UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _________ to _________

Commission File Number: 001-32509

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

Delaware (State or other jurisdiction of incorporation)	88-0292161 (I.R.S. Employer Identification No.)

State Road 405, Building M6-306A, Room 1400, Kennedy Space Center, FL 32815
(Address of Principal Executive Offices) (Zip Code)

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

Securities registered under Section 12 (b) of the Exchange Act: None

Title of each class	Name of exchange on which registered

Securities registered pursuant to Section 12 (g) of the Exchange Act: Common Stock, Par Value $.00001 Per Share

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K . ¨

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act) Yes ¨ No x

The aggregate market value of the registrant's common stock held by non-affiliates, based on the closing price of the registrant's common stock on June 30, 2013, the end of the registrant's most recently completed second fiscal quarter, was approximately $7,626,700. The number of shares of the registrant's common stock outstanding as of March 21, 2014 was 706,057,033.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement (which is expected to be filed within 120 days after the registrant's fiscal year end) relating to the registrant's Annual Meeting of Stockholders to be held in July 2014 to be filed pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

Forward-Looking Statements and Risk Factors

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "could," "would," "might," "will these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, beliefs, plans, projections, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These forward-looking statements involve known and unknown risks as well as uncertainties, including those discussed herein and in the Notes to Consolidated Financial Statements for the year ended December 31, 2013, which are set forth in Part IV, Item 15(a) of this Annual Report. The actual results that we achieve may differ materially from any forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements. You should carefully review Part I, Item 1A "Risk Factors" and other documents we file from time to time with the Securities 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 Part I, Item 1A "Risk Factors" and elsewhere in this Annual Report. 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 Annual Report on Form 10-K, because these forward-looking statements are relevant only as of the date they were made.

ITEM 1. BUSINESS

General

We design, develop, market, and sell, autonomous lighter-than-air (LTA) aerostats and unmanned aerial systems (UAS) capable of carrying payloads that provide semi-persistent intelligence, surveillance and reconnaissance (ISR), security and/or wireless communications from air to ground solutions at low and mid altitudes. Our business focuses primarily on the design and development of innovative aerostats and UAS that provide situational awareness and other communications capabilities via the integration of wireless capabilities and customer payloads. Our aerostats and airships when integrated with cameras, electronics systems and other high technology payloads, are designed for use by government-related and commercial entities that require real-time ISR or communications support for military, homeland defense, border control, drug interdiction, natural disaster relief, maritime and environmental missions. We believe a very large market opportunity exists for aerostats and UAS that can provide situational awareness for mobile missions and/or fly on station for periods of time performing continuous remote sensing and communications relay missions in an affordable manner. Existing solutions such as communications satellites, manned aircraft, or balloons, and heavier-than-air fixed wing unmanned aircraft address some of this emerging demand, but either are imperfect in their capabilities and/or operate at relatively high financial and resource costs.

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, defense industry and commercial users. GTC specializes in services related to the Globalstar satellite constellation, including satellite telecommunications voice airtime, tracking devices and services, and ground station construction. GTC has an e-commerce mobile satellite solutions portal and is an authorized reseller of satellite telecommunications equipment and services offered by other leading satellite network providers such as Inmarsat, Iridium, Globalstar and Thuraya. GTC has a subscription based online tracking portal called GTCTrack, designed to attract new satellite and GSM tracking customers by offering an easy-to-use interface and compatibility with a wide range of devices. GTC's equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

Through our wholly owned subsidiary Lighter Than Air Systems Corp. (LTAS), we provide critical aerial and land-based surveillance and communications solutions to government and commercial customers. LTAS systems are designed and developed in-house utilizing proprietary technologies and processes that result in compact, rapidly deployable aerostat solutions and mast-based systems. The LTAS systems have been proven to fulfill critical requirements of the military and law enforcement in the U.S. and internationally.

Corporate Information

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 and 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 Restated Certificate of Incorporation is the charter of the surviving corporation except that our name has been changed to World Surveillance Group Inc. In connection with the change of our corporate name, effective April 25th our stock ticker symbol, under which our common stock is now traded, was changed to “WSGI”.

On May 25, 2011 we completed our acquisition of privately-held Global Telesat Corp. We acquired 100% of the issued and outstanding securities of GTC, making GTC a wholly owned subsidiary of the Company. GTC supplies satellite based tracking and communication solutions to the U.S. Government, defense industry and commercial customers.

On March 28, 2013 we completed our acquisition of privately-held Lighter Than Air Systems Corp. We acquired 100% of the issued and outstanding securities of LTAS, making LTAS a wholly owned subsidiary of the Company. LTAS provides critical aerial and land-based surveillance and communications solutions to governments and commercial customers.

Our current principal office is at State Road 405, Building M6-306A, Room 1400, Kennedy Space Center, FL 32815, and our telephone number at that location is (321) 452-3545. Our internet address is www.wsgi.com. Information contained on our website is not a part of this report and the inclusion of our website address in this report is an inactive textual reference only. Unless otherwise indicated or unless the context otherwise requires, all references in this document to “we,” “us,” “our,” the “Company” and similar expressions are references to World Surveillance Group Inc and, depending on the context, its subsidiaries.

Business of LTAS

LTAS is focused on the development of a series of tethered aerostats we call the Blimp in a Box™ (BiB) system as well as certain other products. The BIB system is a LTA, compact aerostat platform either self-contained on a trailer that can be towed by an MATV or MRAP or other standard vehicle, or it can operate from the bed of a pickup truck. It is designed to provide semi-persistent, mobile, real-time day/night high definition footage for intelligence, surveillance and reconnaissance (ISR), detection of improvised explosive devices (IEDs), border security and other governmental and civilian uses. The BiB can also be utilized for disaster response missions, by supporting two-way and cellular communications, and act as a repeater or provide wireless networking.

The BiB aerostat system was designed and developed in response to interest from government agencies for a custom-designed compact, tactical, mobile tethered aerostat solution. The BiB 250 system has a tethered envelope filled with helium gas, a stabilized payload, portable ground control station and a datalink between the ground station and the envelope. Hovering at up to 2,000 ft. above the ground, the BiB 250 provides superior surveillance capabilities yet with relatively low acquisition and maintenance costs as it requires an operational crew of just two personnel, relatively simple maintenance procedures and a quick retrieval and helium top-off for re-inflation.

LTAS systems were used to support a sole source contract from the United States Department of Defense (DoD) received by GTC for a set of BiB aerostat systems. The contract award included on-location support for technical fact gathering, installation and training for the BiB systems. The BiB systems were delivered to Fort Polk, LA in April and May 2013 and testing of the aerostat system and also multiple training sessions for soldiers on the base in preparation for future military exercises was performed at that time. Formal DoD acceptance of the BiB systems was issued following completion of the testing, training and an inventory accounting.

In other contracts:

- LTAS has provided seven critical aerostat launcher electric main winches and spare components to support the Small Tactical Multi-Payload Aerostat System (STMPAS) for the U.S. Army Rapid Equipping Force (REF). The LTAS custom designed, engineered and manufactured winch systems were requested by Georgia Tech Research Institute working with the REF in support of STMPAS. STMPAS, although larger than the BiB, is a tactical aerostat system designed to provide ISR capability for small tactical units in Afghanistan and other locations.

- LTAS also provided the initial trailer-mounted aerostat launcher systems and six aerostats to BAE Systems to support the U.S. Army Space and Missile Defense Command (SMDC). The LTAS self contained, compact, trailer-mounted aerostat launcher system and aerostats have been delivered and are undergoing testing and evaluation for various mission profiles to support and enhance critical communications for the Army.

- Five custom aerostat systems and subcomponents were provided by LTAS to support the REF. The aerostat systems and related components were delivered directly into active overseas operations to support U.S. military troops. The LTAS aerostat systems requested by the REF were custom-designed and engineered, and were manufactured to provide capabilities for specific mission requirements. The systems include aerostats, winches, tank racks and related support equipment.

- LTAS has received an order for a BiB 100 aerostat system for use by a State Department of Transportation. Subsequent to the initial BiB 100 aerostat system order, the customer purchased additional surveillance related equipment which along with the BiB 100 are scheduled to be delivered to the customer during the second quarter of 2014, after which onsite training and test operations will commence. Unlike a drone or other unmanned aerial vehicle, the highly mobile BiB 100 aerostat system utilizes a high strength, power tether line to remain connected to an integrated trailer where secure communications are transmitted. The system is designed to provide incident awareness and assessment ("IAA") and can be used to monitor illegal activity, identify and monitor traffic patterns, or provide disaster response in a secure manner without the risk of being intercepted or jammed.

LTAS aerostat systems successfully participated in the U.S. Army's Network Integration Experiment (NIE) 14.1 at the U.S. Army White Sands Missile Range in New Mexico during October and November 2013. The two complete, turn-key trailer-mounted aerostat launcher systems previously delivered to SMDC and known as Winch Aerostat Small Platforms (WASP) enable persistent, on-demand, beyond-line-of-sight communications in support of ground forces maneuvers. The NIE is a series of semi-annual, soldier-led evaluations designed to further integrate, mature and rapidly progress the Army's tactical communications network. NIE serves as a principal driver of change in the Army -- such in-field evaluation and integration events drive requirements, field recommendations and procurement.

Systems provided by LTAS to the SMDC/Army Forces Strategic Command will participate in the U.S. Army's NIE 14.2 taking place at Fort Bliss, TX and White Sands Missile Range, NM during April and May 2014. The two WASPs will be returning to NIE 14.2 as a “Baseline System” following their successful mission at NIE 14.1 where they were a “System Under Evaluation,” the difference being that now the WASP system will be used to test other new systems. The WASP is a mobile, tactical-sized aerostat capable of carrying a variety of payloads in support of military operations helping troops in the field have a tactical edge while communicating over greater distances. The WASP leverages aerostat technology to elevate network payloads to an advantaged height to enable persistent network connectivity while reducing risk to units conducting missions. The NIE 14.2 exercises are intended to evaluate joint force network capabilities; improve unified land operations with communications nodes based on aircraft and unmanned aerial vehicles (UAVs); integrate networking technologies into the armored brigade combat team; develop ways to deliver, collect and process integrated, multi-source intelligence to front-line warfighters; and make field command posts more mobile and efficient. The NIE 14.2 exercises also will involve beyond-line-of-sight communications; expeditionary signal brigade tropospheric scatter communications; network intrusion prevention; cellular communications; electromagnetic spectrum operation; condition based maintenance; and operational energy solutions.

LTAS also focuses on a product range of telescoping masts as a cost-effective means for elevating a camera, radar or antenna array. LTAS model masts are available for heights from 20 feet to over 100 feet (10 stories) and head-load ratings from 15 pounds to 120 pounds. LTAS mast packages and systems are engineered for specific applications that support mobile border patrol, perimeter security, crowd management, emergency incident response, situational awareness, pipeline security, communications relay, repeater and primary antenna array, check points, and port security.

The LTAS tethered powered aircraft are currently under development and can be integrated with any of our aerostat systems as well as our mast systems. The concept of the rotary wing (copter) systems is built on the strength of our years of developing tethered solutions for our aerostat products and combining that with the advantages of single and multi-rotor copters. The end result is a robust capability designed to be used in almost all weather environments and controlled with the push of a button. The LTAS tethered copters are being designed to take off, hover and land via remote control while being connected by a unique tether technology where all data, controls and endurance are built into the tether. The same components and systems that our military customers rely on in our launcher systems are being incorporated into the self contained LTAS copter system in order to produce a unique heavier-than-air, tethered product offering.

Business of GTC

GTC has an e-commerce website offering a range of portable satellite voice, data and tracking solutions, known as Mobile Satellite Services (MSS). GTC's MSS products include handheld satellite phones, personal and asset tracking devices, and portable high speed broadband terminals, all of which work virtually anywhere in the world. Aside from GTC’s Globalstar related services, GTC is also an authorized reseller of satellite telecommunications services offered by other leading networks such as Iridium, Inmarsat, Globalstar and Thuraya. While GTC has in the past concentrated on sales of such services to government buyers, GTC's solutions are ideally suited for industries such as maritime, aviation, government/military, emergency/humanitarian services, mining, forestry, oil and gas, heavy equipment, transportation and utilities as well as recreational users. GTC’s website is meant to appeal to a global, technologically advanced customer base. It delivers a rich, user-friendly interface so that customers can research solutions suitable for their individual requirements and instantly purchase online any of the products or services supplied by GTC and/or its network providers. Through these networks, GTC's website offers voice, data and tracking MSS solutions with 100% global coverage.

In the fourth quarter of 2013, GTC made a selection of its portable satellite voice, data and tracking solutions easier to find and buy online by opening an Amazon storefront, with many products offered by GTC being fulfilled by Amazon from their various warehouses in the US. Tens of millions of people come to Amazon to buy the products they’re looking for, making Amazon one of the most successful internet retailers for buying and selling online. A wide range of satellite communications products are available to buy on Amazon and GTC is able to offer competitive pricing on all products offered on the site. This has led to a rapid increase in GTC’s online sales, with more than 100 sales made through Amazon in the six weeks that GTC’s store was open in 2013. GTC intends to continue adding further products to its Amazon store and will send further inventory to Amazon to enable them to fulfill customer orders directly.

GTC has a subscription based online tracking portal called GTCTrack, designed to attract new satellite and GSM tracking customers by offering an easy-to-use interface and compatibility with a wide range of devices. Using a web based Google Earth interface, GTCTrack displays real-time worldwide asset location reports including position, speed, altitude and heading and also provides past location and movement history reports on a wide range of popular GSM and satellite tracking devices from more than 20 different manufacturers including all current tracking devices in the Globalstar range. GTCTrack has proved to be very popular with customers and has helped GTC to secure business that otherwise might not have been secured. Customer feedback has been very positive as users have found GTCTrack easy to use and cost effective for single users. It is also ideal for customers looking to track a variety of assets from different manufacturers under one login.

GTC is also pursuing various contracts for the construction of satellite ground stations in Africa, Afghanistan and other locations. If GTC is awarded such a contract outright, it would likely produce a highly profitable revenue stream over the next 18-24 months, as the cost of each ground station is approximately $5 million and the net profit is expected to be approximately 15%. If GTC partners with other entities to construct such a ground station, GTC's revenues would depend on negotiations between the parties and could include only future revenue as the ground station is used rather than construction fees. GTC could also decide to raise capital and construct a ground station on its own, although this would take considerable funding and is not likely in the near future. It is likely that Globalstar will require access to these ground stations to enhance their satellite network coverage. In return for allowing access to these ground stations, GTC has historically negotiated the use of a large number of accounts with Globalstar. These accounts involve GTC having free use of satellite telecommunications simplex messages through the Globalstar network and can be sold to government, commercial or individual users without cost to GTC to further increase revenue and profitability relating to the ground stations. GTC has already negotiated terms with Globalstar that allows Globalstar access to a certain ground station once built in return for GTC having use of up to 10,000 simplex messaging accounts (1,000 of which GTC is required to transfer to a former affiliated company) on the Globalstar network. If that particular ground station is not constructed for any reason, GTC would anticipate either transferring such agreement to a newly built ground station or negotiating similar agreements with Globalstar in connection with any additionally built ground stations. Moreover, now that Globalstar has completed the launch of its new satellite system, GTC may also be able to negotiate for satellite telecommunications voice airtime accounts as well. There is no guarantee that GTC will be awarded any such contracts in the future and a failure to secure these contracts will result in significantly lower than anticipated revenue streams over the coming years. A failure to build the specific ground station may also affect GTC's ability to use the free accounts agreed with Globalstar, further reducing the potential revenue streams over the longer term.

Under the terms of previous contracts with Globalstar, GTC currently has the rights to use up to 2,430 simplex or one-way transmission tracking accounts without charge for at least another 11 years and has a contract with Globalstar that allows for an additional 10,000 unlimited usage accounts to be available to GTC (1,000 of which GTC is required to transfer to a former affiliated company) over a 25 year period upon completion of a certain satellite tracking ground station. If that particular ground station is not constructed for any reason, GTC would anticipate either transferring such agreement to a newly built ground station or negotiating similar agreements with Globalstar in connection with any additionally constructed ground stations. GTC can use each simplex or one-way transmission account to transmit an unlimited number of locational or status messages from tracking devices used anywhere within the Globalstar simplex coverage area. Under the terms of contracts between GTC and Globalstar, GTC will pay no activation fee, monthly fee or per message fee to Globalstar for each account used during the term of the contracts. This simplex service addresses the existing and ever growing market demand for a small and cost effective solution for receiving and processing data from remote locations and is used in applications such as tracking vehicles or asset shipments, monitoring unattended remote assets or mobile security. This is a rapidly growing market and GTC believes it is well positioned to take advantage of this growth. In the past, GTC has dealt specifically with US government customers but is now also focused on expanding this customer base and making maximum use of the free accounts to generate increased revenue.

Business of WSGI

On August 27, 2013, we signed a teaming agreement with three other companies to establish a consortium to further develop, test and commercialize our other LTA UAS product, the Argus One. As part of the agreement, the Argus One development program was relocated to Ohio from its prior location in Easton, Maryland. In addition to World Surveillance Group, the initial partners in the consortium are: The Trident Group, Ltd., based in Dublin, Ohio (Trident), EWA Government Systems, Inc., based in Herndon, VA and with an office in Dayton, Ohio (EWA GSI) and Advanced Virtual Engine Test Cell, Inc., based in Springfield, Ohio (Avetec). We expect additional partners to join the consortium in the future.

After transfer to the Ohio LTA UAS Consortium, the Argus One was immediately dispatched to the Electronic Warfare Associates Engineering Facility in Fairmont, West Virginia. There it underwent static testing, inspection and design assessment. When this was completed, the propulsion and avionics pod of the Argus One was separated from the envelope assembly for installation at the Center for UAV Exploitation (CUE) in Dayton, Ohio that is co-located with the United States Air Force (USAF) Rapid Prototyping Center. The CUE is a supporting partner of the Consortium and this is presently the only commercial product under testing and development within the facility. Beside avionics and flight control testing, the pod will also be evaluated there for the possible installation of a hybrid propulsion system similar to types presently under development by the USAF.

The envelope assembly of the Argus One will be housed with the Unmanned Systems Innovation Center (USIC) at Springfield Beckley Airport near Dayton, Ohio. Two Argus One demos are planned at the USIC this year in conjunction with the Ohio/Indiana UAS Center and Test Complex. One demo will highlight the new ducted fan/vectored thrust propulsion system presently under development and the other will be for congressional staff. We anticipate Certificates of Authorization will be secured for these events through the Ohio/Indiana UAS Center and Test Complex, allowing for untethered operation.

The Argus One, named after the Greek god Argus who was the all seeing god with one hundred eyes, is intended to be a customer's "eyes in the sky" even in remote locations and is being designed to meet certain requirements for more persistent ISR applications for U.S. military and other governmental agencies. Argus One is designed to fly over areas of interest for extended durations carrying various payloads intended to allow for ISR, communications and other applications. The Argus One is being designed to have significant competitive advantages over the existing manned aircraft, heavier-than-air fixed wing UAS, tethered aerostats and balloons, or low orbit satellite alternatives. The Argus One has a flexible, non-rigid envelope which allows for easy storage and transport to remote locations. There is no need for large hangars or airport infrastructure, as the Argus One is designed to be assembled and tactically launched in hours from virtually anywhere, including remote, mountainous territory. Combined with the fact that the Argus One has significantly lower acquisition, maintenance and operation costs as a result of the above characteristics when compared especially to manned airships and fixed-wing UAS, we believe the Argus One will provide government and commercial customers a significantly different alternative for their UAS needs.

Market

We believe a large and increasing market exists for aerostats like the BiB, which is smaller and more mobile than many of the large tethered aerostats on the market currently and which is specifically designed for quick deployment, maneuverability and superior weather handling. The BiB in its deflated, crated form can be transported in standard sized military or commercial vehicles and can be quickly inflated and launched to the mission applicable altitude by two operators within minutes where it can either remain stationary or be towed for mobile operations. The BiB system can be outfitted with various payloads depending on the application or mission. Finally the BiB can be deflated by the same small crew within minutes and either left inflated for near-term redeployment without the need for any further helium or repackaged in its crate for longer-term redeployment. We believe the capabilities of the BiB system including its relatively low cost, its ability to be prepackaged and integrated into a standard vehicle for easy transport to remote locations, the ability to deploy the system within minutes by a small crew without large infrastructure or resources, its ability to hover providing a semi-persistent security capability or its mobile capabilities providing situational awareness to on-the-move forces, and its extremely durable body that is able to handle adverse weather more effectively make it advantageous for use in a wide variety of military, quasi-military and civilian applications.

The market for our LTA aerostats and UAS has grown significantly over the last several years, especially following the number of terrorist attacks here and abroad, due to the demands associated with the current global threat environment. Aerostats and UAS proved very valuable in the Iraq and Afghanistan wars and thus are expected to be an increasing military priority in the coming years as they are able to provide lower cost and safer ISR and communications. The military has transformed into a smaller, more agile fighting force in need of a network of technologies to provide improved observation, communication and precision targeting of combat troop locations, which are often embedded in dense population centers or dispersed in remote locations. Our products are intended to provide critical observation and communications capabilities serving the increased demand for ISR and communications, including real-time tactical reconnaissance, tracking, combat assessment and geographic data, while reducing the risks to our troops in theatre. The ability to observe adversaries on a continuous basis in all manner of locations with high-resolution cameras, sensors and other electronic equipment and enhance communication among our troops remain critical needs for our military.

The market for LTA tethered aerostats and UAS appears to have shifted especially in the recent years as the troops began to withdraw from the Middle East and numerous heavily government-funded large LTA UAS projects have failed or been cancelled. Notable examples of this are the LEMV by Northrop Grumman, the Blue Devil 2 by Mav6, the ISIS by Raytheon, and the HALE-D by Lockheed Martin. The market shift has been to smaller more tactical aerostats and UAS that proved more useful in the rugged terrain environments in Iraq, Afghanistan, and other countries where terrorist groups were active. The scheduled withdrawal of most troops from Afghanistan by 2014 has reportedly led to an intensification of smaller aerostat and UAS use to protect remaining forces. The U.S. Department of Defense (DoD) doubled the number of aerostats in Afghanistan for ISR in fiscal 2011 and 2012, although many of these were much larger and more expensive than our BiB and required more infrastructure and resources to use. The desire for smaller, tactical LTA platforms has grown as the military's demand for persistent and semi-persistent, mobile ISR and communications has increased dramatically. Finally, in a highly constrained fiscal environment, the typically lower acquisition and use/maintenance costs of LTA aerostats and smaller UAS make them more appealing when compared to their heavier than air manned or larger LTA unmanned system alternatives.

Forecasts project U.S. and global LTA aerostat and UAS markets will experience strong growth during the next 10 years. The Teal Group's forecast of UAS demand shows worldwide annual spending on research, development, testing, and evaluation (RDT&E) and procurement rising from $6.6 billion in 2013 to $11.4 billion in 2022. Total worldwide spending for the period is forecast to amount to $89.1 billion. Throughout the forecast period, Teal expects the U.S. share of RDT&E to account for 62% of worldwide spending, while U.S. procurement will amount to 55% of worldwide spending. According to Teal, UAS procurement will mirror demand for high-tech arms procurement in the Asia-Pacific region and in Europe. The DoD is spending about $1.3 billion in fiscal 2012 to develop and acquire various LTA aerostats and airships. The President's fiscal 2013 budget requested $3.8 billion for UAS acquisition. A June 2011 analysis by the Congressional Budget Office examined DoD UAS acquisition costs based on DoD's fiscal 2012 budget request and reported procurement costs for the 2011-2020 period would amount to nearly $37 billion. The commercial markets for our UAS, however, will only open once rules are established for the safe and effective operation of UAS in national airspace, which is regulated by the Federal Aviation Administration (FAA).

The markets for our BiB aerostat systems and Argus One airships on a stand-alone basis and/or combined with other payloads relates to the following applications, among others:

Government:

- International, Federal, state and local governments as well as US and foreign government agencies, including DoD, DEA, Homeland Security, Customs, EPA, Transportation
  - Military
  - Intelligence, reconnaissance and surveillance
  - Border security monitoring

– Drug enforcement
– High value asset tracking
– Monitoring environmental pollution and sampling air emissions
– Traffic monitoring

Commercial Applications:

- Mobile communications system
- ISR platform
- Natural disaster instant infrastructure
- Nautical tracking for maritime shipping companies
- Oil pipeline monitoring and exploration
- Fleet vehicle diagnostic, maintenance, fuel theft, tracking
- Fleet generator operation diagnostic tracking
- Power grid infrastructure management
- Solar power infrastructure management
- Atmospheric and climate research

LTAS' mast business is focused on producing unique mast-based surveillance systems that offer increased capability at a low industry cost. Our potential markets for our mast products include mobile border patrol, perimeter security, crowd management, emergency incident response situational awareness, communications relay, repeater and primary antenna array, check points, and port security. We currently have various customers utilizing our mast products in both the Government and commercial markets.

GTC's markets differ depending on the services provided. The market for the construction of satellite ground stations has historically been and is expected to continue to be mainly government and government-related entities, although various commercial entities may be interested in either funding such a satellite ground station or partnering with GTC to build such ground stations in strategic areas.

There is an existing and we believe significantly growing, multi-billion dollar global market for a small and cost effective solution for receiving and processing data from remote locations used in applications such as tracking vehicles or asset shipments, monitoring unattended remote assets or mobile security. GTC's solutions are ideally suited for industries such as maritime, aviation, government/military, emergency/humanitarian services, mining, forestry, oil and gas, heavy equipment, transportation and utilities, as well as recreational users. This is a rapidly growing market and GTC believes it is well positioned to take advantage of this growth, especially with its e-commerce website and Amazon storefront through which GTC offers a range of portable satellite voice, data and tracking solutions that provide communications services to areas of the world where other methods of communication do not exist or are currently limited, including remote land and ocean areas, the polar regions, and areas where an existing telecommunications infrastructure has been negatively affected by political conflicts, natural disasters, or other such events. GTC also has a subscription based online tracking portal called GTCTrack, designed to attract new satellite and GSM tracking customers by offering an easy-to-use interface and compatibility with a wide range of devices. Using a web based Google Earth interface, GTCTrack displays real-time worldwide asset location reports including position, speed, altitude and heading and also provides past location and movement history reports on a wide range of popular GSM and satellite tracking devices from more than 20 different manufacturers including all current tracking devices in the Globalstar range. Under the terms of previous contracts with Globalstar, GTC currently has the rights to use simplex or one-way transmission accounts to transmit an unlimited number of locational or status messages from tracking devices used anywhere within the Globalstar simplex coverage area. Under the terms of contracts between GTC and Globalstar, GTC will pay no activation fee, monthly fee or per message fee to Globalstar for each account used during the term of the contracts, allowing GTC's pricing to be very competitive. In the past, GTC has dealt specifically with U.S. government customers but is now also very focused on expanding its customer base and making maximum use of these free accounts to generate increased revenue.

Competition

We believe that the principal competitive factors in the markets for our LTA BiB aerostat systems and airships include product performance, features, acquisition cost, lifetime operating cost, including maintenance and support, ease of use, integration with existing equipment, size, mobility, quality, reliability, customer support, brand and reputation.

We believe the current market competitors to our BiB aerostat system include a large number of not only small "mom and pop" tethered aerostat and balloon companies but large defense contractors, among them: TCOM, Raytheon, Lockheed Martin, ISL, Compass Systems, Raven Aerostar and American Blimp Corporation. We believe there are numerous competitors for LTAS mast systems including Netvision and Wanco.

The current market competitors to LTA UAS like our Argus One airship are not only other LTA UAS, but also manned aircraft, heavier-than-air fixed wing unmanned aircraft, tethered aerostats and balloons, and low earth orbit satellites. The markets for our mid-altitude product are evolving rapidly and subject to changing technologies, shifting customer needs and expectations, and the potential introduction of new products. Nearly all mid-altitude UAS operating today are fixed wing, heavier-than-air platforms. Existing contractors that provide mid-altitude long endurance UAS include Northrop Grumman with its Global Hawk, General Atomics with its Predator, Reaper and Grey Eagle, the Boeing Company with its Scan Eagle, and Elbit Systems with its Hermes aircraft. Several large aerospace and defense contractors are pursuing this market opportunity with proposed long duration heavier-than-air fixed wing UAS, including The Boeing Company, QinetiQ, Aurora Flight Sciences, Lockheed Martin and Northrop Grumman. Companies pursuing LTA UAS as a solution for this market include Lockheed Martin, Northrop Grumman and Raytheon. Companies pursuing low earth orbit satellites as a solution for this market include The Boeing Company, Lockheed Martin, General Dynamics, the European Aeronautic Defense and Space Company, Ball Aerospace Technologies and Orbital Sciences. There are a large number of companies that offer various competing aerostats, including TCOM LP, Lockheed Martin, Raytheon, and American Blimp Corporation.

Many of our competitors have received considerable funding from government or government-related sources to develop and build LTA aerostats or UAS. Most of these organizations and many of our other competitors have greater financial, technical, manufacturing, marketing and sales resources and capabilities than we do. 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 aerostats, 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.

The competitors for GTC's satellite telecommunications services are other leading satellite networks such as Iridium, Inmarsat, Thuraya and even Globalstar, and their various resellers. GTC expects the competition for these and its satellite tracking and monitoring services to increase significantly as the market demand accelerates. GTC believes it will be well positioned to compete for this business largely on a cost basis due to the free accounts it has pursuant to the Globalstar agreements. GTC can use each simplex or one-way transmission account to transmit an unlimited number of locational or status messages from tracking devices used anywhere within the Globalstar simplex coverage area. Under the terms of contracts between GTC and Globalstar, GTC will pay no activation fee, monthly fee or per message fee to Globalstar for each account used during the term of the contracts. GTC does not believe it has any significant competition in the construction of ground stations around the world although such construction is primarily dependent on government funding, unless a commercial entity needs communications access to a strategic particular area not covered by today's network constellations and funds such a satellite ground station or GTC partners with such a commercial entity in the construction of a ground station.

Technology, Research and Development

In addition to the in-house capabilities of our subsidiaries, we develop technology utilizing relationships with partners who specialize in the design and development of technology related to our products. We have entered into several relationships with technical partners that we intend to continue to develop and expand so as to further develop and commercialize our products. The development, commercialization and construction of our BiB aerostat system, masts and copter program is done by our subsidiary LTAS, while the development of our Argus airship is done through the Ohio LTA UAS Consortium we entered into in August 2013. While we believe our relationships with our technical partners to be strong, there is no assurance that they will always remain so. If these relationships were to break down or terminate or if we were to lose the services of any of our technical partners, it could cause a delay in our ability to continue to develop, manufacture and sell one or more of our products, postpone or reduce our revenue from such product, and/or increase the costs related to development and commercialization of such product.

Our research and development efforts are largely focused on our BiB aerostat systems and other LTAS products. We have developed a “non-military spec” BiB system for use in more commercial or governmental applications not requiring the level of durability and ruggedness of the current militarized model and continue to work on different models with different payloads for various applications.

The LTAS tethered powered aircraft are currently under development and can be integrated with any of our aerostat systems as well as our mast systems. The concept of the rotary wing (copter) systems is built on the strength of our years of developing tethered solutions for our aerostat products and combining that with the advantages of single and multi-rotor copters. The end result is a robust capability designed to be used in almost all weather environments and controlled with the push of a button. The LTAS tethered copters are being designed to take off, hover and land via remote control while being connected by a unique tether technology where all data, controls and endurance are built into the tether. The same components and systems that our military customers rely on in our launcher systems are being incorporated into the self contained LTAS copter system in order to produce a unique heavier-than-air, tethered product offering.

On August 27, 2013, we signed a teaming agreement with three other companies to establish a consortium to further develop, test and commercialize our other LTA UAS product, the Argus One. As part of the agreement, the Argus One development program was relocated to Ohio from its prior location in Easton, Maryland. In addition to World Surveillance Group, the initial partners in the consortium are: The Trident Group, Ltd., based in Dublin, Ohio (Trident), EWA Government Systems, Inc., based in Herndon, VA and with an office in Dayton, Ohio (EWA GSI) and Advanced Virtual Engine Test Cell, Inc., based in Springfield, Ohio (Avetec). We expect additional partners to join the consortium in the future.

After transfer to the Ohio LTA UAS Consortium, the Argus One was immediately dispatched to the Electronic Warfare Associates Engineering Facility in Fairmont, West Virginia. There it underwent static testing, inspection and design assessment. When this was completed, the propulsion and avionics pod of the Argus One was separated from the envelope assembly for installation at the Center for UAV Exploitation (CUE) in Dayton, Ohio that is co-located with the United States Air Force(USAF) Rapid Prototyping Center. The CUE is a supporting partner of the Consortium and this is presently the only commercial product under testing and development within the facility. Beside avionics and flight control testing, the pod will also be evaluated there for the possible installation of a hybrid propulsion system similar to types presently under development by the USAF.

The envelope assembly of the Argus One will be housed with the Unmanned Systems Innovation Center (USIC) at Springfield Beckley Airport near Dayton, Ohio. Two Argus One demos are planned at the USIC this year in conjunction with the Ohio/Indiana UAS Center and Test Complex. One demo will highlight the new ducted fan/vectored thrust propulsion system presently under development and the other will be for congressional staff. We anticipate Certificates of Authorization will be secured for these events through the Ohio/Indiana UAS Center and Test Complex, allowing for untethered operation.

Partners

We and our subsidiaries have entered into a number of relationships with various marketing and technical partners who have expertise in the marketing and sale of, and the design and development of technology related to, our products that we intend to continue to develop, expand and strengthen in the coming year so as to further develop and commercialize our products. We also have several agreements with partners to assist us with the marketing and sales of our various products, as we currently have limited in-house sales capabilities. GTC and LTAS have several distributors both here and abroad for their products as well.

On August 27, 2013, we signed a teaming agreement with three other companies to establish a consortium to further develop, test and commercialize our Argus One lighter-than-air unmanned aerial system. As part of the agreement, the Argus One development program was relocated to Ohio from its prior location in Easton, Maryland. In addition to World Surveillance Group, the initial partners in the consortium are: The Trident Group, Ltd., based in Dublin, Ohio (Trident), EWA Government Systems, Inc., based in Herndon, VA and with an office in Dayton, Ohio (EWA GSI) and Advanced Virtual Engine Test Cell, Inc., based in Springfield, Ohio (Avetec). We expect additional partners to join the consortium in the future.

GTC has a broad, longstanding relationship with Globalstar. GTC specializes in services offered through the Globalstar satellite network and is also a reseller of Globalstar's satellite mobile and data communications services globally via satellite. Finally, GTC has various contracts with Globalstar, the terms of which provide GTC the right to use up to 2,430 simplex or one-way transmission tracking accounts which can be used without charge for at least another 11 years and has a contract with Globalstar that allows for an additional 10,000 unlimited usage accounts to be available to GTC (1,000 of which GTC is required to transfer to a former affiliated company) over a 25 year period upon completion of a certain satellite tracking ground station. If that particular ground station is not constructed for any reason, GTC would anticipate either transferring such agreement to a newly built ground station or negotiating similar agreements with Globalstar in connection with any additionally constructed ground stations. GTC can use each simplex or one-way transmission account to transmit an unlimited number of locational or status messages from tracking devices used anywhere within the Globalstar simplex coverage area. Under the terms of contracts between GTC and Globalstar, GTC will pay no activation fee, monthly fee or per message fee to Globalstar for each account used during the term of the contracts. GTC's free accounts can be sold to customers requiring simplex service through the Globalstar network. In the past, GTC has dealt specifically with U.S. government customers but intends to attempt to expand this customer base and make maximum use of these free accounts to generate increased revenue. The contracts with Globalstar also allow GTC to construct an additional five satellite ground stations anywhere in the world.

Intellectual Property

Our success and ability to compete depends in part on our ability to develop and maintain our intellectual property and proprietary technology and to operate without infringing on the proprietary rights of others. On February 17, 2011, we filed a provisional patent in the U.S. relating to our Argus One UAS for an unmanned autonomous airship with automated control for individual modules for improved flight stability and aerodynamic body control. In February 2012 we filed both a U.S. utility patent application and a patent application under the Patent Cooperation Treaty for an airship design and method of controlling the airship based on our Argus One UAS. In May 2012 we filed a provisional patent, and in May 2013 we filed a U.S. utility patent application, for a self-powered releasable aerostat and for a method for releasing and controlling the aerostat. As our development of our aerostats and the Argus One airship continues, we expect to expand and strengthen our portfolio of intellectual property by relying on patents, trade secrets, copyrights, trademarks, non-disclosure agreements and other contractual provisions. We have also applied for trademark registration on the name Blimp in a Box. In certain cases, when appropriate, we opt to protect our intellectual property through trade secrets as opposed to filing for patent protection in order to preserve confidentiality. All of our employees are subject to non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights.

Dependence on a Few Customers and Regulatory Matters

We believe that our aerostat and airship products will at least initially be sold to a limited number of U.S. government and government-related customers. Other than products sold through its e-commerce website and Amazon storefront, the majority of GTC's products and services have been sold to U.S. government and government-related entities. Although GTC is now focusing on the broader commercial market for its satellite devices, tracking and monitoring services, customers for ground station construction will largely remain government and government-related entities unless a commercial entity needs communications access to a strategic particular area not covered by today's network constellations and funds such a satellite ground station or GTC partners with such a commercial entity in the construction of a ground station.

We anticipate that the majority of LTAS' revenue 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 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 spending could adversely affect our ability to generate revenues and realize any profits. We cannot predict whether potential changes in security, defense 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 have not yet attempted to register as a contractor with the U.S. Government (although our subsidiaries GTC and LTAS have done so and have done business with various departments of the Government) and if we apply and fail to so qualify, our ability to generate revenues could be affected. As the parent company of GTC and LTAS, we are not, however, required to be qualified as a government contractor for GTC and LTAS to qualify for new 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 are GTC and LTAS. 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.

Some of our products are subject to regulation by the FAA, which currently does not allow any untethered flights by UAS in commercial airspace in the U.S. without prior FAA clearance certifications or an FAA Certificate of Waiver or Authorization (COA) that are difficult and time-consuming to obtain. Federal, state and local government entities must obtain an FAA COA before flying unmanned aerial systems (UAS) in the Nation Air Space (NAS). In November 2013, the FAA released its first annual Roadmap outlining efforts needed to safely integrate UAS into the nation's airspace system. The Roadmap addresses current and future policies, regulations, technologies and procedures that will be required as demand moves the country from today's limited accommodation of UAS operations to the extensive future integration of UAS into the NextGen aviation system. In Feb 2014, after a rigorous 10-month selection process involving 25 proposals from 24 states, the Federal Aviation Administration has chosen six unmanned aircraft systems (UAS) research and test site operators across the country. In selecting the six test site operators, the FAA considered geography, climate, location of ground infrastructure, research needs, airspace use, safety, aviation experience and risk. In totality, these six test applications achieve cross-country geographic and climatic diversity and help the FAA meet its UAS research needs. While we do not currently know the rules that will ultimately be issued by the FAA, or the cost of complying with them, we intend to closely follow all progress made by the FAA. We believe our reliance on the U.S. government and government-related entities as our primary customers may change once the FAA determines the rules and regulations required for the safe flight and operation of UAS in our national airspace, since we will then be able to sell our untethered UAS products to a much broader commercial market where the demand is increasing rapidly.

International sales of our products may also be subject to U.S. laws, regulations and policies like the United States Department of State restrictions on the transfer of technology, ITAR and other export laws and regulations and may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. This may limit our ability to sell our products abroad and 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. Our products may also be subject to regulation by the National Telecommunications and Information Administration and the Federal Communications Commission that regulate wireless communications.

Sources and Availability of Components

Certain materials and equipment for our products are custom made for those products and are dependent upon either a single or limited number of suppliers. Failure of a supplier could cause delays in delivery of the products if another supplier cannot promptly be found or if the quality of such replacement supplier's components are inferior or unacceptable.

Employees

As of March 21, 2014, we had 7 full-time employees, including our executive officers. LTAS and GTC hire contract employees on an as needed basis, and have not historically had any problems finding qualified personnel. We do not believe that we will have difficulty in hiring and retaining qualified individuals for our general operations. We believe that our relations with our employees are good. None of our employees are represented by a collective bargaining agreement, nor do we have collective bargaining arrangements with any of our employees.

Available Information

We are subject to the informational and disclosure requirements pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act). We file periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington, DC 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically. All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

Financial and other information about WSGI, including our Code of Ethics and Business Conduct, is available on our website (www.wsgi.com). We make available free of charge on our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished to the SEC pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. Information on our website is not part of this Annual Report on Form 10-K or any other securities filings of ours unless specifically incorporated by reference herein or therein. All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements unless required.

ITEM 1A. RISK FACTORS

The following important factors could cause our actual business and financial results to differ materially from our current expectations, estimates, forecasts, and projections. These forward-looking statements contained in this Annual

Report on Form 10-K or made elsewhere by management from time to time are subject to important risks, uncertainties and assumptions, which are difficult to predict. The risks and uncertainties described below or incorporated herein by reference are not the only risks and uncertainties facing us. Additional risks not currently known to us or that we currently believe are immaterial may also impair our operating results, financial condition and liquidity. Our business is also subject to general risks and uncertainties that affect many other companies. These risks should be considered carefully along with the other information contained or incorporated herein by reference.

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 December 31, 2013, we had $118,732 in cash and negative working capital of $16,598,286 and for the year ended December 31, 2013, we had a net loss of $3,417,205. We expect to use the funds raised, if any, to expand and accelerate our sales capabilities and research and development efforts, increase our manufacturing facilities, acquire complimentary technology, companies or personnel, hire additional 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 do not have any firm commitments for additional capital from third parties or from our officers, directors or shareholders. We are currently in litigation with La Jolla Cove Investors and do not expect any future financing under those agreements. 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 from general and administrative costs associated with our business and in research and development efforts. We had a net loss from operations of $2,733,084 the year ended December 31, 2013 and $4,541,587 during 2012. Our accumulated deficit at December 31, 2013 was $152,412,557. We expect to continue to incur net losses from operations for at least the next several quarters 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 December 31, 2013 was $16,958,374. 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 continuing to review our ability to 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 stating that there is substantial doubt relating to 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, 2013 and 2012 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.

Product development is a long, expensive and uncertain process.

The development of LTA aerostats, UAS and mast-based ISR systems 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 continue to make significant investments in research and development relating to our aerostats, airships, mast-based ISR systems, tethered powered aircraft and our other businesses. Investments in new technology and processes are inherently speculative. We also now rely on the UAS Ohio Consortium for the development of our Argus One airship. 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 products not aligning with or meeting customer needs.

Although we have sold our BiB aerostat systems and various other aerostat and mast-based ISR systems and components, we have not yet sold any of our Argus One airships in the commercial marketplace. Our success in the market for the products we develop will depend largely on our ability to prove our products' capabilities. Upon demonstration, our aerostats, airships and mast-based ISR systems 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 products' 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.

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 our aerostats, airships and GTC products other than various mast-based ISR systems and GTC website and Amazon storefront sales) 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 aerostats, LTA UAS or 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.

Some of our products are subject to significant governmental regulation including FAA regulations that currently prohibit us from performing any untethered flight testing of our UAS in commercial airspace until we receive a clearance certification from the FAA or a FAA Certificate of Waiver or Authorization which are 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.

Some of our products are subject to regulation by the FAA, which currently does not allow any untethered flights by UAS in commercial airspace in the U.S. without prior FAA clearance certifications or a FAA Certificate of Waiver or Authorization (COA) that are difficult and time-consuming to obtain. Federal, state and local government entities must obtain an FAA COA before flying UAS in the Nation Air Space (NAS). The status of regulations regarding the testing, operations and safety of UAS is in flux. Depending on the ultimate rules adopted by the FAA, the cost to test and fly our products and 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 products 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.

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

A number of our competitors have received considerable funding from government or government-related sources to develop and build a mid- or high-altitude UAS and various aerostats. 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 tethered aerostats and LTA UAS, but also with heavier-than-air fixed wing aircraft, manned aircraft, communications satellites 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 aerostats, 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 many related to the operation of the Company's business by prior management. These matters are likely to divert financial and management resources that would otherwise be used to benefit our operations. We intend to aggressively defend ourselves in these proceedings but no assurances can be given 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.

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

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 among others: (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.

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 important to our ability to remain competitive and 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. In February 2012 we filed both a U.S. utility patent application and a patent application under the Patent Cooperation Treaty for an airship design and method of controlling the airship based on our Argus One UAS. In May 2012 we filed a provisional patent, and in May 2013 we filed a U.S. utility patent application, for a self-powered releasable aerostat and for a method for releasing and controlling the aerostat. There is no assurance that a patent will issue from such applications. We intend to continue to expand the patent protection for our aerostats, 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 product 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.

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 and developing products using advanced and unproven technologies and aerostats and airships in intelligence and homeland security applications that are intended to operate in high demand, high risk situations; and

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

Failure of certain of our products 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.

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 December 31, 2013, we together with our subsidiaries employed seven employees and we rely heavily on outside partners and contractors in certain areas. The failure to recruit additional key personnel when needed with specific qualifications and on acceptable terms or to retain good relationships with our partners 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 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 December 31, 2013, 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, and (iv) 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 GAAP for each of the periods presented. We intend to implement additional corporate governance and control measures to strengthen our control environment as we are able, 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.

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;
- investors wanting to place large sale or buy orders in a particular day;
- 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 $0.0075 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 among others individual stockholder market transactions, 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 March 21, 2014, we had 710 registered stockholders and many more beneficial holders, most 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. The shares issued pursuant to conversions under our convertible debenture are freely tradable; 50 million shares were registered with the SEC and any additional shares are freely tradable pursuant to Rule 144 promulgated pursuant to the Securities Act, and such selling stockholder is not subject to a lock-up agreement. If such 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 these shares of common stock could impair our ability to raise capital in the near term.

There are a large number of shares underlying our convertible debenture and equity investment agreement and issuance of shares upon conversion of the convertible debenture and exercise of the rights in the equity investment agreement may cause immediate and substantial dilution to our existing stockholders.

There are a large number of shares that may be issued pursuant to our convertible debenture and equity investment agreement. The issuance of shares upon conversion of the convertible debenture and purchase of shares under the equity investment agreement may result in substantial dilution to the interests of other stockholders since the selling stockholder may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholder may not convert its convertible debenture if such conversion would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholder from converting some of their holdings and then converting the rest of their holdings. In this way, the selling stockholder could sell more than this limit while never holding more than this limit. While the status of these agreements and the issuance of any additional shares remains uncertain pending our litigation with La Jolla Cove Investors, any outcome of such litigation negative to our interests could result in additional dilution to our shareholders.

If we are required for any reason to repay our outstanding convertible debenture, we would be required to deplete our working capital, if available, or raise additional funds. Our failure to repay the convertible debenture for any reason, if required, could result in legal action against us, which could require the sale of substantial assets or the curtailment of some or all of our operations.

In February 2012, we issued a convertible debenture that is due and payable, with 4 3/4% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In addition, any event of default could require the early repayment of the convertible debenture at a price equal to 110% of the amount due under the debenture. If we were required to repay the convertible debenture for any reason, whether as a result of the current litigation with La Jolla Cove Investors or otherwise, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the debenture, the debenture holder could commence legal action against us and foreclose on our assets to recover the amounts due. Any such action would likely require us to curtail some or all of our operations. While the status of these agreements and the repayment of the debenture remains uncertain pending our litigation with La Jolla Cove Investors, any outcome of such litigation negative to our interests could result in additional dilution to our shareholders.

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. 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.

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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate offices are located at State Road 405, Building M6-306A, Room 1400, Kennedy Space Center, FL 32815. Base rent is $1,706 per month. The lease terminated on December 31, 2013 and we are on a month-to-month basis but we are in negotiations to renew the lease through December 31, 2014 on similar terms. GTC leases space at 17121 Collins Ave., #2506, Sunny Isles Beach, FL 33160, with a base rent of $3,500 per month, pursuant to a lease that expires November 24, 2014. LTAS leases space from a related party at 11653 Central Parkway, Jacksonville, FL 32224 with a base rent plus common area maintenance of $1,926 per month. We believe that our facilities are adequate for our current and near-term needs.

ITEM 3. 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 the date hereof, we had the following material contingencies:

Brio Capital

Brio Capital, the holder of a warrant, filed an action against us on February 25, 2011 in the New York Supreme Court, County of New York, for the issuance of approximately 6.2 million shares of common stock upon the exercise of certain warrants. The Court granted a non-final Summary Judgment Order on a portion of the action in favor of Brio in December 2011 requiring us, among other things, to issue 6.2 million shares of common stock. We have issued the shares required by the Court order. We also entered into a settlement agreement to pay $57,661 in legal fees as required by the Court order, which has been satisfied. We reached a settlement with Brio resolving all remaining matters. Under the terms of the settlement, we are required to issue a number of shares of common stock in twelve (12) monthly installments equal to $31,250 divided by the average of the closing bid prices of our common stock for the last three (3) trading days of the month immediately preceding the month in which the shares are due to be issued. Pursuant to the Court's Section 3(a) (10) approval, the shares of common stock issued to Brio shall be freely tradeable upon issuance. All shares issued are subject to a leak-out provision contained in the settlement agreement.

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 and accounting services allegedly rendered to the Company. It is our position that we were overcharged in connection with the services rendered and that no amounts are due. DeCarlo has now filed a second amended complaint that we have responded to and intend to otherwise defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

La Jolla Cove Investors, Inc.

On July 25, 2013, we filed a lawsuit against La Jolla Cove Investors, Inc. in the United States District Court for the Northern District of California relating to the finance documents entered into by us and La Jolla in January 2012. In the lawsuit, we allege breach of contract and other causes of action. We are seeking injunctive relief in addition to unspecified monetary damages as well as other relief. La Jolla has made counterclaims against us and is defending against our complaint. We intend to otherwise pursue this matter vigorously, 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. We reported payroll tax liabilities for all the tax periods in 2007 and 2008, however, we 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 and continue to cooperate with the IRS to resolve this matter.

The Company provides indemnification, to the extent permitted by law, to its' 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 the Company's request in such capacity.

ITEM 4. (Removed and Reserved)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a) Market Information

From January 1, 2010 through April 24, 2011, our shares of common stock have been quoted on the OTC Bulletin Board quotation system under the symbol "SNSR." From April 25, 2011 through mid July 2012, our shares of common stock were quoted on the OTC Bulletin Board quotation system under the symbol "WSGI," and since then our shares of common stock have been quoted on the OTCQB quotation system under the symbol "WSGI."

The following information sets forth the high and low bid price of our common stock during fiscal 2012 and 2013 and was obtained from the National Quotation Bureau. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	HIGH	LOW
2013		
Quarter Ended March 31	$ 0.0270	$ 0.0100
Quarter Ended June 30	0.0350	0.0120
Quarter Ended September 30	0.0300	0.0098
Quarter Ended December 31	0.0145	0.0075
2012		
Quarter Ended March 31	0.07	0.03
Quarter Ended June 30	0.05	0.03
Quarter Ended September 30	0.04	0.01
Quarter Ended December 31	0.04	0.01

On March 21, 2014, the last reported sale price of our common stock on the OTCQB quotation system was $0.0091 per share.

(b) Holders

As of March 21, 2014, there were 710 registered holders of our common stock, although we had significantly more beneficial holders of our stock.

(c) Dividends

We have never paid or declared any cash dividends on our common stock and do not expect to pay any cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings for use in operations and to finance the development of our products and the expansion of our business.

(d) Securities Authorized For Issuance Under Equity Compensation Plans

The following table sets forth the information indicated with respect to our compensation plans as of December 31, 2013, under which our common stock is authorized for issuance.

	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	37,061,111 (1)	$	25,507,692 (2)
Equity compensation plans not approved by security holders	87,422,360 (3)		
Total	124,483,471		25,507,692

(1) Consists of options outstanding under our 2004 Equity Plan and our 2011 and 2013 Equity Compensation Incentive Plans; no future options may be granted under the 2004 or 2011 plans.
(2) Consists of shares remaining available for grant under our 2013 Equity Compensation Incentive Plan.
(3) Consists of options to certain employees, officers, and directors, and includes options for 40,355,693 shares taken in lieu ofsalaries by executives and employees.

Recent Sales of Unregistered Securities; Use of Proceeds

During the year ended December 31, 2013, we issued an aggregate of 122,239,513 shares of Common Stock for the acquisition of LTAS, conversion of debt (including the La Jolla Debenture), legal settlements, director fees, share-based compensation and for services rendered by consultants and partners. Of the aggregate shares issued, 16,592,308 shares, or 13.6% 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. Common Stock issuances (other than the shares issued to La Jolla pursuant to the Debenture, which were valued as set forth below) were valued at prices based on the closing market prices on the date the Board of Directors authorized the issuances.

On February 2, 2012 (the “Closing Date”), we closed on a Securities Purchase Agreement (the “Agreement”) with an institutional investor relating to an aggregate $5.5 million financing, the initial investment of $500,000 of which was paid at closing, for the issuance by the Company of a 4 ¾% Secured Convertible Debenture (the "Debenture") and an Equity Investment Agreement (the "EIA") subject to the terms and conditions set forth therein (the "Financing"). Pursuant to the EIA, the investor has agreed to invest in the Company an aggregate of $5.0 million in minimum monthly tranches of $250,000 beginning on May 3, 2012 and on each successive thirty (30) day anniversary of such initial investment date; provided, however, that such minimum investment shall increase from $250,000 to $500,000 as long as the VWAP of the Company's common stock, par value $0.00001 per share (the "Common Stock") is above $0.09 for the period of ten (10) consecutive Trading Days prior to an investment date; and provided, further, however, that the investor shall invest an additional $500,000 on each investment date for each and every increase in the VWAP of the Company's Common Stock of at least $0.02 above $0.09 for the period of ten (10) consecutive Trading Days prior to an investment date. Pursuant to the EIA, the investor also has a right to purchase up to an additional $5,000,000 of Common Stock of the Company, or an aggregate of 23,809,523 shares, at a purchase price equal to $0.21 as follows: on each investment date, the investor shall receive the right to purchase a number of shares of Common Stock equal to the amount invested on such investment date divided by $0.21. Under no circumstances will the Common Stock pursuant to this right be settled on a cashless exercise basis.

The Debenture is in the principal amount of $500,000, has a three (3) year term, and has an interest rate of 4 ¾%. The Debenture is convertible by the investor into shares of Common Stock beginning on May 3, 2012 and from time to time during each thirty (30) day period from the Closing, the investor may convert up to five percent (5%) of the face amount of the Debenture if the VWAP of the Company's Common Stock is at or below $0.09 or up to ten percent (10%) if the VWAP of the Company's Common Stock is above $0.09 and for every $0.02 increase in the VWAP of the Company's Common Stock above $0.09, the investor can convert an additional ten percent (10%) of the Debenture. The number of shares of Common Stock into which the Debenture can be converted is equal to the dollar amount of the Debenture being converted divided by the quotient of the Conversion Price divided by 10, plus the Debenture amount being converted divided by the Conversion Price. The Conversion Price is equal to the lesser of (i) $0.35 or (ii) 75% of the average of the VWAP of the Company's Common Stock during the thirty (30) Trading Days prior to the date of the Conversion Notice, subject to a floor price of $0.075 (subject to adjustment), which if triggered gives the Company the option to convert the portion of the Debenture at a conversion price of $0.075 per share plus pay a cash True-Up Payment on the difference in value of the Common Stock issued versus the Common Stock that would have been issued but for the Floor Price.

A commission was to be paid in connection with the Financing as follows: a cash fee of 8% on the first $2 million of proceeds, 6% on the next $2 million, and 4% on any proceeds above $4 million, as well as warrants to purchase a number of shares equal to 10% multiplied by the proceeds. The warrants will have a three-year term, a purchase price of $0.21 and no cashless exercise feature. Such commissions are required to be paid as the proceeds of the Financing are received by the Company.

On July 25, 2013, we filed a lawsuit against La Jolla Cove Investors, Inc. in the United States District Court for the Northern District of California relating to the finance documents entered into by the Company and La Jolla in January 2012. In the lawsuit, we allege breach of contract and other causes of action. We are seeking injunctive relief in addition to unspecified monetary damages as well as other relief and they have made counterclaims against us. Due to the current litigation with La Jolla Cove Investors, we do not expect any future funding or issuance of shares under these agreements, but the outcome of the action cannot be predicted

Other than 50 million shares of common stock issued upon the conversion of the Debenture, which shares were registered with the SEC, any additional shares of common stock issued pursuant to the Financing and 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.

Purchases of Equity Securities by the Issuer and Affiliated Purchaser

During the year ended December 31, 2013, the Company and the Affiliated Purchasers (as defined in Rule 10b-18(a)(3)) did not engage in any repurchases of our securities.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table summarizes our selected historical consolidated financial data for the periods indicated. The selected consolidated statement of operations data for the years ended December 31, 2013 and 2012, and the selected balance sheet data as of December 31, 2013 and 2012, have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

The information presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K.

	For the Years Ended December 31,	
Statement of Operations Data:	2013	2012
Total Revenues	$1,857,635	$1,091,844
Net Revenues	558,574	272,201
Operating Expenses	3,291,658	4,813,788
Loss from operations	(2,733,084)	(4,541,587)
Gain on extinguishment of liabilities to joint venture partner		
Net gain from release of restricted assets and derecognition of liabilities of discontinued operations	0	544,201
Gain on derecognition of legacy payables	0	1,787,324
Loss on conversion of debt	(233,381)	(816,703)
Gain on settlement of shareholder debt	58,000	0
Change in fair value of derivative liabilities	363	125,057
Interest expense, net	(509,103)	(461,145)
Net loss	$(3,417,205)	$(3,362,853)
Per Share Data:		
Net loss per share – Basic and diluted	$(0.01)	$(0.01)

Balance Sheet Data:	12/31/13	12/31/12
Cash	118,732	49,343
Other current assets	243,006	153,331
Property and equipment, net	2,271,964	2,452,966
Total assets	3,463,924	2,698,714
Total liabilities	16,960,024	15,859,403
Accumulated deficit	(152,412,557)	(148,995,352)
Stockholders’ deficit	(13,496,100)	(13,160,689)
Total liabilities and stockholders’ deficit	3,463,924	2,698,714

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This Annual Report on Form 10-K, including this Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking information regarding future events and our future results. All statements or information other than those of historical fact are statements or information that could be deemed to be forward-looking statements.

Certain statements in this Annual Report on Form 10-K may contain words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "could," "would," "might," "will" and variations of these words or similar and are considered forward-looking statements or information. In addition, any information or statements that refer to expectations, beliefs, plans, projections, 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 our actual results could differ materially from those anticipated by such forward-looking information. Our assumptions, although considered reasonable by us at the date hereof, may prove to be inaccurate and consequently our actual results could differ materially form the expectations set out in this Annual Report on Form 10-K.

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

The following MD&A is intended to help readers understand our results of operations and financial condition, and is provided as a supplement to, and should be read together with, our consolidated financial statements and the related notes thereto under Part IV, Item 15(a), and other financial information appearing elsewhere in this Annual Report on Form 10-K.

All percentage comparisons made herein refer to the twelve months ended December 31, 2013 (2013) compared with the twelve months ended December 31, 2012 (2012). Where we say "we," "us," "WSGI" or "the Company," we mean World Surveillance Group Inc. or World Surveillance Group Inc. and its subsidiaries, as applicable.

Overview

We design, develop, market, and sell, autonomous lighter-than-air (LTA) aerostats and unmanned aerial systems (UAS) capable of carrying payloads that provide semi-persistent intelligence, surveillance and reconnaissance (ISR), security and/or wireless communications from air to ground solutions at low and mid altitudes. Our business focuses primarily on the design and development of innovative aerostats and UAS that provide situational awareness and other communications capabilities via the integration of wireless capabilities and customer payloads. Our aerostats and airships when integrated with cameras, electronics systems and other high technology payloads, are designed for use by government-related and commercial entities that require real-time ISR or communications support for military, homeland defense, border control, drug interdiction, natural disaster relief, maritime and environmental 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, defense industry and commercial users. GTC specializes in services related to the Globalstar satellite constellation, including satellite telecommunications voice airtime, tracking devices and services, and ground station construction. GTC has an e-commerce mobile satellite solutions portal and is an authorized reseller of satellite telecommunications equipment and services offered by other leading satellite network providers such as Inmarsat, Iridium, Globalstar and Thuraya. GTC has a subscription based online tracking portal called GTCTrack, designed to attract new satellite and GSM tracking customers by offering an easy-to-use interface and compatibility with a wide range of devices. GTC's equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

Through our wholly owned subsidiary Lighter Than Air Systems Corp. (LTAS), we provide critical aerial and land-based surveillance and communications solutions to government and commercial customers. LTAS systems are designed and developed in-house utilizing proprietary technologies and processes that result in compact, rapidly deployable aerostat solutions and mast-based systems. The LTAS systems have been proven to fulfill critical requirements of the military and law enforcement in the U.S. and internationally.

Fiscal Year Ended December 31, 2013 Compared to Fiscal Year Ended December 31, 2012

Revenue. Sales for the year ended December 31, 2013 consisted primarily of sales by GTC of satellite phones and accessories, and airtime plans totaling $1,446,487 and LTAS sales of aerostats and mast-based systems totaling $411,148 since the acquisition date on March 28, 2013. Sales during the year ended December 31, 2012 were comprised of GTC sales and contract revenues earned by WSGI, which totaled $891,844 and $200,000, respectively. Total revenues increased from $1,091,844 in 2012 to $1,857,635 in 2013, an increase of $765,791, or 70%. Included in the GTC revenues during 2013 and 2012 are sales to a related party, Global Telesat Communications Ltd ("GTCL"). GTCL is a United Kingdom-based company under ownership control of a current officer of GTC. Total sales to GTCL for the years ended December 31, 2013 and 2012 were $478,582 and $632,992, respectively, which account for approximately 33% of the 2013 sales and 71% of 2012 sales.

Cost of Sales. Cost of sales includes satellite phones and accessories, airtime, usage fees and shipping costs sold by GTC and aerostats and mast based systems sold by LTAS. Cost of sales increased by $479,418, or 58%, from 2012 to 2013. Gross profit margins increased from 8% in 2012 to 30% for 2013 reflecting increasing website retail sales, changes in product mix and higher airtime sales by GTC.

Operating Expenses. Total operating expenses for 2013 were $3,291,658 compared to $4,813,788 in 2012, a decrease of $1,522,130 or 32%. Reductions in general and administrative expense, professional fees and research and development account for the majority of the year-over-year decline. General and administrative expenses include compensation for directors, management and administrative personnel, insurance, rents, travel costs and corporate reporting and filing expenses. General and administrative expenses decreased by $914,599 in 2013 as compared to 2012. The decrease is attributable primarily to $518,930 in share-based compensation awarded to two former Board Chairmen, $384,287 in vested retention bonuses and $190,401 in extended options in 2012. Professional fees reflected a decrease of $419,746 during 2013 as compared to the same period of 2012 reflecting lower litigation and settlement activity.

Loss From Operations. We had an operating loss of $2,733,084 in 2013 compared to $4,541,587 in 2012, a decrease of $1,808,503 or 40%, due primarily to the decreased operating expenses described above.

Other Income (Expense). We had net other expense of $684,121 during 2013 compared to net other income of $1,178,734 in 2012, a decrease of $1,862,855 or 158%. The net other expense in 2013 consists primarily of the loss on conversion of debt of $233,381 and interest expense of $509,103. The net other income during 2012 is primarily attributed to a $544,201 gain on the release of restricted assets and derecognition of liabilities of discontinued operations, the $1,787,324 gain on the derecognition of legacy payables, and the $125,057 change in fair value of derivative liabilities, which were partially offset by the $816,703 loss on conversion of convertible debt and the $461,145 of interest expense.

Net Loss. We had a net loss of $3,417,205 in 2013 compared to a net loss of $3,362,853 in 2012, an increase of $54,352. The increase in net loss is primarily attributable to the various components of the Other Income (Expense) category, offset in part by the reduction in Operating Expenses, as discussed above.

Liquidity And Capital Resources

Assets. Historically we have funded our operations and capital expenditures through the sale of common stock and debt financings. At December 31, 2013, we had a cash balance of $118,732 compared to $49,343 at December 31, 2012, an increase of $69,389 or 141%. Current assets at December 31, 2013 were $361,738 compared to $202,674 at December 31, 2012, an increase of $159,064 or 78%. At December 31, 2013, we had total assets of $3,463,924 compared to $2,698,714 at December 31, 2012, an increase of $765,210 or 28%. Each of the above increases reflect the assets of the LTAS acquisition on March 28, 2013.

Liabilities. At December 31, 2013, we had total current liabilities of $16,960,024 compared to total current liabilities of $15,859,403 at December 31, 2012, reflecting an increase of $1,100,621 or 7%. The increase is primarily attributed to the increase of $562,703 accrued interest included in notes payable and $680,505 increase in accrued liabilities attributable to higher accrued payroll and accrued cash true-up from conversions.

Cash Flows. Our cash used in operating activities for 2013 was $359,156 compared to $896,163 in 2012, a decrease of $537,007 or 60%. The decrease reflects the net changes in our operating assets and liabilities and non-cash adjustments resulting from depreciation, share-based compensation, fair value of the derivative liabilities and the derecognition of liabilities and legacy payables from discontinued operations in 2012.

The cash flows provided by investing activities of $158,545, relate to cash acquired in the LTAS acquisition on March 28, 2013. There were no cash flows from investing activities during 2012.

Net cash provided by financing activities during 2013 was $270,000, which consisted of $120,000 in proceeds from the sale of common stock and $150,000 from notes payable. During 2012, net cash provided by financing activities included $939,974 of proceeds from the convertible debt financing.

The accompanying 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 consolidated financial statements, the Company incurred a loss from operations of $2,733,084 and negative cash flows from operations of $359,156 for the year ended December 31, 2013. The Company had a working capital deficit of $16,598,286 and total stockholders' deficit of $13,496,100 at December 31, 2013. The Company had an accumulated deficit of $152,412,557 at December 31, 2013. 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 aerostats and UAS, the pursuit or continued development of strategic relationships and expansion of the Company's subsidiaries' businesses. The Company's business plan, which if successfully implemented, will allow it to sell aerostats, UAS 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 at least the next several quarters if not for all of the year 2014.

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 aerostats, Argus One airship, and subsidiaries' products to begin generating revenues from customers. We are already generating revenue from our aerostats, mast-based products and GTC products. During 2013, GTC signed an annual contract for airtime with a major customer that is expected to generate revenues of approximately $480,000 annually. GTC is currently in discussions with three other firms with similar expected volumes and system utilization requirements. 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 are currently in litigation with La Jolla Cove Investors and do not expect any future financing under those agreements. We continue to have discussions with various 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, 2014, 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.

Commitments and Contractual Obligations

We have entered into the following contractual obligations with minimum annual payments for the indicated fiscal periods as follows:

	Payments Due by Period					
		Total		Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Non-cancellable operating leases	$	38,500	$	38,500			
Total	$	38,500	$	38,500			

We have no long-term debt obligations, capital leases or purchase commitments. The primary operating lease relates to GTC's office in South Florida that runs through November 24, 2014.

Off-Balance Sheet Arrangements

Off balance sheet arrangements are transactions, agreements, or other contractual arrangements with an unconsolidated entity for which we have an obligation to the entity that is not recorded in our consolidated financial statements. In the normal course of our business, we do not enter into off balance sheet arrangements as a matter of practice. We have several non-cancellable annual lease agreements for office space that are recorded as operating leases in accordance with U.S. GAAP, because the lease terms 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 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 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.

We believe that the accounting policies described below are critical to understanding our business, results of operations, and financial condition because they involve significant judgments and estimates used in the preparation of our consolidated financial statements. An accounting policy is deemed to be critical if it requires a judgment or accounting estimate to be made based on assumptions about matters that are highly uncertain, and if different estimates that could have been used, or if changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements. Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also critical to understanding our consolidated financial statements. The notes to our consolidated financial statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

Revenue Recognition

We develop and sell lighter-than-air aerostats through our subsidiary LTAS, unmanned aerial vehicles, and satellite tracking products and services through our subsidiary GTC. We recognize 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. We record unearned contract revenue and subscription fees as deferred revenue and their associated costs of sales as prepaid expenses. Deferred revenue from contracts and their related costs are recognized upon completion and fulfillment of the contractual obligation using the completed contract method. In 2012, we recognized $200,000 in contract revenue, previous recorded as deferred revenue. We fulfilled our contractual obligation to Space Florida by providing performance parameters of the Argus One airship payload and flight tests completed in Nevada during May. Deferred revenues from subscription fees and their related costs are amortized over the subscription term.

Going Concern

The accompanying 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 consolidated financial statements, the Company incurred a loss from operations of $2,733,084 and negative cash flows from operations of $359,156 for the year ended December 31, 2013. The Company had a working capital deficit of $16,598,286 and total stockholders' deficit of $13,496,100 at December 31, 2013. The Company had an accumulated deficit of $152,412,557 at December 31, 2013. 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 aerostats and UAS, the pursuit or continued development of strategic relationships and expansion of the Company's subsidiaries' businesses. The Company's business plan, which if successfully implemented, will allow it to sell aerostats, UAS 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 at least the next several quarters if not for all of the year 2014.

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 aerostats, Argus One airship, and subsidiaries' products to begin generating revenues from customers. We are already generating revenue from our aerostats, mast-based products and 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 are currently in litigation with La Jolla Cove Investors and do not expect any future financing under those agreements. We continue to have discussions with various 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, 2014, 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.

Share-Based Compensation

We offer share-based compensation programs to our 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. We recognize 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 to seven years. Share-based compensation for employees and non-employees is reflected in the appropriate functional expense category, primarily general and administrative, and research and development.

Share-based compensation expense recognized for the years ended December 31, 2013 and 2012 was $651,794 and $1,724,861, respectively.

Property and Equipment

Property and equipment 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. Expenditures that increase the value or productive capacity of assets are capitalized. Fully depreciated assets are retained in property and equipment 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:

•	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

We follow the authoritative guidance for impairment testing of property and equipment, 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, we perform the impairment test based on our intention to hold or sell the asset or asset group. If we intend to hold the asset or group of assets for continued use, we compare 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 we recognize an impairment loss for the difference. If we intend 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), we compare the asset's or asset group's carrying value to its fair value less costs to sell. We generally determine 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 we recognize an impairment loss for the difference. Generally, we perform our 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.

Recently Issued Accounting Pronouncements

There were no recently issued accounting pronouncements that impacted the Company's financial statements and accompanying notes to the consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a smaller reporting company, we are not required to include the disclosure under this Item 7A.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is contained in the consolidated financial statements set forth in Part IV, Item 15(a) under the caption "Financial Statements" as a part of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

(A) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, our management with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that material information is accumulated and communicated to management, including the Chief

Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

(B) Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (i) pertains to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, including the Chief Executive Officer and Chief Financial Officer, do not expect our internal control over financial reporting will prevent or detect all error or fraud. We recognize that there are inherent limitations to the effectiveness of any control system, no matter how well designed and operated, including the limitations of resources, the possibility of human error and the circumvention or overriding of the controls and procedures. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. In evaluating and implementing possible controls, our management was required to apply its reasonable judgment in evaluating the cost-benefit relationship of possible internal controls. Accordingly, even effective internal control over financial reporting can only provide reasonable, not absolute, assurance of achieving their desired control objectives. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any internal control over financial reporting is also based in part upon certain assumptions about the likelihood of future events, and we cannot be certain that any design will succeed in achieving its stated goals under all potential future conditions. Any evaluation of prospective control effectiveness with respect to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

With the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon our management's evaluation, we concluded that as of December 31, 2013, our internal control over financial reporting was not effective, due to the control deficiencies set forth below. Notwithstanding the control deficiencies described below, our management, based upon reviews and additional analysis undertaken and performed by management, has concluded that our consolidated financial statements for the periods covered by and included in this Annual Report on Form 10-K are fairly stated in all material respects in accordance with U.S. GAAP for each of the periods presented herein.

Control Deficiencies

A control deficiency exists when the design or operation of a control does not allow our management or employees in the normal course of performing their assigned functions to prevent or detect misstatements of our annual or interim consolidated financial statements on a timely basis.

Our management identified the following control deficiencies in our internal control over financial reporting as of December 31, 2013:

- 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.
- Absent or inadequate segregation of duties within a significant account or process.
- Inadequate documentation of the components of internal control.
- 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.

As a result of our evaluations, we have taken and intend to continue to take steps to correct such control deficiencies in our internal control over financial reporting. 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. We have also implemented procedures to reconcile significant accounts by establishing audit schedules/account reconciliations for all balance sheet accounts and we maintain these schedules in a timely manner. We also increased our ability to effectively monitor and control GTC's financial transactions. We believe that these changes are reasonably likely to materially affect our internal control over financial reporting.

In addition, we have begun and intend to continue to implement certain new policies and procedures to improve the control environment and to implement controls and procedures that will ensure the integrity of our consolidated financial statements and disclosure preparation processes, such as:

- We intend to bring on an independent Chairman of the Board in 2014;
- Upon adequate funding and the procurement of directors and officers liability insurance, seeking to recruit additional independent board members;

- Upon adequate funding, hiring additional staff, including accounting personnel, leading to more segregation of duties and enhanced accounting, reporting and oversight to enable a better control environment;

- Upon adequate funding, implementing accounting and other systems designed to enable a better control environment; and

- Establishing a Disclosure Committee responsible for considering the materiality of information and determining disclosure obligations on a timely basis.

(C) Attestation Report of the Independent Registered Public Accounting Firm

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this Annual Report on Form 10-K.

(D) Changes in Internal Control Over Financial Reporting

Except as set forth above, as a result of the evaluation completed by us, in which our Chief Executive Officer and Chief Financial Officer participated, we have concluded that there were no changes in our internal control over financial reporting during our fourth fiscal quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There was no information required to be disclosed in a Current Report on Form 8-K in the fourth quarter of 2013 that was not reported.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning our directors is hereby incorporated by reference from the information contained under the heading “Election of Directors” in our definitive proxy statement related to our Annual Meeting of Stockholders to be held in July 2014 which will be filed with the SEC within 120 days after the close of the fiscal year (Definitive Proxy Statement).

Certain information concerning our directors and executive officers is hereby incorporated by reference to the information contained under the headings “Information Concerning Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance and the Board of Directors” and “Audit Committee” in our Definitive Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is hereby incorporated by reference from the information contained under the headings “Information Concerning Executive Officers” and “Compensation of Directors” in our Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain beneficial owners and management is hereby incorporated by reference from the information contained under the headings “Securities Ownership of Certain Beneficial Owners and Management” and “Information Concerning Executive Officers” in our Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning certain relationships and related transactions is hereby incorporated by reference from the information contained under the headings “Certain Relationships and Related Transactions” and “Determination of Director Independence” in our Definitive Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning principal accounting fees and services is hereby incorporated by reference from the information contained under the heading “PROPOSAL – To Ratify the Appointment of WSGI’s Independent Registered Public Accounting Firm, Rosen Seymour Shapss Martin & Company LLP” in our Definitive Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2013 and 2012

Consolidated Statements of Operations for the years ended December 31, 2013 and 2012

Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2013 and 2012

Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012

Notes to Consolidated Financial Statements

(a)(3) Index to Exhibits

See attached Exhibit Index of this Annual Report on Form 10-K.

(b) Exhibits

The following exhibits are filed as part of this Annual Report on Form 10-K or are incorporated by reference to exhibits previously filed with the SEC. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission, 450 Fifth Street, Room 1024, N.W., Washington, DC 20549. Copies of such materials can also be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, DC 20549, at prescribed rates.

Exhibit No.	Description of Exhibit
2.1	Stock Purchase Agreement by and among the Company, Lighter Than Air Systems Corp., Felicia Hess and Kevin Hess, dated March 28, 2013 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 1, 2013 and incorporated herein by reference)
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* Filed herewith.

\+ Indicates management contract relating to compensatory plans or arrangements

** Pursuant to Rule 406T of Regulation S-T, these interactive data files shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, World Surveillance Group Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 31, 2014

WORLD SURVEILLANCE GROUP INC.

By: /s/ Glenn D. Estrella
Name: Glenn D. Estrella,
Title: Chief Executive Officer, President and Director

POWER OF ATTORNEY AND SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Glenn D. Estrella and W. Jeffrey Sawyers, jointly and severally, his attorney-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof .

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of World Surveillance Group Inc. and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Glenn D. Estrella Glenn D. Estrella	Chief Executive Officer, President and Director (Principal Executive Officer)	March 31, 2014
/s/ W. Jeffrey Sawyers W. Jeffrey Sawyers	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 31, 2014
/s/ Felicia Hess Felicia Hess	Director	March 31, 2014
/s/ Wayne Jackson Wayne Jackson	Director	March 31, 2014
Anita Hulo	Director	March 31, 2014
/s/ Kevin Pruett Kevin Pruett	Director	March 31, 2014

EXHIBIT INDEX

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of

World Surveillance Group Inc.:

We have audited the accompanying consolidated balance sheets of World Surveillance Group Inc. and Subsidiaries (the "Company"), as of December 31, 2013 and 2012 and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of World Surveillance Group Inc. and Subsidiaries as of December 31, 2013 and 2012 and the consolidated results of their operations and their cash flows for each of the two years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the consolidated financial statements, the Company has experienced significant losses and negative cash flows, resulting in decreased capital and increased accumulated deficits. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Rosen Seymour Shapss Martin & Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

New York, New York

March 31, 2014

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		DECEMBER 31, 2013		DECEMBER 31, 2012
ASSETS				
CURRENT ASSETS				
Cash	$	118,732	$	49,343
Accounts receivable, net of allowance for bad debts of $0 and $0		67,736		8,977
Accounts receivable from related party		59,833		48,220
Inventories		75,311		0
Prepaid expenses		40,126		46,134
Deposits		0		50,000
TOTAL CURRENT ASSETS		361,738		202,674
PROPERTY AND EQUIPMENT				
Property and equipment, net of accumulated depreciation of $497,233 and $309,670, respectively.		2,271,964		2,452,966
OTHER NONCURRENT ASSETS				
Goodwill		807,824		0
Deferred financing costs		22,398		43,074
		830,222		43,074
TOTAL ASSETS	$	3,463,924	$	2,698,714
LIABILITIES AND STOCKHOLDERS’ DEFICIT				
CURRENT LIABILITIES				
Accounts payable	$	4,593,647	$	4,781,075
Accounts payable due related party		50,691		0
Notes payable		9,501,083		8,938,380
Accrued liabilities		2,812,953		2,132,448
Deferred revenues		1,650		7,500
TOTAL CURRENT LIABILITIES		16,960,024		15,859,403
TOTAL LIABILITIES		16,960,024		15,859,403
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' DEFICIT				
Common stock, $.00001 par value, 1,000,000,000 and 750,000,000 shares authorized, respectively; 681,127,043 and 546,887,530 shares issued, respectively; and 669,127,043 and 546,887,530 outstanding, respectively		6,691		5,469
Additional paid-in capital		138,909,766		135,829,194
Preferred Stock, $.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding		0		0
Accumulated deficit		(152,412,557)		(148,995,352)
TOTAL STOCKHOLDERS' DEFICIT		(13,496,100)		(13,160,689)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$	3,463,924	$	2,698,714

See accompanying notes to consolidated financial statements

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WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
REVENUES		
Contract revenues	$ 0	$ 200,000
Sales	1,857,635	891,844
Cost of sales	1,299,061	819,643
Gross profit	558,574	72,201
NET REVENUES	558,574	272,201
COSTS AND EXPENSES		
General and administrative	2,445,325	3,359,924
Professional fees	640,418	1,060,164
Depreciation and amortization	184,915	183,000
Research and development	0	210,700
Acquisition-related expenses	21,000	0
TOTAL EXPENSES	3,291,658	4,813,788
LOSS FROM OPERATIONS	(2,733,084)	(4,541,587)
OTHER INCOME (EXPENSE)		
Net gain from release of restricted assets and derecognition of liabilities of discontinued operations	0	544,201
Gain on derecognition of legacy payables	0	1,787,324
Loss on conversion of debt	(233,381)	(816,703)
Gain on settlement of shareholder debt	58,000	0
Change in fair value of derivative liabilities	363	125,057
Interest expense, net	(509,103)	(461,145)
OTHER INCOME (EXPENSE)	(684,121)	1,178,734
NET LOSS	$ (3,417,205)	$ (3,362,853)
PER COMMON SHARE DATA		
NET LOSS PER SHARE:		
BASIC and DILUTED	$ (0.01)	$ (0.01)
WEIGHTED AVERAGE SHARES:		
BASIC and DILUTED	632,009,690	420,841,556

See accompanying notes to consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	COMMON STOCK				
Description	SHARES		AMOUNT		ADDITIONAL PAID-IN CAPITAL
BALANCE, DECEMBER 31, 2011	426,884,160	$	4,269	$	131,426,211
Shares issued for convertible debt conversion	81,785,908		818		1,692,053
Shares issued for services	13,140,325		131		458,848
Shares issued for legal settlements	16,715,543		167		269,158
Shares issued for directors’ compensation	12,700,000		127		586,793
Shares issued for compensation and accrued salaries	12,978,261		130		396,170
Fair value of vested restricted shares issued for compensation	5,000,000		50		58,929
Vested restricted shares previously issued as performance-based compensation	0		0		342,370
Common and restricted shares rescinded and exchanged for fully-vested options	(22,316,667)		(223)		223
Fair value of vested options issued as share-based compensation	0		0		598,439
Net loss	0		0		0
BALANCE, DECEMBER 31, 2012	546,887,530	$	5,469	$	135,829,194
Shares issued as inducement for loans	2,000,000		20		34,380
Shares issued for cash	6,000,000		60		119,940
Shares issued for legal settlements	24,741,372		247		338,879
Shares issued for services	24,972,500		250		367,000
Shares issued for LTAS acquisition	25,000,000		250		672,250
Shares issued for LTAS selling shareholder debt	20,000,000		200		191,800
Shares issued for directors’ fees	900,000		9		13,881
Shares issued for accrued salaries	7,692,308		77		99,923
Shares issued for convertible debt	2,933,333		29		76,310
Fair value of vested restricted shares issued as retention bonuses	20,000,000		200		85,768
Fair value of vested options issued as share-based compensation and director’s fees	0		0		339,697
Common and restricted shares rescinded and exchanged for fully-vested options	(12,000,000)		(120)		216,120
	0		0		524,624

Fair value of vested options issued for salary conversions					
Net loss	0		0		0
BALANCE, DECEMBER 31, 2013	669,127,043	$	6,691	$	138,909,766

(continued)

See accompanying notes to consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES (continued)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

Description	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
BALANCE, DECEMBER 31, 2011	(145,632,499)	(14,202,019)
Shares issued for convertible debt conversion	0	1,692,871
Shares issued for services	0	458,979
Shares issued for legal settlements	0	269,325
Shares issued for directors' compensation	0	586,920
Shares issued for compensation and accrued salaries	0	396,300
Fair value of vested restricted shares issued for compensation	0	58,979
Fair value of vested restricted shares previously issued as performance-based compensation	0	342,370
Common and restricted shares rescinded and exchanged for fully-vested options	0	0
Fair value of vested options issued as share-based compensation	0	598,439
Net loss	(3,362,853)	(3,362,853)
BALANCE, DECEMBER 31, 2012	$ (148,995,352)	$ (13,160,689)
Shares issued as inducement for loans	0	34,400
Shares issued for cash	0	120,000
Shares issued for legal settlements	0	339,126
Shares issued for services	0	367,250
Shares issued for LTAS acquisition	0	672,500
Shares issued for LTAS selling shareholder debt	0	192,000
Shares issued for directors' fees	0	13,890
Shares issued for accrued salaries	0	100,000
Shares issued for convertible debt	0	76,339
Fair value of vested restricted shares issued as retention bonuses	0	85,968
Fair value of vested options issued as share-based compensation and director's fees	0	339,697
Common and restricted shares rescinded and exchanged for fully-vested options	0	216,000
Fair value of vested options issued for salary conversions	0	524,624
Net loss	(3,417,205)	(3,417,205)
BALANCE, DECEMBER 31, 2013	$ (152,412,557)	$ (13,496,100)

See accompanying notes to consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (3,417,205)	$ (3,362,853)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	184,915	183,000
Fair value of share-based compensation	664,596	1,879,813
Change in fair value of derivative liabilities	(363)	(125,057)
Net gain on release of restricted assets and derecognition of liabilities of discontinued operations	0	(544,201)
Gain on derecognition of legacy payables	0	(1,787,324)
Loss on conversion of convertible debt	233,382	1,304,712
Gain on settlement of LTAS selling shareholder debt	(58,000)	0
Loan interest capitalized to debt	432,703	420,078
Shares issued as inducement to loans	34,400	0
Amortization of deferred financing costs	20,676	18,952
Change in operating assets and liabilities:		
Accounts receivables	120,447	(8,977)
Accounts receivable from related party	(11,613)	(27,334)
Inventories	154,387	4,500
Prepaid expenses	8,974	56,015
Deposits	50,000	(50,000)
Accounts payable	186,333	535,051
Accounts payable due related party	(57,003)	0
Accrued liabilities	1,100,065	804,622
Deferred revenues	(5,850)	(197,160)
NET CASH USED IN OPERATING ACTIVITIES	(359,156)	(896,163)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition, net of cash acquired	158,545	0
NET CASH PROVIDED BY INVESTING ACTIVITIES	158,545	0
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	120,000	0
Notes payable	150,000	0
Proceeds from convertible debt, net of deferred financing costs	0	354,974
Proceeds from purchases under the Equity Investment Agreement	0	585,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	270,000	939,974
NET CHANGE IN CASH	69,389	43,811
CASH – BEGINNING OF YEAR	49,343	5,532
CASH – END OF YEAR	$ 118,732	$ 49,343
SUPPLEMENTAL DISCLOSURES		
Cash paid during the period for:		
Interest	$ 0	$ 0
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Reclassification of long-term convertible notes payable to current notes payable	267,000	0

Common stock issued for LTAS acquisition	672,500	0
Common stock issued for settlement of LTAS selling shareholder debt	192,000	0
Common stock issued in exchange for convertible debt	76,339	1,692,871
Common stock issued as payments for services	367,250	458,979
Common stock issued for accrued settlements	339,126	269,325
Common stock issued as payments for accrued salaries and directors' fees	100,000	103,200
Fair value of vested options issued for accrued salary conversions	524,624	0

See accompanying notes to consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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) aerostats and unmanned aerial systems (UAS) capable of carrying payloads that provide semi-persistent intelligence, surveillance and reconnaissance (ISR), security and/or wireless communications from air to ground solutions at low and mid altitudes. The Company's business focuses primarily on the design and development of innovative aerostats and UAS that provide situational awareness and other communications capabilities via the integration of wireless capabilities and customer payloads. The Company's aerostats and airships, when integrated with cameras, electronics systems and other high technology payloads, are designed for use by government-related and commercial entities that require real-time ISR or communications support for military, homeland defense, border control, drug interdiction, natural disaster relief, maritime and environmental missions.

The Company's wholly owned subsidiary Global Telesat Corp. (GTC), provides mobile voice and data communications services globally via satellite to the U.S. government, defense industry and commercial users. GTC specializes in services related to the Globalstar satellite constellation, including satellite telecommunications voice airtime, tracking devices and services, and ground station construction. GTC has an e-commerce mobile satellite solutions portal and is an authorized reseller of satellite telecommunications equipment and services offered by other leading satellite network providers such as Inmarsat, Iridium, Globalstar and Thuraya. GTC also has a new subscription based online tracking portal called GTCTrack, designed to attract new satellite and GSM tracking customers by offering an easy-to-use interface and compatibility with a wide range of devices. GTC's equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

The Company's wholly owned subsidiary Lighter Than Air Systems Corp. (LTAS), provides critical aerial and land-based surveillance and communications solutions to government and commercial customers. LTAS systems are designed and developed in-house utilizing proprietary technologies and processes that result in compact, rapidly deployable aerostat solutions and mast-based ISR systems. The LTAS systems have been proven to fulfill critical requirements of the military and law enforcement in the U.S. and internationally.

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying consolidated financial statements of World Surveillance Group Inc. and its subsidiaries were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which the Company exercises control and, where applicable entities for which the Company has a controlling financial interest or is the primary beneficiary.

All material intercompany accounts and transactions are eliminated in consolidation.

The preparation of financial statements in accordance with U.S. GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The

Company's consolidated financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

GOING CONCERN

The accompanying 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 consolidated financial statements, the Company incurred a loss from operations of $2,733,084 and negative cash flows from operations of $359,156 for the year ended December 31, 2013. The Company had a working capital deficit of $16,598,286 and total stockholders' deficit of $13,496,100 at December 31, 2013. The Company had an accumulated deficit of $152,412,557 at December 31, 2013. 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 aerostats and UAS, the pursuit or continued development of strategic relationships and expansion of the Company's subsidiaries' businesses. The Company's business plan, which if successfully implemented, will allow it to sell its 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 at least the next several quarters if not for all of the year 2014.

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 aerostats, Argus One airship, and subsidiaries' products to begin generating revenues from customers. We are already generating revenue from our aerostats, mast-based products and 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 are currently in litigation with La Jolla Cove Investors and do not expect any future financing under those agreements. We continue to have discussions with various 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, 2014, 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.

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. The Company records unearned contract revenues and subscription fees as deferred revenues and their associated costs of sales as prepaid expenses. Deferred revenue from contracts and their related costs are recognized upon completion and fulfillment of the contractual obligation using the completed contract method. During 2012, the Company recognized $200,000 in contract revenue, previous recorded as deferred revenue. Deferred revenues from subscription fees and their related costs are amortized over the subscription term.

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.

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 years ended December 31, 2013 and 2012, respectively.

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts payable, notes payable. The carrying values for the current financial assets and liabilities approximate fair value due to their short maturity.

BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share has been computed by dividing the net 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 result in a diluted loss per share less than the basic loss per share and therefore would be anti-dilutive. Whenever net income is reported, the weighted average number of common shares outstanding will include common stock equivalents that are in-the-money. If all outstanding options, warrants and convertible shares were converted or exercised as of December 31, 2013, the shares outstanding would be 802,338,749.

PROPERTY AND EQUIPMENT

Property and equipment are carried at historical cost less accumulated depreciation. Depreciation is based on the estimated service lives of the depreciable assets and is calculated using the straight-line method. Expenditures that increase the value or productive capacity of assets are capitalized. Fully depreciated assets are retained in the property and equipment, 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:

·	Appliqués and ground stations	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

LONG LIVED ASSETS

The Company evaluates the fair value of long-lived assets on an annual basis or whenever events or changes in circumstances indicate that its carrying amounts may not be recoverable. Accordingly, any impairment of value is recognized when the carrying amount of a long-lived asset exceeds its fair value. The Company's evaluations have not indicated any impairment of fair values.

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 to seven years. Share-based compensation for employees and non-employees is reflected in the appropriate functional expense category, primarily general and administrative, and research and development. Share-based compensation incurred during the years ended December 31, 2013 and 2012 was $991,893 and $1,983,008, respectively.

NOTE 2. DISCONTINUED OPERATIONS

In 2007, the Company discontinued operations of its telecom and wireless segments and reported the effects as discontinued operations.
During the quarter ended June 30, 2012, the Company conducted a detailed analysis of certain of its accounts payable and accrued liabilities including (i) liabilities from discontinued operations of $1,365,929, and (ii) legacy payables and accrued liabilities of $1,787,324. Accounts payable includes an amount for legal judgments that were excluded from the potential write-off. The remaining analyzed liabilities from discontinued operations and legacy payables and accrued liabilities are no longer enforceable debts of the Company due to the passage of the applicable statutes of limitation and were written-off the books of the Company. These liabilities along with the assets of discontinued operations of $6,406 have resulted in an aggregate gain of $2,331,525, comprised of the gain on the release of restricted assets and derecognition of liabilities of discontinued operations of $544,201 and the gain on the derecognition of legacy payables of $1,787,324.

NOTE 3. ACQUISITIONS

On March 28, 2013, the Company consummated a Stock Purchase Agreement (the "Agreement") by and among the Company, Lighter Than Air Systems Corp. ("LTAS"), Felicia Hess (the "Shareholder") and Kevin Hess ("KHess") pursuant to which the Company acquired 100% of the outstanding shares of capital stock of LTAS, thereby making LTAS a wholly-owned subsidiary of the Company.

The purchase price paid by the Company for LTAS consisted of $250,000 in cash payable on or before the date that is 30 days after the closing of the acquisition (the "Closing"), 25,000,000 shares of the Company's common stock valued at the acquisition date based on the market price of $0.0269 per share, and an earn-out based on varying percentages of the gross revenues based on the level of revenue from contracts with an identified group of potential customers. No value was ascribed to the earn-out because future revenues, if any, cannot be reliably predicted. Pursuant to the Agreement and an Escrow Agreement, 7,500,000 shares of common stock out of the 25,000,000 shares issued by the Company have been placed in escrow for one year to satisfy possible indemnification claims of the Company. Felicia Hess, the President of LTAS, has entered into an employment agreement to continue in her role as President of LTAS. The Agreement also includes restrictions on the sale of the Company's securities issued as the purchase price by the Shareholder for a one-year period following the Closing.

The Shareholder has the right pursuant to the Agreement to nominate one member of the Company's Board of Directors, and as a result, the size of the Company's Board of Directors has been increased and Felicia Hess has been appointed as a Class I director as of March 28, 2013. Since Ms. Hess would not be an "independent" director pursuant to the rules of the Securities and Exchange Commission, it is not expected that she will be appointed to any committees.

In connection with the Closing, LTAS, the Shareholder and the Company also entered into an Option Agreement dated March 28, 2013 pursuant to which the Shareholder was granted an exclusive option to purchase the shares of LTAS held by WSGI on the occurrence of (i) a WSGI bankruptcy event, or (ii) a decrease in the daily volume of WSGI's common stock to below 50,000 shares for 30 consecutive days, occurring within 18 months of the Closing at a purchase price equal to the fair market value of the LTAS stock at the time of such triggering 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.

LTAS provides critical aerial and land-based surveillance and communications solutions to government and commercial customers. LTAS systems are designed and developed in-house utilizing proprietary technologies and processes that result in compact, rapidly deployable aerostat solutions and mast-based ISR systems. The LTAS systems have been proven to fulfill critical requirements of the military and law enforcement in the U.S. and internationally.

On December 31, 2013, the Company entered into a First Amendment to Agreement (the “First Amendment”) by and among the Company, Lighter Than Air Systems Corp. (“LTAS”), Felicia Hess (the “Shareholder”) and Kevin Hess (“KHess”), which amended and restated various terms and conditions of the Agreement and revised the purchase price from 25 million shares plus $250,000 cash payment to 45 million shares and no cash payment due the selling shareholder and deleted the earn-out payment provisions in their entirety.

The Company’s Consolidated Balance Sheet at December 31, 2013 includes the accounts of LTAS amended and restated pursuant to the First Amendment to the Agreement. The operating results of LTAS since the acquisition date of March 28, 2013 are reflected in the Company’s Consolidated Statements of Operations.

The following table summarizes the original allocation of the LTAS acquisition purchase price, which has been accounted at the fair values of the assets acquired and liabilities assumed under the acquisition method of accounting adjusted pursuant to the First Amendment to the Agreement:

	Original Allocation	Allocation Adjustments	Amended Allocation
Current assets	$ 703,220	$ 7,195	$ 710,415
Property and equipment	1,357	2,556	3,913
Goodwill	479,585	328,239	807,824
Due to selling shareholder	0	(350,000)	(350,000)
Current liabilities assumed	(261,662)	12,010	(249,652)
Total Purchase Price	$ 922,500	$ 0	$ 922,500

NOTE 4. RELATED PARTY TRANSACTIONS

The accounts receivable from related party at December 31, 2013 and 2012, includes trade receivables from Global Telesat Communications, Ltd. (“GTCL”) of $59,833 and $48,220, respectively. GTCL is a related party based in the United Kingdom and controlled by a current officer of GTC. Total sales to GTCL for the years ended December 31, 2013 and 2012 were $478,582 and $632,992, respectively, and account for 75% and 71% of GTC’s total sales for the respective periods. GTC began charging a 10% handling fee on all orders from GTCL in 2012.

The accounts payable due to related party at December 31, 2013, includes allocated rent charges, aerostat envelopes, and labor charges due Aerial Products Corp (“APC”) of $50,691. APC is a related party, controlled by a current employee of the Company. APC shares the manufacturing facilities with LTAS and provides aerostat envelopes and manufacturing labor to LTAS. Total charges from APC to LTAS during the period ended December 31, 2013 were $28,589.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31, 2013	December 31, 2012
Appliqués	$ 2,755,732	$ 2,755,732
Office furniture and fixtures	13,4654	6,904
	2,769,197	2,762,636
Less: accumulated depreciation	(497,233)	(309,670)
	$ 2,271,964	$ 2,452,966

NOTE 6. OTHER ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	December 31, 2013	December 31, 2012
Payroll liabilities	$ 1,908,171	$ 1,494,883
Professional fees	10,000	10,000
Accrued legal claims payable	354,684	334,540
Accrued cash true-up from conversion	353,873	176,831
Accrued interest on debenture	31,133	18,243
GTC acquisition payable	75,000	75,000
Other	80,092	22,588
OTHER ACCRUED LIABILITIES	$ 2,812,953	$ 2,132,085

NOTE 7. NOTES PAYABLE

Notes payable is comprised of the following:

	December 31, 2013	December 31, 2012
Unsecured promissory notes	$ 5,997,030	$ 5,997,030
Unsecured short-term promissory notes	150,000	0
Convertible debenture	267,000	0
Accrued interest	3,087,053	2,654,350
NOTES PAYABLE	$ 9,501,083	$ 8,651,380

At December 31, 2013 and 2012, 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.

On February 1, 2013, the Company issued a $100,000 75-day unsecured 10% promissory note to an individual investor for funds received. On March 18, 2013, the Company issued a $50,000 60-day unsecured 12% promissory note to the same investor for funds received. The Company issued 2 million common shares to the investor as an inducement for the loans, which were amortized as financing fees. As of December 31, 2013, the Company is in default has not repaid these notes.

On February 2, 2012, the Company closed on a Securities Purchase Agreement with La Jolla Cove Investors, Inc. a California-based institutional investor (the “Investor”) for an aggregate of $5.5 million. The $500,000 initial tranche was funded at the closing in connection with a Convertible Debenture due in February 2015 and an Equity Investment Agreement (the “EIA”). A portion of the Debenture was converted by the Investor into shares of common stock beginning on May 3, 2012.

The Debenture grants the Investor with a right of first refusal on future financings of the Company subject to certain terms and conditions and contains acceleration provisions requiring 120% of the principal amount, accrued and unpaid interest, to become immediately due and payable on certain events of default described therein.

Pursuant to the EIA, the Investor agreed to invest an additional $5.0 million in monthly tranches beginning on May 3, 2012. The Investor also has the right to purchase an additional $5.0 million of the Company’s common stock at an exercise price of $0.21 per share for a period of three years.

The Company incurred customary closing costs including attorney's fees, commissions and closing costs of $62,027, which are recorded as deferred financing costs to be amortized as additional interest expense on a straight-line basis over the 3-year term of the Debenture and EIA.

On July 25, 2013, the Company filed a lawsuit against the Investor in the United States District Court for the Northern District of California relating to the finance documents entered into by the Company and the Investor in January 2012. In the lawsuit, the Company alleges breach of contract and other causes of action. The Company has reclassified the convertible notes payable to current notes payable.

NOTE 8. DERIVATIVE LIABILITIES

The Company 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 consist of stock warrants that contained anti-dilution provisions that were issued with certain debt and equity financings. During 2013, all financial instruments that gave rise to the derivative liabilities have expired.

Warrants

In the past, the Company entered into financing agreements for convertible promissory notes and stock purchase agreements, which included Class A and Class B warrants. Both Class A and Class B warrants contained anti-dilution rights and are considered to be derivative liabilities under U.S. GAAP. During 2010 and 2011, the Company entered into new stock purchase agreements and issued an aggregate of 9,677,167 warrants under the 2010 and 2011 stock purchase agreements. Warrants issued under the 2010 and 2011 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 following table summarizes certain information about the Company's warrants to purchase common stock.

	Derivative Liabilities			
	Warrants Class A	Warrants Class B	Warrants & Purchase Rights	Weighted Average
Outstanding at December 31, 2012	8,327,462	8,327,462	20,033,021	$0.234
Warrants Granted	0	0	972,381	0.210
Warrants Expired	(8,327,462)	(8,327,462)	(2,377,167)	0.256
Outstanding at December 31, 2013	0	0	18,628,235	$0.210

The warrants outstanding and exercisable at December 31, 2013 and 2012 had no intrinsic value. All warrants were fully exercisable and there was no unamortized cost to be recognized in future.

NOTE 9. SHARE-BASED COMPENSATION

The Company makes share-based compensation awards to its directors, officers, employees and consultants that consist of common stock, restricted stock and stock options. 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 no unrecognized compensation expense is associated with these awards. During 2013, the Company issued 7,692,308 common shares totaling $100,000 for salary conversions against accrued salaries; and issued 900,000 common shares for director fees totaling $13,890. Director fees and compensation expenses are included in general and administrative expense.

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 fair value of restricted stock awards based upon the stock's closing market price on the grant date as compensation according to the terms of award's vesting schedule; i.e. ratably over the vesting period or upon attainment of specific performance-based goals and objectives. During 2013, the Company awarded 20 million common shares with a vested total of $85,968 as retention bonuses, of which 12 million were rescinded and exchanged for fully-vested stock options on December 31, 2013. Share-based compensation is included in general and administration expense. At December 31, 2013, there remains approximately $118,650 in unrecognized compensation relating to performance-based restricted stock awards.

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. On December 31 2013, certain officers and employees rescinded 12 million shares of previously awarded restricted shares for fully-vested stock options on a one-for-one basis valued at $216,000. Also during 2013, the Company issued 40,355,693 stock options in lieu of accrued salaries for $524,624; awarded 14 million options for retention bonuses totaling $285,600; issued 900,000 options for director's fees totaling $23,412 and; had previously issued options vest totaling $30,685. Total share-based compensation attributable to vested option agreements of $339,697 is included in general and administrative. At December 31, 2013, there was approximately $80,700 in unrecognized compensation expense.

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 on the yields of Treasury constant maturities equal to the expected life of the option).

The following table summarizes the stock option activity for the years ended December 31,

	2013			2012		
	Shares		Weighted average exercise price	Shares		Weighted average exercise price
Outstanding at beginning of year	68,650,000	$	.046	40,916,667	$	.067
Granted	15,300,000		.023	0		.000
Exchanged for salary conversion	40,355,693		.013	22,316,667		.023
Exchanged for rescinded stock	12,000,000		.009	14,000,000		.015
Exercised	0		.000	0		.000
Forfeited / expired / cancelled	(11,722,222)		.086	(8,583,334)		.073
Outstanding at end of year	124,583,471	$ .025		68,650,000	$ .046	
Options exercisable at end of year	119,583,471	$	.026	63,358,333	$	.048
Weighted average remaining contractual term	5.60 years			4.55 years		

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013:

Options Outstanding and Exercisable			
Exercise prices	Number outstanding	Weighted average remaining contractual terms (years)	Weighted Average Exercise price
$.0096	12,000,000	7.00	.0096
$.011	400,000	2.87	.011
$.013	40,355,693	6.73	.013
$.015	11,000,000	5.75	$ .015
$.016	250,000	2.17	.016
$.021	250,000	2.37	.021
$.023	22,316,667	5.87	.023
$.0238	12,000,000	6.58	.0238
$.0275	400,000	2.58	.0275
$.045	4,444,444	.34	.045
$.070	1,500,000	.11	.070
$.075	10,250,000	3.25	.075
$.080	1,500,000	.27	.080
$.090	2,916,667	.27	.090
	119,583,471	5.59	$ .026

The aggregate intrinsic value of the 119,583,471 options outstanding and exercisable at December 31, 2013 was $0. 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 December 31, 2013.

NOTE 10. 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 these 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 realize future tax benefits from the losses. These net operating losses will expire in the years 2021 through 2031.

Certain income and expenses are recognized in different periods for tax and financial reporting purposes. The items that give rise to these temporary differences at the Company consist of its NOL carryforwards and the related valuation allowances. The resulting deferred tax assets and liabilities consist of the tax effects (computed at 15%) of the temporary differences and are listed below:

	2013	2013 Changes	2012
Deferred tax assets:			
Net operating loss carry-forwards	$ 18,245,910	$ 496,209	$ 17,749,701
Valuation allowance	(18,245,910)	(496,209)	(17,749,701)
Net deferred tax asset	$ —	$ —	$ —

A reconciliation of income benefit provided at the federal statutory rate of 15% to income tax benefit is as follows:

		2013		2012
Income tax benefit computed at federal statutory rate	$	(496,209)	$	(504,428)
Deferred income taxes		496,209		504,428
	$	—	$	—

At the end of 2013, the Company also had net operating loss carry-forwards of its predecessor, related to its reincorporation and reorganization under the Internal Revenue Code, available to offset future taxable income. These NOL carryforwards total approximately $81,429,083 and expire at various dates through 2022.

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 for the issues with the IRS as described in Note 15, the Company remains subject to examination in all of those tax jurisdictions until the applicable statute of limitations expire. As of December 31, 2013, 2008 and subsequent tax years remain subject to examination by the Internal Revenue Service (“IRS”) and in the Company’s major state tax jurisdictions. The Company does not expect to have a material change to unrecognized tax positions within the next twelve months.

NOTE 11. PER SHARE INFORMATION:

Basic earnings per share (“Basic EPS”) of common stock is computed by dividing the net loss 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 loss 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. There were no dilutive common stock equivalents at December 31, 2013 and 2012.

	Years Ended December 31, 2013	2012
Numerator:		
Net loss	$(3,417,205)	$(3,362,853)
Denominator:		
Weighted-average common shares outstanding	632,009,690	420,841,556
Net loss per share:		
Basic and diluted	$(0.01)	$(0.01)

NOTE 12. COMMITMENTS

Agreements

The Company has entered into several agreements and memorandums of understanding during 2013 and 2012 and through the date of this Annual Report on Form 10-K, none of which require the recording of any assets, liabilities, revenues or expenses.

Lease Commitments

The Company’s headquarters are located at the Kennedy Space Center, FL on State Road 405, Building M6-306A, Room 1400. The Company intends to renew its annual lease agreement. Currently, the Company is paying office rent on a month-to-month basis for $1,607 per month plus state sales tax. In November 2013, the Company renewed an annual lease agreement for GTC office space at $3,500 per month. LTAS does not have a contractual rental allocation agreement with related party, APC, who is under a lease agreement with the landlord. The Company is also obligated under other monthly rental agreements for additional facilities and office furniture.

Rent expense for 2013 and 2012 was $119,139 and $120,727, respectively.

The estimated future minimum rental payments on non-cancelable operating leases at December 31, 2013 consist of $37,625 due during the year ended December 31, 2014.

NOTE 13. 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 and can be reasonably estimated. The Company cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims asserted against it. At December 31, 2012, the Company had the following material contingencies:

Brio Capital

Brio Capital, the holder of a warrant, filed an action against us on February 25, 2011 in the New York Supreme Court, County of New York, for the issuance of approximately 6.2 million shares of common stock upon the exercise of certain warrants. The Court granted a non-final Summary Judgment Order on a portion of the action in favor of Brio in December 2011 requiring us, among other things, to issue 6.2 million shares of common stock. We have issued the shares required by the Court order. We also entered into a settlement agreement to pay $57,661 in legal fees as required by the Court order, which has been satisfied. We reached a settlement with Brio resolving all remaining matters. Under the terms of the settlement, we are required to issue a number of shares of common stock in twelve (12) monthly installments equal to $31,250 divided by the average of the closing bid prices of our common stock for the last three (3) trading days of the month immediately preceding the month in which the shares are due to be issued. Pursuant to the Court's Section 3(a) (10) approval, the shares of common stock issued to Brio shall be freely tradable upon issuance. All shares issued are subject to a leak-out provision contained in the settlement agreement.

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 and accounting services allegedly rendered to the Company. It is our position that we were overcharged in connection with the services rendered and that no amounts are due. DeCarlo has now filed a second amended complaint that we have responded to and intend to otherwise defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

La Jolla Cove Investors, Inc.

On July 25, 2013, we filed a lawsuit against La Jolla Cove Investors, Inc. in the United States District Court for the Northern District of California relating to the finance documents entered into by us and La Jolla in January 2012. In the lawsuit, we allege breach of contract and other causes of action. We are seeking injunctive relief in addition to unspecified monetary damages as well as other relief. La Jolla has made counterclaims against us and is defending against our complaint. We intend to otherwise pursue this matter vigorously, 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. We reported payroll tax liabilities for all the tax periods in 2007 and 2008, however, we 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 and continue to cooperate with the IRS to resolve this matter.

The Company provides indemnification, to the extent permitted by law, to its 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.

NOTE 14. SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date and determined there were no subsequent events requiring disclosure.