

World Surveillance Group Inc.  
Form 10-Q/A  
October 12, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Amendment No. 3 to  
Form 10-Q  
(Mark one)  
 QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended June 30, 2011  
or  
 TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32509

WORLD SURVEILLANCE GROUP INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

88-0292161  
(IRS Employer Identification No.)

State Road 405, Building M6-306A, Room 1400  
Kennedy Space Center, Florida 32815  
(Address of principal executive offices)

(321) 452-3545  
(Issuer's telephone number)

Indicate by check mark whether 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicated 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:

Edgar Filing: World Surveillance Group Inc. - Form 10-Q/A

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 August 10, 2011, there were 399,378,152 shares of the registrant's Common Stock issued and outstanding.

---

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

TABLE OF CONTENTS

|                                       | Page  |
|---------------------------------------|---|
| <b>PART I - FINANCIAL INFORMATION</b> |   |
| Item 1.                               | Condensed Consolidated Financial Statements (Unaudited)   |
|                                       | Condensed Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010                           |
|                                       | 3   |
|                                       | Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010 |
|                                       | 4   |
|                                       | Condensed Consolidated Statements of Stockholders' Deficit for the six months ended June 30, 2011         |
|                                       | 5   |
|                                       | Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010           |
|                                       | 6   |
|                                       | Notes to Condensed Consolidated Financial Statements  |
|                                       | 7   |
| Item 2.                               | Management's Discussion and Analysis of Financial Condition and Results of Operations                     |
|                                       | 19  |
| Item 4.                               | Controls and Procedures   |
|                                       | 24  |
| <b>PART II - OTHER INFORMATION</b>    |   |
| Item 1.                               | Legal Proceedings   |
|                                       | 25  |
| Item 1A.                              | Risk Factors  |
|                                       | 27  |
| Item 2.                               | Unregistered Sales of Equity Securities and Use of Proceeds   |
|                                       | 36  |
| Item 6.                               | Exhibits  |
|                                       | 36  |
| Signatures                            | 37  |
| Exhibit Index                         | 38  |

## PART I - FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements.

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|   | JUNE 30,<br>2011<br>(unaudited) | December 31,<br>2010<br>(audited) |
|---|---------------------------------|-----------------------------------|
| <b>ASSETS</b>   |                                 |                                   |
| <b>CURRENT ASSETS</b>   |                                 |                                   |
| Cash and cash equivalents   | \$ 709,857                      | \$ 29,491                         |
| Accounts receivable, net of allowance for doubtful accounts of \$0  | 11,712                          | —                                 |
| Other receivables   | 83,000                          | —                                 |
| Inventories   | 38,625                          | —                                 |
| Prepayments   | 11,310                          | —                                 |
| Assets from discontinued operations   | 6,406                           | 6,406                             |
| <b>TOTAL CURRENT ASSETS</b>   | <b>860,910</b>                  | <b>35,897</b>                     |
| <b>PROPERTY AND EQUIPMENT</b>   |                                 |                                   |
| Property and equipment, net of accumulated depreciation of \$16,170   | 2,726,105                       | —                                 |
| <b>OTHER NONCURRENT ASSETS</b>  |                                 |                                   |
| Deposits  | 75,425                          | 350                               |
| <b>TOTAL NONCURRENT ASSETS</b>  | <b>75,425</b>                   | <b>350</b>                        |
| <b>TOTAL ASSETS</b>   | <b>\$ 3,662,440</b>             | <b>\$ 36,247</b>                  |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                                 |                                   |
| <b>CURRENT LIABILITIES</b>  |                                 |                                   |
| Accounts payable (including \$0 and \$289,753 due to joint venture partner at June 30, 2011 and December 31, 2010)  | \$ 5,074,857                    | \$ 5,315,659                      |
| Notes payable   | 8,019,681                       | 7,811,510                         |
| Other accrued liabilities (including \$0 and \$2,185,000 due to joint venture partner at June 30, 2011 and December 31, 2010)   | 1,659,951                       | 3,576,587                         |
| Deferred revenues   | 210,312                         | —                                 |
| Derivative liabilities  | 1,553,021                       | 1,329,489                         |
| Liabilities from discontinued operations  | 1,365,929                       | 1,365,929                         |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>17,883,751</b>               | <b>19,399,174</b>                 |
| <b>TOTAL LIABILITIES</b>  | <b>17,883,751</b>               | <b>19,399,174</b>                 |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                                 |                                   |
| <b>STOCKHOLDERS' EQUITY ( DEFICIT)</b>  |                                 |                                   |
| Common stock, \$0.00001 par value, 500,000,000 shares authorized; 398,637,494 shares and 322,538,559 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively. | 3,987                           | 3,226                             |
| Additional paid-in capital  | 130,399,433                     | 125,146,946                       |
| Accumulated deficit   | (144,624,731)                   | (144,513,099)                     |

|   |              |              |
|---|--------------|--------------|
| TOTAL STOCKHOLDERS' DEFICIT                 | (14,221,311) | (19,362,927) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 3,662,440 | \$ 36,247    |

See accompanying notes to condensed consolidated financial statements

**WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

|  | Three Months Ended June 30, |                | Six Months Ended June 30, |                |
|--|-----------------------------|----------------|---------------------------|----------------|
|  | 2011                        | 2010           | 2011                      | 2010           |
| <b>REVENUES</b>  |                             |                |                           |                |
| Net sales  | \$ 26,093                   | \$ 150,000     | \$ 26,093                 | \$ 150,000     |
| Cost of sales  | 16,345                      | —              | 16,345                    | —              |
| Gross profit   | 9,748                       | 150,000        | 9,748                     | 150,000        |
| <b>COSTS AND EXPENSES:</b>                                     |                             |                |                           |                |
| General administrative   | 790,358                     | 1,379,582      | 1,155,835                 | 1,864,561      |
| Research and development                                       | 168,246                     | 150,000        | 268,246                   | 150,000        |
| Professional fees  | 407,977                     | 646,080        | 626,680                   | 1,079,336      |
| Acquisition-related costs                                      | 65,000                      | —              | 65,000                    | —              |
| Depreciation and amortization                                  | 12,950                      | 242,175        | 12,950                    | 484,350        |
| TOTAL EXPENSES   | 1,444,531                   | 2,417,837      | 2,128,711                 | 3,578,247      |
| LOSS FROM OPERATIONS   | (1,434,783)                 | (2,267,837)    | (2,118,963)               | (3,428,247)    |
| <b>OTHER INCOME (EXPENSE)</b>                                  |                             |                |                           |                |
| Gain on extinguishment of liabilities to joint venture partner | —                           | —              | 2,474,753                 | —              |
| Gain on extinguishment of debt                                 | —                           | 16,788         | —                         | 16,788         |
| Change in fair value of derivative liabilities                 | (970,310)                   | (1,822,501)    | (223,532)                 | (1,147,283)    |
| Interest expense, net  | (109,756)                   | (105,447)      | (243,890)                 | (349,345)      |
| NET OTHER INCOME (EXPENSE)                                     | (1,080,066)                 | (1,911,160)    | 2,007,331                 | (1,479,840)    |
| NET LOSS   | \$ (2,514,849)              | \$ (4,178,997) | \$ (111,632)              | \$ (4,908,087) |
| <b>PER COMMON SHARE DATA (Note 11)</b>                         |                             |                |                           |                |
| <b>NET LOSS PER SHARE:</b>                                     |                             |                |                           |                |
| Basic and Diluted  | \$ (0.01)                   | \$ (0.01)      | \$ (0.00)                 | \$ (0.02)      |
| <b>WEIGHTED AVERAGE SHARES:</b>                                |                             |                |                           |                |
| Basic and Diluted  | 362,484,346                 | 285,677,475    | 344,881,070               | 275,358,110    |

See accompanying notes to condensed consolidated financial statements

## WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2011

| Description   | COMMON STOCK<br>SHARES | AMOUNT   | ADDITIONAL<br>PAID-IN<br>CAPITAL | ACCUMULATED<br>DEFICIT | TOTAL<br>STOCKHOLDERS'<br>DEFICIT |
|---|------------------------|----------|----------------------------------|------------------------|-----------------------------------|
| BALANCE, DECEMBER 31,<br>2010   | 322,538,559            | \$ 3,226 | \$ 125,146,946                   | \$ (144,513,099)       | \$ (19,362,927)                   |
| Shares issued for cash  | 25,888,332             | 259      | 1,941,366                        | —                      | 1,941,625                         |
| Shares issued for settlement of<br>debt                               | 17,562,200             | 176      | 352,735                          | —                      | 352,911                           |
| Shares issued for acquisition   | 24,500,000             | 245      | 1,837,255                        | —                      | 1,837,500                         |
| Shares issued for acquisition -<br>held in escrow                     | 5,500,000              | 55       | 412,445                          | —                      | 412,500                           |
| Shares issued for services  | 634,998                | 6        | 46,910                           | —                      | 46,916                            |
| Shares issued for directors'<br>compensation                          | 250,000                | 2        | 17,498                           | —                      | 17,500                            |
| Vesting of restricted shares<br>issued as stock-based<br>compensation | —                      | —        | 48,099                           | —                      | 48,099                            |
| Options vesting   | —                      | —        | 596,197                          | —                      | 596,197                           |
| Cashless exercise of options  | 1,615,129              | 16       | (16)                             | —                      | —                                 |
| Cashless exercise of warrants   | 148,276                | 2        | (2)                              | —                      | —                                 |
| Net loss  | —                      | —        | —                                | (111,632)              | (111,632)                         |
| BALANCE, JUNE 30, 2011  | 398,637,494            | \$ 3,987 | \$ 130,399,433                   | \$ (144,624,731)       | \$ (14,221,311)                   |

See accompanying notes to condensed consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

|   | Six Months Ended June 30, |                   |
|---|---------------------------|-------------------|
|   | 2011                      | 2010              |
| <b>OPERATING ACTIVITIES:</b>  |                           |                   |
| Net loss  | \$ (111,632)              | \$ (4,908,087)    |
| Adjustments to reconcile net loss to net cash used in operating activities: |                           |                   |
| Depreciation and amortization   | 12,950                    | 484,350           |
| Stock-based compensation  | 467,869                   | 1,832,989         |
| Cost of raising capital   | —                         | (15,800)          |
| Change in fair value of derivative liabilities                              | 223,532                   | 1,147,283         |
| Loan interest capitalized to debt   | 208,171                   | 213,895           |
| Gain on extinguishment of liabilities to joint venture partner              | (2,474,753)               | —                 |
| Change in operating assets and liabilities:                                 |                           |                   |
| Accounts receivable   | 763                       | (100,000)         |
| Other receivables   | (15,000)                  | —                 |
| Prepayments   | (11,310)                  | —                 |
| Accounts payable  | 369,980                   | 760,626           |
| Other accrued liabilities   | 200,576                   | 235,988           |
| Deferred revenues   | 210,312                   | 100,000           |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                | <b>(918,542)</b>          | <b>(248,756)</b>  |
| <b>INVESTING ACTIVITIES:</b>  |                           |                   |
| Acquisition, net of cash acquired   | (336,032)                 | —                 |
| Property and equipment  | (2,322)                   | —                 |
| Deposits  | (4,363)                   | —                 |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                | <b>(342,717)</b>          | <b>—</b>          |
| <b>FINANCING ACTIVITIES:</b>  |                           |                   |
| Proceeds from sale of common stock  | 1,941,625                 | 487,037           |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                            | <b>1,941,625</b>          | <b>487,037</b>    |
| <b>NET INCREASE IN CASH AND EQUIVALENTS</b>                                 | <b>680,366</b>            | <b>238,281</b>    |
| <b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>                            | <b>29,491</b>             | <b>12</b>         |
| <b>CASH AND EQUIVALENTS, END OF PERIOD</b>                                  | <b>\$ 709,857</b>         | <b>\$ 238,293</b> |
| <b>SUPPLEMENTAL INFORMATION:</b>  |                           |                   |
| Interest paid   | \$ —                      | \$ —              |
| <b>SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>              |                           |                   |
| Common stock issued for acquisition   | 2,250,000                 | —                 |
| Common stock issued for accounts payable                                    | 361,136                   | 402,237           |
| Common stock issued for accrued expenses                                    | 38,691                    | 154,000           |
| Acquisition payable due seller  | 250,000                   | —                 |
| Convertible note payable for restricted cash                                | —                         | 25,000            |
| Stock options issued for accrued bonuses for officers and directors         | 193,926                   | —                 |

See accompanying notes to condensed consolidated financial statements





WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

DESCRIPTION OF BUSINESS

World Surveillance Group Inc. (the “Company”) designs, develops, markets and sells autonomous lighter-than-air (LTA) unmanned aerial vehicles (UAVs) capable of carrying payloads that provide persistent security and/or wireless communication from air to ground solutions at low, mid and high altitudes. The Company’s airships, when integrated with electronics systems and other high technology payloads, are designed for use by government-related and commercial entities that require real-time intelligence, surveillance and reconnaissance or communications support for military, homeland defense, border control, drug interdiction, natural disaster relief and maritime missions.

Through our wholly-owned subsidiary Global Telesat Corp. (GTC), we provide mobile voice and data communications services globally via satellite to the U.S. government and defense industry end users. GTC specializes in services related to the Globalstar satellite constellation, including ground station construction, satellite telecommunications voice airtime and tracking services. GTC is also an authorized reseller of satellite telecommunications services offered by other leading satellite network providers such as Inmarsat, Iridium and Thuraya. GTC’s equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of World Surveillance Group Inc. and its subsidiaries (“WSGI” or the “Company”) and have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and reports and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X for scaled disclosures for smaller reporting companies. Accordingly, they do not include all, or include a condensed version of, the information and footnotes required by U.S. GAAP for complete financial statements. The Company believes, however, that the disclosures are adequate to make the information presented not misleading. Therefore, the Company’s condensed consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations of the Company for the periods shown. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year or for any future period. The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates, judgments and assumptions that affect the amounts reported in the condensed consolidated financial statements. Actual results may differ from management’s estimates.

The consolidated balance sheet information as of December 31, 2010 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) for the fiscal year ended December 31, 2010 under the Company’s former name, Sanswire Corp. These interim condensed consolidated financial statements should be read in conjunction with the Company’s most recently audited financial statements and the notes thereto included in such above referenced Annual Report on Form 10-K.

The Company applies the provisions of U.S. GAAP applicable to consolidations of variable interest entities to its investment in Sanswire-TAO. Under U.S. GAAP, a variable interest entity is subject to consolidation if the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders. At September 30, 2009, the Company determined that such consolidation of Sanswire-TAO was appropriate. Inter-company accounts and transactions have been eliminated in consolidation (See Note 6 concerning the dissolution of the Sanswire-TAO joint venture)

## GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as reflected in the accompanying condensed consolidated financial statements, the Company incurred a loss from operations of \$2,118,963 for the six months ended June 30, 2011 and negative cash flows from operations of \$918,542 for the six months ended June 30, 2011. The Company had a working capital deficit of \$16,897,841 and total stockholders' deficit of \$14,221,311 at June 30, 2011. The Company had an accumulated deficit of \$144,624,731 at June 30, 2011. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise additional funds either through investments or by generating revenue from the sale of the Company's products to continue its business operations and implement its strategic plan, which includes, among other things, continued development of its UAVs, the pursuit or continued development of strategic relationships and expansion of the Company's subsidiary GTC's business. The Company's business plan, which if successfully implemented, will allow it to sell UAVs and other products for a profit, which in turn will reduce the Company's dependence on raising additional funds from outside sources. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company anticipates a net loss to continue for the next several quarters if not for all of the year 2011.

Additional cash will be needed to support our ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. We are currently pursuing both short and long-term financing options from private investors as well as through institutional investors. We are also working to commercialize our Argus One airship and GTC products to begin generating revenues from customers. We anticipate generating revenues from the sale of our airships in 2012 and are already generating revenue from our GTC products. The costs associated with our strategic plan are variable and contingent on our ability to raise capital or begin generating revenue from customer contracts, but we expect to need funding of approximately \$3 million over the next 12 months. We continue to have discussions with Space Florida and other entities relating to funding, but there can be no assurance that such funding will be received in the amounts required, on a timely basis, or at all. While we believe we will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at our current levels through at least December 31, 2011, if we are not able to do so and if we are not able to generate revenue through the sale of our products, we would likely need to modify our strategy or cut back or terminate some of our operations. If we are able to raise additional funds through the issuance of equity securities, substantial dilution to existing shareholders may result. However, if our plans are not achieved and/or if significant unanticipated events occur or if we are unable to obtain the necessary additional funding on favorable terms or at all, we will likely have to modify our business plan and reduce, delay or discontinue some or all of our operations to continue as a going concern or seek a buyer for all or a portion of our assets. As of the date hereof, we continue to raise capital to sustain our current operations.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on-hand and highly liquid investments with contractual maturities of three months or less when purchased.

## REVENUE RECOGNITION

The Company recognizes revenue when all four of the following criteria are met: 1) persuasive evidence of an arrangement exists; 2) delivery has occurred and title has transferred or services have been rendered; 3) our price to the buyer is fixed or determinable; and 4) collectability is reasonably assured.

## INCOME TAXES

The Company accounts for income taxes using the asset and liability approach. Under this approach, deferred income taxes are recognized based on the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by current enacted tax rates. Valuation allowances are recorded to reduce the deferred tax assets to an amount that will more likely than not be realized . (See Note 11)

U.S. GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that will likely be sustained under examination. There were no adjustments related to uncertain tax positions recognized during the six months ended June 30, 2011 and 2010, respectively.

## FAIR VALUE MEASUREMENTS

U.S. GAAP includes a framework for measuring fair value, which also addresses disclosure requirements for fair value measurements. Fair value is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value, in this context, should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk, including the Company's own credit risk.

Under the measurement framework, a fair valuation hierarchy for disclosure of the inputs to valuation used to measure fair value has been established. This hierarchy prioritizes the inputs into three broad levels that reflect the degree of subjectivity necessary to determine fair value measurements, as follows. Level 1 inputs are based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are based on quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly, through market corroboration, for substantially the full term of the asset or liability. Level 3 inputs are unobservable inputs and reflect the Company's estimates of assumptions that market participants would use to measure assets and liabilities at fair value. The fair values are therefore determined using model-based techniques that include option pricing models and discounted cash flow models. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis:

|                           | Total        | Fair Value Measurements at June 30, 2011 Using: |           |                |
|---------------------------|--------------|---|-----------|----------------|
|                           |              | (Level 1)                                       | (Level 2) | (Level 3)      |
| Cash and cash equivalents | \$ 709,857   | \$ 709,857                                      | \$ —      | \$ —           |
| Derivative liabilities    | (1,553,021)  | —   | —         | (1,553,021)    |
| Totals                    | \$ (843,164) | \$ 709,857                                      | \$ —      | \$ (1,553,021) |

The derivative liabilities are measured at fair value using quoted market prices and estimated volatility factors, and are classified within Level 3 of the valuation hierarchy, due to use of an estimate of volatility factors. There were no changes in the valuation techniques during the six months ended June 30, 2011.

## DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts payable, notes payable and derivative instruments. The carrying values for the current financial assets and liabilities, including cash and cash equivalents, accounts payable and notes payable approximate fair value due to their short maturity. The fair values of the Company's derivative instruments are recorded in the consolidated balance sheets. (See Note 7)

## USE OF ESTIMATES

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates, judgments and assumptions regarding certain types of assets, liabilities, revenues, and expenses. These estimates, judgments and assumptions are evaluated on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that it believes are reasonable at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly,

upon settlement, actual results may differ from the Company's estimated amounts.

#### BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Basic and diluted net income (loss) per common share has been computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding during each period. Whenever losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive, thus resulting in a loss per share less than the basic loss per share. If all outstanding options, warrants and convertible shares were converted or exercised as of June 30, 2011, the shares outstanding would be 485,454,926. As of August 10, 2011, the Company had 399,378,152 common shares outstanding. The Company is obligated under various existing agreements, options and warrants to issue additional shares of its common stock.

## PROPERTY AND EQUIPMENT

Property and equipment, including property under capital lease agreements, are carried at cost less accumulated depreciation. Depreciation is based on the estimated service lives of the depreciable assets and is calculated using the straight-line method. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Expenditures that increase the value or productive capacity of assets are capitalized. Fully depreciated assets are retained in property and accumulated depreciation accounts until they are removed from service. When property and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. Repairs and maintenance are expensed as incurred.

The estimated useful lives of property and equipment are generally as follows:

|                                  |               |
|----------------------------------|---------------|
| · Buildings and improvements     | 20 - 40 years |
| · Appliques                      | 15 – 25 years |
| · Machinery and equipment        | 3 – 12 years  |
| · Office furniture and fixtures  | 3 – 10 years  |
| · Computer hardware and software | 3 – 7 years   |
| · Transportation vehicles        | 3 – 6 years   |

## OTHER LONG-LIVED ASSETS

The Company follows the authoritative guidance for impairment testing of property and equipment and other long-lived assets, which requires that a triggering event occur before impairment testing an asset or group of assets is appropriate. Triggering events include but are not limited to a significant disposal of a portion of such assets, an adverse change in the market involving the business employing the related asset, a significant decrease in the benefits realized from an acquired business, difficulties or delays in integrating the acquired business, and a significant change in the operations of an acquired business. Once a triggering event has occurred, the Company performs the impairment test based on its intention to hold or sell the asset or asset group. If the Company intends to hold the asset or group of assets for continued use, the Company compares the asset or asset group's carrying value to the sum of their estimated undiscounted future cash flows. If the carrying value of the asset or asset group exceeds the sum of their estimated undiscounted future cash flows, the asset or asset group is deemed impaired and the Company recognizes an impairment loss for the difference. If the Company intends to sell the asset or asset group and certain other criteria are met (i.e., the asset can be disposed of currently, appropriate levels of authority have approved the sale, and there is an actively pursuing buyer), the Company compares the asset's or asset group's carrying value to its fair value less costs to sell. The Company generally determines fair value by using the discounted cash flow method. If the carrying value of the asset or group of assets is greater than the fair value less costs to sell, the asset or asset group is deemed impaired and the Company recognizes an impairment loss for the difference. Generally, the Company performs its testing of the asset or asset group at the lowest level for which identifiable cash flows are available. Assets held for sale are separately presented on the balance sheet and are no longer depreciated.

## INTANGIBLE ASSETS

Intangible assets are related to the Company's intellectual property rights. Intangible assets with finite lives are amortized over their estimated useful lives, which are three years for patents and intellectual property. In addition to amortization, intangible assets are tested at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount should be assessed. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair



value. The Company generally measures fair value by considering sales prices for similar assets or by discounting estimated future net cash flows from such assets using a discount rate reflecting our average cost of capital. (See Note 6 for impairment of the intangible assets in 2010)

#### DERIVATIVE FINANCIAL INSTRUMENTS

Derivative liabilities primarily relate to warrants to purchase common stock of the Company issued in conjunction with certain debt and equity financings. Each reporting period the Company determines the fair value of the stock warrants using the Black-Scholes option pricing model at the balance sheet date. Changes in the fair value of the stock warrants are recognized each period in current earnings. (See Note 7)

#### SHARE-BASED COMPENSATION

The Company offers share-based compensation programs to its officers, directors and employees that consist of employee stock options, common stock and restricted stock awards. Common stock and restricted stock awards are issued at the closing price of the Company's common stock on the date of grant. The Company recognizes compensation expense ratably over the vesting periods for restricted stock awards using the grant date fair value of the stock awarded. The Black-Scholes option pricing model is used to value stock options, and compensation expense is recognized ratably over the requisite service vesting period. Stock options typically have contractual terms of three years. Share-based compensation for employees and non-employees recognized during the six months ended June 30, 2011 and 2010 was \$467,869 and \$1,832,989, respectively. (See Note 10)

#### NOTE 2. DISCONTINUED OPERATIONS

In 2007, the Company discontinued operations of its telecom and wireless segments and reported the effects as discontinued operations. Certain assets and liabilities from its discontinued operations are carried at fair value in the consolidated balance sheet as of June 30, 2011 and December 31, 2010 as follows:

|  | Telecom    | GlobeTel<br>Wireless | Total        |
|--|------------|----------------------|--------------|
| Cash                                       | \$ 6,406   | \$ —                 | \$ 6,406     |
| ASSETS FROM DISCONTINUED OPERATIONS        |            |                      | —            |
| Accounts payable                           | 140,116    | 1,216,208            | 1,356,324    |
| Accrued liabilities                        | 9,605      | —                    | 9,605        |
| LIABILITIES FROM DISCONTINUED OPERATIONS   | 149,721    | 1,216,208            | 1,365,929    |
| Net liabilities of discontinued operations | \$ 143,315 | 1,216,208            | \$ 1,359,523 |

No income or expenses were incurred by the Company related to its discontinued operations for the six month periods ended June 30, 2011 and 2010.

### NOTE 3. ACQUISITIONS

On May 25, 2011, World Surveillance Group Inc. (the “Company”) entered into a Stock Purchase Agreement (the “Agreement”) by and among the Company, Global Telesat Corp. (“GTC”), Growth Enterprise Fund, S.A. (the “Shareholder”) and David Phipps (“Phipps”) pursuant to which the Company acquired 100% of the outstanding shares of capital stock of GTC, such that GTC is now a wholly-owned subsidiary of the Company.

Pursuant to the Agreement, the purchase price paid by the Company for GTC consisted of: \$600,000 in cash, with \$350,000 payable on the closing of the acquisition (the “Closing”), \$125,000 payable on or before the date that is 60 days after the Closing and the final \$125,000 payable on or before the date that is 120 days after the Closing, 30,000,000 shares of the Company’s common stock, and an earn-out equal to 5% of the gross revenues related to the construction by GTC of certain potential satellite ground stations. Pursuant to the Agreement and an Escrow Agreement, 5,500,000 shares of common stock out of the 30,000,000 shares issued by the Company have been placed in escrow for one year to satisfy possible indemnification claims of the Company. David Phipps, the President of GTC, has entered into an employment agreement with GTC and WSGI to continue in his role as President of GTC. The Shareholder has the right to nominate two members of the Company’s Board of Directors, both of whom are required to be “independent” under the rules and regulations of the Securities and Exchange Commission. The Agreement also includes restrictions on the sale of the Company’s securities issued as the purchase price by the Shareholder for a two-year period following the Closing.

In connection with the Closing, GTC, the Shareholder and the Company also entered into an Option Agreement dated May 25, 2011 pursuant to which the Shareholder was granted an exclusive option to purchase certain GTC assets on the occurrence of a bankruptcy event of WSGI occurring within 18 months of the Closing at a purchase price equal to 80% of the fair market value of such assets at the time of the bankruptcy event, as determined by an independent valuation firm.

The common stock of the Company issued as purchase price pursuant to the Agreement was issued as restricted securities under an exemption provided by Section 4(2) of the Securities Act of 1933, as amended. The Agreement, however, provides the Shareholder with certain piggyback registration rights, although these rights have been waived in connection with the registration statement the Company filed pursuant to certain Registration Rights Agreements entered into by the Company in May 2011.

Management believes the Company’s acquisition of GTC reflects the Company’s commitment to strategically expand and diversify our business. GTC provides mobile voice and data communications services globally via satellite to the U.S. government and defense industry end users. GTC specializes in services related to the Globalstar satellite

constellation, including ground station construction, satellite telecommunications voice airtime and tracking services. GTC is also an authorized reseller of satellite telecommunications services offered by other leading satellite network providers such as Inmarsat, Iridium and Thuraya. GTC's equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

The operating results of GTC from May 25, 2011 to June 30, 2011 are included in the Company's Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011. The Company's Condensed Consolidated Balance Sheet as of June 30, 2011 reflects the acquisition of GTC, effective on the acquisition date of May 25, 2011.

The following table summarizes the allocation of the GTC acquisition purchase price, which has been accounted for at the fair values of the assets acquired and liabilities assumed under the acquisition method of accounting:

|                             |                     |
|-----------------------------|---------------------|
| Current assets              | \$ 203,780          |
| Property and equipment      | 2,736,732           |
| Current liabilities assumed | (90,512)            |
| <b>Total Purchase Price</b> | <b>\$ 2,850,000</b> |

The acquired property and equipment primarily consists of eight unique satellite network infrastructure devices, known as appliques, which provide the signal receipt and processing technology that enables and powers Globalstar's satellite data service. GTC's appliques are located at a number of Globalstar satellite ground stations and provide service across Europe, Russia and parts of Australia, Asia, the Middle East and South America. Long-term contracts with Globalstar allow GTC access to their satellite network for the purposes of offering tracking services for commercial applications over the useful life of the appliques through 2025. GTC has developed various simplex satellite tracking devices that are capable of transmitting locational and other information from any location within the Globalstar satellite network. Although GTC can sell to U.S. government customers without the need for any form of certification, GTC can not sell such tracking devices commercially without certification from Globalstar and the Federal Communications Commission for use in the U.S., and from comparable entities globally, like CE Mark. GTC has begun the process to apply for certification to sell these devices both in the U.S. and globally. Although, GTC believes the likelihood of obtaining these certifications is high due to its experience in producing these tracking devices for government customers combined with its knowledge and experience of the Globalstar network and their certification requirements, there is no guarantee that GTC will be able to certify its tracking devices. GTC is currently obtaining certification of their proprietary tracking devices for commercial applications and expects to begin selling the tracking devices and service plans before the end of 2011 .

The following table shows certain unaudited pro forma results of the Company, assuming the Company had acquired GTC on January 1, 2011:

|                          |              |
|--------------------------|--------------|
| Revenues                 | \$ 236,438   |
| Net loss                 | \$ (245,887) |
| Per common share data:   |              |
| Basic and diluted        | \$ (0.00)    |
| Weighted average shares: |              |
| Basic and diluted        | 368,748,473  |

#### NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

|                               | June 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|-------------------------------|---------------------------------|----------------------|
| Appliques                     | \$ 2,736,732                    | \$ —                 |
| Office furniture and fixtures | 5,543                           | —                    |
|                               | <b>2,742,275</b>                | <b>—</b>             |

|                                |              |      |
|--------------------------------|--------------|------|
| Less: accumulated depreciation | (16,170)     | —    |
|                                | \$ 2,726,105 | \$ — |

## NOTE 5. OTHER ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

|                                  | June 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|----------------------------------|---------------------------------|----------------------|
| Payroll liabilities              | \$ 1,054,684                    | \$ 998,410           |
| Professional fees                | 64,727                          | 118,946              |
| Accrued legal claims payable     | 235,540                         | 274,231              |
| Acquisition related costs        | 55,000                          | —                    |
| GTC acquisition payable          | 250,000                         | —                    |
| Due to joint venture partner     | —                               | 2,185,000            |
| <b>OTHER ACCRUED LIABILITIES</b> | <b>\$ 1,659,951</b>             | <b>\$ 3,576,587</b>  |

## NOTE 6. NOTES PAYABLE

Obligations at June 30, 2011 and December 31, 2010 were as follows:

|                            | June 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|----------------------------|---------------------------------|----------------------|
| Unsecured promissory notes | \$ 5,997,030                    | \$ 5,997,030         |
| Accrued interest           | 2,022,651                       | 1,814,480            |
| <b>NOTES PAYABLE</b>       | <b>\$ 8,019,681</b>             | <b>\$ 7,811,510</b>  |

As of June 30, 2011 and December 31, 2010, notes payable included two unsecured promissory notes aggregating \$5,997,030 with no stated interest rate or terms of repayment. The Company has accrued interest at 7% per annum on both notes since their inception and includes the notes in current liabilities.

NOTE 7. IMPAIRMENT OF INTANGIBLE ASSETS AND EXTINGUISHMENT OF DEBT

On June 3, 2008 the Company, TAO Technologies GmbH (“TAO”) and Professor Bernd Kroeplin (“Kroeplin”) restructured their November 2007 agreement and entered into a new agreement to form a 50/50 U.S. based joint venture company owned by the Company and TAO to be called Sanswire-TAO Corp. to place, among other things, the license rights to certain TAO intellectual property for the exclusive use in the U.S., Canada and Mexico. The intellectual property included, but was not limited to, an existing patent in Germany as well as any updates to that patent. This integration of the Company and Stuttgart, Germany-based TAO was intended to create various strategic advantages for both companies.

On June 3, 2008, the Company reclassified the transaction as the purchase of assets and recognized a \$3,229,000 intangible asset related to the intellectual property, including the German patent. The \$391,000 paid during 2007 was applied as payment towards the investment. During 2008, the Company paid an additional \$653,000 for the investment, made up of \$385,000 in cash and the issuance of 2,680,000 shares of the Company’s common stock valued at \$268,000. The balance due of \$2,185,000 was recorded in accrued expenses. (See Note 4)

During the fourth quarter of 2010, the Company entered into discussions with TAO and Kroeplin as to the future relationship between the parties and the status of the joint venture. By the end of December, the Company had decided to base its business going forward exclusively on the technology developed for it by Eastcor Engineering in the United States. Accordingly, the Company recorded an impairment charge of \$1,210,875 representing the unamortized balance of the intangible asset at December 31, 2010.

On March 22, 2011, the Company entered into a Settlement Agreement by and among the Company, TAO, Kroeplin and Global Telesat Corp., providing for, among other things, the termination of all existing agreements between the parties (the “Old Agreements”); the retention by TAO and Kroeplin of all cash and shares of the Company’s common stock previously paid to them; the return of the old STS 111 (SD34) airship by the Company to TAO; the discharge in full of \$2,474,753 in debt owed by the Company under the Old Agreements; and the winding down and dissolution of the joint venture, Sanswire-TAO Corp. The Company recorded a \$2,474,753 gain on the extinguishment of the debt during the first quarter ended March 31, 2011. The Sanswire-TAO Corp. was dissolved on June 20, 2011.

NOTE 8. DERIVATIVE LIABILITIES

The Company follows the authoritative guidance and accounts for derivative instruments at fair value. Gains and losses from changes in the fair value of derivatives are recognized in interest expense. The Company’s derivative instruments are stock warrants that contained anti-dilution provisions that were issued with certain debt and equity financings.

Warrants

During the past, the Company entered into financing agreements for convertible promissory notes and stock purchase agreements, which included both Class A and Class B warrants. The Company has issued an aggregate of 4,960,501 warrants under two new stock purchase agreements. Warrants issued under the new stock purchase agreements have no anti-dilution rights and are not considered to be derivative liabilities. All warrants have 3-year terms and are exercisable for a purchase price of \$0.21 per share or, in the case of Class B warrants, \$0.315 per share.

The fair value of derivative liabilities was determined using the Black-Scholes option pricing model with the following assumptions:

|          |          |
|----------|----------|
| June 30, | December |
|----------|----------|

Edgar Filing: World Surveillance Group Inc. - Form 10-Q/A

|  | 2011          | 31,<br>2010   |
|--|---------------|---------------|
| Warrants:                                    |               |               |
| Risk-free interest rate                      | 0.03% - 0.81% | 0.29% - 1.02% |
| Expected volatility                          | 11% - 160%    | 10% - 167%    |
| Expected life (in years)                     | 0.17 - 2.25   | 0.67 - 2.75   |
| Expected dividend yield                      | -             | -             |
| Aggregate fair value of warrants outstanding | \$ 1,553,021  | \$ 1,329,489  |

The aggregate intrinsic value of the warrants outstanding and exercisable as of June 30, 2011 and December 31, 2010 was \$69,584 and \$22,675, respectively. All warrants were fully exercisable and there was no unamortized cost to be recognized in future periods.

The following table summarizes certain information about the Company's warrants to purchase common stock.

|                                  | Derivative Liabilities |                     |                   | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------|------------------------|---------------------|-------------------|--|
|                                  | Warrants<br>Class A    | Warrants<br>Class B | Other<br>Warrants |  |
| Outstanding at December 31, 2010 | 21,909,111             | 21,186,886          | 2,377,167         | \$ 0.244                                 |
| Warrants Granted                 | —                      | —                   | 2,583,334         | 0.210                                    |
| Warrants Expired                 | (1,217,549)            | (938,184)           | —                 | 0.221                                    |
| Outstanding at June 30, 2011     | 20,691,562             | 20,248,702          | 4,960,501         | \$ 0.253                                 |

#### NOTE 9. LITIGATION AND CONTINGENCIES

In the ordinary conduct of business, the Company is subject to periodic lawsuits, investigations and litigation claims, which the Company accrues for where appropriate. The Company cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims asserted against it. As of June 30, 2011, the Company had the following material contingencies:

##### Hudson Bay Fund LP et al. and Brio Capita I

Hudson Bay Fund LP and Hudson Bay Overseas Fund Ltd. filed an action against the Company on June 16, 2009 in the Supreme Court of New York relating to the warrants attached to a Subscription Agreement between those entities and the Company. The Hudson Bay entities sought to re-price the warrants, increase the number of shares they can purchase pursuant to the warrants, certain equitable remedies, and unspecified damages. A non-final Summary Judgment Order in favor of Hudson Bay was granted by the Court in March 2011 which would have required the Company, among other things, to issue 9,283,352 shares of common stock. The Company filed a Motion to Renew, Reargue and Reconsider the summary judgment order that was denied.

On May 17, 2011, the Company reached a settlement with Hudson Bay Fund LP and Hudson Bay Master Fund Ltd. f/k/a Hudson Bay Overseas Fund, Ltd. (collectively, "Hudson Bay") and entered into a Settlement Agreement resolving the previously disclosed lawsuit against the Company, without admitting any liability or wrongdoing on the part of the Company. The settlement relates to the exercise of certain Class A and Class B Warrants issued by the Company to Hudson Bay dating back to 2006, and resolves all outstanding issues and claims between the parties. As a result of the Settlement Agreement, Hudson Bay has no further rights of any kind whatsoever with respect to the above referenced Warrants.

Under the terms of the Settlement Agreement, the Company was required to, and has, issued an aggregate of 13,283,352 shares of our common stock (the "Hudson Bay Shares") to Hudson Bay, which have been issued and pay aggregate attorney fees of approximately \$180,000, in twelve equal monthly payments. Pursuant to the Settlement Agreement, Hudson Bay agreed not to sell publicly on any trading day in excess of the greater of 20% of (i) the daily or intra day trading volume or (ii) the daily average of the prior 40-day trading volume of our common stock. The Settlement Agreement also contains mutual releases and required the filing of a stipulation of discontinuance by the parties that discontinued Hudson Bay's Supreme Court action with prejudice.



Brio Capital

Brio Capital, the holder of a similarly worded warrant to those of Hudson Bay, filed an action against us on March 25, 2011 in the Supreme Court of the State of New York for the issuance of approximately 6.2 million shares of common stock upon the exercise of certain warrants. The Company has filed a response to such complaint, which includes additional arguments from those set forth in the Hudson Bay litigation. Brio Capital filed a summary judgment motion that the Company has responded to. The Company considers the plaintiff's interpretation of the warrant provisions to be incorrect and intends to vigorously defend the action, but the outcome of the action cannot be predicted.

#### Tsunami Communications v. GlobeTel

On March 3, 2006, Civil Action File No. 06A-02368-5 was filed in Superior Court for Gwinnett County, Georgia by Tsunami Communications and several of its former shareholders. The Company asserted affirmative defenses and a trial was held in November 2009. By Order of the Court entered on September 2, 2010, a judgment was entered against GlobeTel and several other co-defendants for the breach by Sanswire Technologies, Inc. ("ST") (a then unrelated party) of its asset purchase agreement with the plaintiff Tsunami based on a deemed de facto merger resulting from a subsequent asset purchase agreement between ST and GlobeTel. As damages, the Company was ordered to issue 530,015 shares of common stock to former shareholders of Tsunami and pay \$229,180 to a former Tsunami shareholder with respect to two outstanding promissory notes. Subsequent to the Order, the plaintiffs filed both a Motion for Reconsideration asking the Court to reconsider its decision to deny several of the plaintiffs' claims and to substantially increase the award of damages and a Claim for Attorney's Fees, both of which have been denied by the Court. The Company has issued the share portion of the judgment, but the Company is in settlement discussions with the plaintiffs relating to the cash judgment in this matter.

#### Peter Khoury

The Company's former CEO, Peter Khoury, filed an arbitration proceeding against the Company on October 10, 2010 asserting claims for payment of amounts alleged to be due in connection with his services provided to the Company totaling in the aggregate over \$400,000 in cash, 1.8 million shares of common stock, and an additional \$250,000 in shares of common stock. The Company has filed a motion to dismiss the arbitration that has yet to be heard. The parties have agreed to mediate prior to arbitration with an agreed upon mediator; however, a mediation date has yet to be determined. The Company intends to respond to the allegations and defend itself vigorously in this matter, but the outcome of the action cannot be predicted.

#### The DeCarlo Group

A lawsuit was filed by the DeCarlo Group on November 24, 2010 in Miami-Dade County Courthouse for over \$400,000 claimed in connection with CFO, accounting and auditing services allegedly rendered to the Company. It is the Company's position that the Company was overcharged in connection with the services rendered and that the amounts are not due. DeCarlo is currently seeking an attorney to represent him in this matter and a hearing has been scheduled for August 23, 2011. The Company has filed a motion to dismiss on various grounds and intends to otherwise defend itself vigorously in this matter, but the outcome of the action cannot be predicted.

#### Siegel

A lawsuit was filed by Frances Siegel, the mother of a former officer and director of the Company, on January 20, 2011 in Miami-Dade County Courthouse for \$300,000 plus interest claimed in connection with an alleged investment in the Company in 2003. The parties have begun preliminary discovery. The Company has filed a motion to dismiss and intends to defend itself vigorously in this matter, but the outcome of the action cannot be predicted.

#### GlobeTel Wireless Europe GmbH

A lawsuit was filed by Rechtsanwalt Harry Kressel, Court Appointed Insolvency Administrator of the Assets of GlobeTel Wireless Europe GmbH, on March 8, 2011 in the Circuit Court in Brevard County, FL for \$165,000 plus interest claimed in connection with an alleged parent company guaranty. The parties have begun preliminary discovery. The Company is currently reviewing the claim and intends to respond to the allegations and defend itself vigorously in this matter, but the outcome of the action cannot be predicted.

Dohan

The Company has filed a lawsuit on November 3, 2008, in the Florida Circuit Court for the Eleventh Circuit in Miami-Dade County, FL against its former auditors, Dohan Brown Salum + Ferro CPA PA n/k/a Dohan Salum + Company CPA PA and the individual auditors who performed work for the Company. The claim asserts that but for the professional negligence of the audit firm in failing to observe U.S. GAAP and other accounting and auditing standards, the Company would not have incurred substantial fees and professional expenses to restate its financials and defend allegations of wrongdoing asserted by the SEC against it. If negotiations are not fruitful, the Company intends to amend its complaint to add claims and will begin aggressive discovery, but the outcome of the action cannot be predicted.

## IRS

During 2010 and 2009, the Company, under its former name Sanswire Corp., incurred and reported to the Internal Revenue Service (“IRS”) payroll tax liabilities (and deposited the appropriate withholding amounts) during the normal course of business at each payroll cycle. The Company has reported its payroll tax liabilities for all the tax periods in 2007 and 2008, however, it failed to deposit the appropriate withholding amounts for those periods. The Company recognized this issue and, accordingly, contacted the IRS to make arrangements to pay any taxes due. One such matter has been resolved with the IRS, and the Company currently estimates the amount involved in the second matter to be approximately \$200,000. The Company may be subject to additional penalties and interest from the IRS in connection with these payroll tax matters. The Company is engaged in discussions with the IRS to settle this matter and has filed an Offer in Compromise with the IRS.

## NOTE 10. COMMON STOCK TRANSACTIONS

During the six month period ended June 30, 2011, the Company issued the following shares of Common Stock:

| SHARES     | CONSIDERATION                         | VALUATION    |
|------------|---------------------------------------|--------------|
| 25,888,332 | Stock for Cash                        | \$ 1,941,625 |
| 17,562,200 | Settlement of Debts                   | 352,911      |
| 30,000,000 | Acquisition                           | 2,250,000    |
| 634,998    | Stock issued for services             | 46,916       |
| 250,000    | Stock for Directors Fees              | 17,500       |
| 1,763,405  | Cashless warrant and option exercises | —            |

The valuation amounts of the above common stock transactions are based on the amounts that common stock and related additional paid-in capital were increased (decreased) upon recording of each transaction. For exercises of stock options, no values are indicated, whereas the options were valued and the additional paid-in capital account was increased upon the original issuance (grant) of the options and no additional charges were recorded upon exercise of the options. The valuation amounts related to the vested shares and the options reflect the vesting related to previously issued shares or options.

## NOTE 11. SHARE-BASED COMPENSATION

The Company issues stock-based compensation that consists of common stock, restricted stock and stock options to its directors, officers, employees and consultants. All common stock and restricted stock awards are subject to the securities law restrictions of Rule 144 as promulgated under the Securities Act of 1933, as amended.

## Common Stock

The Company recognizes the cost of the common stock issued to directors, officers, and employees as compensation expense at the closing market price on the grant date. All common stock awards are fully vested on the date of grant, therefore there is no unrecognized compensation expense associated with these awards. The Company awarded 250,000 shares of common stock totaling \$17,500 for director fees during the six months ended June 30, 2011.

## Restricted Stock

Awards of restricted stock are independent of stock option grants and are generally subject to forfeiture if employment terminates prior to vesting. Prior to vesting, ownership of the restricted stock cannot be transferred. The restricted stock has the same voting rights as the common stock. The Company recognizes the grant date fair value of restricted

stock awards ratably over the vesting period as compensation expense based upon the stock's closing market price on the grant date. Vested restricted stock awards totaled \$48,100 during the six months ended June 30, 2011. There is approximately \$12,600 in unrecognized compensation relating to restricted stock awards at June 30, 2011.

## Stock Options

The Company has issued stock options at exercise prices equal to the Company's common stock market price on the date of grant with contractual terms of three to seven years. Historically, the stock options were fully vested and expensed as compensation on the grant date. During 2010, the Company began issuing stock options with vesting schedules and such stock options are generally subject to forfeiture if employment terminates prior to vesting. The Company issued 3.5 million options valued at approximately \$194,000 related to 2010 bonuses and 15.25 million options valued at \$984,628 as share-based compensation awards to directors, officers, employees and consultants during the three months ended March 31, 2011. Approximately 5,500,000 performance-based options for \$363,000 and approximately 166,667 options pertaining to compensation awards for \$8,700 vested during the quarter ended June 30, 2011. No performance-based options vested during the three months ended March 31, 2011 and approximately 645,236 options pertaining to compensation awards for \$34,800 vested during the three months ended March 31, 2011. At June 30, 2011, there were approximately \$582,300 in unrecognized compensation expense relating to these awards, of which approximately \$544,000 will vest only upon the attainment of specific performance related goals.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options. The principal assumptions utilized in valuing stock options include the expected stock price volatility (based on the most recent historical period equal to the expected life of the option); the expected option life (an estimate based on historical experience); the expected dividend yield; and the risk-free interest rate (an estimate based upon the yields of Treasury constant maturities equal to the expected life of the option).

The fair value of the 3-year and 7-year options granted during the three months ended March 31, 2011 were determined using the Black-Scholes option pricing model with the following assumptions:

|                           | 3-Year Options | 7-Year Options |
|---------------------------|----------------|----------------|
| Expected stock volatility | 128.47%        | 261.62%        |
| Expected option life      | 3 years        | 7 years        |
| Expected dividend yield   | 0.0%           | 0.0%           |
| Risk-free interest rate   | 1.180%         | 2.90%          |

There were no option grants awarded during the three months ended June 30, 2011.

During the six months ended June 30, 2011, the Company issued the following options to acquire common stock:

| Date Issued | Shares     | Consideration                          | Valuation    | Relationship   |
|-------------|------------|--|--------------|--|
| 02/08/2011  | 1,500,000  | Compensation                           | \$ 77,570    | Corporate Officer<br>Board Member &<br>Management Team |
| 03/02/2011  | 3,500,000  | 2010 Bonus Awards<br>Performance Based | \$ 193,926   | Board, Mgmt, Employee<br>and Consultant                |
| 03/30/2011  | 13,750,000 | Award                                  | \$ 907,058   |  |
|             | 18,750,000 |  | \$ 1,178,554 |  |

The following table summarizes the stock option activity for the six months ended June 30,

|  | 2011   |                           | 2010   |                           |
|--|--------|---------------------------|--------|---------------------------|
|  | Shares | Weighted average exercise | Shares | Weighted average exercise |

Edgar Filing: World Surveillance Group Inc. - Form 10-Q/A

|   |             | price   |             | price   |
|---|-------------|---------|-------------|---------|
| Outstanding at beginning of period          | 26,583,334  | \$ .078 | 38,042,499  | \$ .298 |
| Granted                                     | 18,750,000  | .068    | 700,000     | .075    |
| Exercised                                   | (3,861,111) | .074    | —           | —       |
| Forfeited / expired / cancelled             | (555,556)   | .090    | (5,536,945) | .213    |
| Outstanding at end of period                | 40,916,667  | \$ .067 | 33,205,554  | \$ .081 |
| Options exercisable at end of period        | 31,926,570  | \$ .068 | 38,205,554  | \$ .081 |
| Weighted average remaining contractual term | 2.86 years  |         | 1.70 years  |         |

17

---

The following table summarizes information about stock options outstanding and exercisable at June 30, 2011:

| Exercise prices | Options Outstanding and Exercisable |  |    | Weighted Average Exercise price |
|-----------------|-------------------------------------|--|----|---------------------------------|
|                 | Number outstanding                  | Weighted average remaining contractual terms (years) |    |                                 |
| \$ .045         | 4,444,444                           | 0.85   | \$ | .045                            |
| \$ .066         | 5,500,000                           | 6.75   |    | .066                            |
| \$ .070         | 759,903                             | 2.61   |    | .070                            |
| \$ .073         | 2,250,000                           | 1.50   |    | .073                            |
| \$ .075         | 3,500,000                           | 2.67   |    | .075                            |
| \$ .080         | 1,500,000                           | 0.78   |    | .080                            |
| \$ .090         | 12,672,223                          | 2.09   |    | .090                            |
| \$ .094         | 1,300,000                           | 2.27   |    | .094                            |
|                 | 31,926,570                          | 1.85   | \$ | .068                            |

The aggregate intrinsic value of the 31,926,570 options outstanding and exercisable at June 30, 2011 was \$1,190,646. The aggregate intrinsic value for the options is calculated as the difference between the prices of the underlying awards and quoted price of the Company's common stock for the options that were in-the-money at June 30, 2011.

#### NOTE 12. INCOME TAXES

The Company has federal and state net operating loss (NOL) carryforwards, which can be used to offset future earnings. Accordingly, no provision for income taxes is recorded in the condensed consolidated financial statements. A deferred tax asset for the future benefits of net operating losses and other differences is offset by a 100% valuation allowance due to the uncertainty of the Company's ability to utilize the losses. These net operating losses begin to expire in the year 2021.

The Company operated in multiple tax jurisdictions within the United States of America. Although management does not believe that the Company is currently under examination in any major tax jurisdiction in which it operates other than the issues with the IRS as described in Note 8, the Company remains subject to examination in all of those tax jurisdictions until the applicable statute of limitations expire. As of June 30, 2011, a summary of the tax years that remain subject to examination in the Company's major tax jurisdictions are: United States – Federal and State – 2005 and forward. The Company does not expect to have a material change to unrecognized tax positions within the next twelve months.

#### NOTE 13. PER SHARE INFORMATION:

Basic earnings per share ("Basic EPS") of common stock is computed by dividing the net income by the weighted-average number of shares of common stock outstanding. Diluted earnings per share of common stock ("Diluted EPS") is computed by dividing the net income by the weighted-average number of shares of common stock, and dilutive common stock equivalents and convertible securities then outstanding. U.S. GAAP requires the presentation of both Basic EPS and Diluted EPS on the face of the Company's Condensed Consolidated Statements of Operations. Common stock equivalents totaling 86,817,432 and 74,082,932 were excluded from the computation of Diluted EPS for the six month periods ended June 30, 2011 and 2010, respectively, as their effect on the computation of Diluted EPS would have been anti-dilutive.



Edgar Filing: World Surveillance Group Inc. - Form 10-Q/A

|  | Six Months Ended June 30, |                |
|--|---------------------------|----------------|
|  | 2011                      | 2010           |
| <b>Numerator:</b>  |                           |                |
| Net loss   | \$ (111,632)              | \$ (4,808,087) |
| <b>Denominator:</b>  |                           |                |
| Weighted-average shares of common stock outstanding                    | 344,881,070               | 275,358,110    |
| Dilutive effect of stock warrants and stock options                    | -                         | -              |
| Weighted-average shares of common stock outstanding, assuming dilution | 344,881,070               | 275,358,110    |
| <b>Net loss per share:</b>   |                           |                |
| Basic and diluted  | \$ (0.00)                 | \$ (0.02)      |

#### NOTE 14. SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date. The following material subsequent event was as follows:

World Surveillance Group Inc. held its 2011 Annual Meeting of Shareholders on Tuesday, July 26, 2011. At that meeting, the shareholders of the Company approved:

The Amended and Restated Certificate of Incorporation (the “Restated Charter”)

The Restated Charter increases the authorized common stock of the Company from 500,000,000 to 750,000,000 shares and (i) identifies the rights of the preferred stock, if issued, and the common stock of the Company, (ii) establishes that the Company has a perpetual existence, (iii) allows for the books and records of the Company to be kept wherever the Board of Directors designates, and (iv) eliminates the personal liability of directors except in certain circumstances, as allowed by Delaware law.

The 2011 Equity Compensation Incentive Plan of the Company (the “Plan”)

The purpose of the Plan is to strengthen the Company and its subsidiaries by enhancing its profitable growth by providing incentives in the form of stock options and other equity ownership opportunities in the Company (each, an “Award”) to its and its subsidiaries’ employees, officers, directors, consultants and advisers, all of whom are eligible to receive Awards under the Plan, thereby encouraging them to devote their abilities and industry to the success of the Company and its subsidiaries and their business and enterprise.

Subject to certain adjustments, the aggregate number of shares (the “Authorized Shares”) of Common Stock that may be delivered in satisfaction of Awards granted under the Plan is 25,000,000 shares of Common Stock. Awards under the Plan may be in the form of incentive stock options (“ISOs”), nonstatutory stock options, restricted stock, restricted stock units, and any other equity-based interests as the Administrator shall determine, or any combination thereof. If any Award expires, or is terminated, surrendered, forfeited, expires unexercised, is settled in cash in lieu of Common Stock or is exchanged for other Awards, in whole or in part, the unissued shares covered by such Award shall again be available for the grant of Awards under the Plan.

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

This Quarterly Report on Form 10-Q, including this Management’s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and our future results. All statements other than statements of historical facts are statements that could be deemed forward-looking statements.

Certain statements in this Quarterly Report on Form 10-Q may contain words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “may,” “could,” “would” and other similar language and are considered forward looking statements or information. In addition, any information or statements that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking, and based on our current expectations, estimates, forecasts and projections about the operating environment, economies and markets in which we operate. Such forward-looking information or statements are subject to important assumptions, risks and uncertainties that are difficult to predict, and the actual outcome may be materially different. Our assumptions, although considered reasonable by us at the date of this Report, may prove to be inaccurate and consequently our actual results could differ materially from the expectations set out herein.

We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements or information. You should carefully review documents we file from time to time with the Securities and Exchange Commission. A number of factors may materially affect our business, financial condition, operating results and prospects. These factors include but are not limited to those set forth in our Registration Statement on Form S-1 and our Annual Report on Form 10-K and elsewhere in this Quarterly Report on Form 10-Q. Any one of these factors may cause our actual results to differ materially from recent results or from our anticipated future results. You should not rely too heavily on the forward-looking statements contained in this Quarterly Report on Form 10-Q, because these forward-looking statements are relevant only as of the date they were made.

The following MD&A is intended to help readers understand the results of our operation and financial condition, and is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying Notes to Condensed Consolidated Financial Statements under Part I, Item 1 of this Quarterly Report on Form 10-Q. The numbers included in this MD&A include the financial results of Global Telesat Corp. from our acquisition date of such company on May 25, 2011.

Growth and percentage comparisons made herein generally refer to the three and six months ended June 30, 2011 compared with the three and six months ended June 30, 2010 unless otherwise noted. Where we say “we”, “us”, “our”, “WSGI” or “the Company”, we mean World Surveillance Group Inc. or World Surveillance Group Inc. and its subsidiaries, as applicable.

### The Company

World Surveillance Group Inc. designs, develops, markets and sells autonomous lighter-than-air (LTA) unmanned aerial vehicles (UAVs) capable of carrying payloads that provide persistent security and/or wireless communications from air to ground solutions at low, mid and high altitudes. Our airships, when integrated with electronics systems and other high technology payloads, are designed for use by government-related and commercial entities that require real-time intelligence, surveillance and reconnaissance or communications support for military, homeland defense, border control, drug interdiction, natural disaster relief and maritime missions.

Through our wholly owned subsidiary Global Telesat Corp. (GTC), we provide mobile voice and data communications services globally via satellite to the U.S. government and defense industry end users. GTC specializes in services related to the Globalstar satellite constellation, including ground station construction, satellite telecommunications voice airtime and tracking services. GTC is also an authorized reseller of satellite telecommunications services offered by other leading satellite network providers such as Inmarsat, Iridium and Thuraya. GTC’s equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

From 2002 to 2007, we were involved in the following businesses through various subsidiaries, all of which operations we have discontinued except the airship business:

- stored value card services;
- wholesale telecommunications services;
- voice over IP;
- wireless broadband; and
- high altitude airships.

In 2007, we began focusing exclusively on the LTA UAV market opportunities through our wholly-owned subsidiary at the time, Sanswire Networks LLC. On September 22, 2008 we filed a Certificate of Merger with the Secretary of State of the State of Delaware pursuant to which our newly formed wholly-owned subsidiary, Sanswire Corp., a Delaware corporation, was merged into us. In connection with the new focus of the Company on the airship business and as a result of the filing of the Certificate of Merger, our corporate name was changed from GlobeTel Communications Corp. to Sanswire Corp.

Effective April 19, 2011, we merged a newly created, wholly-owned Delaware subsidiary, World Surveillance Group Inc., with and into the Company, with the Company being the surviving corporation. Our certificate of incorporation is the surviving corporation’s charter except that our name has been changed to World Surveillance Group Inc. In connection with the change of our corporate name, effective April 25 th our stock ticker symbol, under which our common stock will now be traded, was changed to “WSGI”.

Effective May 25, 2011, we acquired Global Telesat Corp., a provider of global satellite based tracking and communications solutions to the U.S. government and commercial customers.

#### Quarterly Highlights and Recent Events

- Invited by the U.S. Department of Defense to test and demonstrate the Argus One airship at the Army's proving ground facility in Yuma, Arizona;
- Changed our corporate name to World Surveillance Group Inc. to reflect our revised focus in light of the potential GTC acquisition and unveiled a new corporate website;

- Successfully completed initial flight testing of the Argus One airship in Easton, MD;
- Awarded a \$200,000 contract from Space Florida to create a performance data package in connection with the flight testing of our Argus One UAV at the U.S. Army's proving ground facility in Yuma, Arizona;
- Closed an aggregate of approximately \$1.7 million of financings of our common stock;
- Closed the acquisition of Global Telesat Corp., a U.S. based satellite tracking firm;
- Settled the outstanding lawsuit with Hudson Bay;
- Completed additional flight testing of the Argus One in Easton, MD focusing on improvements to the electronic control systems and the gas bag stability system as well as different engine and propeller configurations; and
- Held the first annual shareholder meeting of the Company in five years.

## Results of Operations

### Comparison of Three Months Ended June 30, 2011 and 2010

**Revenues .** Revenue for the three months ended June 30, 2011 of \$ 26,093 relates to revenue earned by GTC for satellite airtime and usage during the month of June. The \$150,000 in revenue for the three months ended June 30, 2010 was from the sale of a 50% interest in the SkySat airship; \$100,000 of the \$250,000 purchase price for the SkySat was deferred revenue for the three months ended June 30, 2011.

**Operating Expenses .** Our operating expenses consist primarily of compensation, professional fees, stock based compensation, research and development, as well as expenses for executive and administrative personnel, insurance, facilities expenses, travel and related expenses, amortization and other general corporate expenses. Operating expenses for the three months ended June 30, 2011 totaled \$1,444,531, compared to the \$2,417,837 incurred during the same period of 2010. The decrease of \$973,306, or 40%, resulted primarily from a \$723,241 reduction in compensation from the second quarter of 2010, when stock incentive bonuses totaling \$1,143,000 were awarded to the new board chairman, new CEO and existing management team. Included in compensation is the \$332,068 in stock based compensation paid during the second quarter of 2011 that reflects the vesting of performance based options of which specific performance goals and objectives were achieved by management during the period. Professional fees incurred for legal and accounting services during the three months ended June 30, 2011 reflected a reduction of \$238,103 from the comparable period in 2010, when significantly higher legal costs were incurred due to a SEC investigation that was subsequently settled and the hiring of a general counsel in October 2010. The reduction in depreciation and amortization expense of \$229,225 from the quarter ended June 30, 2011 compared to 2010 reflects the impairment and write-off of intellectual property during the last quarter of 2010. These operating expense reductions during the three months ended June 30, 2011 were partially offset by the \$134,017 increase in general administrative costs reflecting the hiring in June 2010 of the new management team, and a \$65,000 accrual for acquisition related expenses during the quarter ended June 30, 2011 related to the GTC acquisition.

**Loss From Operations .** The loss from operations of \$1,434,783 for the quarter ended June 30, 2011 compares to the operating loss of \$2,267,837 for the same period of 2010. The decrease of \$833,054, or 37%, reflects the reduction in operating expenses described above.

**Net Other Income (Expense).** Net other expenses totaled \$1,080,066 for the second quarter of 2011, as compared to \$1,911,160 during the same quarter of 2010, a decrease of \$831,094 or 43%. The decrease resulted primarily from the change in fair value of derivatives, principally stock warrants, during the three months ended June 30, 2011 compared to 2010.

**Net Income (Loss) .** We had a net loss of \$2,514,849 for the three months ended June 30, 2011 compared to a net loss of \$4,178,997 for the three months ended June 30, 2010, a decrease of \$1,664,148 or 40%. The significant reductions in stock based compensation and the change in the fair value of derivatives accounted for the majority of this decrease.

Comparison of Six Months Ended June 30, 2011 and 2010

Revenues . We had revenue for the six months ended June 30, 2011 of \$ 26,093, which relates to revenue earned by GTC for satellite airtime and usage during the month of June. The \$150,000 in revenue for the six months ended June 30, 2010 was from the sale of a 50% interest in the SkySat airship; \$100,000 of the \$250,000 purchase price for the SkySat was deferred revenue for the six months ended June 30, 2011.

**Operating Expenses** . Our operating expenses consist primarily of compensation, professional fees, stock based compensation, research and development, as well as expenses for executive and administrative personnel, insurance, facilities expenses, travel and related expenses, amortization and other general corporate expenses. Our operating expenses for the six months ended June 30, 2011 were \$2,128,711, compared to \$3,578,247 for the six months ended June 30, 2010, and reflects an improvement of \$1,449,536 or 41%. The improvement reflects significant reductions in compensation awards of \$844,876, \$452,656 in professional fees for accounting and legal services resulting from the settlement of the SEC investigation and the hiring of a general counsel, and discontinued amortization of \$471,400 due to the impairment and write-off of the related intellectual property during the last quarter of 2010. These reductions were partially offset by the increases of \$136,150 in general administration expenses reflecting the hiring in June 2010 of the new management team; \$118,246 in research and development relating to our Argus One LTA UAV; and acquisition related expenses of \$65,000 related to the GTC acquisition.

**Loss From Operations** . The loss from operations of \$2,118,963 for the six months ended June 30, 2011 compares to the operating loss of \$3,428,247 for the same period of 2010. The decrease of \$1,309,284 or 38% reflects the reduction in operating expenses described above.

**Net Other Income (Expense)**. Net other income totaled \$2,007,331 for the six months ended June 30 2011, as compared to net other expense of \$1,479,840 during the comparable period of 2010, resulting in an increase of \$3,487,171 or 236% between the two periods. This increase is primarily attributable to the \$2,474,753 gain from the extinguishment of liabilities due to a former joint venture partner. During the first quarter of 2011, we reached a settlement agreement with our former joint venture partner to terminate all of our old agreements, discharge in full the amounts owed by us and ultimately dissolve the joint venture. Also contributing to the significant improvement was the \$923,751 reduction of expenses resulting from the changes in fair value of derivatives during the six months ended June 30, 2011 as compared to the same period of 2010 predominately due to fluctuations in stock prices at the beginning and end of the period.

**Net Income (Loss)** . We had a net loss of \$111,632 for the six months ended June 30, 2011 as compared to a net loss of \$4,908,087 for the six months ended June 30, 2010, an increase of \$4,796,455 or 98%. The decrease in net loss is primarily attributable to the \$2,474,753 gain from the extinguishment of liabilities to our former joint venture partner; the \$923,751 reduction of expenses resulting from changes in the fair value of derivatives and the reduction in operating expenses discussed above.

#### Liquidity and Capital Resources

**Assets** . Historically, we have funded our operations and capital expenditures through the sale of stock and notes. During the six months ended June 30, 2011, we completed equity financings for a total of \$1,941,625. Cash and cash equivalents were \$709,857 at June 30, 2011 compared to \$29,491 at December 31, 2010. The increase of \$680,366 reflects the proceeds from the equity financings and GTC's cash and cash equivalents of \$35,042 at June 30, 2011. The increase in the other current assets categories (excluding cash and cash equivalents) primarily reflects GTC's other current assets of \$251,292 at June 30, 2011.

**Liabilities** . At June 30, 2011, we had total liabilities of \$17,883,751 versus \$19,399,174 at December 31, 2010, a reduction of \$1,515,423 or 7.8%. This reduction reflects the \$2,474,753 settlement during the first quarter of 2011 for amounts due to a former joint venture partner, which is partially offset by increases of \$200,000 in deferred revenues from the Space Florida contract; \$180,000 in accrued legal fees related to the Hudson Bay settlement; \$250,000 due the GTC selling shareholder; \$65,000 in acquisition related expenses; and GTC's total liabilities of \$124,181 at June 30, 2011.



Cash Flows . Our cash used in operating activities in the six months ended June 30, 2011 was \$918,542 compared to \$248,756 for the same period of 2010, reflecting increased net cash outflows of \$669,786. This increase in net cash outflows reflect higher cash payments for compensation, general administrative, research and development and professional fees during the six month period ended June 30, 2011 as compared to the same period in 2010.

Net cash used in investing activities during the six months ended June 30, 2011 was \$342,717 compared to \$0 for the comparable period of 2010, and reflects primarily the \$350,000 cash consideration paid in connection with the GTC acquisition, net of GTC's \$13,968 in cash and cash equivalents at May 25, 2011, the acquisition date.

Net cash provided by financing activities reflects proceeds from the sale of common stock and totaled \$1,941,625 during the six months ended June 30, 2011, compared to proceeds of \$487,037 during the six months ended June 30, 2010.

Pursuant to the Stock Purchase Agreement relating to our acquisition of GTC, the purchase price includes an earn-out equal to 5% of the gross revenues related to the construction by GTC of certain potential satellite ground stations. These earn-out payments are unlikely to materially impact our liquidity and capital resources since payments are required to be made to the former shareholder of GTC by us only upon the actual receipt of cash from a customer related to a ground station construction contract. The earn-out payments would have the effect of reducing our margin on any such contract. We are obligated to make these earn-out payments until the earlier of May 25, 2036 or the date on which GTC no longer has the right to construct ground stations under the applicable agreement with Globalstar.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as reflected in the accompanying condensed consolidated financial statements, we posted a loss from operations of \$1,434,783 for the three months ended June 30, 2011 and negative cash flow from operations of \$918,542 for the six months ended June 30, 2011. We had a working capital deficit of \$16,897,841 and total stockholders' deficit of \$14,221,311 at June 30, 2011. We had an accumulated deficit of \$144,624,731 at June 30, 2011. These factors raise substantial doubt about whether we can continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds either through investments or by generating revenue from the sale of our products to continue our business operations and implement our strategic plan, which includes, among other things, continued development of our UAVs, the pursuit or continued development of strategic relationships and expansion of our subsidiary GTC's business. Our business plan, which if successfully implemented, will allow us to sell UAVs and other products for a profit thereby reducing our dependence on raising additional funds from outside sources. The condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. We anticipate a net loss to continue for the next several quarters.

Additional cash will be needed to support our ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. We are currently pursuing both short and long-term financing options from private investors as well as through institutional investors. We are also working to commercialize our Argus One airship and GTC products to begin generating revenues from customers. We anticipate generating revenues from the sale of our airships in 2012 and are already generating revenue from our GTC products. The costs associated with our strategic plan are variable and contingent on our ability to raise capital or begin generating revenue from customer contracts, but we expect to need funding of approximately \$3 million over the next 12 months. We continue to have discussions with Space Florida and other entities relating to funding, but there can be no assurance that such funding will be received in the amounts required, on a timely basis, or at all. While we believe we will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at our current levels through at least December 31, 2011, if we are not able to do so and if we are not able to generate revenue through the sale of our products, we would likely need to modify our strategy or cut back or terminate some of our operations. If we are able to raise additional funds through the issuance of equity securities, substantial dilution to existing shareholders may result. However, if our plans are not achieved and/or if significant unanticipated events occur or if we are unable to obtain the necessary additional funding on favorable terms or at all, we will likely have to modify our business plan and reduce, delay or discontinue some or all of our operations to continue as a going concern or seek a buyer for all or a portion of our assets. As of the date hereof, we continue to raise capital to sustain our current operations.

#### Off-Balance Sheet Arrangements

We do not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space and computer equipment. None of the operating leases described in the previous sentence has, or potentially may have, a material current or future effect on our financial condition, revenue, expenses, results of operations, liquidity, capital expenditures or capital resources. In accordance with U.S. GAAP, neither the lease liability nor the underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

Critical Accounting Policies and Use of Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operation is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The preparation of our condensed consolidated financial statements in accordance with U.S. GAAP requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts and classification of revenues and expense during the periods presented, and the disclosure of contingent assets and liabilities. We evaluate our estimates and assumptions on an ongoing basis and material changes in these estimates or assumptions could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances and at that time, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates if past experience or other assumptions do not turn out to be substantially accurate.

Please refer to our Note 1 of our condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, and our Management's Discussion and Analysis of Financial Condition and Results of Operation contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2010 and Note 1 of our consolidated financial statements contained therein for a more complete discussion of our critical accounting policies and use of estimates.

#### Recent Accounting Pronouncements

In December 2010, the FASB amended the existing guidance to require a public entity, which presents comparative financial statements, to disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendment also expanded the required supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination, which are included in the reported pro forma revenue and earnings. The amendments were effective for us beginning July 1, 2011. We believe the adoption of the provisions of this amendment will not have a material impact on our financial condition or results of operations.

In January 2010, FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820)," that requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation, inputs and valuation techniques. The new and revised disclosures are required to be implemented for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 activity. Those disclosures are effective for interim and annual periods beginning after December 15, 2010. The adoption of FASB ASU 2010-06 has not had a material impact on our financial condition or results of operations .

#### Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2011. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2011, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

We have addressed certain areas of our control environment to strengthen our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the six months ended June 30, 2011. We formed an Audit Committee in January consisting solely of independent directors and added an "audit committee financial expert," as defined by the SEC, in June 2011. The Audit Committee has adopted a formal charter that sets forth its powers and authority. We also hired a new Chief Financial Officer and Treasurer in February 2011 who has experience in public company reporting and implementation of internal controls. We have adopted numerous policies intended to strengthen our control environment, including a Code of Ethics and Business Conduct, an Insider

Trading Policy, an Audit Committee Pre-Approval Policy and a Related Party Transactions Policy. We added two new members of our Board of Directors in June 2011, one of whom is independent, and simultaneous with the addition of our new board members, we formed a Compensation Committee consisting solely of independent directors. Such committee has adopted a charter that sets forth its powers and authority. As a result of our acquisition of Global Telesat Corp., GTC's parent company has the right to appoint two additional members to our Board of Directors, both of whom are required to be fully independent under the SEC's rules. Upon such persons' appointment to the Board of Directors, we intend on forming a fully independent Nominating and Corporate Governance Committee as well. We believe that these changes are reasonably likely to materially affect our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

In the ordinary conduct of business, we are subject to periodic lawsuits, investigations and litigation claims, which we account for where appropriate. We cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims asserted against us. As of June 30, 2011, we had the following material contingencies:

#### Hudson Bay Fund LP et al.

Hudson Bay Fund LP and Hudson Bay Overseas Fund Ltd. filed an action against us on June 16, 2009 in the Supreme Court of New York relating to the warrants attached to a Subscription Agreement between those entities and the Company. The Hudson Bay entities sought to re-price the warrants, increase the number of shares they can purchase pursuant to the warrants, certain equitable remedies, and unspecified damages. The Court granted a non-final Summary Judgment Order in favor of Hudson Bay in March 2011 which would have required the Company, among other things, to issue 9,283,352 shares of common stock. We filed a Motion to Renew, Reargue and Reconsider this summary judgment order that was denied.

On May 17, 2011, we reached a settlement with Hudson Bay Fund LP and Hudson Bay Master Fund Ltd. f/k/a Hudson Bay Overseas Fund, Ltd. (collectively, "Hudson Bay") and entered into a Settlement Agreement resolving the previously-disclosed lawsuit against the Company, without admitting any liability or wrongdoing on the part of the Company. The settlement relates to the exercise of certain Class A and Class B Warrants issued by the Company to Hudson Bay dating back to 2006, and resolves all outstanding issues and claims between the parties. As a result of the Settlement Agreement, Hudson Bay has no further rights of any kind whatsoever with respect to the above referenced Warrants.

Under the terms of the Settlement Agreement, we were required to, and have, issued an aggregate of 13,283,352 shares of our common stock (the "Hudson Bay Shares") to Hudson Bay which have been issued and pay aggregate attorney fees of approximately \$180,000, in twelve equal monthly payments. Pursuant to the Settlement Agreement, Hudson Bay agreed not to sell publicly on any trading day in excess of the greater of 20% of (i) the daily or intra day trading volume or (ii) the daily average of the prior 40-day trading volume of our common stock. The Settlement Agreement also contains mutual releases and required the filing of a stipulation of discontinuance by the parties that discontinued Hudson Bay's Supreme Court action with prejudice.

#### Brio Capital

Brio Capital, the holder of a similarly worded warrant to those of Hudson Bay, filed an action against us on March 25, 2011 in the Supreme Court of the State of New York for the issuance of approximately 6.2 million shares of common stock upon the exercise of certain warrants. We have filed a response to such complaint, which includes additional arguments from those set forth in the Hudson Bay litigation. Brio filed a summary judgment motion that we have responded to. We consider the plaintiff's interpretation of the warrant provisions to be incorrect and we intend to vigorously defend the action, but the outcome of the action cannot be predicted.

#### Tsunami Communications v. GlobeTel

On March 3, 2006, Civil Action File No. 06A-02368-5 was filed in Superior Court for Gwinnett County, Georgia by Tsunami Communications and several of its former shareholders. We asserted affirmative defenses and a trial was held in November 2009. By Order of the Court entered on September 2, 2010, a judgment was entered against GlobeTel and several other co-defendants for the breach by Sanswire Technologies, Inc. ("ST") (a then unrelated party)

of its asset purchase agreement with the plaintiff Tsunami based on a deemed de facto merger resulting from a subsequent asset purchase agreement between ST and GlobeTel. As damages, we were ordered to issue 530,015 shares of common stock to former shareholders of Tsunami and pay \$229,180 to a former Tsunami shareholder with respect to two outstanding promissory notes. Subsequent to the Order, the plaintiffs filed both a Motion for Reconsideration asking the Court to reconsider its decision to deny several of the plaintiffs' claims and to substantially increase the award of damages and a Claim for Attorney's Fees, both of which have been denied by the Court. We have issued the share portion of the judgment, but we are in settlement discussions with the plaintiffs relating to the cash judgment in this matter.

#### Peter Khoury

The Company's former CEO Peter Khoury filed an arbitration proceeding against us on October 10, 2010 asserting claims for payment of amounts alleged to be due in connection with his services provided to the Company totaling in the aggregate over \$400,000 in cash, 1.8 million shares of common stock, and an additional \$250,000 in shares of common stock. We have filed a motion to dismiss the arbitration that has yet to be heard. The parties have agreed to mediate prior to arbitration with an agreed upon mediator; however, a mediation date has yet to be determined. We intend to respond to the allegations and defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

#### The DeCarlo Group

A lawsuit was filed by the DeCarlo Group on November 24, 2010 in Miami-Dade County Courthouse for over \$400,000 claimed in connection with CFO, accounting and auditing services allegedly rendered to the Company. It is our position that the Company was overcharged in connection with the services rendered and that the amounts are not due. DeCarlo is currently seeking an attorney to represent him in this matter and a hearing has been scheduled for August 23, 2011. We have filed a motion to dismiss on various grounds and intend to otherwise defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

#### Siegel

A lawsuit was filed by Frances Siegel, the mother of a former officer and director of the Company, on January 20, 2011 in Miami-Dade County Courthouse for \$300,000 plus interest claimed in connection with an alleged investment in the Company in 2003. The parties have begun preliminary discovery. We have filed a motion to dismiss and intend to defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

#### GlobeTel Wireless Europe GmbH

A lawsuit was filed by Rechtsanwalt Harry Kressel, Court Appointed Insolvency Administrator of the Assets of GlobeTel Wireless Europe GmbH, on March 8, 2011 in the Circuit Court in Brevard County, FL for \$165,000 plus interest claimed in connection with an alleged parent company guaranty. The parties have begun preliminary discovery. We intend to defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

#### Dohan

We have filed a lawsuit on November 3, 2008, in the Florida Circuit Court for the Eleventh Circuit in Miami-Dade County, FL against our former auditors, Dohan Brown Salum + Ferro CPA PA n/k/a Dohan Salum + Company CPA PA and the individual auditors who performed work for us. The claim asserts that but for the professional negligence of the audit firm in failing to observe GAAP and other accounting and auditing standards, we would not have incurred substantial fees and professional expenses to restate our financials and defend allegations of wrongdoing asserted by the SEC against us. We intend to amend our complaint to add claims and will begin aggressive discovery, but the outcome of the action cannot be predicted.

#### IRS

During 2010 and 2009, we, under our former name Sanswire Corp., incurred and reported to the Internal Revenue Service ("IRS") payroll tax liabilities (and deposited the appropriate withholding amounts) during the normal course of business at each payroll cycle. The Company has reported its payroll tax liabilities for all the tax periods in 2007 and 2008, however, it failed to deposit the appropriate withholding amounts for those periods. We recognized this issue



and, accordingly, contacted the IRS to make arrangements to pay any taxes due. One such matter has been resolved with the IRS, and we currently estimate the amount involved in the second matter to be approximately \$200,000. We may be subject to additional penalties and interest from the IRS in connection with these payroll tax matters . We are engaged in discussions with the IRS to settle this matter and have filed an Offer in Compromise with the IRS.

We provide indemnification, to the extent permitted by law, to our officers, directors, employees and agents for liabilities arising from certain events or occurrences while the officer, director, employee, or agent is or was serving at our request in such capacity.

## Item 1A. Risk Factors

Investing in or purchasing shares of our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this prospectus, including our consolidated financial statements and related notes, before deciding whether to purchase or invest in shares of our common stock. If any of the following risks are realized, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the price of our common stock would likely decline, and you could lose part or all of your investment in our common stock.

### Risks Related to Our Business and Industry

We need to raise a significant amount of additional capital to continue our operations which capital may be costly and difficult to obtain, and if we are unable to raise additional capital, we would likely have to delay, curtail, scale back or terminate some or all of our operations, prematurely sell some or all of our assets, merge with or be acquired by another company, or possibly shut down our operations.

We need to raise significant additional capital in order to meet our cash requirements to fully implement our business plan and continue our operations during the next twelve months. At June 30, 2011, we had \$709,857 of cash and cash equivalents, we had negative working capital of \$16,897,841 and we had a net loss from operations of \$2,118,963 for the six months ended June 30, 2011. We expect to use the funds to expand and accelerate our research and development efforts, increase our manufacturing facilities, hire additional sales and other personnel, implement additional corporate governance measures, attract independent board members and for other operating activities. We will, as we deem necessary and prudent, continue to seek to raise additional capital through various financing alternatives, including the private or public sale of equity or debt securities, bank financing or corporate partnering arrangements. We continue to have discussions with Space Florida and other entities relating to funding, but there can be no assurance that such funding will be received in the amounts required, on a timely basis, or at all. We do not have any firm commitments for additional capital from third parties or from our officers, directors or shareholders. Although our officers and directors or their affiliates have in the past provided us with or helped us obtain capital, they are not legally bound to do so. We may not be able to raise additional capital on terms acceptable to us or at all. In order to attract new investors and raise additional capital, we may be forced to provide rights and preferences to new investors that are not available to current stockholders and that may be adverse to existing investors. If we do not receive adequate additional financing on terms satisfactory to us on a timely basis, or at all, we would not be able to meet our cash payment obligations or fully implement our business plan. We would likely also have to delay, curtail, scale back or terminate some or all of our operations that could hurt our future performance, prematurely sell some or all of our assets on undesirable terms, merge with or be acquired by another company on unsatisfactory terms, or possibly shut down our operations.

We have a history of operating losses that we anticipate will continue for the foreseeable future.

We have a history of losses from operations and we anticipate that for the foreseeable future, we will continue to experience losses from operations. Those losses have resulted principally from costs incurred in our research and development efforts, and from general and administrative costs associated with our business. We had a net loss from operations of \$2,118,963 for the six months ended June 30, 2011, a net loss from operations of \$3,328,247 during the same period of 2010 and a net loss from operations of \$4,726,202 during 2009. Our accumulated deficit through June 30, 2011 was \$144,624,731. We expect to continue to incur net losses from operations for the next several quarters if not for all of 2011 as we continue to develop and seek to commercialize our products.

We have incurred substantial indebtedness and may be unable to service our debt.

Our indebtedness at June 30, 2011 was \$16,120,418. A portion of such indebtedness reflects judicial judgments against us that could result in liens being placed on our bank accounts or assets. We are reviewing our ability to further reduce this debt level due to the age and/or settlement of certain payables but we may not be able to do so. This level of indebtedness could, among other things:

- make it difficult for us to make payments on this debt and other obligations;
- make it difficult for us to obtain future financing;
- require us to redirect significant amounts of cash from operations to servicing the debt;
- require us to take measures such as the reduction in scale of our operations that might hurt our future performance in order to satisfy our debt obligations; and
  - make us more vulnerable to bankruptcy or an unwanted acquisition on terms unsatisfactory to us.

Our independent auditors have issued a report questioning our ability to continue as a going concern, which may impair our ability to raise additional financing.

The report of our independent auditors contained in our consolidated financial statements for the years ended December 31, 2010 and 2009 explains that we have incurred substantial operating losses and raises substantial doubt about our ability to continue as a going concern. Analysts and investors view reports of independent auditors questioning a company's ability to continue as a going concern unfavorably. This report may make it difficult for us to raise additional debt or equity financing necessary to continue our business operations and the development of our airships. Potential investors should review this report before making a decision to invest in the Company.

We rely exclusively on our technical partner, Eastcor Engineering, for the development and commercialization of our products.

We currently rely exclusively on our technical partner, Eastcor Engineering, for the development and commercialization of our airships. We currently have no technical personnel as employees of the Company. While we believe the relationship with Eastcor to be very strong, there is no assurance that it will always remain so. If this relationship were to break down or terminate or if we were to lose the services of Eastcor, since we do not have an alternative technical partner, it would cause a significant delay in our ability to continue to develop, manufacture and sell our airships, postpone commercial revenue to us and increase the costs related to such development and commercialization. We had an agreement with Eastcor which expired in accordance with its terms and we are presently negotiating a new agreement with Eastcor to outline each party's responsibilities. There is not guarantee, however, that we will be able to enter into such a definitive agreement. Pursuant to a Settlement Agreement, we recently terminated all the existing agreements we had with TAO Technologies, our former technology partner, and have dissolved the joint venture we had with TAO. While we are open to discussing with TAO a potential future relationship, there can be no assurance that a future relationship will exist or what the terms of any such a relationship could be.

Our subsidiary GTC relies heavily on the Globalstar satellite network to provide its services and generate revenue.

GTC specializes in services offered through the Globalstar satellite network, and thus its future revenue growth from this part of the business is directly related to the reliability of the Globalstar network. The Globalstar satellite constellation has deteriorated over time resulting in substantially reduced ability to provide two-way communications, or duplex services, although the constellation continues to provide reliable one-way communications, or simplex services. The deterioration of Globalstar's network has had a significant negative impact on Globalstar's financial results from 2007 through today. While a majority of GTC's contracts have related to simplex services which did not degrade and therefore these GTC contracts were unaffected, the deterioration impacted GTC's ability to provide reliable service on a significant government contract awarded to GTC to provide satellite airtime minutes through the Globalstar network (other smaller contracts for satellite airtime minutes were unaffected). As a result of the degradation, GTC was unable to offer reliable duplex services to this government customer and therefore only fulfilled approximately 15% of the contract and the contract was terminated. Globalstar is currently in the process of launching 24 second-generation satellites. Six of these were successfully launched successfully in October 2010, a further six were launched successfully in July 2011, and an additional two launches are planned before the end of 2011. Once the remaining launches are complete and the second-generation satellite constellation is fully deployed, Globalstar expects to provide high quality mobile satellite voice and fast mobile satellite handset data services to commercial and government customers in more than 120 countries. This should help GTC to provide significantly more reliable service to customers and may allow GTC to pursue a new contract with such government customer.

The acquisition of GTC may not be accretive and may cause dilution to our earnings per share, which may negatively affect the market price of our common stock.

As we only recently acquired GTC, we are uncertain as to whether GTC will be accretive to our net income per share in our quarter beginning July 1, 2011. This expectation is based on preliminary estimates, which may change materially. We may also encounter additional transaction-related costs or other factors such as the failure to realize all of the benefits anticipated in the acquisition. All of these factors could cause dilution to our earnings per share or decrease or delay any accretive effect of the acquisition and cause a decrease in the market price of our common stock.

Combining our business with GTC may be more difficult, costly or time-consuming than expected, which may adversely affect our results of operations and adversely affect the value of our common stock following the acquisition.

We completed the GTC acquisition because we believe that the acquisition will be beneficial to our company and our stockholders. The success of the acquisition will depend, in part, on our and GTC's ability to realize the anticipated benefits and synergies from combining our businesses. To realize these anticipated benefits, we must successfully combine our businesses in an efficient and effective manner. If we are not able to achieve these objectives within the anticipated time frame, or at all, the anticipated benefits and cost savings of the acquisition may not be realized fully, or at all, or may take longer to realize than expected, and the value of our common stock may be adversely affected.

We and GTC have operated independently of each other. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect our or GTC's ability to maintain relationships with customers, employees, suppliers and other business partners following the acquisition or to achieve the anticipated benefits of the acquisition. Specifically, issues that must be addressed in integrating the operations of GTC into our operations in order to realize the anticipated benefits of the acquisition include, among other things:

- integrating and optimizing the utilization of the properties, equipment, suppliers, distribution channels, manufacturing, marketing, promotion and sales activities and information technologies;
  - integrating and expanding product offerings and opportunities;
  - consolidating corporate and administrative infrastructures;
  - coordinating geographically dispersed organizations;
- retaining existing customers and attracting new customers as well as leveraging the customer and partner relationships of the parties; and
- conforming standards, controls, procedures and policies, business cultures and compensation structures between the companies.

Integration efforts between the two companies will also divert management attention and resources. An inability to realize the full extent of the anticipated benefits of the acquisition, as well as any delays encountered in the integration process, could have an adverse effect upon our results of operations, which may affect adversely the value of our common stock after the acquisition.

In addition, the actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. Actual synergies, if achieved at all, may be lower than what we expect and may take longer to achieve than anticipated. If we are not able to adequately address these challenges, we may be unable to successfully integrate GTC's operations into our own or to realize the anticipated benefits of the integration of the two companies.

The financial results of the combined company may materially differ from the historical pro forma financial information presented in the Current Report on Form 8-K that we filed with the SEC .

The historical pro forma financial information presented in the Current Report on Form 8-K that we filed with the SEC reflects the estimates, assumptions and judgments made by management of the Company and GTC. These

estimates, assumptions and judgments affect the reported amounts of assets and liabilities as of the dates presented as well as revenue and expenses reported for the periods presented. The resolution of differences between the two companies' accounting policies and methods, including estimates, assumptions and judgments, may result in materially different financial information than is presented in the historical pro forma financial statements.

We may pursue other strategic transactions in the future, which could be difficult to implement, disrupt our business or change our business profile significantly.

We entered into a joint venture in 2008 with our then technology partner TAO Technologies. Although we are open to discussing a potential future relationship with TAO, we have terminated all of the agreements between us and TAO and we have dissolved the joint venture. We will continue to consider potential strategic transactions, which could involve acquisitions or dispositions of businesses or assets, joint ventures or investments in businesses, products or technologies that expand, complement or otherwise relate to our current or future business. We may also consider, from time to time, opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. These activities create risks such as: (i) the need to integrate and manage the businesses and products acquired with our own business and products, (ii) additional demands on our resources, systems, procedures and controls, (iii) disruption of our ongoing business, and (iv) diversion of management's attention from other business concerns. Moreover, these transactions could involve: (a) substantial investment of funds or financings by issuance of debt or equity securities; (b) substantial investment with respect to technology transfers and operational integration; and (c) the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the issuance of, or assumption of debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of financial and other resources of our company. Any such activity may not be successful in generating revenue, income or other returns to us, and the resources committed to such activities will not be available to us for other purposes. Moreover, if we are unable to access capital markets on acceptable terms or at all, we may not be able to consummate acquisitions, or may have to do so on the basis of a less than optimal capital structure. Our inability: (i) to take advantage of growth opportunities for our business or for our products, or (ii) to address risks associated with acquisitions or investments in businesses, may negatively affect our operating results. Additionally, any impairment of goodwill or other intangible assets acquired in an acquisition or in an investment, or charges to earnings associated with any acquisition or investment activity, may materially reduce our earnings. These future acquisitions or joint ventures may not result in their anticipated benefits and we may not be able to properly integrate acquired products, technologies or businesses, with our existing products and operations or combine personnel and cultures. Failure to do so could deprive us of the intended benefits of those acquisitions.

Product development is a long, expensive and uncertain process.

The development of LTA UAVs is a costly, complex and time-consuming process, and the investment in product development often involves a long wait until a return, if any, is achieved on such investment. We make and will continue to make significant investments in research and development relating to our airships and our other businesses. Investments in new technology and processes are inherently speculative. We have experienced numerous setbacks and delays in our research and development efforts and may encounter further obstacles in the course of the development of additional technologies and products. We may not be able to overcome these obstacles or may have to expend significant additional funds and time. Technical obstacles and challenges we encounter in our research and development process may result in delays in or abandonment of product commercialization, may substantially increase the costs of development, and may negatively affect our results of operations.

Successful technical development of our products does not guarantee successful commercialization.

We may successfully complete the technical development for one or all of our product development programs, but still fail to develop a commercially successful product for a number of reasons, including among others the following:

- failure to obtain the required regulatory approvals for their use;
- prohibitive production costs;
- competing products;



- lack of innovation of the product;
- ineffective distribution and marketing;
- lack of sufficient cooperation from our partners; and
- demonstrations of the airships not aligning with or meeting customer needs.

We have not yet sold any of our airships in the commercial marketplace and our success in the market for the products we develop will depend largely on our ability to prove our airships' capabilities. Upon demonstration, our airships may not have the capabilities they were designed to have or that we believed they would have. Furthermore, even if we do successfully demonstrate our airships' capabilities, potential customers may be more comfortable doing business with a larger, more established, more proven company than us. Moreover, competing products may prevent us from gaining wide market acceptance of our products. Significant revenue from new product investments may not be achieved for a number of years, if at all.

GTC has developed various simplex satellite tracking devices that are capable of transmitting locational and other information from any location within the Globalstar satellite network. Although GTC can sell to U.S. government customers without the need for any form of certification, GTC can not sell such tracking devices commercially without certification from Globalstar and the Federal Communications Commission for use in the U.S., and from comparable entities globally, like CE Mark. GTC has begun the process to apply for certification to sell these devices both in the U.S. and globally and GTC plans to have a worldwide target customer base with no cost basis on the monthly service plans sold with each device. Although, GTC believes the likelihood of obtaining these certifications is high due to its experience in producing these tracking devices for government customers combined with its knowledge and experience of the Globalstar network and their certification requirements, there is no guarantee that GTC will be, however, able to certify its tracking devices. Moreover, in the past, the Company has dealt specifically with U.S. government customers but intends to try to expand this customer base and make maximum use of the free accounts to generate increased revenue. We cannot assure you, however, that GTC will be successful doing so.

Our potential customers are likely to be government or government-related entities that are subject to appropriations by Congress and reduced funding for defense procurement and research and development programs would likely adversely impact our ability to generate revenues.

We anticipate that the majority of our revenue (for both our airships and GTC) at least in the foreseeable future will come from U.S. government and government-related entities, including both the Department of Defense and other departments and agencies. Government programs that we may seek to participate in and contracts for the construction of satellite ground stations must compete with other programs for consideration during Congress' budget and appropriations hearings, and may be affected by changes not only in political power and appointments but also general economic conditions and other factors beyond our control. Reductions, extensions or terminations in a program that we are seeking to participate in or overall defense or other spending could adversely affect our ability to generate revenues and realize any profits. We cannot predict whether potential changes in security, defense, communications and intelligence priorities will afford opportunities for our business in terms of research and development or product contracts, but any reduction in government spending on such programs could negatively impact our ability to generate revenues.

We may not qualify as a U.S. government contractor, and if we do, we will be subject to a number of procurement rules and regulations.

We have not yet been qualified to be a contractor, and have done no business yet, with the U.S. Government (although our recently acquired subsidiary GTC has done so) and if we fail to so qualify, our ability to generate revenues would be severely affected. As the parent company of GTC, we are not, however, required to be qualified as a government contractor in order for GTC to qualify for new government contracts. If we do so qualify, to do business with the U.S. government, we will be required to comply with and will be affected by laws and regulations relating to the award, administration and performance of U.S. contracts, as is GTC. Government contract laws and regulations affect how we will do business with our customers, and in some instances, will impose added costs on our business. A violation of specific laws and regulations could result in the imposition of fines and penalties, the termination of any then existing contracts or the inability to bid on future contracts.

Our airships are subject to significant governmental regulation, including FAA regulations that currently prohibit us from performing any untethered flight testing of our UAVs in commercial airspace until we receive a clearance certification from the FAA which is difficult and time-consuming to obtain, and such regulations could significantly increase our research and development costs and could limit our ability to generate revenues.

Our airships are subject to regulation by the Federal Aviation Administration (FAA), which currently does not allow any untethered flights by UAVs in commercial airspace in the U.S. without prior FAA clearance certifications that are difficult and time-consuming to obtain. The FAA is evaluating how to address such flights by UAVs in U.S. commercial airspace. This increases our costs of research and development by requiring us to procure access to restricted airspace for our testing and demonstrations of our airships. We do not know if or when these regulations may change. If the FAA continues to prohibit flights by UAVs, our ability to generate revenues may be significantly adversely affected. International sales of our products may also be subject to U.S. laws, regulations and policies like the International Traffic in Arms Regulations (ITAR) and other export laws and regulations and may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. If we are not allowed to export our airships or the clearance process is burdensome, our ability to generate revenue would be adversely affected. The failure to comply with any of these regulations could adversely affect our ability to conduct our business and generate revenues as well as increasing our operating costs.

The nature of our business involves significant risks and uncertainties that may not be covered by insurance or indemnity.

We develop and sell products where insurance or indemnification may not be available, including:

- Designing, developing and producing products using advanced and unproven technologies and airships in intelligence and homeland security applications that operate in high demand, high risk situations; and

31

---

- Designing developing and producing products to collect, distribute and analyze various types of information.

Failure of our airships could result in loss of life or property damage. Certain products may raise questions with respect to issues of civil liberties, intellectual property, trespass, conversion and similar concepts, which may raise new legal issues. Indemnification to cover potential claims or liabilities resulting from a failure of technologies developed or deployed may be available in certain circumstances but not in others. We are not able to maintain insurance to protect against all operational risks and uncertainties. Substantial claims resulting from an accident, failure of our product, or liability arising from our products in excess of any indemnity or insurance coverage (or for which indemnity or insurance is not available or was not obtained) could harm our financial condition, cash flows, and operating results. Any accident, even if fully covered or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively.

We compete with companies that have significantly more resources than us and already have government contracts for the development of an airship.

A number of our competitors have received considerable funding from government or government-related sources to develop and build a mid- or high-altitude UAV. Most of these organizations and many of our other competitors have greater financial, technical, manufacturing, marketing and sales resources and capabilities than we do. Our products will compete both with not only other lighter-than-air UAVs but also with heavier-than-air fixed wing aircraft, manned aircraft, communications satellites, and tethered aerostats and balloons. We anticipate increasing competition as a result of defense industry consolidation, which has enabled companies to enhance their competitive position and ability to compete against us. In addition, other companies may introduce competing airships or solutions based on alternative technologies that may adversely affect our competitive position. As a result, our products may become less or non-competitive or obsolete. If we are not able to compete successfully against our current and future competitors, we may fail to generate revenues and our financial condition would be adversely affected.

We are subject to a number of lawsuits that could result in material judgments against us.

We are defendants in a number of litigation matters and are subject to various other claims and demands mostly related to the operation of the Company's business by prior management. These matters may divert financial and management resources that would otherwise be used to benefit our operations. We intend to aggressively defend ourselves in each of these proceedings but no assurances can be give that the results of these matters will be favorable to us. An adverse resolution or outcome of any of these lawsuits, claims or demands that cannot be predicted with certainty or potential settlements of such matters could adversely affect our business and financial condition, or could result in us having to issue freely tradable shares which could hurt our share price. Any claims and litigation, even if fully reserved or insured for, could negatively impact our reputation among our customers and the public and make it more difficult for us to raise capital, secure contracts or to compete effectively.

If we fail to protect our intellectual property rights, we could lose our ability to compete in the marketplace.

Our intellectual property and proprietary rights are one of the keys to our performance and ability to remain competitive and are necessary for the success of our products and our business. Patent protection can be limited and not all intellectual property is or can be patented. We rely on a combination of patent, trademark, copyright, and trade secret laws as well as confidentiality agreements and procedures, non-compete agreements and other contractual provisions to protect our intellectual property, other proprietary rights and our brand. We have little protection when we must rely on trade secrets and nondisclosure agreements. We filed a provisional patent application on our Argus One airship in February 2011; we have until February 2012 to file a U.S. non-provisional application or our provisional application lapses. We intend to continue to expand the patent protection for our airships and other products as we deem appropriate, but there can be no assurance that we will be able to secure any such patent

protection. Our intellectual property rights may be challenged, invalidated or circumvented by third parties. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees or competitors. Furthermore, our competitors may independently develop technologies and products that are substantially equivalent or superior to our technologies and/or products, which could result in decreased revenues. Moreover, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. Litigation may be necessary to enforce our intellectual property rights which could result in substantial costs to us and substantial diversion of management attention. If we do not adequately protect our intellectual property, our competitors could use it to enhance their products. Our inability to adequately protect our intellectual property rights could adversely affect our business and financial condition, and the value of our brand and other intangible assets.

Other companies may claim that we infringe their intellectual property, which could materially increase our costs and harm our ability to generate future revenue and profit.

We do not believe our airship technologies infringe the proprietary rights of any third party, but claims of infringement are becoming increasingly common and third parties may assert infringement claims against us. It may be difficult or impossible to identify, prior to receipt of notice from a third party, the trade secrets, patent position or other intellectual property rights of a third party, either in the United States or in foreign jurisdictions. Any such assertion may result in litigation or may require us to obtain a license for the intellectual property rights of third parties. If we are required to obtain licenses to use any third party technology, we would have to pay royalties, which may significantly reduce any profit on our products. In addition, any such litigation could be expensive and disruptive to our ability to generate revenue or enter into new market opportunities. If any of our products were found to infringe other parties' proprietary rights and we are unable to come to terms regarding a license with such parties, we may be forced to modify our products to make them non-infringing or to cease production of such products altogether.

If we are unable to recruit and retain key management, technical and sales personnel, our business would be negatively affected.

For our business to be successful, we need to attract and retain highly qualified technical, management and sales personnel. As of June 30, 2011 we employed 5 employees and relied heavily on outside partners and contractors. The failure to recruit additional key personnel when needed with specific qualifications and on acceptable terms might impede our ability to continue to develop, commercialize and sell our products. To the extent the demand for skilled personnel exceeds supply, we could experience higher labor, recruiting and training costs in order to attract and retain such employees. The loss of any members of our management team may also delay or impair achievement of our business objectives and result in business disruptions due to the time needed for their replacements to be recruited and become familiar with our business. We face competition for qualified personnel from other companies with significantly more resources available to them and thus may not be able to attract the level of personnel needed for our business to succeed.

The control deficiencies in our internal control over financial reporting may until remedied cause errors in our financial statements or cause our filings with the Securities and Exchange Commission (SEC) to not be timely.

We have identified control deficiencies in our internal control over financial reporting as of the evaluation done by management as of June 30, 2011, including those related to (i) an ineffective global control environment such that control deficiencies in various other components of internal control could lead the auditor to conclude that a significant deficiency or material weakness exists in the control environment, (ii) absent or inadequate segregation of duties within a significant account or process, (iii) inadequate documentation of the components of internal control, (iv) failure to perform reconciliations of significant accounts, and (v) inadequate design of information technology general and application controls that prevent the information system from providing complete and accurate information consistent with financial reporting objectives and current needs. If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement or our filings may not be timely made with the SEC. Based on the work undertaken and performed by us, however, we believe the consolidated financial statements contained in our reports filed with the SEC are fairly stated in all material respects in accordance with U.S. GAAP for each of the periods presented. We are implementing additional corporate governance and control measures to strengthen our control environment, but we may not achieve our desired objectives. Moreover, no control environment, no matter how well designed and operated, can prevent or detect all errors or fraud. We may identify material weaknesses and control deficiencies in our internal control over financial reporting in the future that may require remediation and could lead investors losing confidence in our reported financial information, which could lead to a decline in our stock price.

Businesses we acquire may have disclosure controls and procedures and internal controls over financial reporting that are weaker than or otherwise not in conformity with ours.

Upon consummating an acquisition, we seek to implement our disclosure controls and procedures as well as our internal controls over financial reporting at the acquired company as promptly as possible. Depending upon the nature of the business acquired, the implementation of our disclosure controls and procedures as well as the implementation of our internal controls over financial reporting at an acquired company may be a lengthy process. We conduct due diligence prior to consummating an acquisition; however, such diligence may not identify all material issues and our integration efforts may periodically expose deficiencies in the disclosure controls and procedures as well as in internal controls over financial reporting of an acquired company. If such deficiencies exist, we may not be in a position to comply with our periodic reporting requirements and, as a result, our business and financial condition may be materially harmed.

### Risks Related To Ownership of Our Common Stock

Market volatility and fluctuations in our stock price and trading volume may cause sudden decreases in the value of an investment in our common stock.

The market for our common stock is illiquid and subject to wide fluctuations in response to a number of factors, including, but not limited to:

- limited numbers of buyers and sellers in the market;
- actual or anticipated variations in our results of operations;
- our ability or inability to generate new revenues;
- the development of our products; and
- increased competition or technological innovations or new products by competitors.

The market price of our common stock has historically been, and we expect it to continue to be, volatile. The price of our common stock has ranged from between \$0.04 to \$0.32 since January 1, 2010. In addition to the extremely volatile nature of the stock market, our stock price has been affected by our own public announcements regarding such things as financings and product development. Furthermore, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance which include stock market fluctuations, general economic, political and overall global market conditions, such as recessions, interest rates or international currency fluctuations, in addition to market conditions in our industry. Consequently, events both within and beyond our control may adversely affect the market price and liquidity of our common stock.

Sales of substantial amounts of our common stock in the public market could harm the market price of our common stock.

The sale of a substantial number of shares of our common stock by stockholders could adversely affect the market price of our shares. As of May 31, 2011, we had approximately 21,200 stockholders, many of whom have held their shares for the required holding periods under Rule 144 promulgated pursuant to the Securities Act and thus would hold freely tradable shares. Pursuant to registration rights agreements entered into in connection with the private placements we closed on May 4 and May 27, 2011, we agreed to register for resale 22,588,332 shares of common stock issued to the selling stockholders in the private placements and none of the selling stockholders are subject to lock-up agreements. Once the registration statement we file in connection with the private placements is declared effective by the SEC, the selling stockholders named therein will be able to resell publicly from time to time up to 22,588,332 shares of our common stock held by such selling stockholders. If the private placement shares are sold, or if it is perceived they will be sold, the trading price of our common stock could decline. Because investors may be more reluctant to purchase shares of our common stock following substantial sales or issuances, the resale of the shares of common stock issued in the private placement could impair our ability to raise capital in the near term.

Future equity or convertible debenture financings will result in additional dilution of the ownership interest of our existing investors and may have an adverse impact on the price of our common stock.

We expect that we will need to raise additional capital in the future to continue our operations. In fact, we intend to raise capital for the construction by GTC of a ground station in India, among other reasons. Historically the primary source of the additional capital we have raised has been equity and convertible debentures, and we expect that equity-related instruments will continue to be a source of additional capital. Any future equity or convertible debenture financings will dilute the ownership interest of our existing investors and may have an adverse impact on the price of our common stock.



In addition, the terms of various securities we have issued provide for anti-dilution adjustments to their exercise or conversion price in certain circumstances. Since their issuance, certain of our warrants have been re-priced numerous times due to later sales deemed dilutive issuances under their terms. Additional dilutive issuances could trigger certain of these anti-dilution provisions that could negatively impact the price of our common stock.

We have authorized preferred stock that can be designated by our board of directors without shareholder approval.

We have authorized 10,000,000 shares of preferred stock. The shares of preferred stock may be issued from time to time in one or more series, each of which shall have distinctive designation or title as shall be determined by our board of directors prior to the issuance of any shares thereof. The preferred stock shall have such voting powers, full or limited, or no voting powers, and such preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof as adopted by our board of directors. Because our board of directors is able to designate the powers and preferences of the preferred stock without the vote of the holders of our common stock, the holders of our common stock will have no control over what designations and preferences our preferred stock will have. As a result of this, our board of directors could designate one or more series of preferred stock with superior rights to the rights of the holders of our common stock.

Provisions in our charter documents and Delaware law may inhibit a takeover of us, which could limit the price investors might be willing to pay in the future for our common stock and could entrench management.

Our restated certificate of incorporation and bylaws contain provisions that may discourage unsolicited takeover proposals that stockholders may consider to be in their best interests. These provisions include:

- the ability of the board of directors to designate the terms of, and to issue new, series of preferred stock;
  - advance notice requirements for nominations for election to the board of directors;
- the ability of the board of directors to fix the number of directors and fill any vacancies or newly created directorships;
  - a classified board of directors;
  - Limitations on the removal of directors;
  - limitations on stockholders' ability to call a special meeting of stockholders; and
  - special voting requirements for the amendment of certain provisions of our bylaws.

We are also subject to anti-takeover provisions under Delaware law, which could delay or prevent a change of control. Together, certain provisions of our certificate of incorporation and bylaws, and certain provisions of Delaware law, may singularly and/or collectively make the removal of management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock.

Since we have not paid dividends on our common stock, you may not receive income from your investment.

We have not paid dividends on our common stock and do not contemplate or anticipate paying any dividends on our common stock in the foreseeable future. Earnings, if any, will be used to finance the development and expansion of our business.

Investors may face significant restrictions on the resale of our common stock due to federal regulations of penny stock

Our common stock is subject to the requirements of Rule 15g-9, promulgated under the Exchange Act, as long as the price of our common stock is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock. Generally, the SEC defines a penny stock as any equity security not traded on an exchange or quoted on NASDAQ that has a market price of less than \$5.00 per share. The required penny stock disclosures

include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. In addition, various state securities laws impose restrictions on transferring penny stocks. Furthermore, certain brokers or on-line trading houses may not accept our common stock for brokerage accounts at their firms. Such requirements could severely limit the market liquidity of our securities and the ability of purchasers to sell our securities in the secondary market.

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

During the six month period ended June 30, 2011, we issued an aggregate of 74,335,530 shares of Common Stock for cash, the settlement of debt, the GTC acquisition, board compensation, and for services rendered to us from consultants and partners. Of the shares of Common Stock issued, 25,888,332 shares were issued for cash valued at \$0.075, or \$1,941,625 and 5,916,667 shares, or 23% were issued to insiders and affiliates, as restricted securities under an exemption provided by Section 4(2) of the Securities Act of 1933 and/or Regulation D, Rule 506, promulgated under the Securities Act of 1933. The Common Stock issued for cash was valued \$0.075 while other issuances were valued at prices based on the closing market prices on the date the Board of Directors authorized the issuances.

The above securities were offered and issued in private placement transactions made in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933 (the "Securities Act") and/or Rule 506 promulgated under the Securities Act. The investors are accredited investors as defined in Rule 501 of Regulation D promulgated under the Securities Act. In certain issuances of Common Stock for cash, the Company paid a placement agent a fee of ten percent (10%) in cash and five percent (5%) in stock of certain amounts of capital raised.

Item 6. Exhibits

Exhibits Description

- 3.1 Certificate of Ownership of Sanswire Corp. and World Surveillance Group Inc. dated April 4, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 19, 2011 and incorporated herein by reference)
- 3.2 Amended and Restated Certificate of Incorporation (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on July 27, 2011 and incorporated herein by reference)
- 4.1 Stock Purchase Agreement, dated May 2, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 9, 2011 and incorporated herein by reference)
- 4.2 Registration Rights Agreement, dated May 2, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 9, 2011 and incorporated herein by reference)
- 4.3 Stock Purchase Agreement, dated May 27, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 2, 2011 and incorporated herein by reference)
- 4.4 Registration Rights Agreement, dated May 27, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 2, 2011 and incorporated herein by reference)
- 10.1 Settlement Agreement dated May 17, 2011 between the Company and Hudson Bay Fund LP and Hudson Bay Master Fund Ltd. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 20, 2011 and incorporated herein by reference)
- 10.2 Stock Purchase Agreement by and among World Surveillance Group Inc., Global Telesat Corp., Growth Enterprise Fund, S.A. and David Phipps dated May 25, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 31, 2011 and incorporated herein by reference)
- 10.3 Option Agreement by and among World Surveillance Group Inc., Global Telesat Corp., and Growth Enterprise Fund, S.A. dated May 25, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 31, 2011 and incorporated herein by reference)
- 10.4+ Letter Agreement, dated June 13, 2011 by and between the Company and Kevin S. Pruett (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 17, 2011 and

- incorporated herein by reference)
- 10.5+ Letter Agreement, dated June 13, 2011 by and between the Company and Anita S. Hulo (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 17, 2011 and incorporated herein by reference)
- 10.6 Code of Ethics and Business Conduct of the Company (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 15, 2011 and incorporated herein by reference)
- 10.7+ 2011 Equity Compensation Incentive Plan (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on July 27, 2011 and incorporated herein by reference)
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 15, 2011 and incorporated herein by reference)
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 15, 2011 and incorporated herein by reference)
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 15, 2011 and incorporated herein by reference)
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 15, 2011 and incorporated herein by reference)

\*

Filed herewith.

+

Indicates management contract relating to compensatory plans or arrangements

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 3 to Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 11, 2011

WORLD SURVEILLANCE GROUP INC.

By: /s/ W. Jeffrey Sawyers  
Name: W. Jeffrey Sawyers  
Title: Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

Index to Exhibits

| Number | Description   |
|--------|---|
| 3.1    | Certificate of Ownership of Sanswire Corp. and World Surveillance Group Inc. dated April 4, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 19, 2011 and incorporated herein by reference)  |
| 3.2    | Amended and Restated Certificate of Incorporation (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on July 27, 2011 and incorporated herein by reference)  |
| 4.1    | Stock Purchase Agreement, dated May 2, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 9, 2011 and incorporated herein by reference)  |
| 4.2    | Registration Rights Agreement, dated May 2, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 9, 2011 and incorporated herein by reference)   |
| 4.3    | Stock Purchase Agreement, dated May 27, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 2, 2011 and incorporated herein by reference)  |
| 4.4    | Registration Rights Agreement, dated May 27, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 2, 2011 and incorporated herein by reference)   |
| 10.1   | Settlement Agreement dated May 17, 2011 between the Company and Hudson Bay Fund LP and Hudson Bay Master Fund Ltd. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 20, 2011 and incorporated herein by reference)  |
| 10.2   | Stock Purchase Agreement by and among World Surveillance Group Inc., Global Telesat Corp., Growth Enterprise Fund, S.A. and David Phipps dated May 25, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 31, 2011 and incorporated herein by reference)             |
| 10.3   | Option Agreement by and among World Surveillance Group Inc., Global Telesat Corp., and Growth Enterprise Fund, S.A. dated May 25, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 31, 2011 and incorporated herein by reference)                                  |
| 10.4+  | Letter Agreement, dated June 13, 2011 by and between the Company and Kevin S. Pruett (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 17, 2011 and incorporated herein by reference)   |
| 10.5+  | Letter Agreement, dated June 13, 2011 by and between the Company and Anita S. Hulo (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 17, 2011 and incorporated herein by reference)   |
| 10.6   | Code of Ethics and Business Conduct of the Company (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 15, 2011 and incorporated herein by reference)   |
| 10.7+  | 2011 Equity Compensation Incentive Plan (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on July 27, 2011 and incorporated herein by reference)  |
| 31.1   | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 14, 2011 and incorporated herein by reference) |
| 31.2   | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 14, 2011 and incorporated herein by reference) |
| 32.1   | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 14, 2011 and incorporated herein by reference)             |

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on August 14, 2011 and incorporated herein by reference)

\*

Filed herewith.

+ Indicates management contract relating to compensatory plans or arrangements

38

---