Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Initiating Research Coverage

SG Blocks, Inc.

(NASDAQ: SGBX)

https://www.sgblocks.com/

Report Date: 02/28/19

12- 24 month Price Target: $6.25

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 02/27/19): $2.84

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Disclosure: Portions of this report are excerpted from SG Blocks's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Company Overview

SG Blocks, Inc. ("SGBX")is headquartered in Brooklyn, NY and is in the business of modifying cargo shipping containers and purpose-built modules for use in construction. They provide two main products, both of which are used to meet the growing demand for safe and green commercial, industrial and residential building construction. SG Blocks™ are code engineered cargo shipping containers that the Company modifies for use in construction. Rather than consuming new steel and lumber, SG Blocks™ capitalize on the structural engineering and design parameters a shipping container must meet and repurposes them for use in building. These products offer the construction industry a safer, greener, faster, longer lasting and more economical alternative to conventional construction methods. The Company also provides purpose-built modules, which are prefabricated steel modular units created specifically for use in modular construction and which maintain the interlocking and intermodal functionality of shipping containers. They sell their products primarily to customers in the multi-family housing, restaurant, military, education industries throughout the United States.

The operating enterprise was founded in 2007 and went public through a reverse merger in mid-2011. Since that transaction, the Company has achieved notable growth over particular periods, but has struggled to achieve consistent results on an ongoing basis. For instance, following a record 2014 (revenues of $6 million), in Q4 2015 the Company entered Chapter 11 reorganization after disappointing 2015 results prevented them from meeting some prior debt financing obligations. Since emerging from the reorganization, in June 2016, the Company appears to have reestablished momentum in the business. In conjunction with an equity transaction in mid-2017 raising just under $7 million at $5.00 per share, the Company posted 2017 annual revenues of $5 million and we are currently modeling between $10 million and $11 million for the recently ended fiscal 2018. Regardless of our estimate, for the first 9 months of 2018, they have posted revenues in excess of all of fiscal 2017 and our specific estimates aside, we are confident that Q4 will be the strongest quarter of fiscal 2018. Further, and perhaps more telling, we believe the Company's current backlog sits around $130 million, which reflects significant growth from the backlog figure at December 31, 2017, which was approximately $77 million. We believe current metrics including revenue and backlog growth suggest that the Company is in the midst of accelerating momentum, which according to their guidance, should allow them to exit 2018 on a cashflow positive run rate.

Since its inception, the Company has continually developed and improved protocols, procedures, relationships and other topical elements important to the efficient execution of the business. As we noted, that process has not been without challenges. As one might imagine, the logistics and other complexities involved in designing, constructing, delivering, assembling and finishing a move-in ready building from a recycled steel shipping container are not insignificant. More importantly, applying that process to a 25,000 square foot school or affordable housing project provides additional layers of complexity. Moreover, scaling the *entire business* to address multiple projects of various sizes and applications, in various parts of the country is that much more difficult. Again, setbacks included, we believe the Company has spent the past few years addressing and honing their ability to execute on these complexities and we think the progress we noted above in terms of revenue and backlog growth may point to their success in that regard and we believe that will translate into accelerating revenue and earnings improvement.

As an adjunct to the challenges noted above, beyond the operational complexities of the business, we also think the Company has faced some macro related obstacles as well. To be sure, the Company's approach stands in contrast to some of the legacy processes deployed in a very large industry. That is, they are providing a competitive alternative approach to parts of the construction industry. Regardless of their potential advantages, new innovations, especially in mature entrenched industries, rarely gain immediate acceptance and adoption. While certainly some of that is related to resistance from industry participants who stand to be displaced by those innovations, some of it is also a function of getting people to consider and ultimately adopt new approaches.

Change rarely comes easily or quickly, and the larger and more mature the industry, that harder that process sometimes becomes. To edify, modifying shipping containers into some sort of livable space is not necessarily a “new” innovation, however, applying those solutions to large projects and providing them at scale *is* innovative. We believe SG Blocks is one of the “first movers” in that regard and they have developed a significant base of tribal knowledge getting to this point. Further, their efforts have also led to their becoming “the first container supplier” to receive ESR certification from the International Code Council (ICC), which we also think speaks to their favorable position in the industry. As we will delineate later in this report, they have attracted a high profile customer base and the business is growing, which leads us to believe they have begun to crack the adoption code. If we are correct about that, we suspect the Company will continue to see progress that should speak to much better valuations for the shares.

<u>Product/Services Overview</u>

From the 10,000 foot view, SG Blocks takes ordinary steel shipping containers…

… modifies them …

….then delivers and assembles them into living/working spaces of all shapes and sizes.

Obviously, all of this starts with shipping containers.

For a handful of reasons, shipping containers provide a favorable frame for a building. Here are few of their more salient attributes as well as some additional specifications that may be topical:

- **Advantages**

Shipping containers are generally manufactured to precise specifications. They are designed to be stacked as well as transported on a variety of standardized medium (boats, trucks, trains etc.), so they need to be relatively exact to address those standards. As such (while there are a handful of dimensions) they are effectively the same size one to the next, which makes them interchangeable and generally "square". (Anyone who has tried to finish a typical wood framed basement can likely attest to the benefits of a square framed structure). Further, because of that standardization, they can also be stacked without compromising the integrity of the structure. Recognize, that standardization also makes them particularly amenable to efficient manufacturing (assembly line for lack of a better term) processes.

Because they are made from heavy gauge steel, they are stronger than wood and/or other typical building structures. That is particularly topical in areas where extreme weather is a concern. For example, according to the Intermodal Steel Building Units Association, *"either single units or multiple units connected, can withstand 100 MPH winds on a foundation, or 175 MPH winds when easily anchored with pylons",* making them optimal structures for areas prone to hurricanes, tornadoes and even earthquakes. They are also less susceptible to fire than typical wood structures. Further, because most shipping containers are transported across oceans, they are constructed and/or treated with materials that resist corrosion from saltwater, humidity and other moisture heavy environments. While strength is a clear advantage of container based structures, we would add a caveat that we think is quite topical to SG Blocks' projects. While shipping containers are strong, modifying them (to build a house for example) may comprise their strength. As a result, modifying them in a way that allows them to maintain their original integrity is paramount to that strength advantage. We believe one of SG Block's attributes is its expertise in modifying containers in a way that allows them to maintain that integrity. We think their ESR certification speaks to that, and we are not sure that statement can be applied to all other container modifiers out there.

As an adjunct to the standardization issue we addressed above, shipping container buildings can be largely constructed off-site in actual manufacturing facilities (again encompassing the assembly line efficiencies we noted). As a result, depending on the ultimate location of the project, they can often be constructed for less than legacy alternatives even after delivery costs are included. The Company believes its typical project is 10% to 15% cheaper than legacy construction. In addition, these same efficiencies can also *substantially* reduce the completion time of projects. The Company estimates that its typical project can be completed 45% faster than legacy projects. As those familiar with the construction industry recognize, time is indeed money on multiple levels.

Currently SG Blocks has an "exclusive Collaboration and Supply Agreement" with ConGlobal Industries, LLC. ConGlobal *is "North America's largest integrated intermodal services provider, with operations at over 120 locations across the U.S., Mexico and Costa Rica*". That agreement is good through 2024 and should provide SG Blocks access to the necessary supply of high quality containers. When we first heard this story, we wondered if access to quality containers was a potential impediment to the business plan. As it turns out, there is an abundance of idle shipping containers around the world, however, access to consistent, scalable, high-quality containers is another issue. We think this arrangement is an important piece of the puzzle. Further, from the broader view, the "recycled" nature of SG Block's reutilization of these assets provides a "green" element to the story that many view as an additional positive attribute.

Within certain constraints, container buildings are intermodal, which means, if you don't like where they are, you can pick them up and move them. In cases where that is actually practical, we view that as an advantage for container based buildings over more permanent legacy counterparts. We are not sure how to assess or quantify that advantage, but we think its relevant. After all, the growth of the food truck industry speaks to the advantages *of mobile* "brick and mortar". As a result, we think that may be particularly topical for some of the smaller retail/commercial applications the Company has provided buildings to. On the other hand, as an extension to the thought, we have all heard the demographic statistics regarding millennials, which include a number of characteristics that may be conducive to container based homes. For example, millennials appear to be more mobile and less interested in being tied down by home ownership (that by the way may be as much a function of the changing job markets as it is their preferences). They are also perhaps more concerned with green/recycled approaches as well as more minimalist (read: smaller homes) alternatives. All of those factors fit the advantages of SG Blocks residential offerings. Again, we are not sure how to quantify those advantages in the context of the growing millennial base and their apparent preferences and we are not even suggesting that they will necessarily play out and benefit SG Blocks. However, given the choice, we would rather be on the right side of that demographic than on the wrong side of it and we think SG Blocks is on the right side of it.

As we alluded to above, in April 2017, SG Blocks became the first company in the container modification industry to receive ICC-ES certification from ICC-ES. For refence, ICC Evaluation Service ("ICC-ES") is *"a nonprofit, limited liability company, ICC-ES is the United States' leading evaluation service for innovative building materials, components and systems. ICC-ES Evaluation Reports (ESRs), Building Product Listings and PMG Listings provide evidence that products and systems meet requirements of codes and technical standards".* We think this certification sets SG Blocks apart from other competitors, but frankly, we don't think competition amongst other container modifiers is the major challenge in the first place. Rather, as we alluded to above, we think *acceptance* of container based facilities vis-à-vis legacy construction approaches is the greater challenge. In that regard, we believe this certification may be a critical piece to that eventual (wide-spread) adoption of SG Blocks' container based alternatives. If nothing else, we suspect (and the Company has verified) the certification allows them to quickly address and overcome concerns in terms local inspections and permitting as well as with developers in general who simply have no reference or history with container-based construction. Here again, it is difficult to quantify the impact of this milestone, but we think it is significant on multiple levels, and we believe it may be paramount to accelerated adoption.

-Specifications

Just as a point of reference, here are a few specifications that may be important to the narrative.

Because they are shipped internationally over a variety of transport mediums, shipping containers are manufactured in a handful of standard configurations and those standards include ISO requirements for strength, durability, etc. Generally speaking, containers are 8 feet wide by 8.5 feet high, and come in lengths of 20 and 40 feet. We use the term "generally" because there are other iterations to these sizes, for example "high-cube" containers are 9.5 feet tall, and there are containers in shorter lengths, but again, generally, most are manufactured in the a fore mentioned configuration(s). In addition to size, they are also manufactured with other varying features. For instance, some have a door on one end, others have doors on each end, while still others have doors along the longer sides. Doing the math, a 20 foot container would provide the equivalent of about 160 square feet of (gross) living space, while a 40 foot container would provide about 320 square feet. As a such, a 1500 foot container home would likely require about 5 containers.

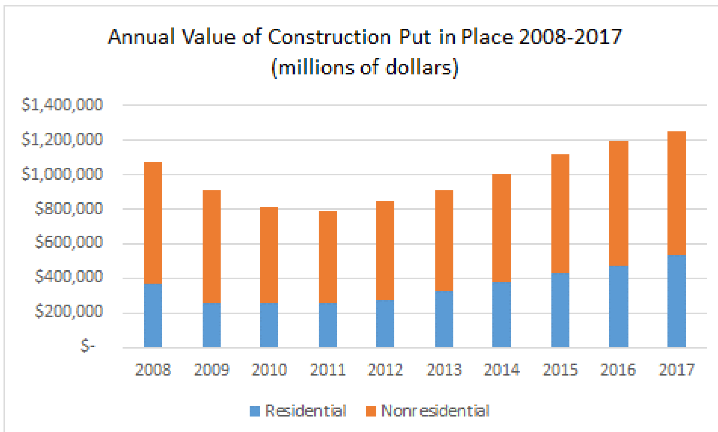
A standard 20 foot container typically weighs around 2 tonnes and a 40 foot container weighs closer to 4 tonnes. They are capable of carrying payloads several times their own weight. While there are varying estimates regarding the ability of containers to withstand wind (hurricanes and/or tornadoes) they are generally regarded as having the ability to withstand winds well in excess of 100 mph and their success in withstanding such environments is probably more related to how they are anchored rather than containers themselves. In any case, they are generally viewed as superior in that regard to legacy construction alternatives.

The above general advantages and specifications noted, recognize that SG Blocks has developed a considerable amount of intellectual property and other expertise around the design, configuration and completion of container based construction. They believe that IP and associated expertise allows them to provide an efficient and turn key solution to the marketplace, that provides favorable, cost, function and aesthetics to their container buildings. Those attributes have allowed them to attract an impressive base of high profile customers. Here are just some of these organizations:

Lastly, the Company recently announced the formation of SG Residential, which will specifically focus on addressing residential opportunities. While the Company has already demonstrated some traction in the residential space (see the Operating Overview below), we believe specific focus on the space will enhance their opportunities therein. The following Industry Overview speaks to that as well.

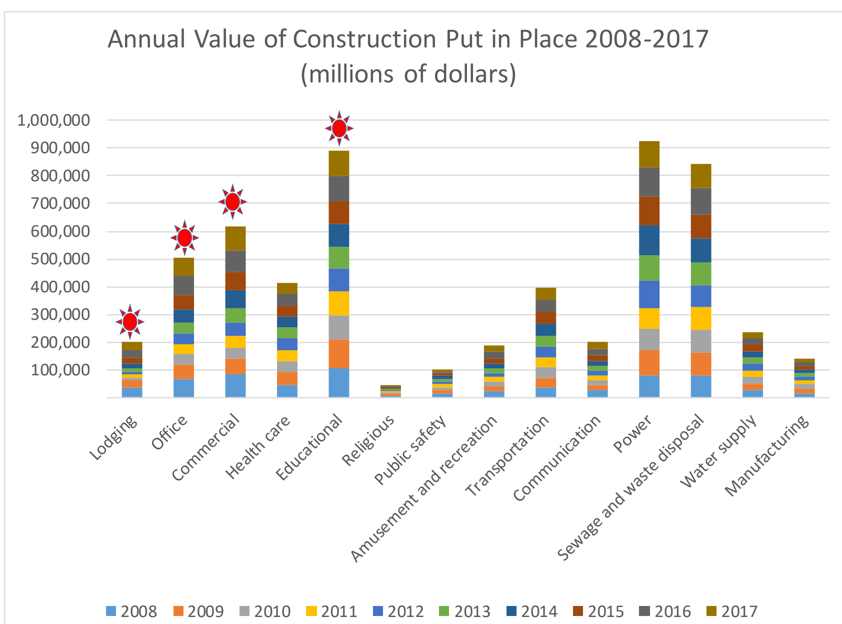
Industry Overview

The U.S. construction industry is a $1.3 trillion annual industry. That includes a number of activities outside of scope of SG Block's offerings, but it is a massive industry nonetheless. Specifically, the residential sector represents a major component of the whole:



(Data from U.S. Census Bureau: www.census.gov)

Further, as we noted, several portions of the U.S. construction industry are not applicable to SG Blocks, on the other hand the Company has also already delivered projects ( ) into some of the largest portions of the non-residential sectors:



(Data from U.S. Census Bureau: www.census.gov)

As an adjunct to the above, while we think the Company has historically focused on larger commercial projects, we suspect the Company's new residential business unit will lead to additional focus/opportunities in residential as well. Our sense in that regard is based in part on the advantages we laid out above, but also on the affordable housing problems that seem to be growing in the U.S. To be sure, evaluating the housing problem is well beyond the scope of this research, but there are some salient points regarding that issue that we think are topical to SG Blocks, so we will try to touch on a few of those.

For the past 30 years, The Joint Center for Housing Studies at Harvard University, has prepared an annual report referred to as "The State of the Nation's Housing". The report is extensive, but the 2018 edition provides some observations that we found topical relative to the SG Blocks opportunity.

One of the opening paragraphs of the report notes the following:

Homeownership rates among young adults today are even lower than in 1988, and the share of cost-burdened renters is significantly higher. Soaring housing costs are largely to blame, with the national median rent rising 20 percent faster than overall inflation in 1990– 2016 and the median home price 41 percent faster. Although better housing quality accounts for some of this increase, ***sharply higher costs for building materials and labor, coupled with limited productivity gains in the homebuilding industry, have made housing construction considerably more expensive****. Land prices have also skyrocketed as population growth in metro areas has intensified demand for well-located sites.* ***In addition, new regulatory barriers have also served to limit the supply of land available for homes and increased the time, complexity, and risks of housing development****.*

Just to recap the paragraph, the additional buildout of affordable housing has been impacted by all of the following:

- *sharply higher costs for building materials and labor*
- *limited productivity gains in the homebuilding industry*
- *new regulatory barriers*
- *increased time, complexity, and risks of housing development*

Again, without getting too deep in the weeds here and without belaboring the point, these highlights could come from a SG Blocks promo. That is, we think SG Blocks is positioned to address each of these constraints.

Here are some additional excerpts from the report that we found topical:

After a decade of soaring rental demand, US households are edging their way back into the homebuyer market. Growth in the number of renter households slowed from 850,000 annually on average in 2005–2015 to just 220,000 in 2015–2017, while the number of owner households rose 710,000 annually on average in the past two years. This reversal lifted the national homeownership rate to 63.9 percent last year, with gains spread across most age, race, and ethnic groups. While too early to tell whether this is the start of a rebound, the homeownership rate appears to have at least stabilized.

Supplies of existing single-family homes for sale remain extremely tight. In fact, both key measures of inventories are at their lowest levels since the National Association of Realtors began its tracking in 1982 (Figure 4). In 2017, the supply of for-sale homes averaged only 3.9 months—well below the 6 months considered a balanced market. Zillow puts supply even lower at just 3 months, with inventories in roughly a third of 93 metros under 2 months. Lower-cost homes are especially scarce. Virtually all of the 88 metros with data available had more homes for sale in the top third of the market by price than in the bottom third. In 46 of these metros, more than half of the available supply was at the high end. The largest imbalances were in moderately sized, moderately priced, and fast-growing metros such as Boise, Charlotte, Des Moines, and Durham, where about 65 percent of existing homes for sale were at the upper end of the market.

Why inventories are so tight is not entirely clear. CoreLogic data show that the number of owners underwater on their mortgages shrank from more than 12.1 million in 2011 to 2.5 million in 2017, so negative equity should no longer be a significant drag on sales. Still, conversion of 3.9 million single-family homes to rentals in 2006–2016 could be constraining the number of entry-level homes on the market. The ongoing decline in residential mobility rates may also play a role, with fewer households putting their homes up for sale each year.

Another factor is the low level of single-family construction. Despite six consecutive years of increases, single-family starts stood at just 849,000 units in 2017, well below the long-run annual average of 1.1 million. Indeed, only 610,000 single-family homes were added to the stock annually in 2008–2017. Limited new construction may hold back existing home sales by reducing the tradeup options for current owners, deterring them from putting their own homes on the market.

The slow growth in single-family construction reflects in part homebuilder caution following the dramatic housing bust. But risk aversion aside, a significant constraint on new residential construction may be the dwindling supply of buildable lots. According to Metrostudy data, the inventory of vacant lots in the 98 metro areas tracked fell 36 percent in 2008–2017. Indeed, 21 of the nation's 25 largest metros reported inventories that would support less than 24 months of residential construction.

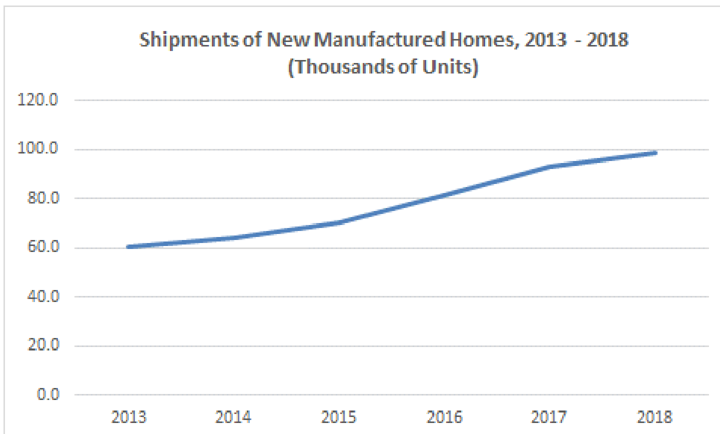
Along with limited land, respondents to builder surveys cite rising input costs as adding to the difficulty of constructing entry-level homes. As a result, the share of smaller homes (under 1,800 square feet) built each year fell from 50 percent in 1988 to 36 percent in 2000 to 22 percent in 2017. Of this latest drop, 9 percentage points occurred in 2010–2013 alone.

For the sake of our arguments here, we will unpack a bit of this commentary. First, the most certain observation from the above excerpt is likely this: *Why inventories are so tight is not entirely clear.* If there is anything that is *clear*, it's that state of the housing market is a function of many moving parts, some more contributory than others, but clearly, many moving parts. Certainly, as the above suggests, some of the problem is the availability of land/lots in and around places people work and live. In our view, land scarcity (to translate: higher lot prices) as well as access to other require facilities such as water and sewer, are major contributors to housing costs, and in our view probably speak to the economics of building larger more expensive homes rather than the smaller less expensive homes that are by extension in shorter supply. As an example, hypothetically, if a developer is looking at a lot cost of $75,000 and corresponding water and wastewater taps fees of an additional $35,000 (a number we are seeing in many metropolitan areas), then the costs to build a home on that lot starts at the sum of those two parts, or $110,000. That cost is fixed whether the developer builds 1,500 square foot homes or 3,000 square foot homes. On the face, that particular math bodes better for a larger home than a smaller home. Further, we also tend to believe that central bank efforts to keep interest rates low for over a decade now, has likely exacerbated that scenario. In short, lower interest rates make larger homes/mortgages more affordable, which also bodes well for the construction of larger homes.

While no one, including SG Blocks, can create more lots in metropolitan areas, there may be a solution in the notion of building more housing units on a single lot. That is, building housing units up, rather than out is a solution that SB Blocks can help solve given their ability to stack blocks several high. Obviously ,that is not a new solution, however, as the Company points out in its collateral, because of their ability to build structures less expensively and much more quickly than standard construction approaches, they can substantially increase the ROI of a project, which addresses the overall economics of any project (stacked or not) and in effect reduces the fixed costs (land and utilities) of any new project. While we may not know all of the specific causes of tighter single family inventories, we are comfortable suggesting that most of them boil down to (square foot) economics and we think SG Blocks is in fact positioned to address that on multiple fronts.

To summarize, we submit, while SG Blocks has spent much of its history focusing on commercial applications and projects, this industry overview has largely focused on the residential market, and there is a reason we have done that. First, don't misunderstand, we fully expect the Company to continue to aggressively pursue commercial opportunities. They have established a track record of developing commercial structures with high profile customers on projects of varying sizes and applications. Our expectations are that they will continue to build on that track record, those relationships and that momentum. However, since establishing SG Residential a few months ago, the Company has made additional announcements regarding entrees into the residential space, which include bringing on a new board member (James Potts, 01/03/19), who has deep industry experience in the development of multi-family communities. In case it isn't clear by now, we think entire SG Blocks communities/developments could in the cards, which would provide a basis for scaled expansion of their residential efforts. To that end we would add one final point.

Over the past few years the manufactured housing industry has performed well (actually slightly better than residential construction):



(Data from U.S. Census Bureau: www.census.gov)

We tend to think that manufactured housing provides a good benchmark for the potential for container construction because some of the attributes are similar. According to the Manufactured Housing Institute, *"there are 8.6 million manufactured homes nationwide, representing nearly 10 percent of the nation's housing stock"*. If the container based homes industry is able to establish a position between legacy residential building (faster, cheaper and stronger) and the Manufactured Housing Industry (higher quality, more aesthetic, more design options), the opportunity for SG Blocks as one of the leaders in the space could be enormous. For instance, if the container industry could grow to just ½ the size of current manufactured home business (50,000 units per year), we estimate that would amount to something between $10 - $15 billion in annual revenues based on SG Block's typical revenue per square foot of construction. In short, in addition to the commercial beachhead they have established to date, we surmise they are positioned to begin exploiting residential opportunities as well and we believe that could provide a very open-ended element to the story.

Operating Overview

As we noted above, the Company generated revenues of $5 million in 2017 and we anticipate full year 2018 results of between $10 million and $11 million, which we believe is in line with their guidance. That guidance also includes their exiting 2018 on a cash positive run rate, which would be highly encouraging in our view. As we also covered, the Company has reported a substantial backlog which we now estimate to be around $130 million. In line with their guidance, we anticipate that they will realize that backlog around the end of calendar

2020. For reference, at the end of this section we have provided a table that delineates some of the more significant portions of that backlog. For the sake of our model, we anticipate 2019 and 2020 revenue being substantially (but not toally) driven by the conversion of the backlog. Obviously, the backlog could take longer to complete than they anticipate, while on the other hand, they *should* also add business to the backlog and some portion of that should also end up being monetized over that time frame as well. As an additional point of reference, the Company's filings suggest that their revenues run at a rate of around $136 per square foot of construction. Doing the math, a $130 million backlog equate to just under 1 million square feet of backlog.

With respect to revenue capacity, recognize the Company currently does not have its own manufacturing facilities. Rather, they utilize contract manufacturing arrangements with applicable enterprises, which as we understand it are generally manufactured home builders. Applying that to the capacity notion, their capacity will obviously depend on the capacity and utilization constraints of their manufacturing relationships. While we like the approach of using multiple manufactures in various locations (which may ultimately speak to more efficient transportation and delivery scenarios), that approach is not without some caveats. For instance, they are beholden to the schedules of their providers and we suspect it may also make it more difficult for them to *manage* margins. However, again, all things considered and at this point in their development, we like the approach.

Regarding margins, we have to admit that we see this as one of the bigger wildcards in our model. The Company has guided to sustainable gross margins in the 20% to 25% range. We are having some trouble getting comfortable with that assessment just yet. We submit, margins in the low 20%'s appear to be in line with those of some of the public home builders and even manufactured home builders we have reviewed, so its not that we don't think they can get there. The trouble is, they have not yet demonstrated an ability to achieve results in that range. While we certainly expect marked margin improvement (especially at higher revenue run rates), we are modeling near/intermediate margins a few hundred basis points below that guidance. We will adjust those assessments if/when they prove us wrong.

Beyond third party manufacturing arrangements, the Company has also established a number of other collaborative arrangements that we think will limit overhead even at scale. We listed some of these in the table below as well, but in short, we think the goal here is to operate the Company on as "virtual" a basis as possible. While certainly some of that could change since they have no demonstrated history in scaling the business, the fact is that at this point in time, they have managed to deliver what we think will be $10 million of 2018 revenues and created a $130 million of backlog with just a handful of employees. While again, we have not seen this play out at scale, it looks to us like the business plan contains a fair amount of operating leverage at accelerated levels of revenue.

Below is the table we refenced above. It is essentially a compilation of some of the Company's more cogent announcements of the past year or so. We included this because we think it illustrates the breadth and the fruits of their efforts over the past year or two. We also think these are germane to the evaluating the opportunity going forward. In each case we have provided the release title, date and a brief summary, as well as some of our own interpretation and color around the information:

Transaction/Event	Date	Description	Project Impact	Notes
SG Blocks Appoints James Potts to Its Board of Director	01/03/19	Mr. Potts has deep experience in the development of multi-family communities.		As we noted, we believe Mr. Potts addition signals greater attention to residential opportunities.
SG Blocks Receives $25 Million Purchase	12/03/18	The purchase order represents the largest retail module contract to date for SG Blocks.	$25 million	We think this project reflects the

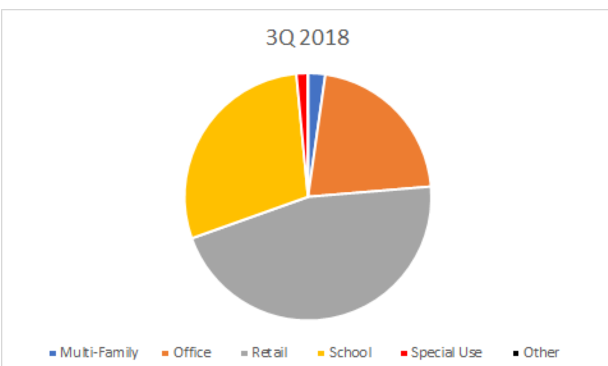
Order from Phoenix Hotel & Hospitality		SG Blocks has already commenced work on the project in the fourth quarter of 2018.		commercial appeal of SG's offerings even for larger projects.
SG Blocks Commissioned to Design and Construct Outdoor Entertainment Venue in Orlando	10/24/18	collaboration with Tavistock, the developer of Lake Nona	14 containers, (approximately 4,500 square feet and about $600,000)	
SG Blocks Forms Strategic Alliance with Harrison, Walker and Harper	10/03/18	strategic alliance with Harrison, Walker and Harper (HWH), an engineering, contracting and industrial services firm. HWH will be SG Blocks' preferred partner to perform all the site work and installation of projects across the U.S. **This includes single-family container-based modular homes that will be built through its subsidiary SG Residential.** HWH will also provide up to $100 million in bonding capacity for projects that give both companies a significant competitive advantage.		We think this announcement also speaks to SG's growing presence in residential
SG Residential Partners with Latino-Focused Community Development Financial Institution to Deliver Affordable Housing and a Revolutionary Mortgage Product	09/24/18	affordable housing aimed at low- to moderate-income areas across the country and Puerto Rico. The companies will focus on the sale and financing of single-family container-based modular homes by focusing on delivering sustainable housing to some of the most vulnerable areas and underserved borrowers. The first project is anticipated to be an approximately 50-unit development in Puerto Rico where the container homes will be finished out and installed by local developers, bringing much-needed affordable and resilient housing and generating new jobs on the island. Additionally, the project could be the test case for a 50-year mortgage product. which will expand opportunities for greater homeownership by delivering a mortgage payment on a level with a typical car payment.	For perspective, a 4 block home would run approximately 1,300 square feet or about $175,000. Thus a 50 home project would suggest SG revenues of around $9 million.	We have used the metrics of this agreement to project annual residential business for SG Blocks (12 homes per quarter.
SG Blocks Further Expands Partnership with U.S. Navy and Receives New Purchase Order for Container-Based Modular Office Project in Georgia	09/17/18	partnership with the U.S. Navy and receives a new purchase order to design and construct container-based modular offices representing an estimated revenue opportunity of $500,000 in 2018. The modules will be prefabricated offsite and delivered to the Georgia location by the end of 2018.	$500,000	This is an extension of prior Navy projects. We find
SG Blocks Partners with SOLDIER ON to Combat Veteran Homelessness	09/13/18	partnered with SOLDIER ON, a nonprofit organization whose mission is to end veteran homelessness and provide veteran supportive services, using donated lands, for veterans in need across the United States. Subsequent to the closing of the partnership Soldier On has identified five sites for potential development in selected markets……According to a 2017		

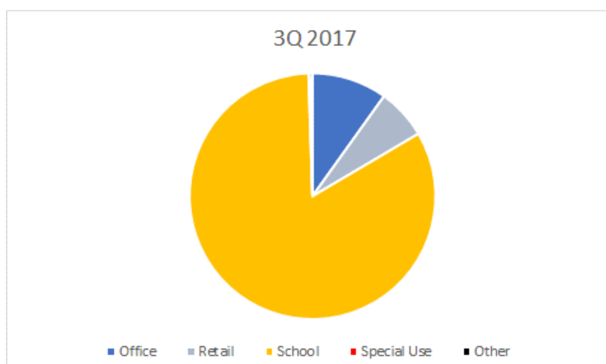
		report by the U.S. Department of Housing and Urban Development, there are over 40,000 homeless veterans		
SG Blocks Partners with Senior Financial Services and Housing Market Executives to Form SG Residential	09/10/18			A milestone announcement in our view.
SG Blocks Selected to Design and Construct New Container-Based Office Facilities for the U.S. Navy	09/06/18	representing an estimated revenue opportunity of $2.2 million in 2018. Navy will utilize the facilities at various locations in Portsmouth, Virginia both ashore and afloat.		
SG Blocks Secures New Container-Based Projects Across the U.S.	07/18/18	A construction and delivery contract for a 3,500 square-foot fully-modularized food and beverage park in Orlando; and An architect and engineering services contract for a 27,000 square-foot affordable housing project on the West Coast. In addition, SG Blocks completed the engineering services and initiated procurement of containers for the fabrication of the 242 car parking garage in the Southwest that was in progress in the first quarter of 2018.		These projects along with several others noted in this table reflect the diverse nature of the Company's commercial reach.
SG Blocks Selected to Design and Construct 6,000-Square-Foot Container-Based Food and Beverage Venue in Greenville, South Carolina	06/14/18	designing, fabricating and delivering 23 modules, utilizing six containers and 17 purpose-built Intermodal Container Framing Systems. The modules will house a vibrant social venue and include burger, pizza, taco and sushi restaurants as well as a taproom, wine bar and coffee bar. Gather GVL will be located at 126 Augusta Street in Greenville, SC.		
Isodiol International Inc. Announces KURE Corp Expansion Plans	06/05/18	Under the agreement, the Newmark Group has identified several national real estate investment trusts (REIT's) who will provide Class A retail locations for the KURE Vape Pod™. The initial roll-out plan is for 10 cities across the United States with additional cities to be announced. It is estimated that the initial 10 locations will be a total cap ex cost of $2 million.	$2 million	
SG Blocks Signs Master Services Agreement with Grimshaw Architects for Exclusive Container-Based Modular Design	06/04/18	SG Blocks will incorporate Grimshaw as its premier design partner for utilization across its current projects and pipeline of future opportunities. In return, this partnership will allow Grimshaw to incorporate SG Blocks' container-based structures into its global and award-winning industrial design portfolio.		
SG Blocks Appoints Yaniv Blumenfeld to its Board of Directors	04/17/18	Mr. Blumenfeld brings to SG Blocks more than 20 years of real estate experience, 13 years of which have been with leading Wall Street firms, where he was responsible for		

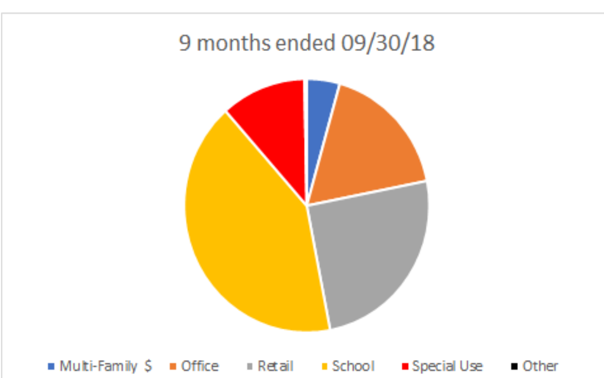
		structuring, underwriting, pricing, securitizing and syndicating over $16 billion of commercial real estate loans and equity transactions.		
SG Blocks Designs and Delivers Container-Based Office Facility for ETC, Global Manufacturer of Lighting and Rigging Technology	03/15/18	SG Blocks supplied 36 of its GreenSteel™ product, the structural core and shell of an SG Blocks building, to create the interior of a new two-story, 11,500 square-foot office.		
SG Blocks to Design and Construct Outdoor Seasonal Cocktail Bar for BlackTail on Pier A Where Battery Park Meets the Hudson River	02/21/18	Pier A Harbor House is a 28,000-square foot, multi-experiential food and beverage destination located at 22 Battery Place.		
SG Blocks Selected to Design and Manufacture Container-Based Cubicles for Irontek	02/13/18	SG Blocks is supplying 25 of its GreenSteel™ product, the structural core and shell of an SG Blocks building, that will create 8,000 square feet of new office space for Irontek.		
SG Blocks Secures Contract to Design and Construct a Four-Building Workforce Housing Development Totaling 183,000 Square Feet in New York State	02/08/18	SG Blocks has been commissioned to design and build a four-building, 183,000-square foot multi-story, multi-family workforce housing development in Sullivan County, New York, representing an estimated revenue opportunity of $29 million. This complex will be built to house low- to middle-income households. SG Blocks will provide the services of a turn-key development manager for this project, including architectural engineering and design, project administration and building systems work	$29 million	
SG Blocks Contracts with Major Professional Sports League to Design and Fabricate the First Ever Container-Based Athletic Facility in West Africa	12/14/17	a major professional sports league to design and fabricate a 19,940 square-foot athletic facility in West Africa. The containers will be fabricated in the USA and shipped to West Africa with expected completion in the second quarter of 2018. The new customer cited the company's newly achieved ESR rating, sustainability, strength and efficiency as key factors for choosing SG Blocks maritime-grade structures for this project.		
SG Blocks Secures Two Low Income Housing Development Projects In New York State Representing Largest Project Awards in Company History	10/03/17	SG Blocks has been commissioned to design and build a 310,000-square foot low-rise workforce housing development in New York State and an 80,000-square foot mid-rise workforce housing development in New York City. Both multi-story, multi-family projects will be fully modular, prefabricated and constructed as an 'as-of-right' development that already complies with all applicable zoning regulations.	$53 million	

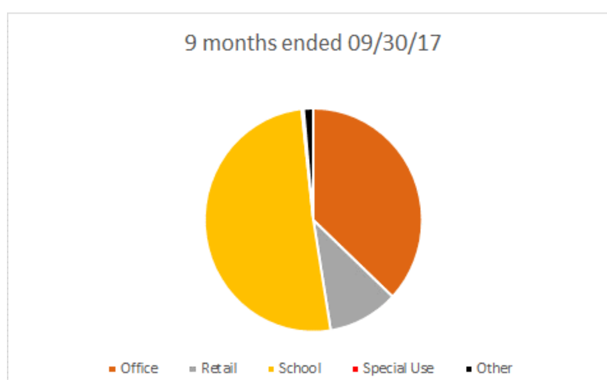
SG Blocks to Construct New 23,715 Square-Foot Community School in Los Angeles	07/06/17	23,715 square-foot three-story community Performing Arts and Enrichment Center in Los Angeles. Under the $5.1 million contract, SG Blocks has been engaged to design, build and deliver the school. The project has been reviewed and approved by the state of California as well as the local government and construction has begun. It is expected to be delivered during the fourth quarter of 2017.	$5.1 million	This has been a bit of a milestone or flagship project for the Company. Its initial impact is reflected in the “3Q 2017” pie chart at the end of this Operating Overview section.
SG Blocks, Inc. Announces Closing of Public Offering	06/07/17	public offering of 1,500,000 shares of its common stock at a public offering price of $5.00 per share. All of the shares of common stock were offered by SG Blocks.		
SG Blocks is the first container supplier to receive an ESR from the ICC	April 2017			This another milestone announcement that we believe has/will open the door projects that they may not have been able to win without this validation.

For the sake of visualization in the context of these announcements, below are some charts which show various product mixes from the 3Q 2018 10Q filing. We think these reflect the diversity (and changing) product mix around various customer types (we think that bodes well for the growing acceptance of their container based construction across various markets). We also think they illustrate the relatively small impact that residential has had to this point. We expect that segment to be a larger contributor as we move forward.









Lastly, we have assumed some seasonality in the business going forward. Our assumption there is based on the idea that our expected ramp in the residential market may be accompanied by some of the typical residential building constraints (weather etc.). Given the “manufactured’ nature of their product, we may be overstating the impact of that seasonality. In that event, all other things remaining equal, our model would reflect the same annual results, with smoother sequential quarterly results. We will address/adjust that as visibility improves.

Management

Paul M. Galvin - Chairman and Chief Executive Officer

Paul M. Galvin was appointed as a director and the Company's Chief Executive Officer upon consummation of the reverse merger among CDSI Holdings Inc., CDSI Merger Sub, Inc., SG Blocks, and certain stockholders of SG Blocks on November 4, 2011 (the "Merger"). Mr. Galvin is a founder of SGBlocks, LLC, the predecessor entity of SGB. He has served as the Chief Executive Officer of SGB and its predecessor entity since April 2009 and as a director of such since January 2007. Mr. Galvin has been a managing member of TAG Partners, LLC ("TAG"), an investment partnership formed for the purpose of investing in SGB, since October 2007. Mr. Galvin brings over 20 years of experience developing and managing real estate, including residential condominiums, luxury sales, and market rate and affordable rental projects. Prior to his involvement in real estate, he founded a non-profit organization that focused on public health, housing, and child survival, where he served for over a decade in a leadership position. During that period, Mr. Galvin designed, developed, and managed emergency food and shelter programs through New York City's Human Resources Administration and other federal and state entities. From November 2005 to June 2007, Mr. Galvin was Chief Operating Officer of a subsidiary of Yucaipa Investments, where he worked with religious institutions that needed to monetize underperforming assets. While there, he designed and managed systems that produced highest and best use analyses for hundreds of religious assets and used them to acquire and re-develop properties across the U.S. Mr. Galvin holds a Bachelor of Science in Accounting from LeMoyne College and a Master's Degree in Social Policy from Fordham University. He was formerly an adjunct professor at Fordham University's Graduate School of Welfare. Mr. Galvin previously served for 10 years on the Sisters of Charity Healthcare System Advisory Board and six years on the board of directors of SentiCare, Inc. In 2011, the Council of Churches of New York recognized Mr. Galvin with an Outstanding Business Leadership Award. Mr. Galvin's pertinent experience, qualifications, attributes, and skills include his managerial experience and the knowledge and experience he has attained in the real estate industry.

Stevan Armstrong - Chief Technology Officer

Stevan Armstrong was appointed as the Company's President and Chief Operating Officer upon consummation of the Merger on November 4, 2011. Mr. Armstrong served as a director of the Company from November 4, 2011 until July 1, 2016. Mr. Armstrong is a founder of SGBlocks, LLC. Mr. Armstrong has served as the President and Chief Operating Officer of SGB and its predecessor entity since April 2009 and as a director of SGB and its predecessor entity since January 2007. From 2003 until fully phasing out in March 2010, he was a minority partner (owner) and Chief Construction Officer for Stratford Companies, a large senior housing development group, where he had complete responsibility for all engineering, design construction, and commissioning of over $250,000,000 of facilities over a three-year period. Prior to that, he was the Executive Vice President for Operations of Hospital Affiliates Development Corp., a proprietary health care company specializing in the development of healthcare and senior care projects both domestically and internationally. Mr. Armstrong managed the design and construction of healthcare and elderly care housing projects in 40 states and 16 foreign countries with overall responsibility for operations. His background includes structural design engineering for *large-scale healthcare projects, project scheduling, and management of development of construction budgets. He spent much of his early career working on-site as a field engineer and construction specialist. Mr. Armstrong served 30 years on active and reserve duty as a Civil Engineering Corps Officer for the U.S. Navy, retiring as Assistant Chief of Staff for Operations for the Atlantic Seabees (Navy Construction Battalions) both Active and Reserve based out of Norfolk, Virginia, with 8,000 engineering and construction troops reporting to headquarters. Mr. Armstrong was responsible for their operations both in the U.S. and worldwide. Mr. Armstrong holds a Bachelor of Architectural Engineering from Pennsylvania State University and a Master's in Engineering from George Washington University. Mr. Armstrong brings extensive design, construction, and engineering expertise to the Company and his pertinent experience, qualifications, attributes, and skills include real estate and development expertise.*

Mahesh Shetty - President and Chief Financial Officer

Mahesh Shetty was appointed as a director of the Company on July 1, 2016 by HCI and as Chief Financial Officer on July 29, 2016. From December 2015 to December 2016, Mr. Shetty served as the Chief Restructuring Officer and Chief Financial Officer for PFO Global, Inc., an innovative manufacturer and commercial provider of advanced prescription lenses. From 2008 to 2015, Mr. Shetty served as the Partner, Chief Operating Officer, and Chief Financial Officer at Encore Enterprises, a private equity real estate firm with over $750 million in assets. He had management oversight and responsibility for all of Encore Enterprise's finance, risk management, human resources, and technology. Prior to joining Encore Enterprises, Mr. Shetty was the Chief Financial Officer of North American Technologies Group, Inc., a Nasdaq-listed manufacturing company focused on the transportation industry. Mr. Shetty began his career at PricewaterhouseCoopers LLP and has served in executive finance and operational leadership roles with Fortune 500 and mid-size private and public companies in the manufacturing, technology, and service industries. He earned a bachelor's degree majoring in banking, economics, and accounting and a French minor from Osmania University, India and received his Master of Business Administration, summa cum laude, from the University of Texas at Dallas. He is a Certified Public Accountant ("CPA"), a Certified Information Technology Professional, a Chartered Global Management Accountant, and a Chartered Accountant. Mr. Shetty serves on the board and is the treasurer of Mothers Against Drunk Driving, serves on the Board of Financial Executives International, Dallas Chapter, the largest chapter in the U.S., and as chairman of the U.S. India Chamber of Commerce DFW. He also serves on the board of ABT Holdings (OTC Pink: ABOT), a U.S.-based holding company headquartered in Pasadena, California, on the board of EZlytix, a private cloud based business intelligence software company, and on the board of BIG Logistics, a private logistics company. Mr. Shetty's pertinent experience, qualifications, attributes, and skills include expertise in finance, strategy, technology, and operations.

Scott Hill - Vice President of Operations

Scott Hill brings 30 years of experience in all aspects of the construction industry, including recent modular construction projects, to SG Blocks. He has overseen all elements of the industry including architectural design, facilities management and construction management. Prior to his current role, Scott was Preconstruction Manager at Bravo Builders, LLC. Previously, he was Director of Pre-Construction Services at The Rinaldi Group. He was also formerly Principal at Barton Hills Construction Management, Senior Project Manager at O&S Associates, Inc. and Principal at Middleton Construction Management. He also held other positions in the industry at Simone Development Company, HRH Construction, Bovis Lend Lease, J.A. Jones-GMO and SL Green Real Estate. He has experience working on projects in the U.S., Kuwait, Saudi Arabia, Puerto Rico, Argentina and Mexico, among others. Scott holds a Bachelor of Science degree from the City College School of Architecture and Environmental Studies and a Bachelor of Architecture degree from the City College of New York. He is a registered architect in New York and Texas.

Risks and Caveats

As we think the above narrative suggests, we are quite optimistic with respect to SG Block's opportunities including delivering on a measurable backlog, as well as capitalizing on what we think is a notable set of key collaborations, favorable industry optics, comparative advantages and some apparent momentum in the business. With that said, we know they have experienced some successes and momentum in the past, which were abruptly upended by challenges along the way so we remain cognizant that risks and challenges remain that could negatively impact our assessments here. Here are some of the more apparent risks we see in the deal.

To date, the Company has been unable to operate the business on a cash neutral or cash positive basis. As most who follow the microcap space are aware, access to capital for small enterprises is often limited and expensive. While the Company has suggested that they intend to exit fiscal 2018 on a cash positive run rate, that remains to be seen. If they are unable to elevate the business over the next 12-18 months to consistently generate cash, then they will likely need to seek additional capital which in the best case will be dilutive to exiting shareholders. In the worst case, if they are unable to raise further required capital, the business could fail.

We have provided the view that the Company's products/services include some comparative advantages relative to legacy construction approaches and materials. We continue to believe that to be the case, and while we may be right about that, the "best" products don't always prevail, especially in industries with longstanding habits, protocols and relationships. That is particularly true when new innovation stands to displace established industry players. In short, established participants often resist innovation and in fact sometimes seek to undermine it because of its competitive threat. Regardless of how "disruptive" and advantageous an innovation might be, change rarely comes easy. We think SG Blocks has likely experienced some of that along the way and will likely continue to do so. The have and will continue to face competitive pressures from (among other things) larger, better established and better capitalized enterprises.

As we suggested, SG Blocks has been assembled to be a turnkey provider of container based construction and they are attempting to do that on as "virtual" a basis as possible. While that has some clear benefits, it also adds to the importance of key players in the organization. While we rarely generate initiating coverage where we *don't* list reliance on key players as a risk to consider, the nature of SG's business plan may make it particularly germane in this case.

The Company believes its typical project is 10% to 15% cheaper than legacy construction. In addition, these and other efficiencies can also substantially reduce the completion time of projects. The Company estimates that its typical project can be completed 45% faster than legacy projects. We think it is fair to say that while the Company will likely double revenue from $5 million in 2017 to $10+ million in 2018, 2019 and 2020 should reflect the first real scaling of the business. We think their ability to continue to deliver better comparable return on investment via this cheaper/faster mantra is paramount to their continued success. Actually, we would extend that notion to their anticipated gross margin guidance of between 20% and 25%. However, sometimes scaling businesses can be more difficult than anticipated and that can include maintaining margins, efficiencies etc. Further, given their reliance on third parties to deliver major portions of their projects, they may not always be able to control the costs and efficiencies necessary to hit those thresholds. Those variables may be even more difficult to control as they scale the business.

While the direction of the housing market over the next 12 to 36 months (and beyond) is anybody's guess, there is certainly no shortage of opinions suggesting it may get softer. Beyond that, there are a host of other macro variables (rising interest rates, price inflation, land availability, recession and others) that could significantly compromise the Company's opportunities on the face.

Along the same lines as the prior paragraph, we have made a considerable number of assumptions both in terms of the traction of the business and our resulting operating projections around the Company's sizeable and growing backlog. Recognize, there are various events that could result in their inability to monetize some or all of that backlog.

SG Blocks shares are generally illiquid and thinly traded and we suspect that could continue to be the case for some time. Investors should consider that in the context of their own investment horizons and risk tolerances.

These are just a few of the more visible risks facing the Company. There are most certainly others both apparent and perhaps not so apparent.

Valuation Overview

In the context of the table in the Operating Overview above, we have built our model around a few developing themes we think the table helps illustrate. First, on the more conceptual side, we think their ESR-ICC certification was a major milestone and likely a major catalyst for a meaningful portion of the current backlog. We believe that there were/are/will be projects that the Company likely could not win without this certification. From that perspective, we don't think it is a coincidence that business has accelerated since the issuance of that certification.

Second, as we have noted repeatedly above, we think the Company has spent the past 12-18 months rationalizing and now implementing a residential strategy. Just to be clear, as the product mix information in the Operating Overview above reflects, past revenues and current backlog include residential contributions, so its not like this is brand new to them. However, we think they are poised to scale this portion of the business. From a modeling standpoint, we are focused on the information they provided regarding *the "50-unit development in Puerto Rico"*. That is, we are modeling the initial addition of roughly 50 residential units per year into the foreseeable future, which works out to about 12 per quarter. We think that is doable, and we are comfortable projecting that. We think this announcement suggests that this is a projection that is defensible in the context of current Company endeavors. Clearly, while 50 residential units per year would be meaningful to SG Blocks ($11 to $12 million per year), it is a rounding error in the residential construction industry. To that end, while we won't model it without additional visibility, we think their opportunity in residential could be *well beyond* 50 units per year.

Third, in addition to the residential piece, our projections also include further commercial traction. We are estimating annual near term commercial project rates totaling $50 million per year (and growing modestly from that base thereafter). However, we would add, we don't reflect any new commercial based revenues (beyond the current backlog) until 2020. Here again, we think these numbers are defensible given the levels of the backlog build over the past 12-15 months. That is, looking back over the past 12-15 months, we believe the sum of their commercial project wins is comfortably more than the $50 million annual rate we are projecting. With that said, while we are not suggesting that a couple of data points constitute a trend, we are clearly sticking with projections that the Company has *actually achieved in the past*. On the other hand, much like their residential opportunities, we think their potential commercial opportunities could be well beyond our projected rate.

As our prior readers are likely aware, we tend to base the bulk of our valuation targets on the DCF based results of our projected models. Obviously that approach has some shortcomings in that it is derived from projections that may not (almost certainly won't) roll out *exactly* as we model them. Our approach to that likely reality is to apply sizeable discount rates to our DCF assumptions to accommodate for that lack of visibility and ultimately the differences in the timing and perhaps the magnitude of those cash flows. Our price targets listed in the Summary and Conclusion below are a function of that rationale/approach. To translate; our revenue/earnings assumptions could prove aggressive and still substantially support our price targets in the context of the current rate environment.

Summary and Conclusion

We think SG Blocks has developed an elegant solution to new construction. It is cheaper, faster and stronger than legacy materials/approaches, and it includes a "green" recycled element that even we die hard capitalists can appreciate. Further, while we are certainly not arguing that container based construction is going to change the construction industry, we think its multiple attributes make it an optimal choice for certain instances, and we think those instances are broad and deep enough to provide a very considerable relative opportunity for viable players in the container construction space, of which SG Blocks is at least *an* industry leader if not *the* industry leader.

We submit, the Company has had its challenges that have provided some clear setbacks along the way. We won't belabor that point because frankly, challenges and setbacks are the burden of every new innovator that attempts to teach old industries new tricks. We think their ability to overcome the challenges is far more germane to story going forward. Moreover, we also think the "hard knocks" have likely refined the approach and the plan to a viable scalable opportunity. In fact, we think that provides a good backdrop for where the Company sits today. That is, they have proven they can provide container-based projects to a variety of users. They have designed, built and delivered projects of varying sizes, across a variety of commercial, public and residential applications. They have also built a sizeable backlog across the same. The question now becomes, "can they uphold that momentum and be successful *at scale*"?

To further the "scale" notion, we think that variable (along with their ESR-ICC certification) may be the thing that ultimately sets SG Blocks apart as a "leader" in the space. There are certainly others out there building container-based structures, but we question just how many of them can/will do it at scale?

We also submit that there are other important elements to the story that the Company has yet to prove it can execute on. As we noted above, gross margins are a wildcard here. They guide to a gross margin target of 20% - 25% which would put them in line with public home builders and as near as we can tell, public modular builders, so we view that target as at least tenable. Our model assumes the lower end of that range (at higher outputs), but again, margins in that range are yet "uncharted ground" for them so that will be one of those data points we will be keeping an eye on.

To reiterate, we see the Company's opportunities as quite open-ended, certainly well beyond what we are modeling/projecting. Of course, that doesn't mean they *will* substantially exceed our expectations, but it does mean that they *could*, and if they do so, we would expect valuations will beyond our targets. By the way, that is an important distinction because on the face, open-ended opportunities provide additional value to the risk/reward assessments of emerging enterprises, but not all small emerging companies really have bona fide "open-ended" opportunities. To be clear, if they can procure the business, we think SG Blocks could execute on several multiples of the revenue levels we are projecting, and we think they could do so on *relatively* minimal additional overhead. Here again, we recognize that is a statement that can't be back tested just yet, but we think that their "virtual approach" may make that entirely possible. (Keep in mind, building the expertise and the relationships to deploy that "virtual approach" is part of the "secret sauce" here and it didn't happen overnight or without considerable expertise, time and resources). Further, we don't think that scenario (revenue run rates that are several multiples of our current projections) is a substantial reach in the context of the overall industry. That is, hypothetically, SG Blocks could get to a $1 billion annual revenue run rate and still be doing a fraction of the business of any number of public home builders are currently achieving.

We believe the Company's backlog substantiates SG Block's ability to procure projects and scale the business. We think there is clear momentum in the business which should translate into breakout results for 2019 and 2020. In addition, provided the macro environment remains reasonable, we think that momentum could carry and even accelerate well beyond the next 24 months.

As a result, we are initiating our coverage of SG Blocks with an allocation of 4, and a 12-24 month price target of $6.25. We will reassess each of these conclusions as additional data points become available and visibility improves.

Projected Operating Model

SG Blocks											
Projected Operating Model											
By: Trickle Research LLC											
	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/2018	6/30/2018	9/30/2018	12/31/2018	Fiscal 2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	Fiscal 2019	Fiscal 2020
Revenue:											
Block sales		$ 42,799	$ -	$ -	$ 42,799	$ -	$ -	$ -	$ -	$ -	$ -
Construction services	$ 1,543,526	$ 2,262,998	$ -	$ -	$ 3,806,524	$ -	$ -	$ -	$ -	$ -	$ -
Total Revenue	$ 1,543,526	$ 2,305,797	$ 2,082,825	$ 4,123,436	$10,055,584	$ 5,154,295	$13,029,000	$19,362,901	$13,260,201	$50,806,397	$ 86,536,903
Cost of revenue:											
Block sales		$ 33,084	$ -	$ -	$ 33,084	$ -	$ -	$ -	$ -	$ -	$ -
Construction services	$ 1,379,930	$ 2,241,141	$ -	$ -	$ 3,621,071	$ -	$ -	$ -	$ -	$ -	$ -
Cost of revenue	$ 1,379,930	$ 2,274,225	$ 1,857,985	$ 3,589,983	$ 9,102,123	$ 4,424,979	$10,412,620	$15,353,063	$10,592,957	$40,783,618	$ 68,498,785
Gross profit	$ 163,596	$ 31,572	$ 224,840	$ 533,453	$ 953,461	$ 729,316	$ 2,616,380	$ 4,009,838	$ 2,667,244	$10,022,778	$ 18,038,119
Operating expenses:					$ -					$ -	$ -
Payroll and related expenses	$ 405,418	$ 572,612	$ 611,906	$ 620,617	$ 2,210,553	$ 677,314	$ 795,435	$ 890,444	$ 798,903	$ 3,162,096	$ 3,698,054
General and administrative expenses	$ 426,275	$ 555,087	$ 557,078	$ 632,469	$ 2,170,909	$ 653,086	$ 810,580	$ 937,258	$ 815,204	$ 3,216,128	$ 3,930,738
Marketing and business development expense	$ 81,047	$ 97,541	$ 133,378	$ 120,828	$ 432,794	$ 141,234	$ 151,543	$ 230,290	$ 293,629	$ 816,696	$ 1,179,499
Pre-project expenses	$ 4,964	$ 45,000	$ -	$ -	$ 49,964	$ -	$ -	$ -	$ -	$ -	$ -
Other Operating Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 917,704	$ 1,270,240	$ 1,302,362	$ 1,373,914	$ 4,864,220	$ 1,471,635	$ 1,757,558	$ 2,057,992	$ 1,907,736	$ 7,194,920	$ 8,808,291
Operating loss	$ (754,108)	$(1,238,668)	$ (1,077,522)	$ (840,461)	$ (3,910,759)	$ (742,319)	$ 858,822	$ 1,951,847	$ 759,508	$ 2,827,858	$ 9,229,828
Other income (expense):											
Interest expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest income	$ 4	$ -	$ -	$ -	$ 4	$ -	$ -	$ -	$ -	$ -	$ -
Other income	$ -	$ 5,764	$ -	$ -	$ 5,764	$ -	$ -	$ -	$ -	$ -	$ -
Loss on debt conversion	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Change in fair value of financial instruments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loss from equity affiliates	$ -	$ -	$ (960)	$ -	$ (960)	$ -	$ -	$ -	$ -	$ -	$ -
Total Other Income	$ 4	$ 5,764	$ (960)	$ -	$ 4,808	$ -	$ -	$ -	$ -	$ -	$ -
Loss before income taxes	$ (754,104)	$(1,232,904)	$ (1,078,482)	$ (840,461)	$ (3,905,951)	$ (742,319)	$ 858,822	$ 1,951,847	$ 759,508	$ 2,827,858	$ 9,229,828
Income tax expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 521,481
Net loss After Tax	$ -	$ -	$ (1,078,482)	$ (840,461)	$ (1,918,943)	$ (742,319)	$ 858,822	$ 1,951,847	$ 759,508	$ 2,827,858	$ 8,708,347
Less: Net loss attributable to non-controlling interests	$ -	$ -	$ (52,445)	$ -	$ (52,445)	$ -	$ -	$ -	$ -	$ -	$ -
Net loss attributable to common stockholders of SG Blocks, Inc.	$ -	$(1,232,904)	$ (1,026,037)	$ (840,461)	$ (3,099,402)	$ (742,319)	$ 858,822	$ 1,951,847	$ 759,508	$ 2,827,858	$ 8,708,347
Net loss per share attributable to SG Blocks, Inc. - basic and diluted:											
Basic	$ (0.18)	$ (0.29)	$ (0.24)	$ (0.19)	$ (0.90)	$ (0.17)	$ 0.19	$ 0.42	$ 0.16	$ 0.61	$ 1.83
Diluted	$ -	$ (0.29)	$ (0.24)	$ (0.19)	$ (0.72)	$ (0.17)	$ 0.19	$ 0.42	$ 0.16	$ 0.60	$ 1.81
Weighted average shares outstanding:											
Basic	4,260,041	4,260,041	4,260,041	4,408,541	4,297,166	4,480,571	4,551,160	4,620,338	4,688,132	4,585,050	4,754,570
Diluted	4,260,041	4,260,041	4,335,041	4,408,541	4,315,916	4,480,571	4,563,741	4,644,356	4,722,548	4,602,804	4,810,565

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.