,595	520,796	1,561,138	1,664,874
Operating income (loss)	198,143	(303,756)	(312,086)	(1,438,328)
Other income (expense):				
Interest expense	(244,855)	(184,277)	(821,090)	(505,378)
Interest income	8	35	24	115
Change in fair value of warrant liabilities and conversion option liabilities	967,156	22,616	508,974	290,973
Loss on extinguishment of debt	-	-	(1,104,179)	-
Total	722,309	(161,626)	(1,416,271)	(214,290)
Net income (loss)	$ 920,452	$ (465,382)	$ (1,728,357)	$ (1,652,618)
Comprehensive income (loss)				
Foreign currency translation adjustment	-	(639)	-	(4,369)
Total comprehensive income (loss)	$ 920,452	$ (466,021)	$ (1,728,537)	$ (1,656,987)
Net income (loss) per share - basic and diluted:				
Basic	$ 0.02	$ (0.01)	$ (0.04)	$ (0.04)
Diluted	$ 0.01	$ (0.01)	$ (0.04)	$ (0.04)
Weighted average shares outstanding:				
Basic	42,773,093	42,198,093	42,767,049	42,198,093
Diluted	59,784,323	42,198,093	42,767,049	42,198,093

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, 2014 (Unaudited)	**$0.01 Par Value Common Stock**		**Additional Paid-in**	**Accumulated**	**Accumulated Other Comprehensive**	
	Shares	**Amount**	**Capital**	**Deficiency**	**Loss**	**Total**
Balance - December 31, 2013	43,223,093	$ 432,231	$ 6,679,298	$ (9,200,078)	$ -	$ (2,088,549)
Stock-based compensation	-	-	203,695	-	-	203,695
Return of unvested consultant stock	(500,000)	(5,000)	(40,000)	-	-	(45,000)
Issuance of common stock from exercise of stock options	50,000	500	9,500	-	-	10,000
Net loss	-	-	-	(1,728,357)	-	(1,728,357)
Balance - September 30, 2014	42,773,093	$ 427,731	$ 6,852,493	$ (10,928,435)	$ -	$ (3,648,211)

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,	*2014*	*2013*
	(Unaudited)	*(Unaudited)*
Cash flows from operating activities:		
Net loss	$ (1,728,357)	$ (1,652,618)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	3,031	2,131
Amortization of debt issuance costs	54,370	67,245
Accretion of discount on convertible debentures	560,081	319,225
Interest income on short-term investment	(24)	(115)
Change in fair value of conversion option and warrant liabilities	(508,974)	(290,973)
Stock-based compensation	203,695	305,517
Loss on extinguishment of debt	1,104,179	-
Bad debts expense	36,099	-
Return of unvested consultant stock	(45,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	(98,019)	(390,299)
Costs and estimated earnings in excess of billings on uncompleted contracts	-	(287,894)
Inventory	455	(164,914)
Prepaid expenses and other current assets	(8,224)	(8,088)
Security deposit	-	(12,000)
Accounts payable and accrued expenses	(64,410)	602,323
Accrued interest, related party	6,131	6,131
Accrued interest	(9,458)	51,530
Related party accounts payable and accrued expenses	(80,961)	105,514
Billings in excess of costs and estimated earnings -on uncompleted contracts	(19,467)	(42,790)
Deferred revenue	(54,051)	237,742
Net cash used in operating activities	(648,904)	(1,152,333)
Cash flows used in investing activities		
Purchase of equipment	(3,069)	(8,785)
Net cash used in investing activities	(3,069)	(8,785)
Cash flows from financing activities:		
Expenditures on debt issuance costs	(40,763)	(28,000)
Proceeds from exercise of stock options	10,000	-
Proceeds from issuance of convertible debentures and warrants	1,760,858	850,000
Principal payment of convertible debentures	(392,000)	-
Net cash provided by financing activities	1,338,095	822,000
Effect of exchange rate changes on cash	-	(4,369)
Net increase (decrease) in cash	686,122	(343,487)
Cash and cash equivalents - beginning of period	594,248	868,067
Cash and cash equivalents - end of period	$ 1,280,370	$ 524,580
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 209,966	$ -

Supplemental disclosure of non-cash financing activities:

In connection with the issuance of convertible debentures, $40,000 was paid for accrued interest and $24,142 was paid for debt issuance costs.

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

Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2014 and 2013 (Unaudited)

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 was the accounting acquirer. Accordingly, the historical financial statements presented are the financial statements of SG Building.

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, 2014, the Company has incurred an accumulated deficiency since inception of $10,928,435. At September 30, 2014, the Company had a cash balance of $1,280,370.

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

In April 2014, the Company raised $1,825,000 in net funds through the issuance of convertible debentures. The proceeds from these issuances will be used to fund the Company's operations, including the costs that the Company incurs 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. At November 13, 2014, the Company had a cash balance of approximately $1,252,000.

The Company expects that through the next 10 to 16 months, the capital requirements to fund the Company's growth will consume all of the cash flows that it expects to generate from its operations, as well as from the proceeds of the issuances of senior convertible debt 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 expected operating costs. Accordingly, the Company requires further external funding to sustain operations and to follow through on the execution of its business plan. There is 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 additional 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.

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.

Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2014 and 2013 (Unaudited)

3. Summary of Significant Accounting Policies

Interim financial information - The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("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 notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting of normal accruals, considered necessary for a fair presentation of the interim financial statements have been included. Results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The condensed consolidated financial statements and notes should be read in conjunction with the financial statements and notes for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2014.

Basis of consolidation - The condensed 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 condensed 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 six to twelve months. 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. For the three and nine months ended September 30, 2014, the Company recognized $1,820 and $20,815, respectively, in warranty claims. The Company does not anticipate that any additional claims are likely to occur 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 receiving point. The title and risk of loss passes to the customer at the customer's receiving 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)*

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.

Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2014 and 2013 (Unaudited)

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

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

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

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

	September 30, 2014	Quoted prices in active market for identical assets (Level l)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant Liabilities	$ 1,004,220	$ -	$ -	$ 1,004,220
Conversion Option Liabilities	519,946	-	-	519,946
	$ 1,524,166	$ -	$ -	$ 1,524,166

	December 31, 2013	Quoted prices in active market for identical assets (Level l)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Warrant Liabilities	$ 214,738	$ -	$ -	$ 214,738
Conversion Option Liabilities	2,873	-	-	2,873
	$ 217,611	$ -	$ -	$ 217,611

Warrant and conversion option 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, determines 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, 2014	For the nine months ended September 30, 2013
Beginning balance	$ 217,611	$ 406,557
Aggregate fair value of conversion option liabilities and warrants issued	1,815,529	170,027
Change in fair value related to increase in warrants issued for anti-dilutive adjustment	745,920	-
Change in fair value of conversion option liabilities and warrants	(1,254,894)	(290,973)
Ending balance	$ 1,524,166	$ 285,611

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 Notes 6 and 8.

The Company presented warrant and conversion option 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 Notes 6 and 8, the Company computed the fair value of the warrant and conversion option liability at the date of issuance and the reporting dates of September 30, 2014 and December 31, 2013 using the lattice pricing method.

The calculation of the lattice pricing model involves the use of the fair value of the Company's common stock, estimated term, volatility, risk-free interest rates, the size of the time step and dividend yield (if applicable). The Company developed the assumptions that were used as follows: The fair value of the Company's common stock was obtained from publicly 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. The size of the time step is used to determine the up ratio and down ratio probabilities applied in the lattice model and are proportional to the remaining term of the derivative instrument.

Notes to Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2014 and 2013 (Unaudited)

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

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

With respect to receivables, concentrations of credit risk are limited to a few customers in the construction industry. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers other than normal lien rights. At September 30, 2014 and December 31, 2013, 91% and 87%, respectively, of the Company's accounts receivable were due from three and two customers, respectively.

Revenue relating to one and three customers, respectively, represented approximately 89% and 92% of the Company's total revenue for the three months ended September 30, 2014 and 2013, respectively. Revenue relating to two customers represented approximately 86% and 77% of the Company's total revenue for the nine months ended September 30, 2014 and 2013, respectively.

Costs of revenue relating to one vendor, who is a related party and disclosed in Note 11, represented approximately 7% and 22% of the Company's total cost of revenue for the three months ended September 30, 2014 and 2013. Costs of revenue relating to one and two unrelated vendors, respectively, represented approximately 54% and 56%, respectively, of the Company's total cost of revenue for the three months ended September 30, 2014 and 2013. Costs of revenue relating to one vendor, who is a related party and disclosed in Note 11, represented approximately 19% and 30% of the Company's total cost of revenue for the nine months ended September 30, 2014 and 2013. Cost of revenue relating to one unrelated vendor represented approximately 68% and 34%, respectively, of the Company's total cost of revenue for the nine months ended September 30, 2014 and 2013. The Company believes it has access to alternative suppliers, with limited disruption to the business, should circumstances change with its existing suppliers.

4. Accounts Receivable

At September 30, 2014 and December 31, 2013, the Company's accounts receivable consisted of the following:

	2014	2013
Billed:		
SG Block sales	$ 286,974	$ 258,287
Engineering services	2,000	12,344
Project management	151,270	71,594
Total gross receivables	440,244	342,225
Less: allowance for doubtful accounts	(131,805)	(95,706)
Total net receivables	$ 308,439	$ 246,519

5. Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts consist of the following at September 30, 2014 and December 31, 2013:

	2014	2013
Costs incurred on uncompleted contracts	$ 47,083	$ 228,643
Provision for loss on uncompleted contracts	-	9,896
Estimated income (loss)	4,685	(47,932)
	51,768	190,607
Less: billings to date	(56,650)	(214,956)
	$ (4,882)	$ (24,349)

The above amounts are included in the accompanying condensed consolidated balance sheets under the following captions at September 30, 2014 and December 31, 2013.

	2014	2013
Costs and estimated earnings in excess of billings on uncompleted contracts	$ -	$ -
Billings in excess of cost and estimated earnings on uncompleted contracts	(4,882)	(24,349)
	$ (4,882)	(24,349)

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.

As of December 31, 2013, the Company has accrued anticipated losses on uncompleted contracts in the amount of $9,896. This amount is included in accounts payable and accrued expenses on the accompanying condensed consolidated balance sheets.

6. Convertible Debentures

Existing Debentures

On December 27, 2012, the Company entered a Securities Purchase Agreement ("Securities Purchase Agreement") with Hillair Capital Investments L.P. ("Hillair"), whereby the Company issued and sold to Hillair: (i) $1,120,000 in 8% Original Issue Discount Senior Secured Convertible Debentures due July 1, 2014, for $1,000,000 ("2012 Hillair Debenture"), and (ii) a Common Stock purchase warrant to purchase up to 2,604,651 shares of the Company's Common Stock with a fair value of $199,806 at issuance, which has been recorded as a discount to the 2012 Hillair Debenture ("2012 Hillair Warrants"). (As disclosed in Note 8) The Company recorded a discount of $120,000, which is being amortized over the term of the 2012 Hillair Debenture, using the effective interest method. At the date of issuance the fair value of the conversion option liability was determined to be $69,502, which has been recorded as a discount to the 2012 Hillair Debenture. Prior to the exchange of the 2012 Hillair Debenture, as described below, the 2012 Hillair Debenture was convertible at any time after December 28, 2012, until the 2012 Hillair Debenture was no longer outstanding, in whole or in part, into shares of Common Stock at the option of Hillair, subject to certain conversion limitations set forth in the 2012 Hillair Debenture. The initial conversion price for the 2012 Hillair Debenture was $0.43 per share, subject to adjustments upon certain events, as set forth in the 2012 Hillair Debenture. The Company was required to pay interest on the aggregate unconverted and then outstanding principal amount of the 2012 Hillair Debenture at 8% per annum, payable quarterly on January 1, April 1, July 1 and October 1, beginning on July 1, 2013. Interest was payable in cash or at the Company's option in shares of Common Stock, provided certain conditions are met, based on a share value equal to the lesser of (a) $0.43 per share, subject to adjustments upon certain events, and (b) 90% of the average of the volume weighted average price for 20 consecutive trading days prior to the applicable interest payment date, provided that the price shall be equal to at least a $0.01 discount to the volume weighted average price for the trading day that is immediately prior to the applicable interest payment date. Merriman Capital, Inc. ("Merriman") acted as financial advisor to the Company in connection with the transaction and received a fee consisting of $80,000 and warrants to purchase up to 104,186 shares of the Company's Common Stock. (As disclosed in Note 8) In connection with the issuance of the 2012 Hillair Debenture, the Company also paid Hillair $45,000 for due diligence which has been recorded as a discount to the 2012 Hillair Debenture, and will be amortized over the term of the 2012 Hillair Debenture, using the effective interest method. In addition, the Company incurred $15,466 in legal fees which are included in debt issuance costs in the accompanying condensed consolidated balance sheet at September 30, 2014 and December 31, 2013. As of December 31, 2013, the discount related to the 2012 Hillair Debenture amounted to $144,769. As described below, in April 2014 the Company exchanged certain outstanding debentures, including the 2012 Hillair Debenture, for new Senior Convertible Debentures ("2014 Exchange Debentures"). The surrendered debentures, including the 2012 Hillair Debenture, were cancelled at the time of the exchange.

On January 8, 2013 and January 9, 2013, the Company issued and sold to Next View Capital LP ("Next View") and another investor (the "Other Investor") an aggregate of (i) $392,000 in 8% Original Issue Discount Senior Secured Convertible Debentures due July 1, 2014, for $350,000 ("January 2013 Debentures"), and (ii) Common Stock purchase warrants to purchase up to 911,628 shares of the Company's Common Stock with a fair value of $69,933 at issuance ("January 2013 Warrants"), which has been recorded as a discount to the January 2013 Debentures. (As disclosed in Note 8). The Company recorded a discount of $42,000, which will be amortized over the term of the January 2013 Debentures, using the effective interest method. At the date of issuance the fair value of the conversion option liability was determined to be $24,322, which has been recorded as a discount to the January 2013 Debentures. Except for the date of issuance, the January 2013 Debentures and January 2013 Warrants have the same terms and conditions as the 2012 Hillair Debenture and 2012 Hillair Warrants described above. Merriman acted as financial advisor to the Company in connection with this transaction and received a fee consisting of $28,000 and warrants to purchase up to 36,466 shares of the Company's Common Stock. (As disclosed in Note 8) As of September 30, 2014 and December 31, 2013, the discount related to the January 2013 Debentures amounted to $0 and $45,419, respectively.

On each of April 1, 2014 and July 1, 2014, the Company was obligated to redeem a total amount equal to $756,000 in connection with the January 2013 Debentures. In lieu of a cash redemption and subject to the Company meeting certain equity conditions described in the January 2013Debentures, the Company may elect to pay the Periodic Redemption Amount in shares based on a conversion price equal to the lesser of (a) $0.43 per share, subject to adjustments upon certain events, and (b) 90% of the average of the volume weighted average price for the 20 consecutive trading days prior to the applicable redemption date, provided that the conversion price shall be equal to at least a $0.01 discount to the volume weighted average price for the 20 consecutive days that is immediately prior to the applicable redemption date. The Company made a payment of $252,000 in April 2014 and $140,000 in July 2014.

6. Convertible Debentures *(continued)*

In April 2013, the Company issued and sold to Frank Casano ("Casano") and Scott Masterson ("Masterson") an aggregate of (i) $560,000 in 8% Original Issue Discount Senior Secured Convertible Debentures due October 15, 2014, for $500,000 ("April 2013 Debentures"), and (ii) Common Stock purchase warrants to purchase up to 1,302,326 shares of the Company's Common Stock with a fair value of $60,801 at issuance ("April 2013 Warrants"), which has been recorded as a discount to the April 2013 Debentures. (As disclosed in Note 8). The Company recorded a discount of $60,000, which will be amortized over the term of the debenture, using the effective interest method. At the date of issuance the fair value of the conversion option liability was determined to be $14,971, which has been recorded as a discount to the debenture. Except for the date of issuance, the April 2013 Debentures and April 2013 Warrants have the same terms and conditions as the 2012 Hillair Debenture and 2012 Hillair Warrants described above. As of December 31, 2013, the discount related to the April 2013 Debentures amounted to $79,200. As described below, in April 2014 the April 2013 Debentures were exchanged for 2014 Exchange Debentures. The surrendered April 2013 Debentures were cancelled at the time of the exchange.

On July 15, 2014 and on October 15, 2014, the Company was obligated to redeem a total amount equal to $280,000 in connection with the April 2013 Debentures. In lieu of a cash redemption and subject to the Company meeting certain equity conditions described in the April 2013 Debentures, the Company may elect to pay the Periodic Redemption Amount in shares based on a conversion price equal to the lesser of (a) $0.43 per share, subject to adjustments upon certain events, and (b) 90% of the average of the volume weighted average price for the 20 consecutive trading days prior to the applicable redemption date, provided that the conversion price shall be equal to at least a $0.01 discount to the volume weighted average price for the 20 consecutive days that is immediately prior to the applicable redemption date. As described below, in conjunction with an exchange agreement and the exchange of the April 2013 Debentures for 2014 Exchange Debentures, the Company was not required to make a payment on July 15, 2014 and October 15, 2014.

2014 Debentures

On April 10, 2014, the Company entered into a Securities Exchange Agreement (the "Exchange Agreement") with Hillair, Casano and Masterson who held certain of the existing Senior Convertible Debentures described above (the "Existing Debentures"). Under the terms of the Exchange Agreement, Existing Debentures with a stated maturity value of $1,680,000 were surrendered in exchange for (i) new Senior Convertible Debentures with a stated interest rate of eight percent (8%) per year, a stated maturity value of $1,915,200, a conversion price of $0.25 per share, subject to adjustment, with a final maturity date of April 1, 2016 (the "2014 Exchange Debentures"), and (ii) a five (5) year Common Stock purchase warrant to purchase up to 7,660,800 shares of the Company's common stock at an exercise price of $0.275 (110% of the conversion price), subject to adjustment (the "2014 Exchange Warrants"). At April 10, 2014, the carrying value of 2014 Existing Debentures was $1,680,000 and the fair value of the conversion option liability was $2,366. The fair value of the conversion option liability of the 2014 Exchange Debentures was determined to be $380,744 and the fair value of the warrants issued was determined to be $490,601. The Company recognized a loss of $1,104,179 on this exchange transaction. In connection with the Exchange Agreement, the Company incurred $20,763 in legal fees which are included in debt issuance costs in the accompanying condensed consolidated balance sheet at September 30, 2014.

6. Convertible Debentures *(continued)*

On April 10, 2014, the Company entered into a Securities Purchase Agreement (the "2014 SPA") with four investors, including Hillair pursuant to which the Company issued and sold (i) $2,080,500 in 8% Original Issue Discount Senior Secured Convertible Debentures, for $1,825,000, with a conversion price of $0.25 per share, subject to adjustment, with a final maturity date of April 1, 2016 (the "2014 New Debentures" together with the 2014 Exchange Debentures, the "2014 Debentures"), and (ii) a five (5) year Common Stock purchase warrant to purchase up to 8,322,000 shares of the Company's common stock at an exercise price of $0.275 (110% of the conversion price), subject to adjustment with a fair value of $532,944 at issuance, which has been recorded as a discount to the 2014 New Debentures. (As disclosed in Note 8). Holders of the 2014 Debentures are referred to in this Quarterly Annual Report on Form 10-Q as the "2014 Holders". The Company recorded a discount of $255,500, which is being amortized over the term of the 2014 New Debentures, using the effective interest method. The initial conversion price for the 2014 New Debentures is $0.25 per share, subject to adjustments upon certain events, as set forth in the 2014 New Debentures. At the date of issuance the fair value of the conversion option liability was determined to be $413,606, which has been recorded as a discount to the 2014 New Debentures. In connection with the 2014 New Debentures, the Company incurred $20,000 in legal fees which are included in debt issuance costs in the accompanying condensed consolidated balance sheet at September 30, 2014. As of September 30, 2014, the discount related to the 2014 New Debentures amounted to $951,357.

The Exchange Agreement and the 2014 SPA trigger anti-dilution adjustments to the warrants issued on the Existing Debentures based on a $0.25 per share conversion price (adjusted from the original stated conversion price of $0.43 per share), which reduces the exercise price to $0.25 per share and increases the number of shares issuable upon the exercise of the Existing Warrants from 4,818,605 to 8,288,000 shares.

At any time after April 10, 2014, (the "Original Issue Date") until the 2014 Debentures are no longer outstanding, the 2014 Debentures are convertible, in whole or in part, into shares of Common Stock at the option of the 2014 Holders, subject to certain conversion limitations set forth in the 2014 Debentures. The initial conversion price for the 2014 Debentures is $0.25 per share, subject to adjustments upon certain events, as set forth in the 2014 Debentures. The Company will pay interest on the aggregate unconverted and then outstanding principal amount of the 2014 Debentures at the rate of 8% per annum, payable quarterly on January 1, April 1, July 1 and October 1, beginning on October 1, 2014. Interest is payable in cash or at the Company's option in shares of Common Stock, provided certain terms and conditions are met as more fully described in the 2014 Debentures. On each of October 1, 2015 and January 1, 2016, the Company is obligated to redeem an amount equal to $998,925 and on April 1, 2016, an amount equal to $1,997,850, plus accrued but unpaid interest, liquidated damages and any other amounts then owing in respect of the 2014 Debentures (as to each of the forgoing periodic redemptions, each a "Periodic Redemption Amount"). In lieu of a cash redemption and subject to the Company meeting certain equity conditions described in the 2014 Debentures, the Company may elect to pay the Periodic Redemption Amount in shares on the terms set forth in the 2014 Debentures.

Upon any Event of Default (as defined in the Debenture), the outstanding principal amount of the Debenture, plus liquidated damages, interest, a premium of 30% and other amounts owing in respect thereof through the date of acceleration, shall become, at the 2014 Holders' election, immediately due and payable in cash. Commencing five days after the occurrence of any Event of Default, the interest rate on the Debenture shall accrue at an interest rate equal to the lesser of 18% per annum or the maximum rate permitted under applicable law. The 2014 Debentures contain anti-dilution protective provisions as described therein. The Company is subject to compliance with certain covenants under the 2014 Debentures as set forth therein.

The 2014 Warrants may be exercised at any time on or after April 10, 2014 and on or prior to the close of business on April 10, 2019, at an exercise price of $0.275 per share, subject to adjustment upon certain events. The 2014 Warrants contain anti-dilution protective provisions and limitations on exercise as described therein.

6. Convertible Debentures ***(continued)***

To secure the Company's obligations under the 2014 Debentures, SG Building entered into a Subsidiary Guarantee, dated as of April 10, 2014 (the "Guarantee"), pursuant to which it unconditionally and irrevocably guaranteed the prompt and complete payment and performance when due of the obligations arising from the 2014 Debentures. The Company and SG Building have each granted the 2014 Holders a security interest in their assets to secure the payment, performance and discharge in full of all of the Company's obligations under the 2014 Debentures and the guarantor's obligations under the Guarantee, in accordance with that certain Security Agreement, dated as of April 10, 2014.

A summary of the Company's convertible debentures as of September 30, 2014 and December 31, 2013 is as follows:

	2014	2013
2012 Hillair Debentures, net of $144,769 discount	$ -	$ 975,231
January 2013 Debentures, net of $45,419 discount	-	346,581
April 2013 Debentures, net of $0 and $79,200 discount, respectively	-	480,800
2014 Exchange Debentures	1,915,200	-
2014 New Debentures, net of $951,357 discount	1,129,143	-
Total debt	3,044,343	1,802,612
Less current portion	-	1,802,612
Long-term debt	$ 3,044,343	$ -

For the nine months ended September 30, 2014 and 2013, interest expense on the convertible debentures amounted to $200,509 and $112,777, respectively, and is included on the accompanying condensed consolidated statements of operations. For the three months ended September 30, 2014 and 2013, interest expense on the convertible debentures amounted to $79,025 and $42,073, respectively, and is included on the accompanying condensed consolidated statements of operations. For the nine months ended September 30, 2014 and 2013, total amortization relating to the discount amounted to $560,081 and $319,225, respectively, and is included in interest expense on the accompanying condensed consolidated statements of operations. For the three months ended September 30, 2014 and 2013, total amortization relating to the discount amounted to $158,560 and $117,723, respectively, and is included in interest expense on the accompanying condensed consolidated statements of operations.

6. Convertible Debentures *(continued)*

The Company bifurcated the conversion option from its debt host. The fair value of the conversion option liabilities were determined to be $794,350 at the date of issuance, utilizing the lattice method. The fair value of the conversion option liabilities as of September 30, 2014 was $519,946. The significant assumptions which the Company used to measure the fair value at the date of issuance and September 30, 2014 of the conversion option liability are as follows:

	Date of Issuance	September 30, 2014
Stock price	$ 0.25	$ 0.21
Term	1.48 to 1.98 years	1 to 1.5 years
Volatility	50%	50%
Risk-free interest rate	0.09-0.37%	0.13%
Exercise price	$ 0.25	$ 0.25
Delta	0.02-0.03	0.02-0.03
Up Ratio	1.078-1.091	1.065-1.079
Down Ratio	0.910-0.922	0.921-0.935
Up transition probability	0.500	0.500

In connection with the Securities Purchase Agreement and the 2014 SPA, the Company is required to maintain compliance with a variety of contractual provisions which include certain affirmative and negative covenants. The requirements principally consist of a requirement to maintain timely filings with the SEC, reserve sufficient authorized shares to issue upon the exercise of the underlying conversion option, and permit the debenture holders to participate in future financing transactions. The Company is also restricted, among other things, from incurring new indebtedness, permitting additional liens, making material changes to its charter documents, repay or repurchase more than a de minimis number of shares of its common stock or common stock equivalents, repay or repurchase any indebtedness, pay cash dividends, enter into transactions with affiliates or use the proceeds of the convertible debentures to provide funding to its Brazilian subsidiary. The underlying securities purchase and debenture agreements also provide for the Company to pay liquidated damages in the event of its failure to (i) deliver shares upon the conversion of the debentures, in which case the liquidated damages would amount to a cash payment of $10 per trading day (increasing to $15 per trading day on the fifth trading day) for each $1,000 of principal amount being converted until such certificates are delivered (ii) maintain timely required filings with the SEC, in which case the liquidated damages would amount to a cash payment of two percent (2.0%) of the aggregate subscription amount of such purchasers securities on the day of the failure to maintain timely filings with the SEC and on every thirtieth (30th) day thereafter until the required documents are filed with the SEC or is no longer required for the purchaser to transfer the underlying shares pursuant to Rule 144 and (iii) to compensate the debenture holder for a Buy-In (as defined in the debentures) of securities previously sold by the debenture holder on a failure to timely deliver certificates upon conversion by the debenture holder. If the holder is subject to a Buy-In, then the Company will (A) pay in cash to the debenture holder (in addition to any other remedies available to or elected by the debenture holder) the amount, if any, by which (x) the debenture holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that the debenture holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of the debenture holder, either reissue (if surrendered) this debenture in a principal amount equal to the principal amount of the attempted conversion (in which case such conversion shall be deemed rescinded) or deliver to the debenture holder the number of shares of Common Stock that would have been issued if the Company had timely complied with its delivery requirements.

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. Diluted income per share includes the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the “treasury stock” and/or “if converted” method as applicable. At September 30, 2014, there were options and warrants to purchase 14,030,001 and 25,572,059 shares of common stock, respectively, outstanding which could potentially dilute future net income (loss) per share. At September 30, 2014 the Company also has outstanding convertible debt which is initially convertible into 15,982,800 shares of common stock that could potentially dilute future net income (loss) per share. The number of shares the convertible debt could be converted into could potentially increase under certain circumstances related to the market price of the Company’s common stock at the time of conversion. At September 30, 2013, there were options and warrants to purchase 10,320,001 and 6,119,864 shares of common stock, respectively, outstanding which could potentially dilute future net income (loss) per share. At September 30, 2013 the Company also had outstanding convertible debt which was initially convertible into 4,818,605 shares of common stock, which could potentially dilute future net income (loss) per share.

The numerator in dilutive income per share calculation for the three months ended September 30, 2014 gives effect to (i) add back of $242,789 of contractual interest expense under the Company’s convertible notes and the accretion of discount under the convertible notes (recorded as interest expense) and (ii) the elimination of the $312,036 net gain related to the change in the fair value of the derivative liability associated with the conversion option embedded in our convertible notes. The number of shares included in the presentation of diluted income per share for the three months ended September 30, 2014 includes (i) 1,028,430 prorated for the weighted average number of stock options with exercise prices that are less than the average share price of $0.19 per share for the three months ended September 30, 2014 and (ii) 15,982,000 for the number of common shares underlying the conversion option embedded in the Company’s convertible notes. There were no common stock purchase warrants with exercise prices less than the average share price of $0.19 for the three months ended September 30, 2014. As such, common stock purchase warrants were excluded from the computation of diluted income per share.

The adjustment for stock options was calculated using the treasury stock method and the adjustment for the conversion option embedded in the Company’s notes was calculated using the “if converted” method.

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

	For the Three Months Ended September 30, 2014	For the Three Months Ended September 30, 2013	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013
Net income (loss)	$ 920,452	$ (466,021)	$ (1,728,357)	$ (1,656,987)
Weighted average shares outstanding - basic	42,773,093	42,198,093	42,767,049	42,198,093
Dilutive effect of stock options and warrants	17,011,230	-	-	-
Weighted average shares outstanding - diluted	59,784,323	42,198,093	42,767,049	42,198,093
Net income (loss) per share - basic	$ 0.02	$ (0.01)	$ (0.04)	$ (0.04)
Net income (loss) per share - diluted	$ 0.01	$ (0.01)	$ (0.04)	$ (0.04)

8. 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 lattice 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, 2014 and December 31, 2013 was $26,898 and $41,078, respectively.

8. Warrants *(continued)*

In conjunction with a private placement in 2012 (the "2012 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 2012 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 lattice 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 2012 Private Placement warrants as of September 30, 2014 and December 31, 2013 was $2,544 and $4,050, respectively.

In connection with the issuance of the 2012 Hillair Debenture disclosed in Note 6, the Company issued 2012 Hillair Warrants to Hillair. The 2012 Hillair Warrants originally entitled Hillair to purchase up to 2,604,651 shares of Common Stock for $0.4488 per share, subject to adjustments upon certain events. The 2012 Hillair Warrants may be exercised at any time on or after June 27, 2013 and expire on June 27, 2018. As a result of the transactions consummated pursuant to the Exchange Agreement and the 2014 SPA as disclosed in Note 6, the number of shares of Common Stock Hillair is entitled to purchase under the 2012 Hillair Warrants has increased to 4,480,000 and can be purchased for $0.25 per share. The fair value of the 2012 Hillair Warrants was calculated utilizing the lattice method. The 2012 Hillair Warrants 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 2012 Hillair Warrants as of the date of issuance has been classified as liabilities and has been included as a debt discount of the 2012 Hillair Debenture described in Note 6. The fair value of the 2012 Hillair Warrants as of September 30, 2014 and December 31, 2013 was $187,017 and $89,940, respectively.

In connection, with the issuance of the 2012 Hillair Debenture, the Company issued warrants to Merriman. The warrants entitle Merriman to purchase up to 52,093 shares of Common Stock for $0.4488 per share and 52,093 shares of Common Stock at $0.43 per share. The fair value of the warrants as of the date of issuance has been classified as equity and is recorded in deferred loan costs on the accompanying condensed consolidated balance sheets. The fair value of the Merriman warrants as of the date of issuance was $8,166.

As part of the issuance of the January 2013 Debentures to Next View and the Other Investor as disclosed in Note 6, the Company issued the January 2013 Warrants to Next View and the Other Investor. The January 2013 Warrants originally entitled Next View and the Other Investor to purchase up to 651,163 and 260,465, respectively, shares of Common Stock for $0.4488 per share, subject to adjustments upon certain events. The January 2013 Warrants issued to Next View and the Other Investor contain substantially all of the same terms as the 2012 Hillair Warrants. As a result of the transactions consummated pursuant to the Exchange Agreement and the 2014 SPA as disclosed in Note 6, the number of shares of Common Stock Next View and the Other Investor are entitled to purchase has increased to 1,120,000 and 448,000, respectively, and can be purchased for $0.25 per share. The fair value of the January 2013 Warrants as of the date of issuance has been classified as liabilities and has been included as a debt discount of the January 2013 Debentures described in Note 6. The fair value of the January 2013 Warrants issued to Next View and the Other Investor as of September 30, 2014 and December 31, 2013 was $65,456 and $31,479, respectively.

In connection, with the issuance of the January 2013 Debentures to Next View and the Other Investor, the Company issued warrants to Merriman. The warrants entitle Merriman to purchase up to 18,233 shares of Common Stock for $0.4488 per share and 18,233 shares of Common Stock at $0.43 per share. The fair value of the warrants as of the date of issuance has been classified as equity and is recorded in deferred loan costs on the accompanying condensed consolidated balance sheets. The fair value of the Merriman warrants as of the date of issuance was $2,858.

As part of the issuance of the April 2013 Debentures to Casano and Masterson as disclosed in Note 6, the Company issued the April 2013 Warrants to Casano and Masterson. The April 2013 Warrants originally entitled Casano and Masterson to purchase up to 1,041,861 and 260,465, respectively, shares of Common Stock for $0.4488 per share, subject to adjustments upon certain events. The April 2013 Warrants issued to Casano and Masterson contain substantially all of the same terms as the 2012 Hillair Warrants. As a result of the transactions consummated pursuant to the Exchange Agreement and the 2014 SPA as disclosed in Note 6, the number of shares of Common Stock Casano and Masterson are entitled to purchase has increased to 1,792,000 and 448,000, respectively and can be purchased for $0.25 per share. The fair value of the April 2013 Warrants as of the date of issuance has been classified as liabilities and has been included as a debt discount of the April 2013 Debentures described in Note 6. The fair value of the April 2013 Warrants issued to Casano and Masterson as of September 30, 2014 and December 31, 2013 was $90,500 and $48,191, respectively.

8. Warrants *(continued)*

Pursuant to the Exchange Agreement disclosed in Note 6, the Company issued 2014 Exchange Warrants to Hillair, Casano and Masterson. The 2014 Exchange Warrants entitle Hillair, Casano and Masterson to purchase up to 5,107,200, 2,042,880, and 510,720, respectively, shares of Common Stock at $0.275 per share, subject to adjustments upon certain events. The 2014 Exchange Warrants may be exercised at any time after April 10, 2014 and expire on April 10, 2019. The fair value of the 2014 Exchange Warrants issued to Hillair, Casano and Masterson was calculated utilizing the lattice method. The 2014 Exchange Warrants 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 value of the 2014 Exchange Warrants as of the date of issuance has been classified as liabilities and has been included in the loss on extinguishment of debt on the accompanying condensed consolidated statements of operations. The fair value of these warrants as of September 30, 2014 and the date of issuance was $302,834 and $490,601, respectively.

As part of the issuance of the 2014 New Debentures as disclosed in Note 6, the Company issued warrants to purchase up to 8,322,000 shares of Common Stock at $0.275 per share (the "2014 New Warrants"), subject to adjustments upon certain events. The 2014 New Warrants contain substantially all of the same terms as the 2014 Exchange Warrants. The fair value of the 2014 New Warrants as of the date of issuance has been classified as liabilities and has been included as a debt discount of the 2014 New Debentures described in Note 6. The fair value of the 2014 New Warrants as of September 30, 2014 and the date of issuance was $328,971 and $532,944, respectively.

A summary of warrant activity as of September 30, 2014 and changes during the nine months ended are presented below:

	Number of Warrants	Weighted Average Exercise Price Per Share	Weighted Average Remaining Terms (in years)	Aggregate Intrinsic Value
Outstanding - December 31, 2013	6,119,864	$ 0.26	3.38	-
Issued	15,982,800	0.275		
Anti-Dilutive Adjustment	3,469,395	0.25		
Exercised	-	-		
Forfeited	-	-		
Outstanding - September 30, 2014	25,572,059	$ 0.27	4.14	$ -
Exercisable -September 30, 2014	25,572,059	$ 0.27	4.14	$ -

The change in fair value of all of the Company's outstanding warrants of $655,120 and $10,069 is included in the accompanying condensed consolidated statements of operations for the three months ended September 30, 2014 and 2013, respectively. The change in fair value of all of the Company's outstanding warrants of $234,063 and $196,330 is included in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2014 and 2013, respectively.

The significant assumptions which the Company used to measure the fair value of warrants at September 30, 2014 and December 31, 2013 is as follows:

	2014	2013
Stock price	$ 0.21	$ 0.21
Term	1.08 - 4.53 Years	1.83 - 4.79 Years
Volatility	50%	50%
Risk-free interest rate	0.13 - 1.78%	0.38 - 1.75%
Exercise prices	$ 0.25-0.35	$ $ 0.25-0.4488
Dividend yield	0.00%	0.00%
Delta	0.03 - 0.08	0.03 - 0.08
Up ratio	1.067 - 1.138	1.087 - 1.137
Down ratio	0.861 - 0.933	0.861 - 0.913
Up transition probability	0.500	0.500

9. 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 of directors. As of September 30, 2014, there were 3,928 shares of common stock available for issuance under the 2011 Plan.

2012 Board Equity Authorization - During 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 (the "2012 Board Equity Authorization"). 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 2012 Board Equity Authorization has not been approved by the Company's stockholders. 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, 2014, there were 66,071 shares of common stock available for issuance under this approval.

2013 Plan - During November 2013, the Company's board of directors approved the issuance of up to 2,000,000 shares of the Company's Common Stock in the form of restricted stock or options ("2013 Stock Plan"). The options granted under the 2013 Stock Plan have generally the same terms and conditions as those provided under the 2011 Plan. The 2013 Plan has not been approved by the Company's stockholders. The Stock Plan is administrated by the Company's board of directors. As of September 30, 2014, there were 1,600,000 shares of common stock available for issuance under the 2013 Stock Plan.

2014 Plan - On July 15, 2014, at the annual meeting of the Company's shareholders, the shareholders holding a majority of the Company's outstanding common stock voted to approve the 2014 Incentive Stock Plan ("2014 Stock Plan"). The 2014 Stock Plan contains 12,000,000 shares of the Company's Common Stock, which is available for grant to directors, officers and employees of, and consultants and advisors to, the Company or any subsidiary of the Company; provided that incentive stock options may only be granted to employees of the Company and its subsidiaries. An incentive stock option may be granted under the 2014 Plan only to a person who, at the time of the grant, is an employee of the Company or its subsidiaries. Grants under the 2014 Stock Plan may take the form of options, stock appreciation rights, restricted stock and other equity incentives. The 2014 Plan expires on July 14, 2024, and is administered by a committee consisting of two or more directors appointed by the Company's Board. As of September 30, 2014, there were 8,250,000 shares of common stock available for issuance under the 2014 Stock Plan.

A summary of stock option activity as of September 30, 2014 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, 2013	10,330,001	$ 0.10	$ 0.36	8.16	109,050
Granted	3,750,000	0.12	0.11		
Exercised	50,000	0.09	0.20		
Cancelled	-	-	-		
Outstanding - September 30, 2014	14,030,001	$ 0.08	$ 0.31	8.06	$ 429,375
Exercisable - December 31, 2013	8,416,668	$ 0.10	$ 0.32	8.05	$ 107,517
Exercisable - September 30, 2014	11,169,168	$ 0.10	$ 0.33	7.65	$ 178,708

For the three months and nine months ended September 30, 2014, the Company recognized stock-based compensation expense of $130,114 and $203,695, respectively, which is included in payroll and related expenses in the accompanying condensed consolidated statements of operations.

As of September 30, 2014, there was $294,877 of total unrecognized compensation costs related to non-vested stock options, which will be expensed over a weighted average period of 1.68 years. The intrinsic value is calculated as the difference between the fair value as of the balance sheet date and the exercise price of each of the outstanding stock options. The fair value at September 30, 2014 and December 31, 2013 was $0.21 and $0.22 per share, respectively, as determined by using a weighted value between the income approach method and the weighted average bulletin board price.

On July 30, 2014, Paul Galvin, the Company's Chief Executive Officer, Brian Wasserman, the Company's Chief Financial Officer, and Jennifer Struminger, the Company's Chief Administrative Officer were granted options to purchase 2,000,000, 1,000,000 and 750,000, respectively, shares of the Company's Common Stock with an exercise price of $0.11 per share. These options were granted under the 2014 Stock Plan. 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. The fair value of these options upon issuance amounted to $446,250.

10. Commitments

Operating lease - The Company leases office space in New York City to conduct its business. The Company's previous lease began in October 2011 and was terminated as of September 30, 2013. As of September 30, 2014, the Company owes $25,000 to the former lessor which will be settled with the issuance 83,334 shares of the company's common stock. Non-contingent rent increases were being amortized over the life of the lease on a straight line basis. The Company's current lease began on October 1, 2013 and expires December 31, 2014. The rental expense charged to operations for the three months ended September 30, 2014 and 2013 amounted to $14,400 and $3,898, respectively. The rental expense charged to operations for the nine months ended September 30, 2014 and 2013 amounted to $43,200 and $57,672, respectively.

11. Related Party Transactions

On March 26, 2009, the Company entered into a $50,000 revolving credit promissory note (the "Revolver") with Vector Group Ltd. ("Vector"), the former controlling stockholder of the Company. 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. The loan bears interest at 11% per annum and was due on December 31, 2013. During January 2014, the Revolver was extended from December 31, 2013 to June 30, 2015. As of September 30, 2014 and December 31, 2013, the balance due to Vector amounted to $73,500. As of September 30, 2014 and December 31, 2013, accrued interest related to the Revolver amounted to $34,767 and $28,636, 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 $2,066 and $2,066 for the three months ended September 30, 2014 and 2013, respectively. Interest expense for other related party notes payable amounted to $6,131 and $6,131 for the nine months ended September 30, 2014 and 2013, respectively.

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 $195,612 and $338,656, for services ConGlobal Industries, Inc. rendered during the three months ended September 30, 2014 and 2013, respectively. The Company recognized Cost of Goods Sold of $785,002 and $1,215,710, for services ConGlobal Industries, Inc. rendered during the nine months ended September 30, 2014 and 2013, respectively As of September 30, 2014 and December 31, 2013, $104,208 and $176,929, respectively, of such expenses are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

11. Related Party Transactions *(continued)*

The Lawrence Group is a minority stockholder of the Company and is a building design, development and project delivery firm. The Company recognized Cost of Goods Sold of $4,760 and $52,966 for services The Lawrence Group rendered during the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, $32,389 and $27,629, respectively, of expenses were included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

An affiliated accounting firm of the Company's Chief Financial Officer provided accounting and consulting services to the Company. The Company recognized General and Administrative expenses in the amount of $22,300 and $22,000 for the three months ended September 30, 2014 and 2013, respectively. The Company recognized General and Administrative expenses in the amount of $64,300 and $70,050 for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, $17,300 and $36,050, respectively, of expenses were included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

The Company has accrued certain reimbursable expenses of owners of the Company. Such expenses amounted to $2,779 as of December 31, 2013, and are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

12. Subsequent Events

In November 2014 a director of the Company exercised options to purchase 62,500 shares of the Company's Common Stock at $0.20 per share.

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, 2013, 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.

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 2011, the Company formed SG Blocks Sistema De Constucao Brasileiro LTDA. ("SG Brazil"), a wholly owned subsidiary of the Company. As of September 30, 2014, SG Brazil is inactive.

Results of Operations

Nine Months Ended September 30, 2014 and 2013:

	2014	2013
Loss from operations	(312,086)	(1,438,328)
Other income (expense)	(1,416,271)	(214,290)
Net Loss	(1,728,357)	(1,652,618)

Revenue

Revenue for the nine months ended September 30, 2014 was $5,321,891 compared to $4,309,989 for the nine months ended September 30, 2013. This increase of $1,011,902 resulted mainly from an increase of revenue from block “green steel” jobs partly offset by a decrease in revenue from project management jobs. Revenue recognized from block “green steel” jobs increased by $3,221,668 and revenue recognized from project management jobs decreased by $2,343,599 for the nine months ended September, 2014 compared to the nine months ended September 30, 2013. Revenue from block “green steel” jobs increased primarily due to two jobs from one customer in the amount of $3,935,495 being recognized during the nine months ended September 30, 2014. Revenue from project management jobs decreased primarily due to revenue being recognized on ten jobs during the nine months ended September 30, 2013 compared to revenue from two project management job being recognized during the nine months ended September 30, 2014.

Cost of Revenue and Gross Profit

Cost of revenue decreased by $10,604 to $4,072,839 for the nine months ended September 30, 2014 from $4,083,443 for the nine months ended September 30, 2013. The decrease in cost of revenue resulted primarily from an increase of costs from block “green steel” costs and a decrease in costs from project management jobs. Costs recognized from block “green steel” jobs increased $2,361,745 and costs recognized from project management jobs decreased $2,457,493 for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. Gross profit increased by $1,022,506 to $1,249,052 for the nine months ended September 30, 2014 compared to $226,546 for the nine months ended September 30, 2013. Gross profit percentage increased to 25% for the nine months ended September 30, 2014 compared to 5% for the nine months ended September 30, 2013. This increase results primarily from losses being recognized on project management jobs during the nine months ended September 30, 2013. During the nine months ended September 30, 2013, the Company recognized gross loss in the amount of $191,749 on six project management jobs.

Payroll and Related Expense

Payroll and related expense for the nine months ended September 30, 2014 was $867,540 compared to $1,009,971 for the nine months ended September 30, 2013. This decrease was mainly caused by a decrease in stock compensation expense. Stock compensation decreased by $101,822 to $203,695 for the nine months ended September 30, 2014 compared to $305,517 for the nine months ended September 30, 2013.

Other Operating Expenses

Other operating expense for the nine months ended September 30, 2014 was $693,598 compared to $654,903 for the nine months ended September 30, 2013. The change results primarily from an increase of $36,099 in bad debt expense, for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Interest Expense

Interest expense for the nine months ended September 30, 2014 was $821,090 compared to $505,378 for the nine months ended September 30, 2013. The change results primarily from an increase of $240,856 in amortization of debt discount, for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013.

Other income (expense)

During the nine months ended September 30, 2014 and 2013, there was other (income) expense recognized due to a change in fair value of financial instruments of $508,974 and $290,973, respectively. Also, during the nine months ended September 30, 2014 a loss of $1,104,179 was recognized on the extinguishment of debt.

Three Months Ended September 30, 2014 and 2013:

	2014	2013
Income (loss) from operations	198,143	(303,756)
Other income (expense)	722,309	(161,626)
Net Income (loss)	920,452	(465,382)

Revenue

Revenue for the three months ended September 30, 2014 was $3,647,058 compared to $1,732,201 for the three months ended September 30, 2013. This increase of $1,914,857 resulted mainly from an increase in an increase of revenue from block “green steel” jobs partly offset by a decrease in revenue from project management jobs. Revenue recognized from block “green steel” jobs increased by $2,673,488 and revenue from project management jobs decreased by $830,975 for the three months ended September 30, 2014 compared to the three months ended September 30 2013. . Revenue from block “green steel” jobs increased primarily due to one job in the amount of $3,259,610 being recognized during the three months ended September 30, 2014. Revenue from project management jobs decreased primarily due to revenue being recognized on eight jobs during the three months ended September 30, 2013 compared to revenue from one project management job being recognized during the three months ended September 30, 2014.

Cost of Revenue and Gross Profit

Cost of revenue increased by $1,307,159 to $2,822,320 for the three months ended September 30, 2014 from $1,515,161 for the three months ended September 30, 2013. The increase in cost of revenue resulted primarily from an increase in costs from block “green steel’ jobs and a decrease in costs from project management jobs. Costs recognized block “green steel’ jobs increased by $1,960,674 and costs from project management jobs decreased $715,826 for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. Gross profit increased by $607,698 to $824,738 for the three months ended September 30, 2014 compared to $217,040 for the three months ended September 30, 2013. Gross profit percentage increased to 23% for the three months ended September 30, 2014 compared to 13% for the three months ended September 30, 2013. This increase results primarily from losses being recognized on project management jobs during the three months ended September 30, 2013. During the three months ended September 30, 2013, the Company recognized gross loss in the amount of $57,904 on three project management jobs.

Payroll and Related Expense

Payroll and related expense for the three months ended September 30, 2014 was $357,643 compared to $332,878 for the three months ended September 30, 2013. This increase was mainly caused by an increase in stock compensation expense. Stock compensation increased by $33,905 to $130,114 for the three months ended September 30, 2014 compared to $96,209 for the three months ended September 30, 2013.

Other Operating Expenses

Other operating expense for the three months ended September 30, 2014 was $268,952 compared to $187,918 for the three months ended September 30, 2013. The change results primarily from an increase of $53,767 in professional fees, for the three months ended September 30, 2014 compared to the three months ended September 30, 2013

Interest Expense

Interest expense for the three months ended September 30, 2014 was $244,855 compared to $184,277 for the three months ended September 30, 2013. This change results from an increase in debt as of September 30, 2014 compared to September 30, 2013.

Other income (expense)

During the three months ended September 30, 2014 and 2013, there was other (income) expense recognized due to a change in fair value of financial instruments of $967,156 and $22,616, respectively.

Income Tax Provision

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

Impact of Inflation

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

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, 2014 and December 31, 2013, the Company's stockholders' deficiency was approximately $3,648,000 and $2,089,000, respectively. The Company's net loss from operations for the nine months ended September 30, 2014 was $1,728,357. Net cash used in operating activities was $648,904 for the nine months ended September 30, 2014.

Through September 30, 2014, the Company has incurred an accumulated deficiency since inception of $10,928,435. At September 30, 2014, the Company had a cash balance of $1,280,370.

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 will consume all of the cash flows that it expects to generate from its operations, as well as from the proceeds of the issuances of senior convertible debt 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 expected operating costs. Accordingly, the Company requires further 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 year ended December 31, 2013, the Company raised $850,000 in net new funds through the issuance of convertible debentures.

On April 10, 2014, the Company entered into a Securities Agreement (the "Exchange Agreement") with Hillair, Casano and Masterson who held Existing Debentures. Under the terms of the Exchange Agreement, the Existing Debentures with a stated maturity value of $1,680,000 were surrendered in exchange for (i) new Senior Convertible Debentures with a stated interest rate of eight percent (8%) per year, a stated maturity value of $1,915,200, a conversion price of $0.25 per share, subject to adjustment, with a final maturity date of April 1, 2016 (the "2014 Exchange Debentures"), and (ii) five (5) year Common Stock purchase warrants to purchase an aggregate of up to 7,660,800 shares of the Company's common stock at an exercise price of $0.275 per share (110% of the conversion price), subject to adjustment (the "2014 Exchange Warrants"). The Company made a payment of $252,000 in April 2014 and $140,000 in July 2014 with respect to the Existing Debentures with a maturity value of $392,000.

On April 10, 2014, the Company entered into a Securities Purchase Agreement (the "2014 SPA") with four investors, including Hillair, pursuant to which the Company issued and sold (i) $2,080,500 in 8% Original Issue Discount Senior Secured Convertible Debentures for $1,825,000, with a conversion price of $0.25 per share, subject to adjustment, with a final maturity date of April 1, 2016 (the "2014 New Debentures") and (ii) five (5) year Common Stock purchase warrant to purchase up to 8,322,000 shares of the Company's common stock at an exercise price of $0.275 per share (110% of the conversion price), subject to adjustment with a fair value of $588,452 at issuance, which has been recorded as a discount to the 2014 Debentures (the "2014 New Warrants"). The 2014 New Debentures, together with the 2014 Exchange Debentures are referred to herein as the 2014 Debentures. The 2014 New Warrants, together with the 2014 Exchange Warrants are referred to herein as the 2014 Warrants.

The Exchange Agreement and the 2014 SPA trigger anti-dilution adjustments to the warrants issued on the Existing Debentures based on a $0.25 per share conversion price (adjusted from the original stated conversion price of $0.43 per share), which reduces the exercise price to $0.25 per share and increases the number of shares issuable upon the exercise of the Existing Warrants from 4,818,605 to 8,288,000 shares.

At any time after April 10, 2014, (the "Original Issue Date") until the 2014 Debentures are no longer outstanding, the 2014 Debentures are convertible, in whole or in part, into shares of Common Stock at the option of the 2014 Holders, subject to certain conversion limitations set forth in the 2014 Debentures. The initial conversion price for the 2014 Debentures is $0.25 per share, subject to adjustments upon certain events, as set forth in the 2014 Debentures. The Company will pay interest on the aggregate unconverted and then outstanding principal amount of the 2014 Debentures at the rate of 8% per annum, payable quarterly on January 1, April 1, July 1 and October 1, beginning on October 1, 2014. Interest is payable in cash or at the Company's option in shares of Common Stock, provided certain terms and conditions are met as more fully described in the 2014 Debentures. On each of October 1, 2015 and January 1, 2016, the Company is obligated to redeem an amount equal to $ 998,925 and on April 1, 2016, an amount equal to $1,997,850, plus accrued but unpaid interest, liquidated damages and any other amounts then owing in respect of the 2014 Debentures (as to each of the forgoing periodic redemptions, each a "Periodic Redemption Amount"). In lieu of a cash redemption and subject to the Company meeting certain equity conditions described in the 2014 Debentures, the Company may elect to pay the Periodic Redemption Amount in shares on the terms set forth in the 2014 Debentures.

Upon any Event of Default (as defined in the Debenture), the outstanding principal amount of the Debenture, plus liquidated damages, interest, a premium of 30% and other amounts owing in respect thereof through the date of acceleration, shall become, at the 2014 Holders' election, immediately due and payable in cash. Commencing five days after the occurrence of any Event of Default, the interest rate on the Debenture shall accrue at an interest rate equal to the lesser of 18% per annum or the maximum rate permitted under applicable law. The 2014 Debentures contain anti-dilution protective provisions as described therein. The Company is subject to compliance with certain covenants under the 2014 Debentures as set forth therein.

The 2014 Warrants may be exercised at any time on or after April 10, 2014 and on or prior to the close of business on April 10, 2019, at an exercise price of $0.275 per share, subject to adjustment upon certain events. The 2014 Warrants contain anti-dilution protective provisions and limitations on exercise as described therein.

To secure the Company's obligations under the 2014 Debentures, the Company's wholly-owned subsidiary, SG Building, entered into a Subsidiary Guarantee, dated as of April 10, 2014 (the "Guarantee"), pursuant to which it unconditionally and irrevocably guaranteed the prompt and complete payment and performance when due of the obligations arising from the 2014 Debentures. The Company and SG Building have each granted the 2014 Holders a security interest in their assets to secure the payment, performance and discharge in full of all of the Company's obligations under the 2014 Debentures and the guarantor's obligations under the Guarantee, in accordance with that certain Security Agreement, dated as of April 10, 2014.

With respect to the debentures, sold in 2012 and 2013 (including the Existing Debentures), at any time after such issuance until the debentures are no longer outstanding, the debentures are convertible, in whole or in part, into shares of Common Stock of the Company at the option of the holder, subject to certain conversion limitations set forth in such debentures. The initial conversion price for such debentures was $0.43 per share, subject to adjustments upon certain events, as set forth in the debentures. The Company will pay interest on the outstanding principal amount of the debenture that has not been converted, at the rate of 8% per annum, payable quarterly on July 1, October 1, January 1 and April 1, beginning on July 1, 2013. Interest is payable in cash or at the Company's option in shares of Common Stock, provided certain conditions are met, as described in the debenture. On each of April 1, 2014 and July 1, 2014, the Company was obligated to redeem $196,000 and $196,000 respectively, (plus accrued but unpaid interest, liquidated damages and any other amounts then owing in respect of the debenture) (the "2012 Periodic Redemption Amount"). In lieu of a cash redemption and subject to the Company meeting certain equity conditions described in the debenture, the Company may elect to pay the 2012 Periodic Redemption Amount in Common Stock on the terms set forth in the debentures. Upon any Event of Default (as defined in the debenture), the outstanding principal amount of the debenture, plus liquidated damages, interest, a premium of 30% and other amounts owing in respect thereof, shall become, at the holder's election, immediately due and payable in cash. Commencing five days after the occurrence of any Event of Default, the interest rate on the debenture accrues at an interest rate equal to the lesser of 18% per annum or the maximum rate permitted under applicable law. Existing Debentures were exchanged in 2014 as described above. As a result of the Exchange Agreement and issuance of the Exchange Debentures, the Company made a payment of $252,000 in April 2014, and $140,000 is payable in July 2014 in connection with the January 2013 Debentures that were not exchanged.

The Company intends to raise additional funds in the future through either the issuance of equity or debt. The additional capital would be used to fund the Company's operations. 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. To the extent that the Company raises capital through the issuance of equity securities, it would cause dilution to the Company's stockholders and could also trigger the anti-dilution provisions in the Existing Debentures and Warrants which would also cause dilution to the Company's stockholders. In addition, 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, 2014 and December 31, 2013, 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, 2014.

Critical Accounting Policies and New Accounting Pronouncements

Critical Accounting Policies

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, 2013. 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, 2014

Related Party Transactions

Transactions with Vector

On March 26, 2009, the Company entered into a $50,000 revolving credit promissory note (the "Revolver") with Vector Group Ltd. ("Vector"), the former controlling stockholder of the Company. 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. The loan bears interest at 11% per annum and was due on December 31, 2013. During January 2014, the Revolver was extended from December 31, 2013 to June 30, 2015. As of September 30, 2014 and December 31, 2013, the balance due to Vector amounted to $73,500. As of September 30, 2014 and December 31, 2013, accrued interest related to the Revolver amounted to $34,767 and $28,636, 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 $2,066 and $2,066 for the three months ended September 30, 2014 and 2013, respectively. Interest expense for other related party notes payable amounted to $6,131 and $6,131 for the nine months ended September 30, 2014 and 2013, respectively.

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 $195,612 and $338,656, for services ConGlobal Industries, Inc. rendered during the three months ended September 30, 2014 and 2013, respectively. The Company recognized Cost of Goods Sold of $785,002 and $1,215,710, for services ConGlobal Industries, Inc. rendered during the nine months ended September 30, 2014 and 2013, respectively As of September 30, 2014 and December 31, 2013, $104,208 and $176,929, 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. The Company recognized Cost of Goods Sold of $4,760 and $52,966 for services The Lawrence Group rendered during the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, $32,389 and $27,629, respectively, of expenses were included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

An affiliated accounting firm of the Company's Chief Financial Officer provided accounting and consulting services to the Company. The Company recognized General and Administrative expenses in the amount of $22,300 and $22,000 for the three months ended September 30, 2014 and 2013, respectively. The Company recognized General and Administrative expenses in the amount of $64,300 and $70,050 for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and December 31, 2013, $17,300 and $36,050, respectively, of expenses were included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

The Company has accrued certain reimbursable expenses of owners of the Company. Such expenses amounted to $2,779 as of December 31, 2013, and are included in related party accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

During the first 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 2012 Private Placement). In connection with the 2012 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.

During November 2012, the Company received $10,500 from Richard J. Lampen for 30,000 shares of the Company's common stock. At that time, Mr. Lampen was a director of the Company, as well as President and Chief Executive Officer of Ladenburg.

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

Mr. Lampen, who was a member of the Company's Board of Directors until January 30, 2014, is the president and chief executive officer of Landenburg's parent company and sole owner, Ladenburg, Thalmann Financial Services, Inc. ("LTFS"). Additionally, Vector beneficially owns approximately 8% of LTFS.

Transactions with Frank Casano

On April 24, 2013, the Company issued and sold to Mr. Frank Casano, a Director of the Company: (a) $448,000 in 8% Original Issue Discount Senior Secured Convertible Debentures due July 1, 2014, for a subscription amount of $400,000 (the "Casano 2013 Debenture"), and (b) a common stock purchase warrant (the "Casano 2013 Warrant") to purchase up to 1,041,861 shares of Common Stock for $0.4488 per share, subject to adjustments upon certain events. The initial conversion price for the Casano 2013 Debenture was $0.43 per share, subject to adjustments upon certain events, as set forth in the Casano 2013 Debenture.

On April 10, 2014, the Company entered into an Exchange Agreement (the "Exchange Agreement") with certain of the holders of its existing Senior Convertible Debentures, including Mr. Casano. Under the terms of the Exchange Agreement, the Casano 2013 Debenture was exchanged for (a) a new 8% Original Issue Discount Senior Secured Convertible Debentures due April 1, 2016, in the principal amount of $510,000 (the "Casano 2014 Debenture") and (b) a common stock purchase warrant (the "Casano 2014 Warrant") to purchase up to 2,042,880 shares of Common Stock for $0.275 per share, subject to adjustments upon certain events. The initial conversion price for the Casano 2014 Debenture is $0.25 per share, subject to adjustments upon certain events, as set forth in the Casano 2014 Debenture. Entry into the Exchange Agreement triggered the anti-dilution provisions of the Casano 2013 Warrant, which reset the exercise price under the Casano 2013 Warrant at $0.25 per share and the number of shares issuable upon exercise of the Casano 2013 Warrant was increased to 1,792,000 shares.

If the Casano 2014 Debenture is converted and the Casano 2013 Warrant and Casano 2014 Warrant are exercised, Mr. Casano would hold 5,877,760 shares.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item4. 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 2013 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.

We have taken certain steps in an effort to correct these material weaknesses, including retaining the 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. 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 2014 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.

In addition to the risk factors below and other information set forth in this Quarterly Report, you should carefully consider the risk factors previously disclosed in "Item 1A, To Part II" of our Annual Report on Form 10-K for the year ended December 31, 2013. There were no material changes from these risk factors during the three months ended September 30, 2014.

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, 2014 and December 31, 2013, SG Building, our wholly-owned subsidiary, had cash and cash equivalents of $1,280,370 and $594,248, respectively. However, over the nine months ended September 30, 2014 and the fiscal year ended December 31, 2013, we had a net loss of $1,728,357 and $2,163,302, respectively. While we had net income for the three months ended September 31, 2014, we expect to incur additional losses during the current quarter ended December 31, 2014. 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. In December 2012 and during 2013 we received an aggregate of $1,850,000 from the issuance of convertible debentures. We also received $1,825,000 (before transaction fees and expenses) in April 2014 from the issuance of convertible debentures. 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 operations during the nine months ended September 30, 2014 and the year ended December 31, 2013, it has incurred net losses of $1,728,357 and $2,163,302, respectively, during such periods. 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. 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.

The Company's ability to continue as a going concern is contingent upon securing additional capital.

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.

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

As of November 10, 2014, there are outstanding Warrants to purchase 25,572,059 shares of common stock and options to purchase 14,030,001 shares of common stock. Options to purchase 7,996,072 shares were granted under our 2011 Incentive Stock Plan. Options to purchase 1,933,929 shares were granted under the 2012 Board Equity Authorization, options to purchase 400,000 shares were granted under our 2013 Stock Plan, and options to purchase 3,750,000 shares were granted under our 2014 Incentive Stock Plan. We also have outstanding convertible debt which is initially convertible into approximately 15,982,800 shares of the Company's common stock. However, the terms of the convertible debentures provide that under certain circumstances the number of shares issuable upon the conversion of the debentures can be increased based on the market price of the Company's common stock at the time of conversion. Accordingly, if the price of the common stock is significantly below $0.25 per share the number of shares the convertible debt is convertible into could be significantly higher than 15,982,800 shares. The exercise of such outstanding warrants and options or the conversion into common stock of our convertible debt 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 or convert 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. See Note 9 to the Condensed Consolidated Financial Statements entitled " *Stock Options and Grants* ".

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, Stevan Armstrong, the Company's President and Chief Operating Officer and Director, Brian Wasserman, the Company's Chief Financial Officer and Director, David Cross, the Company's Vice President of Business Development, and Jennifer Strumingher, the Company's Chief Administrative Officer. The employment agreements with Messrs. Galvin, Armstrong and Ms. Strumingher have expired and the Company is currently negotiating new agreements with Mr. Galvin and Ms. Strumingher. On April 15, 2014, the Compensation Committee approved and set annual cash compensation for: Mr. Galvin at $275,000 for fiscal 2014 and $300,000 for fiscal 2015; and for Ms. Strumingher at $138,000 for fiscal 2014 and $150,000 for fiscal 2015. It is anticipated that any new employment agreements with Mr. Galvin and Ms. Strumingher will reflect these cash compensation levels. Although there is a general agreement on the terms of new agreements, there can be no assurance that the Company will be able to enter into new agreements with these officers on favorable terms. 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.

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

During the three months ended September 30, 2014, the Company issued the following options to purchase the Company's common stock to directors, officers and employees of the Company:

Recipient	Date	Exercise Price	Amount
Paul Galvin – Chief Executive Officer and Director	07 /30/2014	$ 0.11	2,000,000
Brian Wasserman – Chief Financial Officer and Director	07 /30/2014	$ 0.11	1,000,000
Jennifer Struminger – Chief Administrative Officer	07 /30/2014	$ 0.11	750,000
TOTAL			3,750,000

Options to purchase 3,750,000 shares of the Company's common stock were awarded to officers of the Company pursuant to the Company's 2014 Incentive Stock Plan. Two of the officers receiving such awards are also directors of the Company. 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 issuance of such options was exempt from the registration requirements under the Securities Act, pursuant to Section 4(a)(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

The following director has exercised options to purchase the Company's common stock:

Director	Exercise Date	Exercise Price	Options Excercised
J. Bryant Kirkland III	November 10, 2014	$0.20	62,500

Item 6. Exhibits

3.1	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of SG Blocks, Inc. Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed July 18, 2014.
10.1	2014 Incentive Stock Plan. Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 18, 2014.
31.1+	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
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.**

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 14, 2014

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 14, 2014

/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 14, 2014

/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 September 30, 2014 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 14, 2014	/s/ Paul M. Galvin
	Name: Paul M. Galvin
	Title: Chief Executive Officer
November 14, 2014	/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.