

World Surveillance Group Inc.

Form S-1

July 01, 2011

As filed with the Securities and Exchange Commission on July 1, 2011

Registration No. 333-

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

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

|   |   |  |
|---|---|--|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 3721<br>(Primary Standard Industrial<br>Classification Code Number) | 88-0292161<br>(I.R.S. Employer<br>Identification Number) |
|---|---|--|

State Road 405, Building M6-306A, Room 1400  
Kennedy Space Center, FL 32815  
(321) 452-3545

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Glenn D. Estrella  
Chief Executive Officer  
World Surveillance Group Inc.  
State Road 405, Building M6-306A, Room 1400  
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(321) 452-3545

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of the proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.  R

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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 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 "

Smaller Reporting Company R

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CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities to be Registered | Amount to be Registered (1) | Proposed Maximum Offering Price Per Security (2) | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee |
|--|-----------------------------|--|---|----------------------------|
| Common Stock, \$0.00001 par value per share (3)    | 22,588,332                  | \$0.105  | \$2,371,775                               | \$276                      |

(1) In accordance with Rule 416 under the Securities Act, the registrant is also registering hereunder an indeterminate number of shares that may be issued and resold resulting from stock splits, stock dividends, or similar transactions.

(2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) under the Securities Act, using the average of the high and low prices as reported on the OTCBB on June 28, 2011.

(3) This Registration Statement covers the resale by certain selling stockholders of up to 22,588,332 shares of common stock acquired in two private placements that closed on May 4, 2011 and May 27, 2011.

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)  
dated July 1, 2011

22,588,332 Shares

### Common Stock

This Prospectus relates to the offer and sale of up to 22,588,332 shares of our common stock, par value \$0.00001 per share, which may be resold from time to time by the selling stockholders identified in this prospectus. All 22,588,332 shares were issued and sold to the selling stockholders in two private placements in reliance on Section 4(2) of the Securities Act of 1933, as amended (Securities Act), and/or Rule 506 promulgated thereunder, at a purchase price of \$0.075 per share, resulting in aggregate gross proceeds to us of \$1,694,125. The private placements closed on May 4, 2011 and May 27, 2011.

Pursuant to registration rights agreements entered into in connection with the private placements, we agreed to register for resale the shares of common stock issued to the selling stockholders. We are not selling any common stock under this prospectus and will not receive any proceeds from the sale of shares by the selling stockholders.

The selling stockholders may sell the shares from time to time at the market price prevailing on the Over The Counter Bulletin Board at the time of offer and sale, or at prices related to such prevailing market prices, in negotiated transactions or in a combination of such methods of sale directly or through brokers. See "Plan of Distribution" beginning on page 56 for additional information on how the selling stockholders may conduct sales of their shares of common stock.

Other than underwriting discounts and commissions and legal fees of any of the selling stockholders, we have agreed to bear all expenses incurred in connection with registration of the common stock offered by the selling stockholders.

Our common stock is traded on the OTCBB under the symbol "WSGI." On June 28, 2011, the closing price of our common stock was \$0.11 per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 3 for certain risks you should consider before purchasing any shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is \_\_\_\_\_, 2011

## TABLE OF CONTENTS

|   | Page |
|---|------|
| Prospectus Summary  | 1    |
| Risk Factors  | 3    |
| Special Note Regarding Forward-Looking Statements                                     | 13   |
| Description of Private Placements   | 14   |
| Use of Proceeds   | 15   |
| Market Information/Price Range of Common Stock/Dividends                              | 15   |
| Management's Discussion and Analysis of Financial Condition and Results of Operations | 17   |
| Business  | 24   |
| Management  | 35   |
| Executive Compensation  | 43   |
| Certain Relationships and Related Person Transactions                                 | 47   |
| Security Ownership of Certain Beneficial Owners and Management                        | 48   |
| Selling Stockholders  | 50   |
| Description of Capital Stock  | 52   |
| Plan of Distribution  | 56   |
| Legal Matters   | 58   |
| Experts   | 58   |
| Where You Can Find More Information   | 58   |
| Index to Consolidated Financial Statements  | F-1  |

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with additional information or information different from that contained in this prospectus. No offer to sell these securities shall be made in any jurisdiction where an offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, prospects, financial condition and results of operations may have changed.

This document may only be used where it is legal to sell these securities. Certain jurisdictions may restrict the distribution of these documents and the offering of these securities. We require persons receiving these documents to inform themselves about, and to observe any, such restrictions. We have not taken any action that would permit an offering of these securities or the distribution of this prospectus in any jurisdiction where action for that purpose is required.

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### Market, Industry and Other Data

Unless otherwise indicated, information contained in this prospectus concerning our industry and the market in which we operate, including our general expectations and market position, market opportunity and market size, is based on information from various sources, on assumptions that we have made that are based on those data and other similar sources, and on our knowledge of the markets for our products. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such information or estimates. We have not independently verified any third-party information and cannot assure you of its accuracy or completeness. While we believe the market position, market opportunity and market size information included in this prospectus is generally reliable, such information is inherently imprecise. None of our estimates have been verified by any independent source. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate is necessarily subject to a high degree of uncertainty and risk and are subject to change due to a variety of factors, including those described in “Risk Factors” and elsewhere in this prospectus. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

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## PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes included in this prospectus and the information set forth under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Investing in our common stock involves risks. See “Risk Factors” beginning on page 3.

### Our Company and Business

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

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

### Corporate Information

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

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

In 2007, we began focusing exclusively on the LTA UAV market opportunities through our wholly owned subsidiary at the time, Sanswire Networks LLC. On September 22, 2008 we filed a Certificate of Merger with the Secretary of State of the State of Delaware pursuant to which our newly formed wholly-owned subsidiary, Sanswire Corp., a Delaware corporation, was merged into us 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 us, with our 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 and commercial customers.





Our current principal office is at State Road 405, Building M6-306A, Room 1400, Kennedy Space Center, FL 32815, our mailing address is Mail Code: SWC, Kennedy Space Center, FL 32899, and our telephone number at that location is (321) 452-3545. Our internet address is [www.wsgi.com](http://www.wsgi.com). Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus 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.

World Surveillance Group, the World Surveillance Group logo and other trademarks or service marks of World Surveillance Group appearing in this prospectus are the property of World Surveillance Group Inc. Trade names, trademarks and service marks of other companies appearing in this prospectus are the property of their respective holders.

#### Risks Associated with Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled “Risk Factors” immediately following this prospectus summary.

#### THE OFFERING

|  |   |
|--|---|
| Common stock offered by us                   | None  |
| Common stock offered by selling stockholders | 22,588,332  |
| OTCBB stock symbol                           | “WSGI”  |
| Proceeds to us                               | None  |
| Risk factors                                 | Investing in our common stock involves certain risks.<br>You should read “Risk Factors” beginning on page 3 and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to purchase shares of our common stock. |

## RISK FACTORS

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

### Risks Related to Our Business and Industry

We need to raise a significant amount of additional capital to continue our operations and such capital may be costly and difficult to obtain.

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. As of March 31, 2011, we only had \$8,577 of cash and cash equivalents, we had negative working capital of \$16,144,872 and we had a net loss from operations of \$684,180. We expect to use the funds to expand and accelerate our research and development efforts, increase our manufacturing facilities, hire additional sales and other personnel, implement additional corporate governance measures, attract independent board members and for other operating activities. We will, as we deem necessary and prudent, continue to seek to raise additional capital through various financing alternatives, including the private or public sale of equity or debt securities, bank financing or corporate partnering arrangements. We have a funding commitment letter for \$1.5 million from a third party, but it is subject to a number of conditions and we cannot assure you that this funding will occur. We do not have any firm commitments for additional capital from third parties or from our officers, directors or shareholders. Although our officers and directors or their affiliates have in the past provided us with or helped us obtain capital, they are not legally bound to do so. We may not be able to raise additional capital on terms acceptable to us or at all. In order to attract new investors and raise additional capital, we may be forced to provide rights and preferences to new investors that are not available to current stockholders and that may be adverse to existing investors. If we do not receive adequate additional financing on terms satisfactory to us on a timely basis, or at all, we would not be able to meet our cash payment obligations or fully implement our business plan. We would likely also have to delay, curtail, scale back or terminate some or all of our operations that could hurt our future performance, prematurely sell some or all of our assets on undesirable terms, merge with or be acquired by another company on unsatisfactory terms, or possibly shut down our operations.

We may not have enough authorized shares of common stock available to continue to fund our operations.

Based on our current capitalization, we have only approximately 2,557,641 shares of common stock that are not otherwise reserved or allocated available to raise additional capital to finance our operations; pay outstanding debts, judgments, settlements and other obligations; recruit, retain and motivate our employees, directors, consultants and advisers; satisfy any future obligations triggered by a dilutive issuance; or for any other future issuance. Virtually our entire authorized 500,000,000 shares of common stock are either outstanding or specifically reserved for other existing obligations. In addition to selling either common stock or securities convertible into common stock as a way to fund our operations, we have historically issued shares of our common stock to satisfy debt and other obligations, as well as to compensate our employees and directors so as to preserve available cash for use in its research and development efforts. Furthermore, we would not be able to afford to make payment of all of these obligations in cash unless it is able to raise additional funds. Without stockholder approval of the Amended and Restated Certificate of Incorporation to be voted on at our upcoming Annual Meeting of Stockholders which increases our authorized common stock, we believe it would be virtually impossible for us to raise sufficient additional cash to cover the cash payments that would be required to satisfy our existing obligations and to fund our development and corporate

operations. If we do not receive an adequate amount of additional financing in the future or such financing does not occur on a timely basis, we will be required to curtail our expenses by reducing research and development efforts or by taking other steps that could hurt our future performance, including but not limited to, the premature sale of some or all of our assets or product lines on undesirable terms, merger with or acquisition by another company on unsatisfactory terms or the cessation of our operations.

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

We have a history of losses from operations and we anticipate that for the foreseeable future, we will continue to experience losses from operations. Those losses have resulted principally from costs incurred in our research and development efforts, and from general and administrative costs associated with our business. We had a net loss from operations of \$684,180 for the three months ended March 31, 2011, a net loss from continuing operations of \$9,786,228 during 2010 and a net loss from continuing operations of \$9,414,507 during 2009. Our accumulated deficit through March 31, 2011 was \$142,109,882. We expect to continue to incur net losses from operations for the next several quarters if not for all of 2011 as we continue to develop and seek to commercialize our products.

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

Our indebtedness at March 31, 2011 was \$15,579,484. A portion of such indebtedness reflects judicial judgments against us that could result in liens being placed on our bank accounts or assets. We are reviewing our ability to further reduce this debt level due to the age and/or settlement of certain payables but we may not be able to do so. This level of indebtedness could, among other things:

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

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

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

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

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



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

GTC specializes in services offered through the Globalstar satellite network, and thus its future revenue growth from this part of the business is directly related to the reliability of the Globalstar network. The Globalstar satellite constellation has deteriorated over time resulting in substantially reduced ability to provide two-way communications, although the constellation continues to provide reliable one-way communications. The deterioration has had a significant negative impact on Globalstar's financial results from 2007 through today and has also impacted GTC's ability to provide reliable service on certain government contracts awarded to GTC to provide satellite airtime minutes through the Globalstar network. Globalstar is currently in the process of launching 24 second-generation satellites. Six of these were successfully launched in October 2010 and eight more are planned before the end of 2011. Assuming these launches have the intended results, this should result in a much improved two-way communications service which will help GTC to provide significantly more reliable service to customers.

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

As we only recently acquired GTC, we are uncertain as to whether GTC will be accretive to our net income per share. We may encounter additional transaction-related costs or other factors such as the failure to realize all of the benefits anticipated in the acquisition. All of these factors could cause dilution to our earnings per share or decrease or delay any accretive effect of the acquisition and cause a decrease in the market price of our common stock.

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

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

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

- integrating and optimizing the utilization of the properties, equipment, suppliers, distribution channels, manufacturing, marketing, promotion and sales activities and information technologies;
- integrating and expanding product offerings and opportunities;
- consolidating corporate and administrative infrastructures;

- coordinating geographically dispersed organizations;
- retaining existing customers and attracting new customers as well as leveraging the customer and partner relationships of the parties; and
- conforming standards, controls, procedures and policies, business cultures and compensation structures between the companies.

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

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

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

The historical pro forma financial information to be presented in the Current Report on Form 8-K that we will file with the SEC will reflect the estimates, assumptions and judgments made by management of the Company and GTC. These estimates, assumptions and judgments will affect the reported amounts of assets and liabilities as of the dates presented as well as revenue and expenses reported for the periods presented. The resolution of differences between the two companies' accounting policies and methods, including estimates, assumptions and judgments, may result in materially different financial information than is presented in the pro forma financial statements.

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

We entered into a joint venture in 2008 with our then technology partner TAO Technologies. Although we are open to discussing a potential future relationship with TAO, we have terminated all of the agreements between us and TAO and we have dissolved the joint venture. We will continue to consider potential strategic transactions, which could involve acquisitions or dispositions of businesses or assets, joint ventures or investments in businesses, products or technologies that expand, complement or otherwise relate to our current or future business. We may also consider, from time to time, opportunities to engage in joint ventures or other business collaborations with third parties to address particular market segments. These activities create risks such as: (i) the need to integrate and manage the businesses and products acquired with our own business and products, (ii) additional demands on our resources, systems, procedures and controls, (iii) disruption of our ongoing business, and (iv) diversion of management's attention from other business concerns. Moreover, these transactions could involve: (a) substantial investment of funds or financings by issuance of debt or equity securities; (b) substantial investment with respect to technology transfers and operational integration; and (c) the acquisition or disposition of product lines or businesses. Also, such activities could result in one-time charges and expenses and have the potential to either dilute the interests of existing shareholders or result in the issuance of, or assumption of debt. Such acquisitions, investments, joint ventures or other business collaborations may involve significant commitments of financial and other resources of our company. Any such activity may not be successful in generating revenue, income or other returns to us, and the resources committed to such activities will not be available to us for other purposes. Moreover, if we are unable to access capital markets

on acceptable terms or at all, we may not be able to consummate acquisitions, or may have to do so on the basis of a less than optimal capital structure. Our inability: (i) to take advantage of growth opportunities for our business or for our products, or (ii) to address risks associated with acquisitions or investments in businesses, may negatively affect our operating results. Additionally, any impairment of goodwill or other intangible assets acquired in an acquisition or in an investment, or charges to earnings associated with any acquisition or investment activity, may materially reduce our earnings. These future acquisitions or joint ventures may not result in their anticipated benefits and we may not be able to properly integrate acquired products, technologies or businesses, with our existing products and operations or combine personnel and cultures. Failure to do so could deprive us of the intended benefits of those acquisitions.



Product development is a long, expensive and uncertain process.

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

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

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

- failure to obtain the required regulatory approvals for their use;
- prohibitive production costs;
- competing products;
- lack of innovation of the product;
- ineffective distribution and marketing;
- lack of sufficient cooperation from our partners; and
- demonstrations of the airships not aligning with or meeting customer needs.

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

GTC has developed various simplex satellite tracking devices that are capable of transmitting locational and other information from any location within the Globalstar satellite network. GTC intends to apply for certification to sell these devices globally and plans to have a worldwide target customer base with no cost basis on the monthly service plans sold with each device. There is no guarantee that GTC will be, however, able to certify its tracking devices. Moreover, in the past, the Company has dealt specifically with U.S. government customers but intends to try to expand this customer base and make maximum use of the free accounts to generate increased revenue. We cannot assure you, however, that GTC will be successful doing so.

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

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

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

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

Our airships are subject to significant governmental regulation that could significantly increase our research and development costs and could limit our ability to generate revenues.

Our airships are subject to regulation by the Federal Aviation Administration (FAA), which currently does not allow any untethered flights by UAVs in commercial airspace in the U.S. and is evaluating how to address such flights by UAVs in U.S. commercial airspace. This increases our costs of research and development by requiring us to procure access to restricted airspace for our testing and demonstrations of our airships. We do not know if or when these regulations may change. If the FAA continues to prohibit flights by UAVs, our ability to generate revenues may be significantly adversely affected. International sales of our products may also be subject to U.S. laws, regulations and policies like the International Traffic in Arms Regulations (ITAR) and other export laws and regulations and may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. If we are not allowed to export our airships or the clearance process is burdensome, our ability to generate revenue would be adversely affected. The failure to comply with any of these regulations could adversely affect our ability to conduct our business and generate revenues as well as increasing our operating costs.

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

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

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

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

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

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

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

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

We are defendants in a number of litigation matters and are subject to various other claims and demands mostly related to the operation of the Company's business by prior management. These matters may divert financial and management resources that would otherwise be used to benefit our operations. We intend to aggressively defend ourselves in each of these proceedings but no assurances can be 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.

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

Our intellectual property and proprietary rights are one of the keys to our performance and ability to remain competitive and are necessary for the success of our products and our business. Patent protection can be limited and not all intellectual property is or can be patented. We rely on a combination of patent, trademark, copyright, and trade secret laws as well as confidentiality agreements and procedures, non-compete agreements and other contractual provisions to protect our intellectual property, other proprietary rights and our brand. We have little protection when we must rely on trade secrets and nondisclosure agreements. Our intellectual property rights may be challenged, invalidated or circumvented by third parties. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees or competitors. Furthermore, our competitors may independently develop technologies and products that are substantially equivalent or superior to our technologies and/or products, which could result in decreased revenues. Moreover, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. Litigation may be necessary to enforce our

intellectual property rights which could result in substantial costs to us and substantial diversion of management attention. If we do not adequately protect our intellectual property, our competitors could use it to enhance their products. Our inability to adequately protect our intellectual property rights could adversely affect our business and financial condition, and the value of our brand and other intangible assets.

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

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

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

For our business to be successful, we need to attract and retain highly qualified technical, management and sales personnel. As of May 31, 2011 we employed 5 employees and relied heavily on outside partners and contractors. We currently have minimal ability to issue options to employees since only approximately 2 million shares of common stock remain available for grant under our current stock option plan. If our stockholders do not approve our new equity compensation incentive plan at our upcoming annual meeting of stockholders, we would not have a continued ability to make grants of options, restricted stock and other awards to its employees, officers, directors, consultants and advisors, and we would suffer a severe competitive disadvantage in the recruitment, retention and motivation of such personnel. The failure to recruit additional key personnel when needed with specific qualifications and on acceptable terms might impede our ability to continue to develop, commercialize and sell our products. To the extent the demand for skilled personnel exceeds supply, we could experience higher labor, recruiting and training costs in order to attract and retain such employees. The loss of any members of our management team may also delay or impair achievement of our business objectives and result in business disruptions due to the time needed for their replacements to be recruited and become familiar with our business. We face competition for qualified personnel from other companies with significantly more resources available to them and thus may not be able to attract the level of personnel needed for our business to succeed.

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

We have identified control deficiencies in our internal control over financial reporting as of the evaluation done by management as of March 31, 2011. 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 are implementing additional corporate governance and control measures to strengthen our control environment, but we may not achieve our desired objectives. Moreover, no control environment, no matter how well designed and operated, can prevent or detect all errors or fraud. We may identify material weaknesses and control deficiencies in our internal control over financial reporting in the future that may require remediation and could lead investors losing confidence in our reported financial information, which could lead to a decline in our stock price.



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

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

### Risks Related To Ownership of Our Common Stock

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

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

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

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

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

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



more reluctant to purchase shares of our common stock following substantial sales or issuances, the resale of the shares of common stock issued in the private placement could impair our ability to raise capital in the near term.

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

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

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

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

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

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

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

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

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



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

We have not paid dividends on our common stock and do not contemplate or anticipate paying any dividends on our common stock in the foreseeable future. Earnings, if any, will likely be used to finance the development and expansion of our business. Future dividends may also be limited by bank loan agreements or other financing instruments we may enter into in the future. The declaration and payment of dividends will be at the discretion of our board of directors

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 15c-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

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains forward-looking statements. All statements contained in this prospectus that refer to future events or other non-historical matters are forward-looking statements. In some cases you can identify these statements by forward-looking words such as "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "could," "would," "project," "plan," "expect" or the negative or plural of these or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our need to raise significant additional capital to continue our operations;
- our lack of authorized shares of common stock if our amendment to our charter is not approved;
- our history of operating losses and our ability to continue as a going concern;
- our substantial indebtedness;
- our exclusive or heavy reliance on our technical partner and Globalstar;
- our ability to integrate the operations and products of GTC and to achieve the benefits and synergies of the acquisition

- our ability to successfully commercialize our products, deal with government customers or expand into new markets;
  - various government regulations regarding our products;
- our ability to successfully fight claims and litigations against us or to satisfy or settle existing judgments;
  - our ability to protect our intellectual property and not infringe on others intellectual property rights;
  - the attraction and retention of qualified employees and key personnel; and

- other risk factors included under “Risk Factors” in this prospectus.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, except as required by law, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

You should read this prospectus and the documents that we reference in this prospectus and have filed with the Securities and Exchange Commission as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

#### DESCRIPTION OF PRIVATE PLACEMENTS

On May 2, 2011 and May 27, 2011, we entered into two stock purchase agreements, which we refer to as the purchase agreements, with certain accredited investors, referred to in this prospectus as the selling stockholders, to sell and issue to the selling stockholders in reliance on Section 4(2) of the Securities Act, and/or Rule 506 promulgated thereunder, an aggregate of 22,588,332 shares of Common Stock at a purchase price of \$0.075 per share, resulting in aggregate gross proceeds to us of \$1,694,125. We received net proceeds at the closings of an aggregate of \$1,657,625 after the deduction of broker commissions.

Basis Financial, LLC acted as the sole broker in connection with the private placements and we agreed to pay Basis an aggregate fee equal to 10% in cash and 5% in stock commissions on \$365,000 of the gross proceeds from the sale of shares of common stock in the private placements.

In connection with the purchase agreements, we entered into two registration rights agreements with the selling stockholders. Pursuant to the registration rights agreements we agreed to file a registration statement(s) with the SEC, of which this prospectus forms a part, by July 1, 2011 and July 16, 2011, respectively, to register the resale of the shares of common stock issued at each closing. We also agreed to use our commercially reasonable efforts to have the registration statement declared effective as soon as reasonably possible after the filing thereof. We agreed to use our commercially reasonable efforts to keep the registration statement continuously effective until the earlier of (i) the date that is one year after the closing date and (ii) the date on which all securities under such registration statement have ceased to be registrable securities (as defined therein).

We have granted the selling stockholders customary indemnification rights in connection with the registration statement and the selling stockholders have granted us customary indemnification rights in connection with the registration statement.



## USE OF PROCEEDS

All proceeds from the sale of our common stock covered by this prospectus will belong to the selling stockholders who offer and sell their shares. We will not receive any proceeds from the sale of the common stock by the selling stockholders.

## MARKET INFORMATION/PRICE RANGE OF COMMON STOCK/DIVIDENDS

## Market Information

From January 1, 2009 through August 6, 2009, our shares of common stock were quoted on the Pink Sheets quotation system under the symbol "SNSR;" from August 7, 2009 to April 18, 2011, our shares of common stock were quoted on the OTC Bulletin Board quotation system under the symbol "SNSR;" and effective April 19, 2011 our shares of common stock have been quoted on the OTC Bulletin Board quotation system under the symbol "WSGL."

The following information sets forth the high and low bid price of our common stock during the first fiscal quarter of fiscal 2011, fiscal 2010 and 2009 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    |
|----------------------------|--------|--------|
| <b>2009</b>                |        |        |
| Quarter Ended March 31     | \$0.06 | \$0.02 |
| Quarter Ended June 30      | \$0.19 | \$0.05 |
| Quarter Ended September 30 | \$0.15 | \$0.11 |
| Quarter Ended December 31  | \$0.15 | \$0.05 |
| <b>2010</b>                |        |        |
| Quarter Ended March 31     | \$0.09 | \$0.04 |
| Quarter Ended June 30      | \$0.12 | \$0.04 |
| Quarter Ended September 30 | \$0.12 | \$0.07 |
| Quarter Ended December 31  | \$0.11 | \$0.07 |
| <b>2011</b>                |        |        |
| Quarter Ended March 31     | \$0.10 | \$0.05 |

On May 31, 2011, the last reported sale price of our common stock on the OTC Bulletin Board quotation system was \$0.14 per share.

## Holders

As of May 31, 2011, there were approximately 21,200 holders of our common stock.



## 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. Any future determination to pay cash dividends will be in compliance with our contractual obligations and otherwise at the discretion of our board of directors and based upon our financial condition, results of operations, capital requirements and such other factors as the board of directors deems relevant.

## Securities Authorized For Issuance Under Equity Compensation Plans

The following table sets forth certain information regarding outstanding options, rights and shares reserved for future issuance under our compensation plans as of March 31, 2011.

|  | Number of shares to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of shares remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) |
|--|---|---|--|
|  | (a)   | (b)   | (c)  |
| Equity compensation plans approved by security holders     | 26,583,334  | \$ 0.078  | 4,213,183  |
| Equity compensation plans not approved by security holders | 14,000,000  | (1) \$ 0.075  | —  |
| <b>Total</b>   | <b>40,583,334</b>   | <b>\$ 0.077</b>   | <b>4,213,183</b>   |

(1) Consists of options to purchase 250,000 shares of common stock to Wayne P. Jackson for his services as a director of the Company and options to purchase 13,750,000 shares of common stock pursuant to performance based grants to certain employees, officers, directors and partners at an exercise price of \$0.075, which are contingent on the approval of our amended and restated certificate of incorporation at the 2011 annual meeting of stockholders.

## Recent Sales of Unregistered Securities; Use of Proceeds

During the three months ended March 31, 2011, we issued an aggregate of 7,503,501 shares of common stock for cash, the settlement of debt, board compensation, and for services rendered to us by consultants and partners. Of the shares of common stock issued, 2,466,667 shares were issued for cash valued at \$0.075, or \$185,000, and 1,916,668 shares, or 25%, 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. The common stock issued for cash was valued \$0.075 while other issuances were valued at prices based on the closing market prices of our common stock on the date the Board of Directors authorized the issuances.

During the year ended December 31, 2010, we issued an aggregate of 59,497,973 shares of common stock for cash, the settlement of debt, board compensation, consulting agreements and for services to investors, board members, consultants and partners. Of the shares of common stock issued, 23,111,159 shares were issued for cash valued at \$0.075, or \$1,703,129 (net of offering costs), and 21,666,667 shares, or 36%, were issued to insiders and affiliates, as restricted securities under an exemption provided by Section 4(2) of the Securities Act of 1933 and/or Regulation D, Rule 506, promulgated under the Securities Act of 1933. The common stock issued for cash was valued \$0.075 while

other issuances were valued at prices based on the closing market prices of our common stock on the date the Board of Directors authorized the issuances.

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

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the three months ended March 31, 2011 and the year ended December 31, 2010, the Company and the Affiliated Purchasers (as defined in Rule 10b-18(a)(3)) did not engage in any repurchases of our securities.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this prospectus. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that reflect our plans, estimates and beliefs and involve risks, uncertainties and assumptions. Our actual results and the timing of selected events could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this prospectus, particularly in "Risk Factors."

#### Overview

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

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

#### Highlights and Recent Events

- Secured additional funding from our management team and partners;
- Hired a new Chief Financial Officer with experience in public company reporting, and financial, accounting and treasury functions, as well as implementation of corporate control environments;
- Filed a provisional patent in the U.S. for a new unmanned, autonomous airship with automated control for individual modules for improved flight stability and aerodynamic control based on technology developed for us by our technical partner, Eastcor Engineering;
- Unveiled our new lighter-than-air unmanned aerial vehicle known as "Argus One" equipped with our newly developed, proprietary stabilization system that autonomously controls the level of rigidity of the airship as it flies

and its newly designed and integrated payload bay, which is designed to fly over areas of interest for extended durations carrying various payloads to allow for intelligence, surveillance and reconnaissance, communications and other applications;

- Entered into a Settlement Agreement by and among the Company and TAO Technologies GmbH, Dr. Bernd-H Kroeplin and Global Telesat Corp. providing for, among other things, the termination of all existing agreements between the parties (Old Agreements); the retention by TAO and Kroeplin of all cash and shares of our common stock previously paid to them; the shipping back to TAO by us of the old STS 111 (SD34) airship; the discharge of \$2,474,753 in debt owed by us under the Old Agreements; and the winding down and dissolution of the joint venture, Sanswire-TAO Corp.;
  - Secured a \$1.5 million financing commitment letter from Space Florida;
- Invited by the U.S. Department of Defense to test and demonstrate the Argus One airship at the Army's proving ground facility in Yuma, Arizona;
- Changed our corporate name to World Surveillance Group Inc. to reflect our revised focus in light of the potential GTC acquisition and unveiled a new corporate website;
  - Successfully completed initial flight testing of the Argus One airship in Easton, MD;
- Awarded a \$200,000 contract from Space Florida to create a performance data package in connection with the flight testing of our Argus One UAV at the U.S. Army's proving ground facility in Yuma, Arizona in June/July 2011;
  - Closed an aggregate of approximately \$1.7 million of financings of our common stock;
  - Closed the acquisition of Global Telesat Corp., a U.S. based satellite tracking firm; and
    - Settled the outstanding lawsuit with Hudson Bay.

## Results of Operations

### Comparison of Three Months Ended March 31, 2011 and 2010

**Revenues.** We had no revenue for the three months ended March 31, 2011 and 2010.

**Operating Expenses.** Our operating expenses consist primarily of compensation, professional fees, stock based compensation, research and development, as well as expenses for executive and administrative personnel, insurance, facilities expenses, travel and related expenses, amortization and other general corporate expenses. Our operating expenses for the three month period ended March 31, 2011 were \$684,180 compared to \$1,160,410 for the three month period ended March 31, 2010, a decrease of \$476,230 or 41%. The decrease was primarily due to reductions in stock based compensation of \$241,545, professional fees for accounting and legal services of \$214,553 and discontinued amortization of \$242,175 due to the impairment and write-off of the related intellectual property during the last quarter of 2010. These reductions were partially offset by the \$100,000 incurred for research and development relating to our Argus One LTA UAV and an increase in compensation of \$119,910.

**Loss From Operations.** The loss from operations of \$684,180 for the quarter ended March 31, 2011 compares favorably to the operating loss of \$1,160,410 for the same period of 2010, and reflects the reduction in operating expenses described above.

**Net Other Income (Expense).** Net other income totaled \$3,087,397 for the first quarter of 2011, as compared to \$431,320 during the same quarter of 2010, an increase of \$2,656,077 or 616%. The increase is primarily attributed to the \$2,474,753 gain from the extinguishment of liabilities due to our former joint venture partner. During the first quarter of 2011, we reached a settlement agreement with our former joint venture partner to terminate all of our old agreements, discharge in full the amounts owed by us and ultimately dissolve the joint venture. Other income resulting from the change in fair value of derivatives was \$746,778 for the three months ended March 31, 2011 compared to \$675,218 for the comparable period of 2010, an increase of \$71,560 or 11%. The favorable decline in interest expense of \$109,764 from \$243,898 in the three months ended March 31, 2010 to \$134,134 in the comparable period of 2011 is attributed entirely to a noncash settlement adjustment recorded during the first quarter of 2010.

Net Income (Loss). We had net income of \$2,403,217 for the three months ended March 31, 2011 as compared to a net loss of \$729,090 for the three month ended March 31, 2010, an increase of \$3,132,307 or 430%. The net income is primarily attributed to the \$2,474,753 gain from the extinguishment of liabilities to our former joint venture partner and the reduction of our operating expenses, both as discussed above.

Fiscal Year Ended December 31, 2010 Compared to Fiscal Year Ended December 31, 2009

Revenues. In 2010, we had revenue related to the sale of a 50% interest in our SkySat airship of \$250,000 and we had no revenue during 2009.

Operating Expenses. Our operating expenses consist primarily of compensation, professional and consulting services, stock based compensation, research and development, as well as expenses for executive and administrative personnel, insurance, facilities expenses, travel and related expenses, amortization and other general corporate expenses. Our operating expenses for 2010 were \$8,657,938 compared to \$7,570,707 in 2009 an increase of \$1,087,231 or 14%. The increase was primarily due to a \$2,162,837 increase in research and development as a result of our determining that our prototype airship as then configured required additional development and our decision to utilize the airship to further product development rather than hold it out for sale in its then current form, which resulted in us charging the amount formerly in work in process inventory to research and development costs, and higher labor and hard costs related to the additional development of our airship products, higher professional fees related to the negotiation and settlement of outstanding claims, and increased general and administrative expenses due to the hiring of a new management team, offset in part by a \$1,718,392 decrease in stock based compensation issued to our employees.

Loss From Operations. We had an operating loss of \$8,407,938 in 2010 compared to an operating loss \$7,570,707 for 2009, an increase of \$837,231 or 11%, primarily due to increased operating expenses as described above, offset slightly by \$250,000 of revenue in 2010.

Net Other Income (Expense). We had net other expenses totaling \$1,378,290 in 2010 compared to net other expenses totaling \$1,843,800 during 2009, a decrease of \$465,510 or 25%. This variance was due primarily to a decrease of \$577,422 in interest expense. A gain from the change in fair value of our derivatives of \$77,176 in 2010 compared to a charge of \$1,287,984 in 2009, an increase of \$1,365,160 or 106% was largely offset by the \$1,210,875 impairment charge on intangible assets taken in 2010 as a result of our determination to base our business going forward exclusively on the technology developed for us by Eastcor Engineering in the United States. The extinguishment of derivative liabilities of \$629,563 in 2009 compared to no activity on 2010 is offset in part by a net gain on settlement of liabilities in 2010 of \$363,366 due to our efforts in 2010 to negotiate and settle outstanding claims compared to no activity in 2009.

Interest expense for 2010 was \$607,957 compared to \$1,185,379 in 2009, a decrease of \$577,422 or 49%, primarily due to lower financing charges associated with fewer convertible debentures being outstanding in 2010 as notes were converted or retired.

Loss From Discontinued Operations. We had a loss of \$9,782 in 2010 compared to no activity during 2009 related to our discontinued operations due to the additional expenses assessed by the IRS related to withholding taxes. See Note 2 of the Notes to Consolidated Financial Statements for more information regarding the discontinued operations.

Net Loss. We had a net loss of \$9,796,010 in 2010 compared to a net loss of \$9,414,507 in 2009, an increase of \$381,503 or 4%. The increase in net loss is primarily attributable to the increase in the operating expenses as discussed above.

#### Liquidity and Capital Resources

Assets. Historically, we have funded our operations and capital expenditures through the sale of stock and notes. Current assets at March 31, 2011, were \$17,323 compared to \$35,897 at December 31, 2010, a decrease of \$18,574 or 52%, primarily due to the reduction of cash and cash equivalents. At March 31, 2011, we had total assets of \$17,323 compared to total assets of \$36,247 as of December 31, 2010, reflecting the same decline in cash and cash

equivalents during the first quarter of 2011.



Liabilities. At March 31, 2011, we had total liabilities of \$16,162,195 compared to total liabilities of \$19,399,174 as of December 31, 2010, a decrease of \$3,236,979 or 17%, principally due to the write-off of the \$2,474,753 of accounts payable and accrued liabilities due to the joint venture partner and the \$746,778 decline in fair value of derivative liabilities experienced during the first quarter of 2011.

Cash Flows. Our cash used in operating activities in the three months ended March 31, 2011 was \$406,264 compared to \$154,104 for the same period of 2010, reflecting increased net cash outflows of \$252,160. This increase in net cash outflows is primarily due to the decline in accounts payable of \$197,342, after the write-off of the accounts payable due our former joint venture partner of \$289,753, and \$50,000 decline in customer deposits between the two periods.

Net cash provided by investing activities increased \$350 from a refund of a utility deposit during the first quarter of 2011.

Net cash provided by financing activities during the quarter ended March 31, 2011 totaled \$385,000, reflecting \$185,000 in proceeds from the sale of common stock and \$200,000 in proceeds from a new promissory note as compared to \$167,037 for the quarter ended March 31, 2010, which was entirely from the sale of common stock.

The condensed consolidated financial statements and the consolidated financial statements included in this prospectus 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 consolidated financial statements contained in this prospectus, we posted a loss from operations of \$684,180 and negative cash flow from operations of \$406,264 for the quarter ended March 31, 2011. We had a working capital deficit of \$16,144,872 and total stockholders' deficit of \$16,144,872 at March 31, 2011. We had an accumulated deficit of \$142,109,882 at March 31, 2011. These factors raise substantial doubt about whether we can continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds to continue our business operations and implement our strategic plan, which includes, among other things, continued development of our UAVs and the pursuit or continued development of strategic relationships. Our business plan, which if successfully implemented, will allow us to sell UAVs for a profit, which will reduce our dependence on raising additional funds from outside sources. The condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. We anticipate a net loss to continue for the next several quarters if not for all of the year 2011.

Additional cash will be needed to support our ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. We believe we will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at our current levels through at least December 31, 2011. We have a funding commitment letter for \$1.5 million from a third party, but it is subject to a number of conditions and we cannot assure you that this funding will occur. If we are able to raise additional funds through the issuance of equity securities, substantial dilution to existing shareholders may result. However, if our plans are not achieved and/or if significant unanticipated events occur or if we are unable to obtain the necessary additional funding on favorable terms or at all, we will likely have to modify our business plan and reduce, delay or discontinue some or all of our operations to continue as a going concern or seek a buyer for all or a portion of our assets. As of the date hereof, we continue to raise capital to sustain our current operations.

#### Off-Balance Sheet Arrangements

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

underlying asset is carried on the balance sheet, as the terms of the leases do not meet the criteria for capitalization.

## Critical Accounting Policies and Use of Estimates

Our Management's Discussion and Analysis of Financial Condition and Results of Operation is based upon our condensed consolidated financial statements and 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 condensed consolidated financial statements and 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 condensed consolidated financial statements and 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 condensed consolidated financial statements and 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 condensed consolidated financial statements and our consolidated financial statements. The notes to our condensed consolidated financial statements and 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 unmanned aerial vehicles. We recognize revenue when title passes and all substantial risks of ownership change, which generally occurs either upon shipment or upon delivery based upon contractual terms.

### Going Concern

Our condensed consolidated financial statements and our consolidated financial statements included in this prospectus 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 condensed consolidated financial statements contained in this prospectus, we posted a loss from operations of \$684,180 and negative cash flow from operations of \$406,264 for the quarter ended March 31, 2011. We had a working capital deficit of \$16,144,872 and total stockholders' deficit of \$16,144,872 at March 31, 2011. We had an accumulated deficit of \$142,109,882 at March 31, 2011. These factors raise substantial doubt about whether we can continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to raise additional funds to continue our business operations and implement our strategic plan, which includes, among other things, continued development of our UAVs and the pursuit or continued development of strategic relationships. Our business plan, which if successfully implemented, will allow us to sell UAVs for a profit, which will reduce our dependence on raising additional funds from outside sources. The condensed consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. We anticipate a net loss to continue for the next several

quarters if not for all of the year 2011.

21

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Additional cash will be needed to support our ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. We believe we will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at our current levels through at least December 31, 2011. We have a funding commitment letter for \$1.5 million from a third party, but it is subject to a number of conditions and we cannot assure you that this funding will occur. 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 our common stock on the date of grant. We recognize compensation expense on the date of grant for common stock awards and ratably over the vesting periods for restricted stock awards. We use the Black-Scholes option pricing model to value stock options and recognize compensation expense ratably over the requisite service vesting period. Stock options have historically had contractual terms of three years.

#### Derivative Financial Instruments

Derivative liabilities primarily relate to warrants to purchase our common stock issued in conjunction with certain debt and equity financings. Each year we determine the fair value of the stock warrants using the Black-Scholes option pricing model at the balance sheet date. Changes in the fair value of the stock warrants are recognized each period in current earnings.

#### Other Long-Lived Assets

We test our other long-lived assets for impairment in accordance with relevant authoritative guidance. We evaluate if impairment indicators related to our other long-lived assets are present. These impairment indicators may include a significant decrease in the market price of a long-lived asset or asset group, a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition, or a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group. If impairment indicators are present, we estimate the future cash flows for the asset or group of assets. The sum of the undiscounted future cash flows attributable to the asset or group of assets is compared to their carrying amount. The cash flows are estimated utilizing various projections of revenues and expenses, working capital and proceeds from asset disposals on a basis consistent with our strategic plan. If the carrying amount exceeds the sum of the undiscounted future cash flows, we determine the asset's fair value by discounting the future cash flows using a discount rate required for a similar investment of like risk and records an impairment charge as the difference between the fair value and the carrying value of the asset group. Generally, we perform our testing of the asset group at the lowest level for which identifiable cash flows are available.

#### Intangible Assets

Intangible assets are related to our intellectual property rights. Intangible assets with finite lives are amortized over their estimated useful lives, which are three years for patents and intellectual property. In addition to amortization, intangible assets are tested at least annually for impairment, or whenever events or changes in circumstances indicate

that the carrying amount should be assessed. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. We generally measure fair value by considering sales prices for similar assets or by discounting estimated future net cash flows from such assets using a discount rate reflecting our average cost of capital.

### Off Balance Sheet Arrangements

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

### Contractual Obligations

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

|                             | Total           | Payments Due by Period |              |              |                   |
|-----------------------------|-----------------|------------------------|--------------|--------------|-------------------|
|                             |                 | Less than 1 Year       | 1 to 3 Years | 3 to 5 Years | More than 5 Years |
| Long-term Debt Obligations  | -               | -                      | -            | -            | -                 |
| Capital Lease Obligations   | -               | -                      | -            | -            | -                 |
| Operating Lease Obligations | 17,490          | 17,490                 | -            | -            | -                 |
| Purchase Obligations        | -               | -                      | -            | -            | -                 |
| <b>TOTAL</b>                | <b>\$17,490</b> | <b>\$17,490</b>        | -            | -            | -                 |

We have no long-term debt obligations or capital leases. The only operating leases we have relate to our corporate headquarters at the Kennedy Space Center that runs through November 30, 2011 and GTC's office in Aventura that runs through June 14, 2012.

### Recently Issued and Adopted Accounting Pronouncements

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

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

## BUSINESS

### Overview

We design, develop, market and sell autonomous lighter-than-air (LTA) unmanned aerial vehicles (UAVs) capable of carrying payloads that provide persistent security and/or wireless communications from air to ground solutions at low, mid and high altitudes. Our airships, when integrated with electronics systems and other high technology payloads, are designed for use by government-related and commercial entities that require real-time intelligence, surveillance and reconnaissance or communications support for military, homeland defense, border control, drug interdiction, natural disaster relief and maritime missions. Our business focuses primarily on the design and development of innovative UAVs that provide situational awareness and other communications capabilities via the integration of wireless capabilities and customer payloads. We believe a very large market opportunity exists for lower cost UAVs that can fly on station for multiple days performing continuous remote sensing and communications relay missions in an affordable manner. Existing solutions such as communications satellites, manned aircraft, tethered aerostats 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 and defense industry end users. GTC specializes in services related to the Globalstar satellite constellation, including ground station construction, satellite telecommunications voice airtime and tracking services. GTC is also an authorized reseller of satellite telecommunications services offered by other leading satellite network providers such as Inmarsat, Iridium and Thuraya. GTC's equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

### Corporate Information

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

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

In 2007, we began focusing exclusively on the LTA UAV market opportunities through our wholly owned subsidiary at the time, Sanswire Networks LLC. On September 22, 2008 we filed a Certificate of Merger with the Secretary of State of the State of Delaware pursuant to which our newly formed wholly-owned subsidiary, Sanswire Corp., a Delaware corporation, was merged into us 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 our company, with our 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 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](http://www.wsgi.com). Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus 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.

## Products

### WSGI

We recently unveiled our new mid-altitude (10,000 to 20,000 foot) LTA UAV, the Argus One, which represents a new airship design and is equipped with our newly developed stabilization system that autonomously controls the level of rigidity of the airship in flight and an integrated payload bay capable of initially carrying up to approximately 30 pounds of high technology sensors, cameras or electronics packages. Argus One is an unmanned autonomous airship with automated control for individual body modules for improved flight stability and aerodynamic control. The design features the ability to control the rigidity between each module and the ability to pivot. The modules are operated by microcontrollers based on aerodynamic requirements. The airship’s altitude, overall response and handling characteristics and flight control utilizes a system of ballonets contained within each individual module, thereby creating a dynamically adjustable airship. The design of the Argus One differs significantly from many of the LTA rigid platforms that have been in operation for over a century.

The Argus One, named after the Greek god Argus who was the all seeing god with one hundred eyes, is designed to be a customer’s “eyes in the sky” even in remote locations. It is designed to meet certain requirements for 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. Argus One was specifically developed by us using U.S. technologies that take advantage of the microelectronics and command and control technologies protected under the International Traffic in Arms Regulation (ITAR) for potential U.S. government and commercial customers. The Argus One can wirelessly transmit critical live video and other information generated by its payload of electro-optical or infrared sensors, cameras or other high technology electronics directly to a ground control station or system. The ground control system allows the operator to control the Argus One either manually or remotely by programming it for GPS-based autonomous navigation using operator-designated waypoints.

We believe the Argus One has significant competitive advantages over the existing manned aircraft, heavier-than-air fixed wing UAVs, 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 can be assembled and tactically launched in hours from virtually anywhere, including remote, mountainous territory. The Argus One is designed to have a several day endurance capability and can stay on station with its module designed body, propulsion system and its sensor operated rigidity stabilization system, even in rough weather. The Argus One has a low radar footprint making it virtual stealth since the payload bay located on the forward module of the airship is the only radar reflecting material on the airship. 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 UAVs, we believe the Argus One provides government and commercial customers a significantly different alternative for their UAV needs.



We are continuing the development of our UAV technologies as they relate to the Argus One and future airships and we have begun testing of the Argus One airship in Easton, MD. We plan to do extended testing of the Argus One at different altitudes and weather conditions over the next several months both in Easton and at other locations as well as demonstrating the capabilities of the Argus One to potential customers. The objective of such testing is to further advance the technological capabilities of the Argus One airship using the data gathered from the tests.

We are also focused on the development of a mid-altitude airship that features a semi-rigid, cigar based, non-modulating design which we call the SkySat. The SkySat airship is a traditional airship design that complements the Argus One family of airships and is designed to carry heavier payloads for longer durations. We believe there is a market for airships like the SkySat with customers who prefer a conventional UAV design for various ISR applications.

We plan on designing and developing larger LTA UAVs, based on the design of and building on the technologies incorporated in the Argus One, to extend the endurance of and increase the payload capacity on the airships as well as to increase the altitude at which these airships perform. Using and enhancing upon the technologies developed for the Argus One line of airships, we ultimately believe we will be able to develop a high altitude airship (HAA, or as it is also referred, a High Altitude Platform (HAP) or a high altitude long endurance airship (HALE)) that will be designed to stay on location in the stratosphere for durations of 30 days or more. The "sweet spot" in the stratosphere for UAVs is 65,000 feet since it is at this altitude that a UAV is above the jet stream and thus optimal wind conditions exist that allow the UAV to stay on station for extended periods with minimal power usage. HAAs could provide commercial and governmental customers advanced seamless wireless broadband capabilities without the need for satellites, terrestrial lines or towers. Better line of sight and signal strength also result from such an aerial platform thus improving sound quality and reliability, in addition to the fact that HAA technology would eliminate the environmental and bureaucratic impediments to the building of land-based infrastructure. Such an HAA also solves the infrastructure issues that plague many parts of the world, including the so-called "last mile" issues (building expensive ground based infrastructure for very low density areas).

We are focused on the ultimate design and development of such a HAA that will be based on the same technologies and design structure incorporated in our Argus One line of airships. To date, no one has developed and commercially sold a HAA, and while we expect significant technological challenges, we believe that the airship design of our Argus One will allow us to develop a HAA that will be able to travel through the jet stream and sit on station in the stratosphere for very long durations. We refer to our future Argus One-like HAA as the Stratellite™ as it offers the functionality of a satellite in the stratosphere.

## GTC

GTC specializes in services offered through the Globalstar satellite network, and thus its future revenue growth from this part of the business is directly related to the reliability of the Globalstar network. The Globalstar satellite constellation has deteriorated over time resulting in substantially reduced ability to provide two-way communications, although the constellation continues to provide reliable one-way communications. The deterioration has had a significant negative impact on Globalstar's financial results from 2007 through today and has also impacted GTC's ability to provide reliable service on certain government contracts awarded to GTC to provide satellite airtime minutes through the Globalstar network. Globalstar is currently in the process of launching 24 second-generation satellites. Six of these were successfully launched in October 2010 and eight more are planned before the end of 2011. This should result in a much improved two-way communications service and we expect it to assist GTC to provide significantly more reliable service to customers.

GTC is pursuing various contracts for the construction of satellite ground stations in Afghanistan, Africa and other locations. If GTC is awarded these contracts it will produce a highly profitable revenue stream over the next 18-24 months. 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 which can be sold to government, commercial or individual users. There is no guarantee that GTC will be awarded 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. It will also affect GTC's ability to use the free accounts agreed with Globalstar, further reducing the potential revenue streams over the longer term.

In addition to securing government funded contracts to construct various ground stations, GTC hopes to raise capital from investors, commercial entities and partners for the construction of a ground station in India. This ground station would be used to offer satellite telecommunications and simplex tracking services to customers in India. GTC anticipates partnering with Globalstar on this project and would allow Globalstar access to the ground station in order to increase its commercial coverage. In return for allowing access to these ground stations GTC may be able to negotiate the use of a large number of accounts with Globalstar. These accounts could involve GTC having free use of satellite telecommunications airtime or simplex messages through the Globalstar network which can be sold to government, commercial or individual users. In addition to sourcing funding on suitable terms, GTC would also need to find an Indian partner to proceed with this project and obtain the necessary licenses to operate in India. There is no guarantee that GTC will secure funding, agree suitable terms with an Indian partner or obtain the necessary licenses to operate such a ground station.

Under the terms of previous contracts with Globalstar, GTC has a large number of simplex or one-way transmission, tracking accounts which can be used without charge for at least another 14 years. 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. The Company's free accounts can be sold to customers requiring simplex service through the Globalstar network. In the past, GTC has dealt specifically with US government customers but intends to attempt to expand this customer base and make maximum use of the free accounts to generate increased revenue.

GTC has developed various simplex satellite tracking devices that are capable of transmitting locational and other information from any location within the Globalstar satellite network. GTC intends to apply for certification to sell these devices globally and will have a worldwide target customer base with no cost basis on the monthly service plans sold with each device. There is no guarantee that GTC will be able to certify its tracking devices.

Aside from the GTC's Globalstar related services, it is also an authorized reseller of satellite telecommunications services offered by other leading networks such as Iridium, Inmarsat and Thuraya. GTC has in the past concentrated on sales of such services to government buyers but is in the process of developing a website to pursue online sales and to increase awareness of GTC's general services. GTC is optimistic that it can generate profitable revenue from its online sales but will also continue to pursue government related contracts to supply satellite telecommunications equipment and airtime.

## Market

The market for UAVs for the U.S. military only is expected to be \$62 billion over the next five years, with annual spending to surpass \$12.7 billion by 2015. More than 9,000 UAVs are expected to be purchased over the next ten years by the U.S. military (source: Market Research Media Ltd.). Over \$2 billion in lighter-than-air UAV contracts have been issued solely from the Department of Defense. These market numbers relate solely to the U.S. military

market and thus do not include any demand from other U.S. governmental agencies (such as Homeland Security, DEA, FEMA), international customers or commercial entities making the market for our UAVs significantly larger even than the numbers set forth above. The commercial markets for our UAVs, however, will only open once rules are established for the safe and effective operation of UAVs in national airspace, which is regulated by the Federal Aviation Administration (FAA).

The market for our UAVs has grown significantly over the last several years, especially following the terrorist attacks of September 11, 2001 due to the demands associated with the current global threat environment. The military following the Cold War was 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 Argus One airship is intended to provide critical observation and communications capabilities serving the increased demand for ISR, including real-time tactical reconnaissance, tracking, combat assessment and geographic data, while reducing the risks to our U.S. 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 remains a critical need for our military.

The market for our Argus One family of mid-altitude airships and the SkySat UAVs on a stand-alone basis and/or combined with GTC's or other company's 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

- Military
- Intelligence, reconnaissance and surveillance
- Border monitoring
- Drug enforcement
- High value asset tracking

Commercial Applications:

- Mobile communications system
- ISR platform
- Natural disaster instant infrastructure
- Nautical tracking for maritime shipping companies
- Oil pipeline monitoring
- Fleet vehicle diagnostic, maintenance, fuel theft, tracking
- Fleet generator operation diagnostic tracking
- Power grid infrastructure management
- Solar power infrastructure management
- Local vegetation production facility monitoring

The market for the Stratellite is different than the market for our mid-altitude UAVs and is potentially much larger. The Stratellite is a high altitude long endurance airship intended to populate "near space" with telecommunications capability. A presence in near space with high tech sensors and communications suites offers enormous potential for both commercial and government applications. Whether hovering at 65,000 feet or flying a variety of mission profiles, the Stratellite offers many of the features of satellites with cost savings, refurbishment ability, and the opportunity for regular system upgrades. The ability to promptly provide a communications infrastructure platform to locations where it is lacking either as a result of natural disaster or financial constraints is a critical need for both governmental and commercial customers.

The need for information-transmission in the future performed by HAAs or HALEs is vast and is especially critical in the following applications:

- Mobile broadband communications

- - Emergencies or use in disaster areas
  - Marine radio service



- New traffic engineering systems
- Weather observation
- Water surveillance (pollution)
- Ozone and smog monitoring
- Radiation monitoring (UV and radioactive)
- Astronomic and terrestrial observation
- Documentation of conditions in the upper atmosphere
- Border control, coastal surveillance
- Private communication services e.g. cellular phones
- Transmission of radio- and television programmers

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 government and government-related entities, although GTC is interested in raising money sufficient to fund its construction of a ground station in India either on its own or with certain partners.

There is an existing and we believe significantly growing market demand 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. This is a rapidly growing market and GTC believes it is well positioned to take advantage of this growth. Under the terms of previous contracts with Globalstar, GTC has a large number of simplex or one-way transmission, tracking accounts which can be used without charge for at least another 14 years. 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 the free accounts to generate increased revenue

### Competition

We believe that the principal competitive factors in the markets for our airships include product performance, features, acquisition cost, lifetime operating cost, including maintenance and support, ease of use, integration with existing equipment, quality, reliability, customer support, brand and reputation. The current market competitors to LTA UAVs like our Argus One line of airships are not only other LTA UAVS, 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- and high-altitude products are evolving rapidly and subject to changing technologies, shifting customer needs and expectations, and the potential introduction of new products. Nearly all mid-altitude UAVs operating today are fixed wing, heavier-than-air platforms. Existing contractors that provide mid-altitude long endurance UAVs include Northrop Grumman with its Global Hawk, General Autonomics Aeronautical Systems with its Predator and Reaper, L-3 Communications with its Mobius 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 UAVs, including The Boeing Company, QinetiQ, Aurora Flight Sciences, Lockheed Martin and Northrop Grumman. Companies pursuing LTA UAVs 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 Defence and Space Company, Ball Aerospace Technologies and Orbital Sciences. The market for high altitude long endurance UAVs is in its early stages of development and to date, no one has developed an operational HAA. As a result, this category is not well defined and is characterized by multiple potential solutions.

A number of our competitors have received considerable funding from government or government-related sources to develop and build a mid- or high-altitude UAV. Most of these organizations and many of our other competitors have

greater financial, technical, manufacturing, marketing and sales resources and capabilities than we do. We anticipate increasing competition as a result of defense industry consolidation, which has enabled companies to enhance their competitive position and ability to compete against us. In addition, other companies may introduce competing airships or solutions based on alternative technologies that may adversely affect our competitive position. As a result, our products may become less or non-competitive or obsolete.

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 since it has access to a large number of simplex or one-way transmission tracking accounts which can be used free of charge for at least another 14 years due to agreements GTC has with Globalstar. GTC does not believe it has any significant competition in the construction of ground stations around the world although such construction is dependent on government funding.

#### Technology, Research and Development

We develop technology utilizing relationships with partners who specialize in the design and development of technology related to our products. We currently rely exclusively on our technical partner, Eastcor Engineering, for the development and commercialization of our airships. Eastcor also develops tracking devices and other technology for GTC. We currently have no technical personnel as employees of the Company responsible for this function. We expect this to change as we progress and begin to sell our airships and plan on developing an internal research and development capacity to work with and complement our technological partners in the coming year. While we believe the relationship with Eastcor to be very strong, there is no assurance that it will always remain so. If this relationship were to break down or terminate or if we were to lose the services of Eastcor, since we do not have an alternative technical partner, it would cause a significant delay in our ability to continue to develop, manufacture and sell our airships, postpone commercial revenue to the Company and increase the costs related to such development and commercialization.

The technology for the Argus One was developed for us under contract by Eastcor Engineering, a U.S. Department of Defense prime contractor, specializing in high technology engineering products and services. The Argus One was specifically developed in the U.S. using technologies that take full advantage of the microelectronics and command and control technologies protected under the International Traffic in Arms Regulations for potential U.S. governmental customers.

We previously had a technology relationship with TAO Technologies GmbH of Stuttgart, Germany. In large part as a result of concerns with the ITAR requirements and the nature of our intended initial customers, we refocused our efforts on establishing relationships with research and development and flight facilities in the U.S. for development of the Argus One line of airships. As a result of this refocused business strategy, on March 22, 2011 we entered into a Settlement Agreement with TAO, Dr. Bernd-H Kroepelin and Global Telesat Corp pursuant to which the parties agreed, among other things:

- To terminate all existing agreements between the parties (the "Old Agreements");
- That TAO and Dr. Kroepelin would keep all cash and shares of our Common Stock previously paid to them and we would ship back to TAO the old STS 111 (SD34) airship;
  - To discharge \$2,474,753 in debt owed by us under the Old Agreements;
  - To cooperate to wind down and dissolve the joint venture, Sanswire-TAO Corp.;
  - To negotiate the potential terms of a revised relationship among the parties for the next 60 days;
- To a mutual non-disparagement clause and a mutual release and covenant not to sue for any claim related to the Old Agreements and for any claim that may exist currently;
- We warranted that, to our knowledge, we are not using any trade secret rights of TAO or Dr. Kroepelin and that we will not intentionally develop products that use any trade secret rights of TAO or Dr. Kroepelin, nor will we intentionally infringe any patent of TAO or Dr. Kroepelin in any country where such patent is valid; and



- To not use the other's name, logo or trademarks in any commercial activity or promotional or advertising materials, including on its website.

While we are open to discussions with TAO regarding the potential development of a mutually beneficial relationship for future efforts, we cannot assure you that a future relationship will exist or what the terms of such a relationship could be.

Our research and development efforts are focused on our LTA UAV product line. Unlike many of our competitors who are focused solely on development of a HAA, we have adopted a spiral or staged development approach that allows for similar technology to be tested and matured on LTA UAVs designed for low- and mid-altitudes, as we continue to develop our Stratellite HAA. Our research and development activities are focused, among other things, on envelope design and construction, propulsion systems, solar/fuel cell capabilities, payload and systems integration, sensor stabilization, automated modular controls for aerodynamic stability and other related technologies. The focus of our development of our airships is to achieve the goal of persistence with regard to its vulnerability to the environment, its ability to accept different payloads and perform differing missions, maintaining sufficient power for both longevity and agility, sufficient payload capacity consistent with altitude and payload configuration, and both technical and engineering design to enable prolonged on-station operations. The operational platform mobility and its capability to sustain the rigors of varying environments have profound implications to overall platform mission operations. These attributes are mission agility, tactical responsiveness, all weather operations, airspace management, and area of coverage.

GTC has developed various simplex satellite tracking devices which are capable of transmitting locational and other information from any location within the Globalstar satellite network. GTC intends to apply for certification to sell these devices globally. GTC expects to continue to develop technology for various types of tracking and monitoring devices to address the increasing market demand for such tracking and monitoring services especially in remote locations.

#### Partners

In addition to the technological partnership we have with Eastcor Engineering, we have a technological relationship with L-3 Communications (C2S2 Division), a prime contractor in command, control and communications, intelligence, surveillance and reconnaissance, government services, aircraft modernization and maintenance and electronic systems. The Company and C2S2, along with Eastcor Engineering, are collaborating on preparation of the Argus One airship for additional testing and demonstrations to potential Government customers. Initially, C2S2 will serve as the systems integrator and operator of our Argus One UAV and we will use their ground stations.

GTC has a broad, longstanding relationship with Globalstar. GTC specializes in services offered through the Globalstar satellite network, and thus its future revenue growth from this part of the business is directly related to the reliability of the Globalstar network. The Globalstar satellite constellation has deteriorated over time resulting in substantially reduced ability to provide two-way communications, although the constellation continues to provide reliable one-way communications. The deterioration has had a significant negative impact on Globalstar's financial results from 2007 through today and has also impacted GTC's ability to provide reliable service on certain government contracts awarded to GTC to provide satellite airtime minutes through the Globalstar network. Globalstar is currently in the process of launching 24 second-generation satellites. Six of these were successfully launched in October 2010 and eight more are planned before the end of 2011. This should result in a much improved two-way communications service and we expect it to assist GTC to provide significantly more reliable service to customers. GTC 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 with a large number of simplex or one-way transmission, tracking accounts which can be used without charge for at least another 14 years. 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.

## Intellectual Property

Our success and ability to compete depends on our ability to develop and maintain our intellectual property and proprietary technology and to operate without infringing on the proprietary rights of others. We have filed one provisional patent in the U.S. for an unmanned autonomous airship with automated control for individual modules for improved flight stability and aerodynamic body control. As our development of the Argus One line of airships continues, we intend 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 applied for trademark registration on the name Stratellite. 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 airship products will at least initially be sold to a limited number of U.S. government and government-related entities. The majority of GTC's products and services have been sold to U.S. government and government-related entities as well, although GTC intends to focus on the broader commercial market for its tracking and monitoring services; customers for ground station construction will largely remain government and government-related entities. We anticipate that the majority of our 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 been qualified to be a contractor, and have done no business yet, with the U.S. Government (although our recently acquired subsidiary GTC has done so) and if we fail to so qualify, our ability to generate revenues would be severely affected. 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. Government contract laws and regulations affect how we will do business with our customers, and in some instances, will impose added costs on our business. A violation of specific laws and regulations could result in the imposition of fines and penalties, the termination of any then existing contracts or the inability to bid on future contracts.

Our UAVs are subject to regulation by the FAA, which currently does not allow any untethered flights by UAVs in commercial airspace in the U.S. and is evaluating how to address such flights by UAVs in U.S. commercial airspace. We do not know if or when these regulations may change. If the FAA continues to prohibit flights by UAVs, our ability to generate revenues may be significantly adversely affected. We believe our reliance on the U.S. government and government-related entities as our primary customers will change dramatically once the FAA determines the rules and regulations required for the safe flight and operation of UAVs in our national airspace, since we will then be able to sell our airships 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 airships 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 UAVs may also be subject to regulation by the National Telecommunications and Information Administration and the Federal Communications Commission which regulate wireless communications.

#### Sources and Availability of Components

Certain materials and equipment for our LTA UAVs, such as the envelope and the gas bags 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 airships if another supplier cannot promptly be found or if the quality of such replacement supplier's components are inferior or unacceptable.

#### Employees

As of May 31, 2011, we had 5 full-time employees, including our executive officers. GTC hires contract employees on an as needed basis, and has 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.

#### Facilities

Our corporate offices are now located at State Road 405, Building M6-306A, Room 1400, Kennedy Space Center, FL 32815. Base rent is \$1,500 per month plus 6% state sales tax. The lease is for a period of 12 months and terminates on November 30, 2011. GTC has an office at 17501 Biscayne Blvd., Suite 440, Aventura, FL 33160. The base rent is \$2,600 per month plus sales tax and the lease is for a period of 12 months and terminates June 14, 2012. GTC also leases on a month-to-month basis an engineering, storage and customer demonstration facility in Easton, MD with a base rent of \$1,854 per month. We believe that our facilities are adequate for our current and near-term needs. We have a hangar for our airships located on the grounds of the airport in Easton, Maryland near our technical partner, Eastcor Engineering. Our corporate offices were previously located at 17501 Biscayne Blvd., Aventura, FL 33160 which was vacated on January 31, 2011 as the lease expired.

#### 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:

##### Hudson Bay Fund LP et al.

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

summary judgment order that was denied.

33

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On May 17, 2010, we reached a settlement with Hudson Bay Fund LP and Hudson Bay Master Fund Ltd. f/k/a Hudson Bay Overseas Fund, Ltd. (collectively, "Hudson Bay") and entered into a Settlement Agreement resolving the previously-disclosed lawsuit against the Company, without admitting any liability or wrongdoing on the part of the Company. The settlement relates to the exercise of certain Class A and Class B Warrants issued by the Company to Hudson Bay dating back to 2006, and resolves all outstanding issues and claims between the parties. As a result of the Settlement Agreement, Hudson Bay has no further rights of any kind whatsoever with respect to the above referenced Warrants.

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

#### Brio Capital

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

Tsunami Communications v. GlobeTel

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

#### Peter Khoury

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

#### The DeCarlo Group

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

## Siegel

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

## GlobeTel Wireless Europe GmbH

A lawsuit was filed by Rechtsanwalt Harry Kressel, Court Appointed Insolvency Administrator of the Assets of GlobeTel Wireless Europe GmbH, on March 8, 2011 in the Circuit Court in Brevard County, FL for \$165,000 plus interest claimed in connection with an alleged parent company guaranty. A court date for trial has been set in July 2011, though this date may be continued by agreement. We intend to defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

## Dohan

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

## IRS

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

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

## MANAGEMENT

### Directors

The Company's Board of Directors currently consists of five members, two of whom are independent, non-employee directors. The Board of Directors is divided into three classes. Each class serves for a term of three years, with the terms of office of the directors in the respective classes expiring in successive years. The present term of the Class I Director, Wayne P. Jackson, expires at our Annual Meeting of Stockholders to be held on July 26, 2011. Michael K. Clark and Kevin S. Pruett are Class II Directors whose terms expire at our Annual Meeting of Stockholders in 2012 and Glenn D. Estrella and Anita S. Hulo are Class III Directors whose terms expire at our Annual Meeting of

Stockholders in 2013.

35

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## Information with Respect to Directors

| Name of Director     | Age | Year First Became Director | Position with Company       |
|----------------------|-----|----------------------------|-----------------------------|
| Michael K. Clark     | 53  | 2010                       | Director (Chairman)         |
| Glenn D. Estrella    | 48  | 2010                       | Director, President and CEO |
| Anita S. Hulo        | 45  | 2011                       | Director                    |
| Kevin S. Pruett (1)  | 52  | 2011                       | Director                    |
| Wayne P. Jackson (1) | 82  | 2009                       | Director                    |

## (1) Member of Audit Committee

Set forth below are descriptions of the backgrounds of each of our directors and their principal occupations for at least the past five years and their public company directorships, if any, as well as those held during the past five years. With respect to each director, we have also provided in their biographical information below the experience and qualifications that led to the conclusion that they should serve as director in light of our business and structure.

Michael K. Clark has been the CEO of Butterfield Fulcrum since July 2010. Prior to that, Mr. Clark was the President of the Institutional Products Group at Fidelity Investments, from 2007 to 2009. Earlier he held a series of senior positions at JPMorgan Chase Bank, including Global Head of Sales and Product, Trust and Clearing Services; Chief Executive Officer, Trust and Clearing Services; and Chief Executive Officer, Worldwide Securities Services from 1994 to 2007. Prior to JPMorgan Chase, Mr. Clark was Head of Broker Dealer Clearance at Bankers Trust and served in other positions there from 1981-1994.

As reflected in the biographical information summarized above, Mr. Clark contributes valuable international business experience, extensive financial expertise and contacts in the financial community throughout the United States and abroad. For these reasons, we believe Mr. Clark has the requisite set of skills and experience to serve as a valuable member of our board of directors and as its chairman.

Glenn D. Estrella, 48, has served as a director of the Company since November 2010. In addition, commencing June 2010, Mr. Estrella has served as the Company's Chief Executive Officer and he was appointed President of the Company in October 2010. Mr. Estrella served as Chief Financial Officer and Treasurer from June 2010 until February 2011. From 2008 to 2009, Mr. Estrella served as Chief Administrative Officer and Senior Vice President at Fidelity Investments. From 1983 to 2008, Mr. Estrella held a variety of positions at JP Morgan, including Senior Vice President and Head of JP Morgan Chase's Latin America and Australia Trust Company; Chairman and Chief Executive Officer of JP Morgan Systems and Services Technology; and Global Head of Client Services and Managing Director of JPMorgan Clearance and Agency Company. Prior to that, Mr. Estrella served in several roles at Chase Manhattan Bank. Mr. Estrella contributes valuable executive and operating experience, in addition to providing global experience turning around businesses by driving profitable growth.

As reflected in the biographical information summarized above, Mr. Estrella contributes valuable executive and operating experience, in addition to providing global experience turning around businesses by driving profitable growth. For these reasons, we believe Mr. Estrella has the requisite set of skills and experience to serve as a valuable member of our board of directors.





Anita S. Hulo, 45, has served as a director of the Company since June 2011. Ms. Hulo serves as general manager of EastCor Engineering, LLC, a small engineering company located in Maryland. Prior to her current management position, she was a deputy program director for L-3 Titan Corporation. Before L-3, she served 4 years in the US Army where she spent most of her time in leadership roles. While in the Army, she coordinated station briefs and represented the foreign relations office by providing over 350 station overview briefs for individual visitors to include 15 flag officers, and civilian and foreign dignitaries. She directed the operation of 17 parabolic dish antennas and redirected collection posture in response to national and time-sensitive changes in tasking. Before the Army, she directed three outpatient counseling offices in southwest Louisiana. Ms Hulo has a Bachelors degree in Psychology from the University of Louisiana at Lafayette and a Masters in Technology Management from University of Maryland.

As reflected in the biographical information summarized above, Ms. Hulo contributes valuable management skills as well as having numerous contacts in the defense and military industries. For these reasons, we believe Ms. Hulo has the requisite set of skills and experience to serve as a valuable member of our board of directors.

Kevin S. Pruett, 52, has served as a director of the Company since June 2011 and is a member of our Audit Committee. Mr. Pruett has a successful 25-year record of accomplishment managing government and commercial technology businesses. He is currently Vice President for the Aerospace Sciences and Engineering Division of ENSCO, Inc. in Cocoa Beach, Florida. In this capacity, he manages multiple space launch engineering and analysis programs as well as overseeing the company's meteorological science business with clients such as NASA, National Weather Service, US Air Force and United Airlines. Prior to joining ENSCO in 2004, Mr. Pruett spent 18 years with Harris Corporation. Harris consistently promoted him to positions of increasing responsibility in the financial management, contract management and business development areas working with clients such as the US Air Force, Federal Aviation Administration and the Department of Homeland Security. During 1996 and 1997, he received multiple awards for consistent outstanding performance as a top Harris Business Development professional. Mr. Pruett was also the Program Director for wireless asset tracking products at Terion, Inc., a venture start-up formed by Harris and Penske Corporation. Mr. Pruett began his career with Rockwell International in Downey, California as a Cost Analyst on the Space Shuttle Program in 1982. Mr. Pruett received a BSBA degree from the University of Florida in 1981 and earned his MBA, with a concentration in contract management, from Florida Tech in 1987. Mr. Pruett also achieved a professional designation as a Certified Professional Contract Manager (CPCM) from the National Contract Management Association (NCMA) in 1992. Mr. Pruett is a member of the Board of Directors for Health-First Inc. He is also a member of the Board of Director for Health-First Health Plans Inc. Mr. Pruett is currently serving his third term as City Commissioner for Cocoa Beach, Florida. Prior to his election, he served two years as chairperson for the Cocoa Beach Board of Adjustment. He is also a member of the Brevard County Civilian-Military (CivMil) Relations Council.

As reflected in the biographical information summarized above, Mr. Pruett contributes valuable executive and operating experience, in addition to extensive financial and accounting skills, making him qualified to be our Audit Committee Financial Expert. For these reasons, we believe Mr. Pruett has the requisite set of skills and experience to serve as a valuable member of our board of directors.

Wayne P. Jackson, 82, has served as a Director of the Company since April 2009, and is a member of the Audit Committee. Major General Jackson had a 37-year career with the United States Army, Air Force and Navy, retiring in 1984. During his military career, General Jackson served in various overseas theaters of operations and in a variety of assignments. He commanded Aviation, Civil Affairs, Infantry, Military Intelligence, Signal Corps and Special Forces units, as well as holding two General Office Commands and a position as the Director of Counterintelligence and Security, Headquarters Department of the Army. In addition, General Jackson also served as Chief, Division of Probation Administrative Office of the United States Court, Washington, D.C. General Jackson has been awarded the Parachute Badge, the Expert Infantry Badge and the Master Aviator Badge. His decorations include the Distinguished

Service Medal, the Meritorious Service Medal, the Army Commendation Medal and several other military awards and decorations. General Jackson has remained an active member of the defense and intelligence communities and contributes extensive military industry experience relevant to the needs and requirements for the Company's products by the Company's primary initial target customer.

As reflected in the biographical information summarized above, General Jackson has remained an active member of the defense and intelligence communities and contributes extensive military industry experience relevant to the needs and requirements for the Company's products by the Company's primary initial target customer. For these reasons, we believe General Jackson has the requisite set of skills and experience to serve as a valuable member of our board of directors and its committees on which he serves.

#### Arrangements or Understandings Regarding the Selection of Certain Directors

We do not have any arrangements or understandings regarding the selection or appointment of our directors. Pursuant to the stock purchase agreement we entered into in connection with the acquisition of GTC, Growth Enterprise Fund, S.A. has the right to appoint two (2) directors to our board of directors, each of whom must satisfy the independence requirements of the SEC and NASDAQ until the earlier of the date the purchase price, including the earn-out payments, is paid in full or the third (3rd) anniversary of the closing date (as such terms are defined in the stock purchase agreement). Growth Enterprise has not yet designated anyone for appointment to the board of directors.

#### Determination of Director Independence

The Board of Directors has determined that General Jackson and Mr. Pruett are "independent" directors, meeting all applicable independence requirements of the SEC, including Rule 10A-3(b)(1) pursuant to the Exchange Act. In making this determination, the board of directors affirmatively determined that neither has any relationship that, in the opinion of the board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

#### Availability of Corporate Governance Documents

We have adopted a Code of Ethics and Business Conduct that is applicable to all our directors and all employees, including executive officers. A copy of the ethics policy is available on our website at [www.wsgi.com](http://www.wsgi.com) under the "Governance Documents" section. We intend to disclose any changes to and waivers from our ethics policy by posting such information on our website or by filing a Current Report on Form 8-K within four business days of any such amendment or waiver.

#### Board Leadership Structure and the Chairman of the Board

The Board oversees our Chief Executive Officer and other senior management in the competent and ethical operation of the Company and assures that the long-term interests of the stockholders are being served. While our Chief Executive Officer serves as a director, the Board has appointed Michael K. Clark as the Chairman of the Board of Directors and the Board includes two independent member. The Board has adopted this structure to strike an effective balance between management and leadership participation in the Board process and to enhance the ability of the Board to carry out its roles and responsibilities on behalf of stockholders. The function of the Chairman of the Board is to facilitate and improve communication between the independent directors and the Company by serving as the interface between our senior management and the independent directors. The Chairman of the Board works with the independent directors to establish goals for the Chief Executive Officer each fiscal year, and with the independent directors, conducts the annual Chief Executive Officer evaluation.

#### Board Oversight of Risk

The Board oversees our business and strategic risks, as well as the risks associated with our compensation policies and practices (including performance-based compensation and change of control and termination of employment plans and risks), our corporate governance practices and the process governing the nomination of members of the Board, since

the Board does not yet have either a standing Compensation or a Corporate Governance and Nominating Committee. The Audit Committee oversees financial reporting and financial compliance risks confronting us. While the Board and its committees oversee risk management strategy, management is responsible for implementing, and supervising day-to-day risk management processes and reporting to the Board on such matters.

We provide a detailed description of the risk factors impacting our business in this prospectus under “Risk Factors.”

#### Board Committees

The Board has a standing Audit Committee but does not yet have a standing Compensation Committee or Nominating and Corporate Governance Committee. The full Board carries out the duties and responsibilities normally carried out by a compensation committee and a nominating and corporate governance committee. We intend to add independent members to our board of directors in 2011. At such time as the number of directors on the Board that qualify as independent has increased, we intend on establishing both a Compensation and a Nominating and Corporate Governance Committee, each of which shall have a separate charter detailing its role, responsibilities and governance.

#### Audit Committee

The Audit Committee was established in January 2011 and currently has two members, Wayne P. Jackson and Kevin S. Pruett, who each meets the independence requirements of the SEC as described above. The Board appointed General Jackson and Mr. Pruett to the Audit Committee after determining that each is also financially literate. The Audit Committee is currently not governed by a committee specific charter, but we intend to adopt such a charter for our Audit Committee in 2011. Mr. Pruett qualifies as an “audit committee financial expert” as defined in the rules and regulations promulgated under the Exchange Act. The Audit Committee’s oversight responsibilities include matters relating to our financial disclosure and reporting process, including the system of internal controls, the performance of our internal audit function, compliance with legal and regulatory requirements, the approval of related party transactions, and the appointment and activities of (including the pre-approval of all services offered or performed by) our independent registered public accounting firm. Actions taken by the Audit Committee are reported to the Board, usually at the next Board meeting following a committee meeting. The Audit Committee did not meet during fiscal 2010 since it was not established until January 2011.

#### Nominating and Corporate Governance Committee

We do not yet have a standing Nominating and Corporate Governance Committee, but plan to establish such a committee upon the appointment of additional members of the Board who are independent. None of Mr. Clark, Mr. Estrella or Ms. Hulo is an independent director. The Board currently performs the functions that such a committee would perform and each director participates in identifying qualified individuals to become directors, making recommendations to the Board concerning the size, structure and composition of the Board and its committees, monitoring the process to assess the Board’s effectiveness, considering director nominees and overseeing our corporate governance policies.

#### Qualifications of Director Candidates

In evaluating the suitability of individuals for Board membership, the Board takes into account many factors, including whether the individual meets the requirements for independence, professional expertise and educational background, and the potential to contribute to the diversity of viewpoints, backgrounds or experiences of the Board as a whole including diversity of experience, gender, race, ethnicity and age. The Board evaluates each individual in the context of the entire Board, with the objective of recommending nominees who can best further the success of our business and represent stockholder interests. The Board does not assign specific weights to particular criteria for prospective nominees. We believe that the backgrounds and qualifications of directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the board of directors to fulfill its responsibilities.



## Compensation Committee

We do not yet have a standing Compensation Committee, but plan to establish such a committee upon the appointment of additional members of the Board who are independent. Our Board currently performs the functions that such a committee would perform and each director participates in the consideration of executive officer and director compensation. None of Mr. Clark, Mr. Estrella or Ms. Hulo is an independent director. The Board reviews the compensation arrangements for our executive officers, including the CEO, administers our equity compensation arrangements and reviews the compensation of the Board.

We structure our executive compensation to reflect individual responsibilities and contributions, while providing incentives to achieve overall business and financial objectives. The Board has responsibility for establishing, implementing and monitoring adherence to this philosophy. The Board has designed an executive compensation program that rewards the achievement of financial and non-financial goals through a combination of cash and stock-based compensation. This bifurcation between financial and non-financial objectives and between cash and stock-based compensation provides a structure in which executives are rewarded for achieving results that the Board believes will enhance stockholder value. The Board believes that stockholder interests are best served by compensating employees at industry competitive rates, enabling us to attract and retain the best available talent and recognize superior performance while providing incentives to achieve overall business and financial objectives. By doing so, the Board believes that our ability to achieve financial and non-financial goals is enhanced.

When making compensation decisions, the Board begins with a review of each compensation component for our Chief Executive Officer. This review includes the dollar amount of each component of compensation payable to the Chief Executive Officer related to the relevant period, together with the related goals for performance-based compensation. The overall purpose of this is to review all of the elements of fixed and contingent compensation, so that the Board may analyze both the individual elements of compensation (including the compensation mix) as well as the aggregate amount of actual and projected compensation.

The Board discusses this review with the Chief Executive Officer, who provides input to the Board on the reasonableness, feasibility and effectiveness of the compensation components proposed by the Board. The Chief Executive Officer then creates similar compensation component reviews for the other executive officers, presenting compensation recommendations of both base and performance-based compensation related to the relevant period, together with the associated performance metrics. These recommendations are then reviewed and, once agreed upon, approved by the Board. The Board can exercise its discretion in modifying any recommended compensation to executives and exercises this discretion in active consultation with the Chief Executive Officer.

The Board endeavors to establish a compensation program that is internally consistent and equitable in order for us to achieve our overall corporate objectives.

## Compensation Committee Interlocks and Insider Participation

We do not currently have a standing Compensation Committee. Glenn D. Estrella, our President and Chief Executive Officer and a member of the Board, participated in discussions of the Board concerning executive officer compensation. Except as disclosed in "Certain Relationships and Related Transactions" below, no member of the Board had any relationships requiring disclosure by us under the SEC's rules requiring disclosure of certain relationships and related party transactions. None of our executive officers served as a member of the compensation committee (or other committee performing equivalent functions) of another entity, one of whose executive officers served as a director of the Company.





## Compensation of Directors

During the fiscal year ended December 31, 2010, directors who were our employees received no cash compensation for their services as directors, except for reimbursement of expenses incurred in connection with attending meetings. During fiscal 2010, there was not a uniform compensation structure for non-employee directors. Mr. Clark entered into an agreement with us on June 23, 2010 in connection with his services as Chairman of the Board pursuant to which he was issued 5,000,000 shares of Common Stock. General Jackson entered into an agreement with us on April 21, 2009 in connection with his services as a director of the Company pursuant to which he is entitled to 250,000 shares of Common Stock per quarter and cash compensation of \$5,000 per quarter. The Board intends to establish uniform compensation policies for its directors in fiscal 2011 as it adds new independent members to its Board.

Director Compensation  
Fiscal Year 2010

| Name (1)             | Fees Earned<br>Or Paid in |                            |                             |                                   | Total<br>(\$) |
|----------------------|---------------------------|----------------------------|-----------------------------|-----------------------------------|---------------|
|                      | Cash<br>(\$)              | Stock<br>Awards<br>(\$)(2) | Option<br>Awards<br>(\$)(3) | All Other<br>Compensation<br>(\$) |               |
| Michael K. Clark (4) | -                         | 475,000                    | 55,407                      | -                                 | 530,407       |
| Wayne P. Jackson (5) | 20,000                    | 76,750                     | -                           | -                                 | 96,750        |
| David Christian (6)  | -                         | -                          | 20,650                      | -                                 | 20,650        |
| William Hotz (7)     | -                         | -                          | 7,940                       | -                                 | 7,940         |

- (1) Neither Mr. Seifert who served as a director from February 10, 2010 to January 19, 2011, nor Mr. Estrella who joined the Board in November 2010, both of whom are or were executive officers of the Company, received any additional compensation for their services as a director.
- (2) The amounts reported in the "Stock Awards" column of the table above reflects the aggregate grant date fair value. These values have been determined under the principles used to calculate the grant date fair value of equity awards for purposes of our financial statements.
- (3) The amounts reported in the "Option Awards" column of the table above reflect the aggregate grant date fair value based on a Black Scholes model valuation as of the grant date. These values have been determined under the principles used to calculate the grant date fair value of equity awards for purposes of our financial statements.
- (4) Mr. Clark joined the Board in June 2010; he received a fully vested option for 1,333,334 shares of Common Stock at an exercise price of \$0.09 per share in December 2010 that was unrelated to his service to as Chairman of the Board.
- (5) General Jackson's cash director fees were not paid in 2010 but were accrued for by us.
- (6) Mr. Christian served as a director from May 3, 2009 until February 8, 2010. Mr. Christian entered into a Settlement Agreement with us pursuant to which he was to be issued 250,000 shares of Common Stock for his service as a director. No shares of Common Stock or cash have been issued by us in connection with such Settlement Agreement and the parties are re-negotiating its terms.
- (7) Mr. Hotz served as a director from June 25, 2009 until February 8, 2010. Mr. Hotz entered into a Settlement Agreement with us pursuant to which he was to be issued 1,000,000 shares of Common Stock for his service as a director. No shares of Common Stock or cash have been issued by us in connection with such Settlement Agreement and the parties are re-negotiating its terms.

On February 8, 2010, we entered into a Mutual Release and Separation Agreement with Mr. Christian in connection with Mr. Christian's termination as the Chief Executive Officer and a director of the Company pursuant to which Mr. Christian was to be issued 4,000,000 shares of Common Stock, an option to purchase 500,000 shares of Common

Stock at an exercise price of \$0.075 per share which was issued and has since terminated, \$15,000 in cash and 250,000 shares for his service as a director in return for a full release of all claims against us. None of such shares or cash was ever issued by us and we and Mr. Christian are currently in the process of re-negotiating this Agreement.

On February 8, 2010, we entered into a Mutual Release and Separation Agreement with Mr. Hotz in connection with Mr. Hotz's termination as a director pursuant to which Mr. Hotz was to be issued 1,000,000 shares of Common Stock, an option to purchase 200,000 shares of Common Stock at an exercise price of \$0.075 per share which has since terminated, and \$10,000 in cash in return for a full release of all claims against us. None of such shares or cash was ever issued by us and we and Mr. Hotz are currently in the process of re-negotiating this Agreement.

#### Executive Officers

In addition to Mr. Estrella, our Chief Executive Officer, President and Director, whose biographical information is set forth elsewhere in this prospectus, our executive officers are:

| Executive Officer's<br>Name | Position and Principal Occupation and<br>Business Experience During the Past Five Years  |
|-----------------------------|--|
| Barbara M. Johnson          | <p>Vice President, General Counsel and Secretary</p> <p>Barbara M. Johnson, 45, joined the Company on October 6, 2010 as the Vice President, General Counsel and Secretary. From 2006-2008, Ms. Johnson was a Partner in the Business &amp; Technology Group at Choate Hall &amp; Stewart, LLP and prior to that, Ms. Johnson served from 1993 to 2008 as a Partner and Associate in the Business Practice Group at Testa, Hurwitz &amp; Thibault, LLP, both large, full service law firms. Ms. Johnson advised early and later stage multi-national and international public and private companies and specialized in working with such companies to negotiate and consummate various public and private equity and debt financings, implement corporate governance, SEC reporting and ethics compliance programs, and consummate acquisitions and dispositions of companies through mergers, sale or purchase of assets or other strategic combinations.</p> |
| W. Jeffrey Sawyers          | <p>Chief Financial Officer and Treasurer</p> <p>W. Jeffrey Sawyers, 56, joined the Company on February 8, 2011 as the Chief Financial Officer and Treasurer. Prior to joining the Company, Mr. Sawyers served from 2008 to 2010 as the Corporate Controller for Tijuana Flats, a restaurant chain, where he was responsible for all the external financial accounting and reporting systems, audit and tax management, and banking relationships. Prior to that from 2004 to 2008, Mr. Sawyers served as Director of Finance and Special Projects at Curascript, Inc. and before that was the Assistant Controller at Priority Healthcare which was acquired by Express Scripts and combined with their subsidiary Curascript, Inc.</p>  |

In addition to the above-named, currently serving executive officers, Thomas Seifert operated as our Chief Executive Officer from February 8, 2010 to June 22, 2010 and as Chief Financial Officer from June 1, 2009 to June 22, 2010. From August 6, 2009 to February 8, 2010, David Christian served as our Chief Executive Officer.

Our executive officers are appointed by, and serve at the discretion of, the Board, and serve until their successors have been duly elected and qualified. There are no family relationships among any of our executive officers or directors. Each executive officer is a full time employee of the Company.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following table summarizes aggregate amounts of compensation paid or accrued by us in fiscal 2010 and 2009 for services rendered by (i) our principal executive officer, (ii) our one most highly compensated executive officer other than our principal executive officer who were serving as executive officers as of December 31, 2010, and (iii) two other individuals who served as our principal executive officer or principal financial officer at some point during fiscal 2010 or 2009.

Grants or awards of certain performance-based compensation are generally made after fiscal year-end. The amounts reflected in the Summary Compensation Table under the heading “Stock Awards” and “Option Awards” for a given fiscal year, include the grants or awards made after fiscal year-end that relate to or are earned in the prior year.

| Name and Principal Position  | Fiscal Year | Salary (\$) | Bonus (\$) (1) | Stock Awards (\$) (2) | Non-Equity             |                                 |                             | Total Compensation (\$) |
|--|-------------|-------------|----------------|-----------------------|------------------------|---------------------------------|-----------------------------|-------------------------|
|  |             |             |                |                       | Option Awards (\$) (3) | Incentive Compensation (\$) (4) | All Other Compensation (\$) |                         |
| Glenn D. Estrella<br>President, Chief Executive Officer<br>And Director (5)      | 2010        | 129,594     | 20,000         | -                     | 540,733                | -                               | 29,737                      | 720,064                 |
|  | 2009        | -           | -              | -                     | -                      | -                               | -                           | -                       |
| Barbara M. Johnson<br>Vice President,<br>General Counsel and Secretary<br>(6)    | 2010        | 36,181      | -              | 94,000                | 133,460                | -                               | -                           | 263,641                 |
|  | 2009        | -           | -              | -                     | -                      | -                               | -                           | -                       |
| Thomas Seifert<br>Former Chief Executive Officer and Chief Financial Officer (7) | 2010        | 161,538     | -              | 252,000               | -                      | -                               | 9,510                       | 423,048                 |
|  | 2009        | 172,884     | -              | 340,000               | 189,744                | -                               | -                           | 702,628                 |
| David Christian<br>Former Chief Executive Officer (8)                            | 2010        | -           | -              | 240,000               | -                      | -                               | -                           | 240,000                 |
|  | 2009        | -           | -              | 27,500                | -                      | -                               | -                           | 27,500                  |

- (1) This amount represents a signing bonus paid to Mr. Estrella.
- (2) The amounts reported in the “Stock Awards” column of the table above reflect the aggregate grant date fair value. These values have been determined under the principles used to calculate the grant date fair value of equity awards for purposes of our financial statements.
- (3) The amounts reported in the “Option Awards” column of the table above reflect the aggregate grant date fair value based on a Black Scholes model valuation as of the grant date. These values have been determined under the principles used to calculate the grant date fair value of equity awards for purposes of our financial statements. Includes options granted on March 2, 2011 as bonuses for fiscal 2010.
- (4) This amount represents our payments for (i) housing reimbursements of \$24,376 and health care of \$5,632 for Mr. Estrella and his family, and (ii) health care for Mr. Seifert and his family.

(5)

Mr. Estrella joined us in June 2010 and was our Chief Financial Officer from June 23, 2010 until February 8, 2011. Salary includes \$34,000 of accrued unpaid wages as of December 31, 2010.

(6) Ms. Johnson joined us in October 2010. Salary includes \$9,722 of accrued unpaid wages as of December 31, 2010.

(7) Mr. Seifert operated as our Chief Executive Officer from February 8, 2010 to June 22, 2010 and as Chief Financial Officer from June 1, 2009 to June 22, 2010, but was not an executive officer or employee of the Company as of December 31, 2010. Following Mr. Seifert's termination of employment with the Company, in September 2010 the Company entered into a consulting agreement with Rocky Mountain Advisors Corp. ("Rocky Mountain"), a company of which Mr. Seifert is the controlling shareholder, pursuant to which Rocky Mountain is paid \$10,000 per month for such consulting services. The numbers set forth above in the table reflect payments made to or amounts earned by Mr. Seifert and Rocky Mountain. We are in settlement discussions with Mr. Seifert regarding any outstanding issues.

(8) Mr. Christian served as our Chief Executive Officer from August 6, 2009 to February 8, 2010 but was not an executive officer or employee of us as of December 31, 2010. We entered into a Settlement Agreement with Mr. Christian pursuant to which he was to be issued 4,000,000 shares of Common Stock for services rendered as CEO. No shares of Common Stock have been issued by us in connection with such Settlement Agreement and the parties are re-negotiating its terms.

#### Summary of Agreements with Named Executive Officers

On December 27, 2010, we entered into an Amended and Restated Employment Agreement with Mr. Estrella outlining the terms pursuant to which Mr. Estrella shall serve as our President, Chief Executive Officer and Chief Financial Officer. Mr. Estrella resigned as Chief Financial Officer on February 8, 2011 when we hired a new CFO. Mr. Estrella also entered into an agreement with us whereby the parties mutually agreed to rescind the issuance of 5,000,000 shares of Common Stock that had been issued to Mr. Estrella in June 2010. The Amended and Restated Employment Agreement, Mr. Estrella contemplated the payment to Mr. Estrella of a signing bonus of \$20,000, which was paid to him in June 2010 when he joined. Mr. Estrella receives a salary of \$250,000 per year and is eligible to receive an annual bonus as determined by the Board. In the event that we are acquired as a result of a transfer (by merger or by sale of assets or stock or other combination) of all or substantially all of our assets or stock to an unrelated third party (a "Business Combination"), the above compensation that remains to be paid during the initial three year term of the agreement will be accelerated so that upon the completion of such Business Combination, Mr. Estrella will receive 100% of the unpaid portion thereof regardless of the amount of time he has been with the Company. Mr. Estrella is also entitled to a housing and car allowance of up to \$2,800 and \$500 per month, respectively. Upon a termination by us of Mr. Estrella's employment other than for Cause or as a result of death or Disability, or upon a termination by Mr. Estrella of his employment for Good Reason (each as defined in the agreement), Mr. Estrella shall receive six months of his base salary, a pro-rated annual bonus as determined by the Board of Directors, and all health benefits for Mr. Estrella and his family for six months; provided, however, that if Executive's employment is terminated during the initial term of the agreement, Mr. Estrella will instead be entitled to 100% of the unpaid portion of the base salary that would have been paid to him during the initial term. The initial term of the agreement is for three years from June 23, 2010 with automatic renewal for one year unless a party notifies the other that it is not being renewed or unless the agreement is earlier terminated. Mr. Estrella also received an option for the purchase of 7,222,222 shares of Common Stock that were fully vested on the date of grant at an exercise price of \$0.09 per share.

On October 6, 2010, we entered into an Employment Agreement with Ms. Johnson outlining the terms pursuant to which Ms. Johnson shall serve as our Vice President, General Counsel and Secretary. Pursuant to the agreement, Ms. Johnson received 1,000,000 shares of restricted stock that vest 50% in 6 months and 50% in one year and an option for 1,300,000 shares of Common Stock that vested in full after three months at an exercise price of \$0.094 per share. Ms. Johnson's salary has been set by the Board at \$175,000 per year and she is eligible to receive an annual bonus as determined by the Board. In the event that we are acquired as a result of a change of control, the above vesting restrictions on the restricted stock and option terminate. Upon a termination by us of Ms. Johnson's employment other than for Cause or as a result of death or Disability, or upon a termination by Ms. Johnson of her employment for Good Reason (each as defined in the agreement), Ms. Johnson shall receive six months of her base salary, a pro-rated annual bonus as determined by the Board of Directors, and all health benefits for Ms. Johnson and her family for six months.

We have entered into indemnification agreements with each of our executive officers and directors whereby we agree to indemnify, defend and hold harmless each such person to the fullest extent permitted by law against all damages and expenses incurred by such person relating to any action taken or omitted to be taken in his or her capacity as such executive officer or director, subject to certain limitations.

On February 8, 2010, we entered into a Mutual Release and Separation Agreement with Mr. Christian in connection with Mr. Christian's termination as the Chief Executive Officer and a director pursuant to which Mr. Christian was to be issued 4,000,000 shares of Common Stock, an option to purchase 500,000 shares of Common Stock at an exercise price of \$0.075 per share which has since terminated, \$15,000 in cash and 250,000 shares for his services as a director in return for a full release of all claims against us. None of such shares or cash was ever issued by us and we and Mr. Christian are currently in the process of re-negotiating this Agreement.

#### Outstanding Equity Awards at Fiscal Year-End

The following table sets forth summary information regarding the outstanding equity awards held by each of the Named Executive Officers as of December 31, 2010, including the vesting dates for the portions of these awards that had not vested as of that date.

| Name                   | Option Awards(1)  |   |                            |                        | Stock Awards(2)   |  |
|------------------------|---|---|----------------------------|------------------------|---|--|
|                        | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) |
| Glenn D. Estrella      | 7,222,222   | -   | \$0.09                     | 12/26/13               | -   | -  |
| Barbara M. Johnson (3) | -   | 1,300,000   | \$0.094                    | 10/5/13                | 1,000,000   | \$84,000   |
| Thomas Seifert         | 500,000<br>2,000,000  | -   | \$0.14<br>\$0.073          | 5/31/12<br>12/31/12    | -   | -  |
| David Christian        | -   | -   | -                          | -                      | -   | -  |

(1) All options in the table above were granted under our 2004 Employee Stock Option Plan.

(2) These columns show the number of shares of Common Stock represented by unvested restricted stock at December 31, 2010. The dollar amount shown in the last column is determined by multiplying (x) the number of shares reported in the prior column by (y) \$0.084 (the closing price of our Common Stock on December 31, 2010, the last trading day of 2010).

(3) Ms. Johnson's options vested and became fully exercisable 90 days after October 6, 2010. The vesting dates for Ms. Johnson's unvested restricted stock shares are as follows: 500,000 shares vest as of April 6, 2011 and the remaining 500,000 shares vest on October 6, 2011. All 1,000,000 restricted stock shares and the 1,300,000 options are subject to full accelerated vesting on a change of control.

#### Potential Payments upon Termination or Change of Control





As discussed above, we have entered into certain employment agreements with Mr. Estrella and Ms. Johnson that contain severance provisions and, in the case of Ms. Johnson, change in control acceleration of vesting provisions regarding options and restricted stock. Upon a change of control, Ms. Johnson's unvested stock options will automatically vest and become immediately exercisable, and the shares of restricted stock then held by Ms. Johnson shall fully vest and become immediately transferable free of restriction, other than those restrictions imposed by applicable securities laws.

In the event of a termination of the executive's employment by us without Cause (other than as the result of death or Disability), or by the executive for Good Reason (as defined in their employment agreements), the executive shall be entitled to the following:

- (i) for Mr. Estrella, his annual base salary plus a prorated portion of his annual bonus determined in good faith by the Board for six months following such termination unless such termination occurs prior to June 22, 2013 (the "Expiration Date"), in which case Mr. Estrella would be entitled to his annual base salary through the Expiration Date, and (ii) for Ms. Johnson, her annual base salary plus a prorated portion of her annual bonus determined in good faith by the Board for six months following such termination;
- for a period of six months following such termination, continued health benefits for the executive and his or her family; and
- accrued vacation pay.

As a condition to the receipt by the executive of any payment or benefit under their employment agreement, the executive must first execute a valid, binding and irrevocable general release in favor of us in a form reasonably acceptable to us.

As disclosed in the Current Report on Form 8-K filed with the SEC on February 8, 2011, in connection with the commencement of Mr. Sawyers' employment with us, Mr. Sawyers entered into an employment agreement, dated as of February 8, 2011, pursuant to which Mr. Sawyers' options will accelerate upon a change of control and he will be entitled to six months severance upon termination of his employment by us without Cause (other than as the result of death or Disability) as such terms are defined in his agreement, including base salary and health care continuation, subject to his execution of a release in favor of us.

The following table shows the payments to which the Named Executive Officers would have been entitled pursuant to his or her employment agreement had (i) his or her employment been terminated as of December 31, 2010 and (ii) a change of control occurred on December 31, 2010.

#### Potential Payments Upon Termination or Change of Control

| Name                   | Salary<br>(\$)(1) | Equity Incentive                                     |                                  |                     | Equity<br>Awards<br>(\$)(3) |
|------------------------|-------------------|--|----------------------------------|---------------------|-----------------------------|
|                        |                   | Non-Equity Incentive<br>Plan<br>Compensation (\$)(1) | Plan<br>Compensation (\$)<br>(1) | Benefits<br>(\$)(2) |                             |
| Glenn D. Estrella (4)  | \$375,000         | -  | -                                | \$8,408             | -                           |
| Glenn D. Estrella (5)  | -                 | -  | -                                | -                   | -                           |
| Barbara M. Johnson (4) | \$87,500          | -  | -                                | -                   | -                           |
| Barbara M. Johnson (5) | -                 | -  | -                                | -                   | \$84,000                    |

- (1) For Mr. Estrella, reflects a termination of employment on December 31, 2010; if he is terminated after June 22, 2013, this salary number would be equal to \$125,000 reflecting six months of his base salary. For Ms. Johnson, reflects six months of her base salary. No bonus payment is included since any bonus payment on a termination of employment is to be determined at the discretion of the Board.
- (2) Reflects the continuation of medical benefits under group benefit plans. Ms. Johnson is not currently covered by our medical plan.
- (3) Reflects the value of all unvested stock options and restricted stock shares that would vest as a result of a termination or change of control. The amounts are based on (i) in the case of accelerated options, the excess of the December 31, 2010 closing price of the Common Stock (\$0.084) over the applicable exercise price, and (ii) in the case of accelerated restricted stock shares, the closing price of the Common Stock as of December 31, 2010 multiplied by the number of unvested restricted stock shares as of December 31, 2010. The grant date fair value of restricted stock share awards have previously been disclosed in the Summary Compensation Table.
  - (4) Reflects the termination of his or her employment as of December 31, 2010.
- (5) Reflects the occurrence of a change of control as of December 31, 2010. All of Mr. Estrella's options are currently fully vested, and thus there is no acceleration applicable to his options on a change of control. The December 31, 2010 closing price is greater than Ms. Johnson's exercise price, so no amount is recorded in connection with the acceleration of her 1,300,000 options on a change of control effective December 31, 2010.

#### CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

We have adopted a written policy that any transactions in which the aggregate amount involved is reasonably expected to exceed \$120,000 between us and our executive officers, directors, and greater than 5% stockholders and immediate family members of any such persons will be approved by the Audit Committee of the Board of Directors. In determining whether to approve or ratify an interested transaction, the Audit Committee will take into account all relevant information including, among other factors, whether such transaction is on terms no less favorable to us than could be obtained from unaffiliated third parties under the same or similar circumstances, whether the transaction is in the ordinary course of our business, the dollar value of the transaction, the purpose of and potential benefit to us, and the extent of the related person's interest in such transaction. No related party transactions in fiscal 2010 were reviewed under this policy since it was not adopted by the Audit Committee until March 2011.

On February 8, 2010, Mr. Christian, the then Chief Executive Officer and a director of the Company, and the Company entered into a Mutual Release and Separation Agreement in connection with Mr. Christian's termination as the Chief Executive Officer and a director pursuant to which Mr. Christian was to be issued 4,000,000 shares of common stock, an option to purchase 500,000 shares of common stock at an exercise price of \$0.075 per share which has since terminated, \$15,000 in cash and 250,000 shares for his service as a director in return for a full release of all claims against us. None of the shares or cash was ever issued by us and we and Mr. Christian are currently in the process of re-negotiating this Agreement.

On February 8, 2010, Mr. Hotz, a then director, and the Company entered into a Mutual Release and Separation Agreement in connection with Mr. Hotz's termination as a director of the Company pursuant to which Mr. Hotz was to be issued 1,000,000 shares of common stock, an option to purchase 200,000 shares of common stock at an exercise price of \$0.075 per share which has since terminated and \$10,000 in cash in return for a full release of all claims against us. None of the shares or cash was ever issued by us and we and Mr. Hotz are currently in the process of re-negotiating this Agreement.

In September 2010, we entered into an agreement with Rocky Mountain, a company of which Mr. Seifert is the controlling shareholder, cancelling a certain conversion agreement that had previously been entered into on May 5, 2009 between the parties. As part of cancelling the prior conversion agreement, we agreed to reinstate \$185,387 of wages and/or fees owed to Mr. Seifert and Rocky Mountain, and Rocky Mountain agreed to waive its rights to the

29,615 shares of our Series E Preferred Stock deliverable to Rocky Mountain thereby allowing us to cancel such shares of Preferred Stock. Mr. Seifert was a director at the time and is a former Chief Executive Officer and Chief Financial Officer of the Company.

Following Mr. Seifert's termination of employment with us but while he was still a director, in September 2010 we entered into a consulting agreement with Rocky Mountain pursuant to which Rocky Mountain is paid \$10,000 per month for such consulting services. Originally scheduled to terminate on October 31, 2010, the consulting agreement was extended to March 31, 2011.

In November 2010, January 2011 and April 2011, Glenn D. Estrella, our President and Chief Executive Officer and a director, and Michael K. Clark, our Chairman of the Board, purchased shares of our Common Stock and warrants to purchase shares of common stock in a private placement on terms identical to other purchasers.

In September 29, 2010, we, Mr. Clark, and Hinshaw & Culbertson LLP ("Hinshaw") entered into an Escrow and Stock Purchase Agreement (the "Clark Agreement") pursuant to which Mr. Clark agreed to provide \$250,000 to us to be held in escrow by Hinshaw. Those funds were provided by Mr. Clark to facilitate our effort and offer to settle pending litigation with the SEC. In December 2010, we settled with the SEC and agreed to pay a civil fine in the amount of \$300,000, of which \$50,000 was funded directly by us. Pursuant to an amendment to the Clark Agreement and a Stock Purchase Agreement, in December 2010, Mr. Clark received 3,333,333 shares of common stock in return for the \$250,000 and Mr. Clark received an option to purchase 1,333,334 shares of our common stock at an exercise price of \$0.09 per share, which was the fair market value of our Common Stock on the date of grant. The option is fully vested and exercisable until the earlier of three years from the date of grant or 90 days after the termination of Mr. Clark's membership on the Company's Board of Directors.

In December 2010, we entered into an agreement with Mr. Estrella whereby the parties mutually agreed to rescind the issuance of 5,000,000 shares of common stock that had been issued to Mr. Estrella in June 2010.

Ms. Hulo, a member of our board of directors, is the general manager of Eastcor Engineering, LLC, our technical partner, to whom we paid \$397,909 in fiscal 2010.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of May 31, 2011 by:

- each person or entity who is known by us to beneficially own more than 5% of our common stock;
- each of our directors;
- and of our named executive officers; and
- all of our current directors and executive officers as a group.

Unless otherwise indicated, the address of each person or entity named in the table is c/o World Surveillance Group Inc., State Road 405, Building M6-306A, Room 1400, Kennedy Space Center, FL 32815, and each person or entity has sole voting power and investment power (or shares such power with his or her spouse), with respect to all shares of capital stock listed as owned by such person or entity.

The number and percentage of shares beneficially owned is determined in accordance with the rules of the SEC, and is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares as to which a person has sole or shared voting power or investment power and also any shares of common stock underlying options or warrants that are exercisable by that person within 60 days of May 31, 2011. However, the shares of common stock underlying such options or warrants exercisable by a person or entity are not

treated as outstanding for the purpose of computing the percentage ownership of any other person or entity. Percentage of beneficial ownership is based on 391,239,821 shares of our common stock outstanding as of May 31, 2011.

| Name of Beneficial Owner  | Amount and Nature of Beneficial Ownership(1) | Percent of Common Stock Outstanding |
|---|--|-------------------------------------|
| Raymer Maguire (2)  | 58,464,228                                   | 14.4 %                              |
| David Phipps (2)  | 46,653,233                                   | 11.8                                |
| Michael K. Clark (3)  | 16,108,525                                   | 4.1                                 |
| Wayne P. Jackson  | 2,250,000                                    | *                                   |
| Anita S. Hulo   | 0  | *                                   |
| Kevin S. Pruett   | 0  | *                                   |
| Glenn D. Estrella   | 11,075,147                                   | 2.8                                 |
| Barbara M. Johnson  | 3,050,000                                    | *                                   |
| Thomas Seifert (4)  | 6,794,736                                    | 1.7                                 |
| David Christian (5)   | 250,000                                      | *                                   |
| All executive officers and directors as a group (7 persons) (6) | 33,150,339                                   | 8.2 %                               |

\* Less than 1%

(1) Includes shares of Common Stock which have not been issued but are subject to options and warrants which either are presently exercisable or will become exercisable within 60 days of May 31, 2011, as follows: Mr. Maguire – 15,730,091 shares; Mr. Phipps – 5,220,178 shares; Mr. Clark – 3,166,667 shares; General Jackson – 250,000 shares; Mr. Estrella – 9,055,556 shares; Ms. Johnson – 2,050,000 shares; and Mr. Sawyers – 666,667 shares.

(2) Based on information provided to us for this registration statement.

(3) Includes 60,000 shares of Common Stock owned by his daughter over which shares Mr. Clark exercises voting power and/or investment power.

(4) Includes 200,000 shares of Common Stock owned by his children over which shares Mr. Seifert exercises voting power and/or investment power and 1,500,000 shares held by Rocky Mountain Advisors Corp., a company of which Mr. Seifert is the controlling shareholder. Mr. Seifert operated as our Chief Executive Officer from February 8, 2010 to June 22, 2010 and as Chief Financial Officer from June 1, 2009 to June 22, 2010, but was not an executive officer or employee as of December 31, 2010.

(5) Mr. Christian served as our Chief Executive Officer from August 6, 2009 to February 8, 2010, but was not an executive officer or employee as of December 31, 2010. Mr. Christian entered into a Settlement Agreement with us pursuant to which he was to be issued 4,250,000 shares of Common Stock. No shares of Common Stock or cash have been issued by us in connection with such Settlement Agreement and the parties are re-negotiating its terms.

(6) This group is comprised of all the Company's current executive officers and directors. Includes an aggregate of shares of Common Stock underlying options and warrants that are presently exercisable or will become exercisable within 60 days of May 31, 2011 by the executive officers and directors as a group.

## SELLING STOCKHOLDERS

We are registering the shares of common stock identified in the table below in order to permit the selling stockholders to offer the shares for resale from time to time. All 22,588,332 shares were issued in two private placements in reliance on Section 4(2) of the Securities Act, and/or Rule 506 promulgated thereunder. For additional information regarding the private placements, please see “Description of Private Placements” beginning on page 14 of this prospectus.

Except for the ownership of our common stock, the selling stockholders have not had a material relationship with us within the past three years, other than (i) Michael K. Clark, our Chairman of the Board, (ii) Eastcor Engineering, our technical partner and whose general manager, Anita S. Hulo, is a member of our board of directors, (iii) Raymer F. Maguire III, who through various affiliated trusts held certain convertible notes during such period, and (iv) Joseph DiMauro, who held a \$200,000 secured promissory note of the Company issued March 12, 2011 and repaid May 25, 2011.

The following table sets forth, as of the date of this prospectus: (i) the name and address of the stockholder for whom we are registering shares under this registration statement; (ii) the number of shares of our common stock owned by the stockholder prior to this offering; (iii) the number of shares of our common stock being offered pursuant to this prospectus; (iv) the number of shares of our common stock and the percentage (if 1% or more) of the class to be owned by such stockholder after completion of the offering. The percentage of outstanding common stock owned upon completion of the offering is calculated based on 391,239,821 shares of common stock issued and outstanding as of May 31, 2011. We prepared this table based on the information supplied to us by the selling stockholders named in the table and we have not sought to verify such information.

| Name and Address of Selling Stockholder   | Common Stock Owned Prior to Offering | Common Stock Being Offered Pursuant to this Prospectus | Common Stock Owned Upon Completion of Offering (1) | Percentage of Common Stock Owned Upon Completion of Offering |
|---|--------------------------------------|--|--|--|
| Jamie Cooper<br>Sabai Thani 109/13 Moo 1<br>Bophut, Koh Samui Suratthani, 84320<br>Thailand | 6,146,848                            | 2,200,000  | 3,946,848  | 1.0 %  |
| William P. Kaczynski Sr.<br>624 Michigan Ave.<br>Kenilworth, NJ 07033                       | 1,333,333                            | 1,333,333  | 0  | *  |
| Eastcor Engineering, LLC<br>8682 Brooks Drive<br>Easton, MD 21601                           | 7,252,626                            | 2,666,667  | 4,585,959  | 1.2  |
| Michael K. Clark<br>157 Beach 135 Street<br>Belle Harbor, NY 11694                          | 12,941,858                           | 2,666,667  | 10,275,191   | 2.6  |
| Raymer F. Maguire Trust<br>605 East Robinson Street<br>Suite 140<br>Orlando, FL 32801       | 8,571,972                            | 1,333,333  | 7,238,639  | 1.9  |
| Richard F. Braun<br>5679 Robeys Meadow Lane<br>Fairfax, VA 22030                            | 666,667                              | 666,667  | 0  | *  |

|  |           |           |         |   |
|--|-----------|-----------|---------|---|
| Charles C. McClurkin<br>8215 Lake Shore Villa Dr<br>Humble, TX 77346 | 1,785,000 | 1,333,333 | 451,667 | * |
|--|-----------|-----------|---------|---|



|   |           |           |         |   |
|---|-----------|-----------|---------|---|
| Michael Fallon<br>202 Lane Court, Suite F<br>Sterling, VA 20166   | 1,750,000 | 1,333,333 | 416,667 | * |
| Bruce E. Kane<br>202 Lane Court, Suite D<br>Sterling, VA 20166  | 919,467   | 666,667   | 252,800 | * |
| Joseph Rached (2)<br>4316 US 19<br>Newport Richey, FL 34652   | 583,333   | 533,333   | 50,000  | * |
| Health Alliance Network, Inc. Defined Benefit Plan<br>411 Theodore Friend Ave., Suite 270<br>Rye, NY 10580    | 450,000   | 450,000   | 0       | * |
| Health Alliance Network, Inc. PSP- FBO Anthony V. Milone<br>– Trustee<br>1 Hillview Court<br>Armonk, NY 10504 | 187,500   | 165,000   | 22,500  | * |
| Anthony V. Milone<br>1 Hillview Court<br>Armonk, NY 10504   | 262,500   | 240,000   | 22,500  | * |
| Terminal Ventures Inc.<br>195 Howell Street<br>Jersey City, NJ 07306  | 1,333,333 | 1,333,333 | 0       | * |
| Jure Marijic<br>2030 Greenfield Avenue<br>Los Angeles, CA 90025   | 333,333   | 333,333   | 0       | * |
| Nicholas Lewin<br>712 5th Ave.<br>New York, NY 10019  | 3,333,333 | 3,333,333 | 0       | * |
| Joseph V. DiMauro<br>2 Gannett Drive, Suite 410<br>White Plains, NY 10604                                     | 1,417,968 | 1,000,000 | 417,968 | * |
| Marie DiMauro<br>2 Gannett Drive, Suite 410<br>White Plains, NY 10604   | 333,333   | 333,333   | 0       | * |
| Joseph R. DiMauro<br>2 Gannett Drive, Suite 410<br>White Plains, NY 10604                                     | 166,667   | 166,667   | 0       | * |
| Diane DiMauro<br>2 Gannett Drive, Suite 410<br>White Plains, NY 10604   | 166,667   | 166,667   | 0       | * |
| Katie DiMauro – Custodian under UGMA<br>2 Gannett Drive, Suite 410<br>White Plains, NY 10604                  | 166,667   | 166,667   | 0       | * |
| Gina DiMauro – Custodian under UGMA<br>2 Gannett Drive, Suite 410<br>White Plains, NY 10604                   | 166,666   | 166,666   | 0       | * |

(1) Assumes the sale by the selling stockholder of all of the shares of common stock available for resale under this prospectus.



- (2) Mr. Rached is a shareholder of the parent entity of Basis Financial, LLC, a FINRA member broker-dealer which acted as the exclusive placement agent in connection with a portion of the private placements of the securities to which this prospectus relates. Mr. Rached has represented to us that the securities purchased by him were purchased in the ordinary course of business as an investment and not as transaction-based compensation for investment banking or similar services and that at the time of such purchase, he did not have any agreements or understandings, directly or indirectly, with any person to distribute the securities held by him.
- (3) Mr. DiMauro is the CEO of Clark Dodge and Company Inc., a FINRA member broker-dealer that did not act in any capacity in connection with the private placements of the securities to which this prospectus relates. Mr. DiMauro has represented to us that the securities purchased by him were purchased in the ordinary course of business as an investment and not as transaction-based compensation for investment banking or similar services and that at the time of such purchase, he did not have any agreements or understandings, directly or indirectly, with any person to distribute the securities held by him.

## DESCRIPTION OF CAPITAL STOCK

### Capital Stock

Our authorized capital stock consists of 500,000,000 shares of common stock, par value \$0.00001 per share, and 10,000,000 shares of preferred stock, par value \$0.001 per share. The following description summarizes the terms of our capital stock. Because it is only a summary, it does not contain all of the information that may be important to you. For a complete description you should refer to our restated certificate of incorporation and our amended and restated bylaws, each as amended to date, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part, and to the applicable provisions of the Delaware General Corporation Law or DGCL.

### Common Stock

As of May 31, 2011, we had issued and outstanding 391,239,821 shares of common stock, held by 21,200 stockholders of record. All outstanding shares of common stock are fully paid and nonassessable.

The following summarizes the rights of holders of our common stock:

- each holder of common stock is entitled to one vote per share on all matters to be voted upon by the stockholders, including the election of directors;
- unless otherwise specified in our restated certificate of incorporation or amended and restated bylaws, the affirmative vote of a majority of the shares present in person or represented and voting at a duly held meeting at which a quorum is present shall be the act of the stockholders;
- holders of common stock are not entitled to cumulate votes in the election of directors, which means that the holders of a majority of the shares voted can elect all of the directors then standing for election;
- subject to preferences that may be applicable to the holders of outstanding shares of preferred stock, if any, the holders of common stock are entitled to receive dividends when, as and if declared by our board of directors out of assets legally available for dividends;
- upon our liquidation, dissolution or winding up, after satisfaction of all our liabilities and the payment of any liquidation preference of any outstanding preferred stock, the holders of shares of common stock will be entitled to receive on a pro rata basis all of our assets remaining for distribution;

- there are no redemption or sinking fund provisions applicable to our common stock; and

- there are no preemptive or conversion rights applicable to our common stock.

#### Preferred Stock

Our restated certificate of incorporation authorizes our Board of Directors, without further action by the stockholders, to create and issue one or more series of preferred stock and to fix the rights, preferences and privileges thereof. Among other rights, our board of directors may determine, without further vote or action by our stockholders:

- the number of shares constituting the series and the distinctive designation of the series;
- the dividend rate on the shares of the series, whether dividends will be cumulative, and if so, from which date or dates, and the relative rights of priority, if any, of payment of dividends on shares of the series;
- whether the series will have voting rights in addition to the voting rights provided by law and, if so, the terms of the voting rights;
- whether the series will have conversion privileges and, if so, the terms and conditions of conversion;
- whether or not the shares of the series will be redeemable or exchangeable, and, if so, the dates, terms and conditions of redemption or exchange, as the case may be;
- whether the series will have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of the sinking fund; and
- the rights of the shares of the series in the event of our voluntary or involuntary liquidation, dissolution or winding up and the relative rights or priority, if any, of payment of shares of the series.

As of May 31, 2011, there were no shares of preferred stock issued and outstanding. Although we presently have no plans to issue any shares of preferred stock, any future issuance of shares of preferred stock, or the issuance of rights to purchase preferred shares, may delay, defer or prevent a change of control in our company or an unsolicited acquisition proposal and make removal of management more difficult. The issuance of preferred stock also could decrease the amount of earnings and assets available for distribution to the holders of common stock or could adversely affect the rights and powers, including voting rights, of the holders of the common stock. The issuance of preferred stock may have the effect of decreasing the market price of our common stock, and may adversely affect the voting and other rights of the holders of our common stock.

#### Options and Warrants

As of May 31, 2011, we had outstanding options to acquire 27,166,667 shares of common stock under our existing option plan and outstanding warrants to acquire 46,773,780 shares of common stock. Also as of May 31, 2011, we had outstanding options to purchase 13,750,000 shares of common stock whose exercise is contingent on the approval by our shareholders of an amendment to our restated certificate of incorporation at the annual meeting of stockholders to be held on July 26, 2011.

#### Registration Rights

We are registering for resale an aggregate of 22,588,332 shares of our outstanding common stock, so that the shares may be resold publicly. After this registration statement is declared effective by the SEC, these shares will have been registered and will be freely tradable by the selling stockholders listed in the section of this prospectus entitled "Selling

Stockholders.”

53

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### Piggyback Registration Rights

In connection with our acquisition of GTC, the holder of an aggregate of 30,000,000 shares of common stock was entitled to, and waived, its rights to notice of this offering and to include its shares of registrable securities in this offering. In the event that we propose to register any of our securities under the Securities Act, either for our own account or for the account of other security holders, the holders of these shares will be entitled to certain “piggyback” registration rights allowing the holders to include its shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to certain registrations, the holders of these shares is entitled to notice of the registration and has the right, subject to limitations that the underwriters may impose on the number of shares included in the registration, to include its shares in the registration.

### Anti-Takeover Provisions of Delaware Law, Our Restated Certificate of Incorporation and Our Amended and Restated Bylaws

Provisions of the DGCL, as well as our restated certificate of incorporation and amended and restated bylaws, could make it more difficult to acquire us by means of a tender offer, a proxy contest or otherwise, or to remove incumbent officers and directors. These provisions, summarized below, are expected to discourage certain types of coercive takeover practices and takeover bids that our board of directors may consider inadequate and to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging takeover or acquisition proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

#### Delaware Anti-Takeover Statute

We are subject to Section 203 of the DGCL, an anti-takeover statute. In general, Section 203 of the DGCL prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years following the time the person became an interested stockholder, unless the business combination or the acquisition of shares that resulted in a stockholder becoming an interested stockholder is approved in a prescribed manner. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns (or within three years prior to the determination of interested stockholder status did own) 15% or more of a corporation’s voting stock. The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

#### Amendments

Our amended and restated bylaws provide that the affirmative vote of the holders of at least 75% of our voting stock then outstanding is required to amend certain provisions of our amended and restated bylaws relating to the calling of special meetings of stockholders, advance notice procedures, action of stockholders without a meeting, provisions regarding our board of directors, and amendments to the bylaws.

#### Size of Board and Vacancies

Our amended and restated bylaws provide that the number of directors on our board of directors is fixed exclusively by our board of directors. Newly created directorships resulting from any increase in our authorized

number of directors and any vacancies in our board of directors resulting from death, resignation, retirement, disqualification, removal from office or other cause will be filled generally by the majority vote of our remaining directors in office, even if less than a quorum is present.



#### Classified Board of Directors

Our amended and restated bylaws provide for a classified board of directors. The board is divided into three classes, Class I, Class II and Class III, with directors in each class serving for a term of three years and with the terms of office of the directors in the respective classes expiring in successive years.

#### Removal of Director

Our amended and restated bylaws provide that a director can be removed only for cause by the affirmative vote of the holders of at least 75% of our voting stock then outstanding.

#### Special Stockholder Meetings

Our amended and restated bylaws provide that only the Chairman of the board of directors, a majority of the board of directors, or the President may call special meetings of our stockholders.

#### Requirements for Advance Notification of Stockholder Nominations and Proposals

Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

#### No Cumulative Voting

The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless our restated certificate of incorporation provides otherwise. Our restated certificate of incorporation does not provide for cumulative voting.

#### Undesignated Preferred Stock

The authority that is possessed by our board of directors to issue preferred stock could potentially be used to discourage attempts by third parties to obtain control of our company through a merger, tender offer, proxy contest or otherwise by making such attempts more difficult or more costly. Our board of directors may issue preferred stock with voting rights or conversion rights that, if exercised, could adversely affect the voting power of the holders of common stock.

#### Authorized but Unissued Shares

Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without stockholder approval. We may use additional shares for a variety of purposes, including future offerings to raise additional capital, to fund acquisitions and as employee compensation. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

The combination of the provisions summarized above will make it more difficult for our stockholders to replace our board of directors as well as for another party to obtain control of us by replacing our board of directors. Therefore, these provisions may have the effect of deterring hostile takeovers or delaying changes in our control or management. These provisions are intended to enhance the likelihood of continued stability in the composition of our board of directors and in the policies they implement, and to discourage certain types of transactions that may involve an actual

or threatened change of our control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions may also have the effect of preventing changes in our management.

Transfer Agent and Registrar

The transfer agent and registrar for our shares of common stock is American Stock Transfer & Trust Company, LLC.

Over-The-Counter Bulletin Board Listing

Our common stock is quoted on the Over-The-Counter Bulletin Board under the symbol "WSGI."

PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, donees, transferees, assignees or other successors-in-interest may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices. Each selling stockholder will act independently in making decisions with respect to the timing, size and manner of each sale of shares of common stock covered by this prospectus. The selling stockholders may use one or more of the following methods when disposing of the shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

• block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

- through brokers, dealers or underwriters that may act solely as agents;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
  - privately negotiated transactions;
  - short sales;

• through the writing or settlement of options or other hedging transactions entered into after the effective date of the registration statement of which this prospectus is a part, whether through an options exchange or otherwise;

• broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

- a combination of any such methods of disposition; and
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended, if available, rather than under this prospectus.



Broker-dealers engaged by the selling stockholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time under this prospectus, or under a supplement or amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

Upon being notified in writing by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of common stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such selling stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such shares of common stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, upon being notified in writing by a selling stockholder that a donee or pledge intends to sell more than 500 shares of common stock, we will file a supplement to this prospectus if then required in accordance with applicable securities law.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of the shares of common stock or interests in shares of common stock, the selling stockholders may enter into hedging transactions after the effective date of the registration statement of which this prospectus is a part with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of common stock short after the effective date of the registration statement of which this prospectus is a part and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions after the effective date of the registration statement of which this prospectus is a part with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority (FINRA) or independent broker-dealer will not be greater than 15% of the initial gross proceeds from the sale of any security being sold.

We have advised the selling stockholders that they are required to comply with Regulation M promulgated under the Securities and Exchange Act during such time as they may be engaged in a distribution of the shares. The foregoing may affect the marketability of the common stock.

The aggregate proceeds to the selling securityholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling securityholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering.

We are required to pay all fees and expenses incident to the registration of the shares. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act or otherwise.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (a) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (b) the date on which the shares of common stock covered by this prospectus may be sold by non-affiliates without any volume limitations pursuant to Rule 144 of the Securities Act.

#### LEGAL MATTERS

Fleming PLLC, New York, NY will pass upon certain legal matters for us in connection with the offered securities.

#### EXPERTS

Rosen Seymour Shapss Martin & Company LLP, an independent registered public accounting firm, has audited our consolidated annual financial statements included in this prospectus, as stated in their report, and such consolidated financial statements have been included in this prospectus in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

#### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a Registration Statement on Form S-1 under the Securities Act with respect to the securities offered in this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement, some items of which are contained in exhibits or schedules to the registration statement as permitted by the rules and regulations of the SEC. You should refer to the registration statement and its exhibits and schedules for additional information. When we make references or statements in this prospectus to any of our contracts or any other documents or agreements, the references are not necessarily complete and you should refer to the exhibits filed with the registration statement for copies of the actual agreements, contracts or other documents and all such references and statements are qualified in their entirety by reference to the full text of those agreements, contracts and other documents.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports, proxy statements and other information with the SEC. Such reports, proxy statements, other information and a copy of the registration statement and its exhibits may be inspected by anyone without charge and copies of these materials may be obtained upon the payment of the fees prescribed by the SEC, at the Public Reference Room maintained by the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, on official business days during the hours of 10:00 a.m. to 3 p.m. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The registration statement and the reports, proxy statements and other information filed by us are also available through the SEC's Internet website on the World Wide Web at [www.sec.gov](http://www.sec.gov), as well as on our own website at [www.wsgi.com](http://www.wsgi.com).

WORLD SURVEILLANCE GROUP INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|   | Page |
|---|------|
| <b>AUDITED ANNUAL FINANCIAL STATEMENTS</b>  |      |
| Report of Independent Registered Public Accounting Firm   | F-2  |
| Consolidated Balance Sheets as of December 31, 2010 and 2009  | F-3  |
| Consolidated Statements of Operations for the years ended December 31, 2010 and 2009                          | F-4  |
| Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2010 and 2009               | F-6  |
| Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009                          | F-7  |
| Notes to Consolidated Financial Statements  | F-8  |
| <b>UNAUDITED ANNUAL FINANCIAL STATEMENTS</b>  |      |
| Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010                              | F-21 |
| Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010            | F-22 |
| Condensed Consolidated Statements of Stockholders' Deficit for the three months ended March 31, 2011 and 2010 | F-23 |
| Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010            | F-24 |
| Notes to Condensed Consolidated Financial Statements  | F-25 |



Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of  
World Surveillance Group Inc. f/k/a Sanswire Corp.:

We have audited the accompanying consolidated balance sheets of World Surveillance Group Inc. f/k/a Sanswire Corp. and Subsidiaries (the "Company"), as of December 31, 2010 and 2009 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., f/k/a Sanswire Corp. and Subsidiaries as of December 31, 2010 and 2009 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 30, 2011

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

|  | DECEMBER 31,<br>2010 | DECEMBER 31, 2009    |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| <b>CURRENT ASSETS</b>  |                      |                      |
| Cash and cash equivalents  | \$ 29,491            | \$ 12                |
| Inventories  | —                    | 1,545,490            |
| Assets from discontinued operations  | 6,406                | 6,406                |
| <b>TOTAL CURRENT ASSETS</b>  | <b>35,897</b>        | <b>1,551,908</b>     |
| Deposits   | 350                  | 11,150               |
| Intangible assets, net of accumulated amortization of \$1,049,425 at December 31, 2009                                     | —                    | 2,179,574            |
| <b>TOTAL NONCURRENT ASSETS</b>   | <b>350</b>           | <b>2,190,724</b>     |
| <b>TOTAL ASSETS</b>  | <b>\$ 36,247</b>     | <b>\$ 3,742,632</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                      |                      |
| <b>LIABILITIES</b>   |                      |                      |
| <b>CURRENT LIABILITIES</b>   |                      |                      |
| Accounts payable (including \$289,753 and \$396,625 due to joint venture partner at December 31, 2010 and 2009)            | \$ 5,315,659         | \$ 4,220,167         |
| Notes payable  | 7,811,510            | 7,391,718            |
| Other accrued liabilities (including \$2,185,000 due to joint venture partner at December 31, 2010 and 2009)               | 3,576,587            | 3,311,025            |
| Derivative liabilities   | 1,329,489            | 1,406,665            |
| Liabilities from discontinued operations   | 1,365,929            | 1,387,406            |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>19,399,174</b>    | <b>17,716,981</b>    |
| <b>TOTAL LIABILITIES</b>   | <b>19,399,174</b>    | <b>17,716,981</b>    |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                      |                      |
| <b>STOCKHOLDERS' DEFICIT</b>   |                      |                      |
| Common stock, \$.00001 par value, 500,000,000 shares authorized; 322,538,559 and 263,040,586 shares issued and outstanding | 3,226                | 2,631                |
| Additional paid-in capital   | 125,146,946          | 120,114,115          |
| Series E Preferred Stock, \$.001 par value, 100,000 shares authorized; 0 and 100,000 shares issued and outstanding         | —                    | 100                  |
| Additional paid-in capital - Series E Preferred stock  | —                    | 625,894              |
| Preferred Stock, \$.001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding                           | —                    | —                    |
| Accumulated deficit  | (144,513,099 )       | (134,717,089 )       |
| <b>TOTAL STOCKHOLDERS' DEFICIT</b>   | <b>(19,362,927 )</b> | <b>(13,974,349 )</b> |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   | <b>\$ 36,247</b>     | <b>\$ 3,742,632</b>  |

See accompanying notes to consolidated financial statements

F-3

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

|   | 2010                  | 2009                  |
|---|-----------------------|-----------------------|
| <b>REVENUES</b>   | \$250,000             | \$—                   |
| <b>EXPENSES</b>   |                       |                       |
| Compensation  | 551,793               | 554,065               |
| Professional fees   | 2,249,082             | 1,771,372             |
| Officers' and directors' stock based compensation           | 2,025,678             | 3,744,070             |
| Amortization of intangibles                                 | 968,700               | 1,049,425             |
| Research and development                                    | 2,162,837             | —                     |
| General and administrative                                  | 699,848               | 451,775               |
| <b>TOTAL EXPENSES</b>                                       | <b>8,657,938</b>      | <b>7,570,707</b>      |
| <b>LOSS FROM OPERATIONS</b>                                 | <b>(8,407,938 )</b>   | <b>(7,570,707 )</b>   |
| <b>OTHER INCOME (EXPENSE)</b>                               |                       |                       |
| Net gain on settlement of liabilities                       | 363,366               | —                     |
| Extinguishment of derivative liabilities                    | —                     | 629,563               |
| Change in fair value of derivative liabilities              | 77,176                | (1,287,984 )          |
| Impairment of intangible assets                             | (1,210,875 )          | —                     |
| Interest expense, net                                       | (607,957 )            | (1,185,379 )          |
| <b>NET OTHER EXPENSE</b>                                    | <b>(1,378,290 )</b>   | <b>(1,843,800 )</b>   |
| <b>LOSS FROM CONTINUING OPERATIONS</b>                      | <b>(9,786,228 )</b>   | <b>(9,414,507 )</b>   |
| <b>LOSS FROM DISCONTINUED OPERATIONS</b>                    | <b>(9,782 )</b>       | <b>—</b>              |
| <b>NET LOSS</b>   | <b>\$(9,796,010 )</b> | <b>\$(9,414,507 )</b> |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b> |                       |                       |
| <b>BASIC and DILUTED</b>                                    | <b>293,619,380</b>    | <b>216,936,864</b>    |
| <b>LOSS PER SHARE FROM CONTINUING OPERATIONS</b>            |                       |                       |
| <b>BASIC and DILUTED</b>                                    | <b>\$( 0.03 )</b>     | <b>\$( 0.04 )</b>     |
| <b>LOSS PER SHARE FROM DISCONTINUED OPERATIONS</b>          |                       |                       |
| <b>BASIC and DILUTED</b>                                    | <b>\$( 0.00 )</b>     | <b>—</b>              |
| <b>NET LOSS PER SHARE</b>                                   |                       |                       |
| <b>BASIC and DILUTED</b>                                    | <b>\$( 0.03 )</b>     | <b>\$( 0.04 )</b>     |

See accompanying notes to consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

| Description   | COMMON STOCK |          |                                  |
|---|--------------|----------|----------------------------------|
|   | SHARES       | AMOUNT   | ADDITIONAL<br>PAID-IN<br>CAPITAL |
| BALANCE, DECEMBER 31, 2008 (as Restated)                                      | 184,704,015  | \$ 1,848 | \$ 109,848,580                   |
| Shares issued for cash  | 18,123,014   | 181      | 1,882,173                        |
| Shares issued for conversion of notes   | 25,683,212   | 257      | 2,702,942                        |
| Shares issued for settlement of debt  | 2,720,346    | 27       | 131,753                          |
| Shares issued for services  | 31,484,999   | 314      | 2,933,686                        |
| Shares issued for options exercised   | 75,000       | 1        | (1 )                             |
| Shares issued for interest  | 250,000      | 3        | 9,497                            |
| Fair value of vested options issued for officers' and directors' compensation | —            | —        | 2,134,120                        |
| Warrants issued with convertible notes  | —            | —        | 28,060                           |
| Modification of warrants  | —            | —        | 443,305                          |
| Preferred Series E shares issued for accrued expenses                         | —            | —        | —                                |
| Preferred Series E shares issued for accounts payable                         | —            | —        | —                                |
| Net loss  | —            | —        | —                                |
| BALANCE, DECEMBER 31, 2009  | 263,040,586  | \$ 2,631 | \$ 120,114,115                   |
| Shares issued for cash  | 23,111,159   | 231      | 1,702,898                        |
| Shares issued for settlement of debt  | 14,354,809   | 144      | 952,334                          |
| Shares issued for services  | 22,032,005   | 220      | 1,571,699                        |
| Fair value of vested options issued for officers' and directors' compensation | —            | —        | 776,638                          |
| Modification of warrants  | —            | —        | 29,262                           |
| Preferred Series E shares cancelled and returned to accrued expenses          | —            | —        | —                                |
| Preferred Series E shares cancelled and returned to accounts payable          | —            | —        | —                                |
| Net loss  | —            | —        | —                                |
| BALANCE, DECEMBER 31, 2010  | 322,538,559  | \$ 3,226 | \$ 125,146,946                   |

(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, 2010 AND 2009

| Description   | SERIES E PREFERRED STOCK |        |                                  | ACCUMULATED<br>DEFICIT | TOTAL<br>STOCKHOLDERS'<br>DEFICIT |
|---|--------------------------|--------|----------------------------------|------------------------|-----------------------------------|
|   | SHARES                   | AMOUNT | ADDITIONAL<br>PAID-IN<br>CAPITAL |                        |                                   |
| BALANCE, DECEMBER 31, 2008<br>(as Restated)   |                          |        |                                  | (125,302,582 )         | (15,452,154 )                     |
| Shares issued for cash  | —                        | —      | —                                | —                      | 1,882,354                         |
| Shares issued for conversion of<br>notes  | —                        | —      | —                                | —                      | 2,703,199                         |
| Shares issued for settlement of debt  | —                        | —      | —                                | —                      | 131,780                           |
| Shares issued for services  | —                        | —      | —                                | —                      | 2,934,000                         |
| Shares issued for options exercised   | —                        | —      | —                                | —                      | —                                 |
| Shares issued for interest  | —                        | —      | —                                | —                      | 9,500                             |
| Fair value of vested options issued<br>for officers' and directors'<br>compensation | —                        | —      | —                                | —                      | 2,134,120                         |
| Warrants issued with convertible<br>notes   | —                        | —      | —                                | —                      | 28,060                            |
| Modification of warrants  | —                        | —      | —                                | —                      | 443,305                           |
| Preferred Series E shares issued for<br>accrued expenses                            | 70,385                   | 70     | 440,537                          | —                      | 440,607                           |
| Preferred Series E shares issued for<br>accounts payable                            | 29,615                   | 30     | 185,357                          | —                      | 185,387                           |
| Net loss  | —                        | —      | —                                | (9,414,507 )           | (9,414,507 )                      |
| <br>  |                          |        |                                  |                        |                                   |
| BALANCE, DECEMBER 31, 2009  | 100,000                  | \$ 100 | \$ 625,894                       | \$ (134,717,089 )      | \$ (13,974,349 )                  |
| Shares issued for cash  | —                        | —      | —                                | —                      | 1,703,129                         |
| Shares issued for settlement of debt  | —                        | —      | —                                | —                      | 952,478                           |
| Shares issued for services  | —                        | —      | —                                | —                      | 1,571,919                         |
| Fair value of vested options issued<br>for officers' and directors'<br>compensation | —                        | —      | —                                | —                      | 776,638                           |
| Modification of warrants  | —                        | —      | —                                | —                      | 29,262                            |
| Preferred Series E shares cancelled<br>and returned to accrued expenses             | (70,385 )                | (70 )  | (440,537 )                       | —                      | (440,607 )                        |
| Preferred Series E shares cancelled<br>and returned to accounts payable             | (29,615 )                | (30 )  | (185,357 )                       | —                      | (185,387 )                        |
| Net loss  | —                        | —      | —                                | (9,796,010 )           | (9,796,010 )                      |
| <br>  |                          |        |                                  |                        |                                   |
| BALANCE, DECEMBER 31, 2010  | —                        | \$—    | \$ —                             | \$ (144,513,099 )      | \$ (19,362,927 )                  |

See accompanying notes to consolidated financial statements



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

|  | 2010               | 2009               |
|--|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                    |                    |
| Net loss   | \$(9,796,010)      | \$(9,414,507)      |
| Adjustments to reconcile net loss to net cash used by operating activities:                                      |                    |                    |
| Amortization of debt discount  | —                  | 176,465            |
| Amortization of intangible asset   | 968,700            | 1,049,425          |
| Fair value of stock based compensation   | 1,571,919          | 3,102,725          |
| Fair value of vested options   | 889,445            | 2,134,120          |
| Change in fair value of derivative liabilities   | (77,176 )          | 1,287,984          |
| Extinguishment of derivative liabilities   | —                  | (629,563 )         |
| Fair value of modification of warrants   | 29,262             | 443,305            |
| Impairment of intangible assets  | 1,210,875          | —                  |
| Accrued interest on notes payable  | 419,792            | 482,966            |
| Change in operating assets and liabilities:  |                    |                    |
| Inventories  | 1,545,490          | (1,545,490)        |
| Accounts payable   | 1,438,582          | 615,808            |
| Other accrued liabilities  | 136,148            | 306,172            |
| Other accrued liabilities – Discontinued Operations  | (21,477 )          | —                  |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>   | <b>(1,684,450)</b> | <b>(1,990,590)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                    |                    |
| Deposits   | 10,800             | (11,150 )          |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>   | <b>10,800</b>      | <b>(11,150 )</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                    |                    |
| Payments on notes payable  | —                  | (25,411 )          |
| Proceeds from notes and loans payable  | —                  | 140,000            |
| Proceeds from sale of common stock   | 1,703,129          | 1,882,354          |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>   | <b>1,703,129</b>   | <b>1,996,943</b>   |
| <b>NET CHANGE IN CASH AND EQUIVALENTS</b>  | <b>29,479</b>      | <b>(4,797 )</b>    |
| <b>CASH AND EQUIVALENTS – BEGINNING OF YEAR</b>  | <b>12</b>          | <b>4,809</b>       |
| <b>CASH AND EQUIVALENTS – END OF YEAR</b>  | <b>\$29,491</b>    | <b>\$12</b>        |
| <b>SUPPLEMENTAL DISCLOSURES</b>  |                    |                    |
| Cash paid during the period for:   |                    |                    |
| Interest   | \$290              | \$2,903            |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>  |                    |                    |
| Common stock for accounts payable  | 528,478            | 13,031             |
| Common stock for accrued expenses  | 424,000            | 43,750             |
| Stock options for accrued expenses   | 81,119             | —                  |
| Conversion of notes payable to common stock  | —                  | 2,618,973          |
| Non-cash equity-warrant valuation and intrinsic value of beneficial conversion associated with convertible notes | —                  | 28,060             |
| Preferred stock issued (cancelled and returned) for (to) accrued expenses  | (440,607 )         | 440,607            |
| Preferred stock issued (cancelled and returned) for (to) accounts payable  | (185,387 )         | 185,387            |



See accompanying notes to consolidated financial statements

F-7

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WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1

Description of Business and Significant Accounting Policies

Description of Business

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

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company, its majority owned subsidiaries and variable interest entity where the Company is the primary beneficiary, after elimination of intercompany transactions.

Use of Estimates

The preparation of these financial statements requires the use of certain estimates by management in determining the Company’s assets, liabilities, revenues and expenses and related disclosure. Actual results could differ from those estimates.

Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 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 had a net loss of \$9,796,010 and negative cash flow from operations of \$1,684,450 for the year ended December 31, 2010, and had a working capital deficit of \$19,363,277 and a stockholders’ deficit of \$19,362,927 at December 31, 2010. The Company had an accumulated deficit of \$144,513,099 at December 31, 2010. 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 to continue its business operations and implement its strategic plan, which includes, among other things, continued development of its UAVs and the pursuit or continued development of strategic relationships. The Company’s business plan, which if successfully implemented, will allow it to sell UAVs for a profit, which in turn will reduce the Company’s dependence on raising additional funds from outside sources. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company anticipates a net loss to continue for the next several quarters if not for all of the year 2011.

Additional cash will be needed to support the Company's ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. The Company believes it will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at its current levels through at least December 31, 2011. The Company currently has a funding commitment letter for \$1.5 million from a third party, but it is subject to a number of conditions and there can be no assurance that this funding will occur. If the Company is able to raise additional funds through the issuance of equity securities, substantial dilution to existing shareholders may result. However, if the Company's plans are not achieved and/or if significant unanticipated events occur or if the Company is unable to obtain the necessary additional funding on favorable terms or at all, the Company will likely have to modify its business plan, and reduce, delay or discontinue some or all of its operations to continue as a going concern or seek a buyer for all or a portion of its assets.

F-8

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### Concentration of Credit Risk

The Company continues to focus on the development and commercialization of its airships. To date, the Company has not made any significant airship sales and, therefore, has no significant concentrations of credit risk.

### Revenue Recognition

The Company recognizes revenue when title passes and all substantial risks of ownership change, which generally occurs either upon shipment or upon delivery based upon contractual terms.

### Cash and Cash Equivalents

Cash and cash equivalents include cash on-hand and highly liquid investments that have a maturity of three months or less when purchased.

### Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. The Company reduces its inventory value for estimated obsolete and slow moving inventory in an amount equal to the difference between the cost of inventory and the net realizable value based upon estimates about future demand and market conditions. As of December 31, 2010 and 2009, the Company had no reserve established for excess and obsolete inventory. (See Note 5 for additional information)

### Other Long-Lived Assets

The Company tests its other long-lived assets for impairment in accordance with relevant authoritative guidance. The Company evaluates if impairment indicators related to its other long-lived assets are present. These impairment indicators may include a significant decrease in the market price of a long-lived asset or asset group, a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition, or a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group. If impairment indicators are present, the Company estimates the future cash flows for the asset or group of assets. The sum of the undiscounted future cash flows attributable to the asset or group of assets is compared to their carrying amount. The cash flows are estimated utilizing various projections of revenues and expenses, working capital and proceeds from asset disposals on a basis consistent with the Company's strategic plan. If the carrying amount exceeds the sum of the undiscounted future cash flows, the Company determines the asset's fair value by discounting the future cash flows using a discount rate required for a similar investment of like risk and records an impairment charge as the difference between the fair value and the carrying value of the asset group. Generally, the Company performs its testing of the asset group at the lowest level for which identifiable cash flows are available.

### Intangible Assets

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

estimated future net cash flows from such assets using a discount rate reflecting our average cost of capital. (See Note 4 for impairment of the intangible assets in 2010)

F-9

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### Stock-Based Compensation

The Company issues stock-based compensation to its officers, directors and employees that consist of 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 on the date of grant for common stock awards and ratably over the vesting periods for restricted stock awards. The Company uses the Black-Scholes option pricing model to value stock options and recognizes compensation expense ratably over the requisite service vesting period. Stock options typically have contractual terms of three years.

### Research and Development Costs

Research and development costs relating to both future and current products are expensed as incurred. These costs totaled \$2,162,837 and \$0 in 2010 and 2009, respectively.

### Derivative Financial Instruments

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

### Disclosures about Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts payable, notes payable and derivative instruments. The carrying values for the current financial assets and liabilities, including cash and cash equivalents, accounts payable and notes payable approximate fair value due to their short maturity. The fair values of the Company's derivative instruments are recorded in the consolidated balance sheets and disclosed in Note 8.

### Income Taxes

The Company accounts for deferred 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.

### 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. In periods where losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. If all outstanding options, warrants and convertible shares were converted or exercised as of December 31, 2010, the shares outstanding would be 394,595,057. As of March 21, 2011, the Company had 329,852,704 shares of common stock outstanding. The Company is obligated under various existing agreements, options and warrants to issue additional shares of its common stock.

### Recent Accounting Pronouncements

In June 2009, the FASB issued authoritative guidance changing the way entities account for securitizations and other transfers of financial instruments. In addition to increased disclosure, this guidance eliminates the concept of

qualifying special purpose entities and changes the test for consolidation of variable interest entities. This guidance was effective for the Company on January 1, 2010. The adoption of the authoritative guidance did not have a material impact on the Company's consolidated financial statements.

NOTE 2

Discontinued Operations

During 2007, the Company discontinued operations relating to its telecom and wireless activities. The loss from discontinued operations reported in 2010 related to payroll and payroll-related expenses.

The following table summarizes the results of businesses reported as discontinued operations of the Company for the years ended December 31,

F-10

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|   | 2010        | 2009 |
|---|-------------|------|
| <b>GlobeTel Wireless</b>                                  |             |      |
| Loss from discontinued operations (payroll related costs) | \$ (9,782 ) | \$ — |
| Loss from discontinued operations                         | \$ (9,782 ) | \$ — |

The following assets and liabilities from discontinued operations were included in the Company's consolidated balance sheet as of December 31,

|  | 2010       | Telecom      | GlobeTel Wireless | Total        |
|--|------------|--------------|-------------------|--------------|
| Cash                                       | \$ 6,406   | \$ —         | \$ 6,406          | \$ 6,406     |
| Total assets                               | \$ 6,406   | \$ —         | \$ 6,406          | \$ 6,406     |
| Accounts payable                           | \$ 140,116 | \$ 1,216,208 | \$ 1,356,324      | \$ 1,356,324 |
| Accrued liabilities                        | 9,605      | —            | 9,605             | 9,605        |
| Total current liabilities                  | 149,721    | 1,216,208    | 1,365,929         | 1,365,929    |
| Net liabilities of discontinued operations | \$ 143,315 | \$ 1,216,208 | \$ 1,372,335      | \$ 1,372,335 |
|  | 2009       | Telecom      | GlobeTel Wireless | Total        |
| Cash                                       | \$ 6,406   | \$ —         | \$ 6,406          | \$ 6,406     |
| Total assets                               | \$ 6,406   | \$ —         | \$ 6,406          | \$ 6,406     |
| Accounts payable                           | \$ 140,116 | \$ 1,216,208 | \$ 1,356,324      | \$ 1,356,324 |
| Accrued liabilities                        | 9,605      | 21,477       | 31,082            | 31,082       |
| Total current liabilities                  | 149,721    | 1,237,685    | 1,387,406         | 1,387,406    |
| Net liabilities of discontinued operations | \$ 143,315 | \$ 1,237,685 | \$ 1,381,000      | \$ 1,381,000 |

### NOTE 3

#### SkySat Sale

On April 20, 2010, the Company and Global Telesat Corp. ("GTC"), a shareholder of the Company, entered into an agreement whereby GTC purchased a 50% interest in the Company's SkySat lighter-than-air, unmanned aerial vehicle for \$250,000. The Company is required to utilize the cash proceeds to complete certain development work so that the airship can be tested and demonstrated to potential customers. As part of the agreement, the Company granted to GTC, upon full payment of the remaining purchase price, a first lien and security interest in the airship with all remedies of a secured creditor under the Uniform Commercial Code. The Company also granted GTC the option to acquire the remaining 50% interest in the airship for \$750,000, payable in 3 equal installments of \$250,000, the first installment due within 10 days after exercising the option with the remaining 2 installments due at 30 day intervals. The original option set to expire on December 31, 2010 was extended to December 31, 2011.

### NOTE 4

#### Impairment of Joint Venture and Intangible Assets

On June 3, 2008 Sanswire, TAO Technologies GmbH ("TAO") and Professor Bernd Kroeplin ("Kroeplin") restructured the November 2007 agreement and entered into a new agreement to form a 50/50 U.S. based joint venture company owned by Sanswire and TAO to be called Sanswire-TAO Corp. to place, among other things, the license rights to



certain TAO intellectual property for the exclusive use in the U.S., Canada and Mexico. The intellectual property included, but was not limited to, an existing patent in Germany as well as any updates to that patent. This integration of Sanswire and Stuttgart, Germany-based TAO was intended to create various strategic advantages for both companies.

F-11

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On June 3, 2008, the Company reclassified the transaction as the purchase of assets and recognized a \$3,229,000 intangible asset related to the intellectual property, including the German patent. The \$391,000 paid during 2007 was applied as payment towards the investment. During 2008, the Company paid an additional \$653,000 for the investment, made up of \$385,000 in cash and the issuance of 2,680,000 shares of the Company's common stock valued at \$268,000. After application of the prior payments, the balance of \$2,185,000 due for the investment was included in accrued expenses as of December 31, 2009 and remained in accrued expenses as of December 31, 2010 (see Note 6).

The Company had been amortizing the intangible asset assuming a definite life equal to the remaining life of the patent, which was through March 3, 2012. During the normal process of testing for an intangible impairment, the Company updated its ASC 360 analysis as of the end of December 2009 and determined there were no cash flows associated with the Company's intangible assets. The Company then determined that the appropriate method of determining if any impairment was necessary was the stated value for the intangible assets.

In the fourth quarter of 2010, the Company entered into discussions with TAO and Kroeplin as to the future relationship between the parties and the status of the joint venture. On March 22, 2011, the Company entered into a Settlement Agreement by and among the Company, TAO, Kroeplin and Global Telesat Corp., providing for, among other things, the termination of all existing agreements between the parties (the "Old Agreements"); the retention by TAO and Kroeplin of all cash and shares of the Company's common stock previously paid to them; the shipping back to TAO by the Company of the old STS 111 (SD34) airship; the discharge of \$2,474,753 in debt owed by the Company under the Old Agreements; and the winding down and dissolution of the joint venture, Sanswire-TAO Corp. The Company has decided to base its business going forward exclusively on the technology developed for it by Eastcor Engineering in the United States. Accordingly, the Company has taken an impairment charge of \$1,210,875 representing the remaining unamortized balance of the intangible asset at December 31, 2010.

#### NOTE 5

##### Inventories

The components of inventories were as follows as of December 31,

|                   | 2010 | 2009         |
|-------------------|------|--------------|
| Work in process   | \$ — | \$ 1,545,490 |
| Total Inventories | \$ — | \$ 1,545,490 |

The work in process inventory at the end of 2009 consisted of a prototype airship. During 2010, the Company determined that such prototype as then configured required additional development and decided to utilize the airship to further product development rather than hold it out for sale in its then current form. Accordingly, the Company charged the amount formerly classified as work in process inventory to research and development costs.

#### NOTE 6

##### Other Accrued Liabilities

Accrued liabilities included the following as of December 31,

|                     | 2010      | 2009        |
|---------------------|-----------|-------------|
| Payroll liabilities | \$998,410 | \$1,007,079 |
| Professional fees   | 118,946   | 118,946     |

|                              |             |             |
|------------------------------|-------------|-------------|
| Accrued legal claims payable | 274,231     | —           |
| Due to joint venture partner | 2,185,000   | 2,185,000   |
| Other accrued liabilities    | \$3,576,587 | \$3,311,025 |

NOTE 7

Notes Payable

The following is a summary of outstanding debt as of December 31,

F-12

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|                            | 2010        | 2009        |
|----------------------------|-------------|-------------|
| Unsecured promissory notes | \$5,997,030 | \$5,997,030 |
| Accrued interest           | 1,814,480   | 1,394,688   |
| Total Notes payable        | \$7,811,510 | \$7,391,718 |

As of December 31, 2010 and 2009, notes payable consisted of two unsecured promissory notes 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.

Interest expense relating to these notes for 2010 and 2009 totaled \$419,792 and \$405,753, respectively.

## NOTE 8

### Derivative Liabilities

The Company follows the authoritative guidance and accounts for its derivative instruments at fair value. Gains and losses from changes in fair values of derivatives are recognized currently in earnings. The Company's derivative instruments resulted from the issuance of warrants to purchase shares of common stock associated with certain debt and equity financings that contained anti-dilutive provisions.

### Warrants

During 2010 and 2009, the Company entered into financing agreements for convertible promissory notes payable and stock purchase agreements, which included both Class A and Class B warrants. During the fourth quarter of 2010, the Company issued 2,377,167 warrants to purchase common stock of the Company associated with two new stock purchase agreements under which the terms of the warrants have no anti-dilution rights. Warrants issued under the new agreements are not considered to be derivative instruments. 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 |                     |           | Weighted<br>Average<br>Exercise Price |
|----------------------------------|------------------------|---------------------|-----------|---------------------------------------|
|                                  | Warrants<br>Class A    | Warrants<br>Class B | Warrants  |                                       |
| Outstanding at December 31, 2008 | 13,987,204             | 9,634,763           | —         | \$ 0.253                              |
| Warrants Granted                 | 8,251,982              | 8,220,236           | —         | 0.262                                 |
| Warrants Expired                 | (3,305,382 )           | (2,203,588 )        | —         | 0.252                                 |
| Outstanding at December 31, 2009 | 18,933,804             | 15,651,411          | —         | \$ 0.258                              |
| Warrants Granted                 | 7,356,033              | 7,356,031           | 2,377,167 | 0.255                                 |
| Warrants Expired                 | (4,380,726 )           | (1,820,556 )        | —         | 1.42                                  |
| Outstanding at December 31, 2010 | 21,909,111             | 21,186,886          | 2,377,167 | \$ 0.244                              |

The aggregate intrinsic value of the Class A and Class B warrants outstanding and exercisable as of December 31, 2010 was \$22,675. All warrant shares were fully exercisable and there was no unamortized cost to be recognized in future periods. The aggregate fair value of the warrants outstanding and exercisable as of December 31, 2010 was \$1,329,489 and as of December 31, 2009 was \$1,406,665.



## NOTE 9

## Commitments

## Agreements

The Company has entered into several agreements, letters of intent, and memorandums of understanding during 2010 and 2009 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

In December 2010, Sanswire moved its corporate headquarters to the Kennedy Space Center and is now located at State Road 405, Bldg M6-306A, Room 1400, Kennedy Space Center, FL 32815. Base rent under the lease agreement, with a term of one year, is \$1,500 per month plus 6% state sales tax. The Company has an option to lease the adjacent Room 1401 for an additional \$1,500 per month plus 6% state sales tax, and believes that with this option, the new facilities are adequate for its existing needs and will accommodate future expansion. The Company's headquarters were previously located at 17501 Biscayne Blvd., Aventura, FL 33160 which was vacated on January 31, 2011 as the lease thereon expired.

Rent expense for 2010 and 2009 was \$33,591 and \$23,498, respectively.

Estimated future minimum rental payments and lease payments on non-cancelable operating leases as of December 31, 2010 were as follows:

Year Ended December 31, 2011 - \$17,490

## NOTE 10

## Income Taxes

Deferred income taxes and benefits for 2010 and 2009 are provided for certain income and expenses, which are recognized in different periods for tax and financial reporting purposes. The tax effects (computed at 15%) of these temporary differences and carry-forwards that give rise to significant portions of deferred tax assets and liabilities consist of the following:

|                                   | 2009          | Current<br>Period<br>Changes | 2010          |
|-----------------------------------|---------------|------------------------------|---------------|
| Deferred tax assets:              |               |                              |               |
| Net operating loss carry-forwards | \$ 17,077,363 | \$ 1,469,402                 | \$ 18,546,765 |
|                                   | 17,077,363    | 1,469,402                    | 18,546,765    |
| Valuation allowance               | (17,077,363)  | (1,469,402)                  | (18,546,765)  |
| Net deferred tax asset            | \$ —          | \$ —                         | \$ —          |

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

|   | 2010           | 2009           |
|---|----------------|----------------|
| Income tax benefit computed at federal statutory rate | \$ (1,469,402) | \$ (1,412,176) |

|                       |           |           |
|-----------------------|-----------|-----------|
| Deferred income taxes | 1,469,402 | 1,412,176 |
|                       | \$ —      | \$ —      |

The Company has accumulated net operating losses, which can be used to offset future earnings. Accordingly, no provision for income taxes is recorded in the consolidated financial statements. A deferred tax asset for the future benefits of net operating losses and other differences is offset by a 100% valuation allowance due to the uncertainty of the Company's ability to utilize the losses. These net operating losses will expire in the years 2021 through 2036.

At the end of 2010, the Company had net operating loss carry-forwards of its predecessor, related to the reincorporation as an "F" reorganization under the Internal Revenue Code, of approximately \$81,429,083, which expire at various dates through 2021.

## FOOTNOTE 11

## COMMON STOCK TRANSACTIONS

During the year ended December 31, 2010, the Company issued the following shares of common stock:

| SHARES     | CONSIDERATION                          | VALUATION  |
|------------|--|------------|
| 14,354,809 | Settlement of Debts                    | \$ 952,478 |
| 11,032,005 | Consulting Services                    | 810,886    |
| 5,000,000  | Services - Performance Bonus           | 209,283    |
| 23,111,159 | Stock for Cash (Net of offering costs) | 1,703,129  |
| 6,000,000  | Stock for Directors Fees               | 551,750    |
| 59,497,973 |  |            |

During the year ended December 31, 2009, the Company issued the following shares of common stock:

| SHARES     | CONSIDERATION                                | VALUATION  |
|------------|--|------------|
| 2,970,346  | Settlement of Debts                          | \$ 141,281 |
| 17,934,999 | Consulting Services                          | 1,421,250  |
| 75,000     | Exercised Options                            | —          |
| 35,387,971 | Converted Notes Payable and Accrued Interest | 3,722,198  |
| 12,500,000 | Services - Performance Bonus                 | 1,405,000  |
| 8,418,255  | Stock for Cash (Net of offering costs)       | 863,355    |
| 1,050,000  | Stock for Directors Fees                     | 107,750    |
| 78,336,571 |  |            |

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

The following table summarizes the changes in the number of shares of common stock for the following periods:

|                                  | Shares       | Weighted average grant date fair value |
|----------------------------------|--------------|--|
| Outstanding at December 31, 2008 | 184,704,015  | \$ 0.559                               |
| Granted                          | 78,336,571   | 0.131                                  |
| Outstanding at December 31, 2009 | 263,040,586  | 0.431                                  |
| Granted                          | 64,497,973   | 0.086                                  |
| Cancelled                        | (5,000,000 ) | 0.095                                  |
| Outstanding at December 31, 2010 | 322,538,559  | \$ 0.367                               |

## NOTE 12

## Stock-Based Compensation

The Company issues stock-based compensation that consists of common stock, restricted stock and stock options to its directors, officers and employees. 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 price on the grant date. All common stock awards are fully vested on the date of grant, therefore there is no unrecognized compensation expense associated with these awards. The Company awarded to directors, officers and employees 10 million shares of common stock totaling \$667,033 during 2010 and 13.55 million shares of common stock totaling \$1,512,750 during 2009.

F-15

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## Restricted Stock

Awards of restricted stock are independent of stock option grants and are generally subject to forfeiture if employment terminates prior to vesting. Prior to vesting, ownership of the restricted stock cannot be transferred. The restricted stock has the same voting rights as the common stock. The Company recognizes the cost of restricted stock awards ratably over the vesting period as compensation expense at the closing price on the date of grant. The Company issued one million shares of restricted stock totaling \$94,000 during 2010 and no restricted stock in 2009. As of December 31, 2010, there is approximately \$61,000 in unrecognized compensation associated with this award to be reflected in 2011.

## Stock Options

The Company issued stock options under its stock plan at exercise prices equal to the Company's common stock price on the date of grant with contractual terms of three years. Historically, the stock options were fully vested and expensed as compensation on the grant date. Beginning in 2010, the Company began to issue stock options with vesting schedules and such stock options are generally subject to forfeiture if employment terminates prior to full vesting. There was no unrecognized compensation expense at the end of 2010 and 2009.

| Date Issued | Shares     | Consideration         | Valuation  | Company Relationship        |
|-------------|------------|-----------------------|------------|-----------------------------|
| 02/04/2010  | 200,000    | Director Compensation | \$ 7,932   | Board Member                |
| 02/06/2010  | 500,000    | Director Compensation | \$ 20,665  | Board Member                |
|             |            | Employee Incentive    |            |                             |
| 10/06/2010  | 1,300,000  | Comp                  | \$ 91,907  | Corporate Officer           |
| 11/30/2010  | 1,200,000  | Accrued Salary        | \$ 81,119  | Non Executive Employee      |
|             |            | Employee Incentive    |            | Corporate Officer and Board |
| 12/27/2010  | 7,222,222  | Comp                  | \$ 485,403 | Member                      |
| 12/27/2010  | 1,333,333  | Director Compensation | \$ 89,613  | Board Member                |
|             | 11,755,555 |                       | \$ 776,639 |                             |

During the year ended December 31, 2009, the Company issued the following fully vested options to acquire common stock:

| Date Issued | Shares     | Consideration                     | Valuation    | Relationship                             |
|-------------|------------|-----------------------------------|--------------|--|
| 04/10/2009  | 5,305,550  | Employees' Bonus                  | \$ 221,238   | Non Executive<br>Employees               |
| 05/06/2009  | 8,311,116  | Employees' Bonus                  | \$ 852,959   | Non Executive<br>Employees               |
| 05/06/2009  | 5,555,556  | Officer Incentive<br>Compensation | \$ 570,160   | Former Chief Executive<br>Officer        |
| 06/01/2009  | 500,000    | Officer Incentive<br>Compensation | \$ 63,422    | Chief Financial Officer<br>Non Executive |
| 12/31/2009  | 4,500,000  | Employees' Bonus                  | \$ 284,227   | Employees                                |
| 12/31/2009  | 250,000    | Director Compensation             | \$ 15,791    | Board Member                             |
| 12/31/2009  | 2,000,000  | Officer Incentive<br>Compensation | \$ 126,323   | Chief Financial Officer                  |
|             | 26,422,222 |                                   | \$ 2,134,120 |  |

The fair value of stock options granted during 2010 was estimated using the Black-Scholes option pricing model and the following assumptions:

|                         |              |
|-------------------------|--------------|
| Risk free interest rate | 1.36 – 1.52% |
| Expected life           | 3 years      |
| Expected volatility     | 171 - 192 %  |
| Expected dividend yield | 0 %          |

F-16

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

|   | 2010         |                                 | 2009         |                                 |
|---|--------------|---------------------------------|--------------|---------------------------------|
|   | Shares       | Weighted average exercise price | Shares       | Weighted average exercise price |
| Outstanding at beginning of period          | 38,042,499   | \$.298                          | 15,982,752   | \$.350                          |
| Granted                                     | 11,755,556   | .089                            | 26,422,222   | .062                            |
| Exercised                                   | —            | —                               | (250,000 )   | .105                            |
| Forfeited / expired / cancelled             | (23,214,721) | .118                            | (4,112,475 ) | .994                            |
| Outstanding at end of period                | 26,583,334   | \$.078                          | 38,042,499   | \$.298                          |
| Options exercisable at end of period        | 25,383,334   | \$.078                          | 38,042,499   | \$.298                          |
| Weighted average remaining contractual term | 2.09 years   |                                 | 1.63 years   |                                 |

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2010:

| Options Outstanding and Exercisable |                    |  |                                 |
|-------------------------------------|--------------------|--|---------------------------------|
| Exercise prices                     | Number outstanding | Weighted average remaining contractual terms (years) | Weighted average exercise price |
| \$ .045                             | 5,555,555          | 1.35   | \$ .045                         |
| \$ .073                             | 4,500,000          | 2.00   | .073                            |
| \$ .080                             | 1,500,000          | 1.27   | .080                            |
| \$ .090                             | 12,027,779         | 2.48   | .090                            |
| \$ .094                             | 1,300,000          | 2.77   | .094                            |
| \$ .140                             | 500,000            | 1.42   | .140                            |
|                                     | 25,383,334         | 2.09   | \$ .078                         |

The aggregate intrinsic value of 25,383,334 options outstanding and exercisable as of December 31, 2010 was \$272,167. 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 as of December 31, 2010.

#### NOTE 13

##### Preferred Stock

On May 3, 2009, the Board of Directors approved the creation of a Series E Preferred Stock and 100,000 shares of such stock were issued. The terms of the Series E Preferred Stock were subsequently amended on May 14, 2009. The Series E Preferred Stock, as amended, had no dividend or liquidation preference, but did include a conversion feature with preferential voting rights. Each share of the Series E Preferred Stock was convertible into shares of the Company's common stock (as determined by dividing the Stated Value by the Conversion Price feature) and had 21.5 voting rights for each share received. The Series E Preferred Stock, as amended, had a conversion price of \$0.105 and a stated value of \$6.26. The Company cancelled all authorized shares of Series A, B, C, and D Preferred Stock.

During 2010, the Company cancelled the 100,000 shares of Series E Preferred Stock authorized and outstanding restoring \$440,607 to accrued expenses and \$185,387 to accounts payable.

NOTE 14

Litigation and Contingencies

Securities and Exchange Commission

On May 2, 2008, the SEC filed a lawsuit in the United States District Court for the Southern District of Florida against the Company and three former officers of the Company, Timothy J. Huff, Thomas Y. Jimenez and Lawrence E. Lynch.

F-17

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The SEC alleged, among other things, that the Company recorded \$119 million in revenue on the basis of fraudulent invoices created by Joseph Monterosso and Luis Vargas, two individuals formerly employed by the Company who were in charge of its wholesale telecommunications business.

The SEC alleged that the Company violated Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933, as amended, Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 under the Exchange Act. The SEC sought as relief a permanent injunction, civil penalties, and disgorgement with prejudgment interest. The Commission subsequently consolidated this action with another pending action involving former officers of the Company. The Commission also moved to amend its complaint against the Company to include additional allegations of wrongdoing beginning in 2002, but such amendment did not add any new defendants. The Company vigorously defended itself in this action and on December 16, 2010 the Company reached a settlement with the SEC resolving this lawsuit, without admitting or denying the allegations in the SEC's complaint, as is consistent with standard SEC practice.

Under the terms of the settlement, the Company was required to pay a civil penalty of \$300,000. The funds to pay the civil penalty had been held in escrow since June 2010. Further, the Company consented to a permanent injunction against future violations of Sections 5(a), 5(c) and 17(a) of the Securities Act and Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 10b-5, 12b-20, 13a-1, 13a-11 and 13a-13 thereunder. The Company also agreed to perform certain undertakings, including among others, retaining a Chief Financial Officer, establishing and securing board members for an independent audit committee of our Board of Directors, and retaining an audit committee financial expert for the Board, to enhance its disclosure controls, processes and practices. The Company's failure to fulfill any such undertaking could result in the SEC's petitioning the Court for an order for it to pay a penalty of \$1.3 million plus interest. On December 16, 2010, the U.S. District Court for the Southern District of Florida was advised of the settlement and dismissed all claims against the Company without prejudice. The Company has satisfied all undertakings required in the settlement to be complied with by it as of the date of this Annual Report on Form 10-K.

#### Hudson Bay Fund LP et al. and Brio Capital

Hudson Bay Fund LP and Hudson Bay Overseas Fund Ltd. filed an action against the Company on June 16, 2009 in the Supreme Court of New York relating to the warrants attached to a Subscription Agreement between those entities and the Company. The Hudson Bay entities are seeking to re-price the warrants, increase the number of shares they can purchase pursuant to the warrants, certain equitable remedies, and unspecified damages. A non-final Summary Judgment Order in favor of Hudson Bay was granted by the Court in March 2011 requiring the Company, among other things, to issue 9,283,352 shares of common stock. The Company intends to appeal this order and continues to consider the plaintiff's interpretation of the warrant provisions to be incorrect. The Company intends to continue to vigorously defend the action, but the outcome of the action cannot be predicted. Brio Capital, the holder of a similarly worded warrant, filed an action against the Company on February 25, 2011 in the District Court for the Southern District of New York and the Company is actively working out the appropriate response. The Company intends to vigorously defend the action, but the outcome of the action cannot be predicted.

#### Tsunami Communications v. GlobeTel

On March 3, 2006, Civil Action File No. 06A-02368-5 was filed in Superior Court for Gwinnett County, Georgia by Tsunami Communications and several of its former shareholders. The Company asserted affirmative defenses and a trial was held in November 2009. By Order of the Court entered on September 2, 2010, a judgment was entered against GlobeTel and several other co-defendants for the breach by Sanswire Technologies, Inc. ("ST") (a then unrelated party) of its asset purchase agreement with the plaintiff Tsunami based on a deemed de facto merger resulting from a subsequent asset purchase agreement between ST and GlobeTel. As damages, the Company was ordered to issue

530,015 shares of common stock to former shareholders of Tsunami and pay \$229,180 to a former Tsunami shareholder with respect to two outstanding promissory notes. Subsequent to the Order, the plaintiffs filed both a Motion for Reconsideration asking the Court to reconsider its decision to deny several of the plaintiffs' claims and to substantially increase the award of damages and a Claim for Attorney's Fees, both of which have been denied by the Court.

F-18

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#### Peter Khoury

The Company's former CEO, Peter Khoury, filed an arbitration proceeding against the Company on October 10, 2010 asserting claims for payment of amounts alleged to be due in connection with his services provided to the Company. The Company has filed a motion to dismiss the arbitration that has yet to be heard. Mediation is expected. The Company intends to respond to the allegations and defend itself vigorously in this matter, but the outcome of the action cannot be predicted.

#### The DeCarlo Group

A lawsuit was filed by the DeCarlo Group on November 24, 2010 in Miami-Dade County Courthouse for over \$400,000 claimed in connection with CFO and accounting services allegedly rendered to the Company. It is the Company's position that the Company was overcharged in connection with the services rendered and that the amounts are not due. The Company has filed a motion to dismiss for improper venue and intends to otherwise defend itself vigorously in this matter, but the outcome of the action cannot be predicted.

#### Siegel

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

#### GlobeTel Wireless Europe GmbH

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

#### Dohan

A lawsuit was filed by the Company on November 3, 2008, in the Florida Circuit Court for the Eleventh Circuit in Miami-Dade County, FL against its former auditors, Dohan + Co. and the individual auditors who performed work for the Company. The claim asserts that but for the professional negligence of the audit firm in failing to observe GAAP and other accounting and auditing standards, the Company would not have incurred substantial fees and professional expenses to restate its financials and defend allegations of wrongdoing asserted by the SEC against it. The Company intends to vigorously pursue its claim in this matter, but the outcome of the action cannot be predicted.

#### IRS

During 2010 and 2009, Sanswire 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. During the period 2007 through 2008, the Company reported its payroll tax liabilities on a timely basis, however, it failed to deposit the appropriate withholding amounts. The Company recognized this issue and, accordingly, contacted the IRS to make arrangements to pay any taxes due. One such matter has been resolved with the IRS, and the Company currently estimates the amount involved in the second matter to be approximately \$200,000. The Company may be subject to additional penalties and interest from the IRS in connection with these payroll tax matters.



NOTE 15

Subsequent Events

The Company has evaluated subsequent events that have occurred through March 30, 2011, the date of the consolidated financial statements.

On March 2, 2011, the Company entered into a 12% Secured Promissory Note with a principal amount of \$200,000. The principal and interest is due in full on March 2, 2012. The note is secured by a security agreement for substantially all of the Company's assets.

F-19

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On March 22, 2011, the Company entered into a Settlement Agreement (the “Agreement”) with TAO, Kroeplin and GTC pursuant to which the parties agreed, among other things:

- To terminate all existing agreements between the parties (the “Old Agreements”);
- That TAO and Kroeplin are to keep all cash and shares of the Company’s Common Stock previously paid to them and that the Company is to ship back to TAO the old STS 111 (SD34) airship;
- To discharge \$2,474,753 in debt owed by the Company under the Old Agreements, reflected as \$2,185,000 in Other Accrued Liabilities and \$289,753 in Accounts Payable on the Company’s Consolidated Balance Sheet as of December 31, 2010;
  - To cooperate to wind down and dissolve the joint venture, Sanswire-TAO Corp.;
  - To negotiate the potential terms of a revised relationship among the parties for the next 60 days;
- To a mutual non-disparagement clause and a mutual release and covenant not to sue for any claim related to the Old Agreements and for any claim that may exist currently;
- The Company warranted that, to its knowledge, it is not using any trade secret rights of TAO or Kroeplin and that it will not intentionally develop products that use any trade secret rights of TAO or Kroeplin, nor will it intentionally infringe any patent of TAO or Kroeplin in any country where such patent is valid; and
- That the parties will not use the name, logo or trademarks of any of the parties in any commercial activity or promotional or advertising materials, including on its website.

## WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

|  | MARCH 31,<br>2011<br>(Unaudited) | DECEMBER 31,<br>2010 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| <b>CURRENT ASSETS</b>  |                                  |                      |
| Cash and cash equivalents  | \$8,577                          | \$ 29,491            |
| Prepayments and other current assets   | 2,340                            | —                    |
| Assets from discontinued operations  | 6,406                            | 6,406                |
| <b>TOTAL CURRENT ASSETS</b>  | <b>17,323</b>                    | <b>35,897</b>        |
| Deposits   | —                                | 350                  |
| <b>TOTAL NONCURRENT ASSETS</b>   | <b>—</b>                         | <b>350</b>           |
| <b>TOTAL ASSETS</b>  | <b>\$17,323</b>                  | <b>\$ 36,247</b>     |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                                  |                      |
| <b>LIABILITIES</b>   |                                  |                      |
| <b>CURRENT LIABILITIES</b>   |                                  |                      |
| Accounts payable (including \$0 and \$289,753 due to joint venture partner at March 31, 2011 and December 31, 2010)  | \$4,828,564                      | \$ 5,315,659         |
| Notes payable  | 8,116,993                        | 7,811,510            |
| Other accrued liabilities (including \$0 and \$2,185,000 due to joint venture partner at March 31, 2011 and December 31, 2010)   | 1,267,998                        | 3,576,587            |
| Derivative liabilities   | 582,711                          | 1,329,489            |
| Liabilities from discontinued operations   | 1,365,929                        | 1,365,929            |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>16,162,195</b>                | <b>19,399,174</b>    |
| <b>TOTAL LIABILITIES</b>   | <b>16,162,195</b>                | <b>19,399,174</b>    |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                                  |                      |
| <b>STOCKHOLDERS' DEFICIT</b>   |                                  |                      |
| Common stock, \$0.00001 par value, 500,000,000 shares authorized; 330,042,060 and 322,538,559 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively | 3,301                            | 3,226                |
| Additional paid-in capital   | 125,961,709                      | 125,146,946          |
| Accumulated deficit  | (142,109,882)                    | (144,513,099 )       |
| <b>TOTAL STOCKHOLDERS' DEFICIT</b>   | <b>(16,144,872 )</b>             | <b>(19,362,927 )</b> |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   | <b>\$17,323</b>                  | <b>\$ 36,247</b>     |
| See accompanying notes to condensed consolidated financial statements  |                                  |                      |

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

|  | THREE MONTHS ENDED<br>MARCH 31, |              |
|--|---------------------------------|--------------|
|  | 2011                            | 2010         |
| REVENUES   | \$—                             | \$—          |
| EXPENSES   |                                 |              |
| Compensation   | 217,203                         | 97,293       |
| Officers' and directors' stock based compensation              | 83,001                          | 324,546      |
| General administrative   | 65,273                          | 63,140       |
| Research and development                                       | 100,000                         | —            |
| Professional fees  | 218,703                         | 433,256      |
| Amortization   | —                               | 242,175      |
| TOTAL EXPENSES   | 684,180                         | 1,160,410    |
| LOSS FROM OPERATIONS   | (684,180 )                      | (1,160,410 ) |
| OTHER INCOME (EXPENSE)   |                                 |              |
| Gain on extinguishment of liabilities to joint venture partner | 2,474,753                       | —            |
| Change in fair value of derivative liabilities                 | 746,778                         | 675,218      |
| Interest expense, net  | (134,134 )                      | (243,898 )   |
| NET OTHER INCOME (EXPENSE)                                     | 3,087,397                       | 431,320      |
| NET INCOME (LOSS)  | \$2,403,217                     | \$(729,090 ) |
| PER COMMON SHARE DATA (Note 11)                                |                                 |              |
| Net income (loss) per common share:                            |                                 |              |
| Basic and diluted (Note 11)                                    | \$0.01                          | \$(0.00 )    |
| Weighted average common shares outstanding - basic             | 327,082,203                     | 264,907,253  |
| Weighted average common shares outstanding - diluted           | 330,340,736                     | 264,907,253  |

See accompanying notes to condensed consolidated financial statements

## WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE THREE MONTHS ENDED MARCH 31, 2011  
(Unaudited)

| Description                                      | COMMON STOCK |         | ADDITIONAL         | ACCUMULATED       | TOTAL                    |
|--|--------------|---------|--------------------|-------------------|--------------------------|
|  | SHARES       | AMOUNT  | PAID-IN<br>CAPITAL | DEFICIT           | STOCKHOLDERS'<br>DEFICIT |
| BALANCE, DECEMBER 31, 2010                       | 322,538,559  | \$3,226 | \$ 125,146,946     | \$ (144,513,099 ) | \$ (19,362,927 )         |
| Shares issued for cash                           | 2,466,667    | 25      | 184,975            | —                 | 185,000                  |
| Shares issued for settlement of debt             | 4,278,848    | 43      | 352,868            | —                 | 352,911                  |
| Shares issued for directors' compensation        | 250,000      | 2       | 17,498             | —                 | 17,500                   |
| Vested shares issued as stock based compensation | —            | —       | 34,831             | —                 | 34,831                   |
| Options issued as stock based compensation       | —            | —       | 224,596            | —                 | 224,596                  |
| Cashless exercise of options                     | 507,986      | 5       | (5 )               | —                 | —                        |
| Net income                                       | —            | —       | —                  | 2,403,217         | 2,403,217                |
| BALANCE, MARCH 31, 2011                          | 330,042,060  | \$3,301 | \$ 125,961,709     | \$ (142,109,882 ) | \$ (16,144,872 )         |

See accompanying notes to condensed consolidated financial statements

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

|  | THREE MONTHS ENDED<br>MARCH 31, |                  |
|--|---------------------------------|------------------|
|  | 2011                            | 2010             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                 |                  |
| Net income (loss)  | \$ 2,403,217                    | \$ (729,090)     |
| Adjustments to reconcile net income (loss) to net cash used by operating activities: |                                 |                  |
| Amortization of intangible asset   | —                               | 242,175          |
| Stock based compensation   | 52,331                          | 341,750          |
| Cost of raising capital  | —                               | (10,800)         |
| Fair value of vested options   | 30,670                          | 28,596           |
| Change in fair value of derivative liabilities                                       | (746,778)                       | (675,218)        |
| Loan interest added to debt  | 105,483                         | 104,948          |
| Gain on extinguishment of liabilities to joint venture partner                       | (2,474,7530)                    | —                |
| Change in operating assets and liabilities:  |                                 |                  |
| Prepayments and other current assets   | (2,340)                         | —                |
| Accounts payable   | 116,878                         | 403,201          |
| Customer deposits  | —                               | 50,000           |
| Other accrued liabilities  | 109,028                         | 90,334           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                     | <b>(406,264)</b>                | <b>(154,104)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                 |                  |
| Deposits   | 350                             | —                |
| <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>                                     | <b>350</b>                      | <b>—</b>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                 |                  |
| Proceeds from notes and loans payable  | 200,000                         | —                |
| Proceeds from sale of common stock   | 185,000                         | 167,037          |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                     | <b>385,000</b>                  | <b>167,037</b>   |
| <b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>                               | <b>(20,914)</b>                 | <b>12,933</b>    |
| <b>CASH AND EQUIVALENTS – BEGINNING OF PERIOD</b>                                    | <b>29,491</b>                   | <b>12</b>        |
| <b>CASH AND EQUIVALENTS – END OF PERIOD</b>  | <b>\$ 8,577</b>                 | <b>\$ 12,945</b> |
| <b>SUPPLEMENTAL DISCLOSURES:</b>   |                                 |                  |
| Cash paid during the period for:   |                                 |                  |
| Interest   | \$ —                            | \$ —             |
| <b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>                                  |                                 |                  |
| Shares issued for accounts payable   | 314,220                         | 336,237          |
| Shares issued for accrued expenses   | 38,691                          | —                |
| Stock options issued for accrued bonuses for officers and directors                  | 193,926                         | —                |

See accompanying notes to condensed consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

DESCRIPTION OF BUSINESS

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

BASIS OF PRESENTATION

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

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

The Company applies the provisions of U.S. GAAP applicable to consolidations of variable interest entities to its investment in Sanswire-TAO. Under U.S. GAAP, a variable interest entity is subject to consolidation if the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including equity holders. At March 31, 2010, the Company determined that such consolidation of Sanswire-TAO was appropriate. Inter-company accounts and transactions have been eliminated in consolidation (See Note 5 concerning the intended dissolution of the Sanswire-TAO joint venture)





## GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as reflected in the accompanying condensed consolidated financial statements, the Company incurred a loss from operations of \$684,180 and negative cash flows from operations of \$406,264 for the quarter ended March 31, 2011. The Company had a working capital deficit of \$16,144,872 and total stockholders' deficit of \$16,144,872 at March 31, 2011. The Company had an accumulated deficit of \$142,109,882 at March 31, 2011. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise additional funds to continue its business operations and implement its strategic plan, which includes, among other things, continued development of its UAVs and the pursuit or continued development of strategic relationships. The Company's business plan, which if successfully implemented, will allow it to sell UAVs for a profit, which in turn will reduce the Company's dependence on raising additional funds from outside sources. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company anticipates a net loss to continue for the next several quarters if not for all of the year 2011.

Additional cash will be needed to support the Company's ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. The Company believes it will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at its current levels through at least December 31, 2011. The Company currently has a funding commitment letter for \$1.5 million from a third party, but it is subject to a number of conditions and there can be no assurance that this funding will occur. If the Company is able to raise additional funds through the issuance of equity securities, substantial dilution to existing shareholders may result. However, if the Company's plans are not achieved and/or if significant unanticipated events occur or if the Company is unable to obtain the necessary additional funding on favorable terms or at all, the Company will likely have to modify its business plan, and reduce, delay or discontinue some or all of its operations to continue as a going concern or seek a buyer for all or a portion of its assets.

## CASH AND CASH EQUIVALENTS

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

## REVENUE RECOGNITION

The Company recognizes revenue when title passes and all substantial risks of ownership change, which generally occurs either upon shipment or upon delivery based upon contractual terms.

## INCOME TAXES

The Company accounts for deferred income taxes using the asset and liability approach. Under this approach, deferred income taxes are recognized based on the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by current enacted tax rates. Valuation allowances are recorded to reduce the deferred tax assets to an amount that will more likely than not be realized. (See Note 10)

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 three

months ended March 31, 2011 and 2010, respectively.

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, the Company remains subject to examination in all of those tax jurisdictions until the applicable statute of limitation expire. As of March 31, 2011, a summary of the tax years that remains subject to examination in the Company's major tax jurisdictions are: United States – Federal and State – 2005 and forward. The Company does not expect to have a material change to unrecognized tax positions within the next twelve months.

F-26

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## FAIR VALUE MEASUREMENTS

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

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

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2011 (unaudited):

|                           | Fair Value Measurements at March 31, 2011 Using: |           |           |               |
|---------------------------|--|-----------|-----------|---------------|
|                           | Total  | (Level 1) | (Level 2) | (Level 3)     |
| Cash and cash equivalents | \$8,577  | \$ 8,577  | \$ —      | \$ —          |
| Derivative liabilities    | (582,711 )                                       | —         | —         | (582,711 )    |
| Totals                    | \$(574,134 )                                     | \$ 8,577  | \$ —      | \$ (582,711 ) |

The derivative liabilities are measured at fair value using quoted market prices and estimated volatility factors, and are classified within Level 3 of the valuation hierarchy, due to use of an estimate of volatility factors. There were no changes in the valuation techniques during the three months ended March 31, 2011.

## DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, accounts payable, notes payable and derivative instruments. The carrying values for the current financial assets and liabilities, including cash and cash equivalents, accounts payable and notes payable approximate fair value due to their short maturity. The fair values of the Company's derivative instruments are recorded in the consolidated balance sheets. (See Note 6)

## USE OF ESTIMATES

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

estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from the Company's estimated amounts.

F-27

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

Basic and diluted net income (loss) per common share has been computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding during each period. During the first quarter of 2010, when losses were reported, the weighted average number of common shares outstanding excluded common stock equivalents because their inclusion would be anti-dilutive. If all outstanding options, warrants and convertible shares were converted or exercised as of March 31, 2011, the shares outstanding would be 421,098,558. As of May 4, 2011, the Company had 331,889,327 common shares outstanding. The Company is obligated under various existing agreements, options and warrants to issue additional shares of its common stock.

## OTHER LONG-LIVED ASSETS

The Company tests its other long-lived assets for impairment in accordance with relevant authoritative guidance. The Company evaluates if impairment indicators related to its other long-lived assets are present. These impairment indicators may include a significant decrease in the market price of a long-lived asset or asset group, a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition, or a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group. If impairment indicators are present, the Company estimates the future cash flows for the asset or group of assets. The sum of the undiscounted future cash flows attributable to the asset or group of assets is compared to their carrying amount. The cash flows are estimated utilizing various projections of revenues and expenses, working capital and proceeds from asset disposals on a basis consistent with the Company's strategic plan. If the carrying amount exceeds the sum of the undiscounted future cash flows, the Company determines the asset's fair value by discounting the future cash flows using a discount rate required for a similar investment of like risk and records an impairment charge as the difference between the fair value and the carrying value of the asset group. Generally, the Company performs its testing of the asset group at the lowest level for which identifiable cash flows are available.

## INTANGIBLE ASSETS

Intangible assets are related to the Company's intellectual property rights. Intangible assets with finite lives are amortized over their estimated useful lives, which are three years for patents and intellectual property. In addition to amortization, intangible assets are tested at least annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount should be assessed. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. The Company generally measures fair value by considering sales prices for similar assets or by discounting estimated future net cash flows from such assets using a discount rate reflecting our average cost of capital. (See Note 5 for impairment of the intangible assets in 2010)

## DERIVATIVE FINANCIAL INSTRUMENTS

Derivative liabilities primarily relate to warrants to purchase common stock of the Company issued in conjunction with certain debt and equity financings. Each year the Company determines the fair value of the stock warrants using the Black-Scholes option pricing model at the balance sheet date. Changes in the fair value of the stock warrants are recognized each period in current earnings. (See Note 6)

## 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 on the grant date for common stock awards and ratably over the vesting periods for restricted stock awards. The Black-Scholes option pricing model is used to value stock options, and compensation expense is recognized ratably over the requisite service vesting period. Stock options typically have contractual terms of three years. Share-based compensation for employees and non-employees recognized during the quarters ended March 31, 2011 and 2010 was \$83,001 and \$324,546, respectively. (See Note 9)

## RECENT ACCOUNTING PRONOUNCEMENTS

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

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

## NOTE 2. DISCONTINUED OPERATIONS

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

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

No income or expenses were incurred by the Company related to its discontinued operations for the three months ended March 31, 2011 and 2010.

F-29

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## NOTE 3. OTHER ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

|                                  | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|----------------------------------|----------------------------------|----------------------|
| Payroll liabilities              | \$ 1,032,458                     | \$ 998,410           |
| Professional fees                | —                                | 118,946              |
| Accrued legal claims payable     | 235,540                          | 274,231              |
| Due to joint venture partner     | —                                | 2,185,000            |
| <b>OTHER ACCRUED LIABILITIES</b> | <b>\$ 1,267,998</b>              | <b>\$ 3,576,587</b>  |

## NOTE 4. NOTES PAYABLE

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

|                            | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|----------------------------|----------------------------------|----------------------|
| Unsecured promissory notes | \$ 5,997,030                     | \$ 5,997,030         |
| Secured promissory note    | 200,000                          | —                    |
| Accrued interest           | 1,919,963                        | 1,814,480            |
| <b>NOTES PAYABLE</b>       | <b>\$ 8,116,993</b>              | <b>\$ 7,811,510</b>  |

As of March 31, 2011 and December 31, 2010, notes payable included two unsecured promissory notes aggregating \$5,997,030 at March 31, 2011 and December 31, 2010 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 March 2, 2011, the Company entered into a promissory note agreement for \$200,000. The one-year note matures on March 2, 2012, when the principal and accrued interest at 12% is due. The note is secured by a security agreement for substantially all of the Company's assets.

Interest expense relating to these notes for quarters ended March 31, 2011 and 2010 totaled \$105,483 and \$104,948 respectively.

## NOTE 5. IMPAIRMENT OF INTANGIBLE ASSETS AND EXTINGUISHMENT OF DEBT

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

On June 3, 2008, the Company reclassified the transaction as the purchase of assets and recognized a \$3,229,000 intangible asset related to the intellectual property, including the German patent. The \$391,000 paid during 2007 was



applied as payment towards the investment. During 2008, the Company paid an additional \$653,000 for the investment, made up of \$385,000 in cash and the issuance of 2,680,000 shares of the Company's common stock valued at \$268,000. The balance due of \$2,185,000 was recorded in accrued expenses. (See Note 3)

F-30

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

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

#### NOTE 6. DERIVATIVE LIABILITIES

The Company follows the authoritative guidance and accounts for derivative instruments at fair value. Gains and losses from changes in the fair value of derivatives are recognized in interest expense. The Company's derivative instruments resulted from the issuance of warrants to purchase shares of common stock associated with certain debt and equity financings that contained anti-dilution provisions.

##### Warrants

During the past, the Company entered into financing agreements for convertible promissory notes and stock purchase agreements, which included both Class A and Class B warrants. During the fourth quarter of 2010, the Company issued 2,377,167 warrants under two new stock purchase agreements containing no anti-dilution rights. Warrants issued under the new agreements are not considered to be derivative instruments. 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 aggregate intrinsic value of the warrants outstanding and exercisable as of March 31, 2011 and December 31, 2010 was \$0 and \$22,675, respectively. All warrant shares were fully exercisable and there was no unamortized cost to be recognized in future periods. The aggregate fair value of the warrants outstanding and exercisable as of March 31, 2011 was \$582,711 and as of December 31, 2010 was \$1,329,489.

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

|                                  | Derivative Liabilities |                     |                   | Weighted Average<br>Exercise Price |
|----------------------------------|------------------------|---------------------|-------------------|------------------------------------|
|                                  | Warrants<br>Class A    | Warrants<br>Class B | Other<br>Warrants |                                    |
| Outstanding at December 31, 2010 | 21,909,111             | 21,186,886          | 2,377,167         | \$ 0.244                           |
| Warrants Granted                 | —                      | —                   | 2,166,667         | 0.210                              |
| Warrants Expired                 | —                      | —                   | —                 | —                                  |
| Outstanding at March 31, 2011    | 21,909,111             | 21,186,886          | 4,543,834         | \$ 0.243                           |

## NOTE 7. LITIGATION AND CONTINGENCIES

In the ordinary conduct of business, the Company is subject to periodic lawsuits, investigations and litigation claims, which the Company accrues for where appropriate. The Company cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims asserted against it. As of March 31, 2011, the Company had the following material contingencies:

### Hudson Bay Fund LP et al. and Brio Capital

Hudson Bay Fund LP and Hudson Bay Overseas Fund Ltd. filed an action against the Company on June 16, 2009 in the Supreme Court of New York relating to the warrants attached to a Subscription Agreement between those entities and the Company. The Hudson Bay entities are seeking to re-price the warrants, increase the number of shares they can purchase pursuant to the warrants, certain equitable remedies, and unspecified damages. A non-final Summary Judgment Order in favor of Hudson Bay was granted by the Court in March 2011 which would require the Company, among other things, to issue 9,283,352 shares of common stock. The Company has filed a Motion to Renew, Reargue and Reconsider the summary judgment order that has been denied. The Company continues to consider the plaintiff's interpretation of the warrant provisions to be incorrect and is evaluating its alternatives. The Company intends to continue to vigorously defend the action, but the outcome of the action cannot be predicted. The Company is engaged in settlement negotiations with Hudson Bay with regard to this litigation.

Brio Capital, the holder of a similarly worded warrant, filed an action against the Company on March 25, 2011 in the Supreme Court of the State of New York and the Company has filed a response to such complaint. The Company intends to vigorously defend the action, but the outcome of the action cannot be predicted.

### Tsunami Communications v. GlobeTel

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

### Peter Khoury

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

### The DeCarlo Group

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

F-32

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## Siegel

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

## GlobeTel Wireless Europe GmbH

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

## Dohan

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

## IRS

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

## NOTE 8. COMMON STOCK TRANSACTIONS

During the three month period ended March 31, 2011, the Company issued the following shares of Common Stock:

| SHARES    | CONSIDERATION                | VALUATION  |
|-----------|------------------------------|------------|
| 4,278,848 | Settlement of Debts          | \$ 352,911 |
| 2,466,667 | Stock for Cash               | 185,000    |
| 250,000   | Stock for Directors Fees     | 17,500     |
| 507,986   | Cashless exercise of options | —          |

The valuation amounts of the above common stock transactions are based on the amounts that common stock and related additional paid-in capital were increased (decreased) upon recording of each transaction. For exercises of stock

options, no values are indicated, whereas the options were valued and the additional paid-in capital account was increased upon the original issuance (grant) of the options and no additional charges were recorded upon exercise of the options. The valuation amounts related to the vested shares and the options reflect the vesting related to previously issued shares or options.

F-33

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## NOTE 9. SHARE-BASED COMPENSATION

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

## Common Stock

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

## Restricted Stock

Awards of restricted stock are independent of stock option grants and are generally subject to forfeiture if employment terminates prior to vesting. Prior to vesting, ownership of the restricted stock cannot be transferred. The restricted stock has the same voting rights as the common stock. The Company recognizes the cost of restricted stock awards ratably over the vesting period as compensation expense based upon the stock's closing price on the grant date. No restricted stock awards were made during the three months ended March 31, 2011. There is approximately \$26,000 in unrecognized compensation relating to restricted stock awards at March 31, 2011.

## Stock Options

The Company has issued stock options at exercise prices equal to the Company's common stock price on the date of grant with contractual terms of three to seven years. Historically, the stock options were fully vested and expensed as compensation on the grant date. During 2010, the Company began issuing stock options with vesting schedules and such stock options are generally subject to forfeiture if employment terminates prior to vesting. The Company issued 3.5 million options valued at approximately \$194,000 related to 2010 bonuses and 15.25 million options valued at \$984,628 as share-based compensation awards to directors, officers, employees and consultants during the three months ended March 31, 2011. At March 31, 2011, there were approximately \$954,000 in unrecognized compensation expense relating to these awards, of which approximately \$907,000 will vest only upon the attainment of specific performance related goals.

During the quarter ended March 31, 2011, the Company issued the following options to acquire common stock:

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

The following table summarizes the stock option activity for the quarter ended March 31,

|   | 2011         |                                 | 2010       |                                 |
|---|--------------|---------------------------------|------------|---------------------------------|
|   | Shares       | Weighted average exercise price | Shares     | Weighted average exercise price |
| Outstanding at beginning of period          | 26,583,334   | \$.078                          | 38,042,499 | \$.298                          |
| Granted                                     | 18,750,000   | .068                            | 700,000    | .075                            |
| Exercised                                   | (1,361,111 ) | .050                            | —          | —                               |
| Forfeited / expired / cancelled             | (555,556 )   | .090                            | (500,000 ) | .290                            |
| Outstanding at end of period                | 43,416,667   | \$.069                          | 38,242,499 | \$.294                          |
| Options exercisable at end of period        | 28,666,667   | \$.070                          | 38,242,499 | \$.294                          |
| Weighted average remaining contractual term | 2.05 years   |                                 | 1.71 years |                                 |

The following table summarizes information about stock options outstanding and exercisable at March 31, 2011:

| Options Outstanding and Exercisable |                    |  |                                 |
|-------------------------------------|--------------------|--|---------------------------------|
|                                     | Number outstanding | Weighted average remaining contractual terms (years) | Weighted average exercise price |
| Exercise prices                     |                    |  |                                 |
| \$ .045                             | 4,444,444          | 1.10   | \$.045                          |
| \$ .070                             | 500,000            | 2.86   | .070                            |
| \$ .073                             | 4,250,000          | 1.75   | .073                            |
| \$ .075                             | 3,500,000          | 2.92   | .075                            |
| \$ .080                             | 1,500,000          | 1.03   | .080                            |
| \$ .090                             | 12,672,223         | 2.34   | .090                            |
| \$ .094                             | 1,300,000          | 2.52   | .094                            |
| \$ .140                             | 500,000            | 1.17   | .140                            |
|                                     | 28,666,667         | 2.05   | \$.070                          |

The aggregate intrinsic value of the 28,666,667 options outstanding and exercisable as of March 31, 2011 was \$93,333. 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 as of March 31, 2011.

#### 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 the condensed consolidated financial statements. A deferred tax asset for the future benefits of net operating losses and other differences is offset by a 100% valuation allowance due to the uncertainty of the Company's ability to utilize the losses. These net operating losses begin to expire in the year 2021.

#### NOTE 11. PER SHARE INFORMATION:



Basic earnings per share (“Basic EPS”) of common stock is computed by dividing the net income by the weighted-average number of shares of common stock outstanding. Diluted earnings per share of common stock (“Diluted EPS”) is computed by dividing the net income by the weighted-average number of shares of common stock, and dilutive common stock equivalents and convertible securities then outstanding. GAAP requires the presentation of both Basic EPS and Diluted EPS on the face of the Company’s Condensed Consolidated Statements of Operations. Common stock equivalents totaling 86,612,054 and 74,468,236 were excluded from the computation of Diluted EPS for the three months ended March 31, 2011 and 2010, respectively, as their effect on the computation of Diluted EPS would have been anti-dilutive.

F-35

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|  | Three Months Ended March 31, |               |
|--|------------------------------|---------------|
|  | 2011                         | 2010          |
| <b>Numerator:</b>  |                              |               |
| Net income (loss)  | \$ 2,403,217                 | \$ (729,090 ) |
| <b>Denominator:</b>  |                              |               |
| Weighted-average shares of common stock outstanding                    | 327,082,203                  | 264,907,253   |
| Dilutive effect of stock warrants and stock options                    | 3,258,533                    | -             |
| Weighted-average shares of common stock outstanding, assuming dilution | 330,340,736                  | 264,907,253   |
| <b>Net income (loss) per share:</b>                                    |                              |               |
| Basic and diluted  | \$ 0.01                      | \$ (0.00 )    |

#### NOTE 12. SUBSEQUENT EVENTS

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

On May 4, 2011, the Company entered into a Securities Purchase Agreement (the "Agreement") with Michael K. Clark, the Company's Chairman of the Board, and a group of other investors for the purchase of \$1,105,000 of common stock at a purchase price of \$0.075 per share, which shares shall be restricted pursuant to the securities laws until such time as a registration statement filed with the Securities and Exchange Commission covering the shares of common stock sold in the financing is declared effective. Pursuant to a Registration Rights Agreement entered into between the Company and the investors, the Company is obligated to file such a registration statement by July 1, 2011. Pursuant to the Agreement, the Company sold an aggregate of 14,733,333 shares of common stock. A 15% commission in cash and shares of common stock was paid in connection with the sale of \$340,000 of the Common Stock sold pursuant to the Agreement.

On May 2, 2011, the Company announced that it was awarded a \$200,000 contract from Space Florida, an independent special district, a body politic and corporate, and a subdivision of the State of Florida. The contract is to create a Performance Data Package in connection with the flight testing of the Company's Argus One lighter-than-air unmanned aerial vehicle at the Army's proving ground facility in Yuma, Arizona sometime in May or June 2011.

On April 19, 2011, the Company announced it changed its corporate name to World Surveillance Group Inc. ("WSGI"). The new name reflects the Company's intention to focus on providing enhanced global intelligence, surveillance, reconnaissance and monitoring services following the announcement of the executed letter of intent to acquire satellite based tracking firm, Global Telesat Corp. The Company's common shares will continue to trade on the OTC Bulletin Board (OTCBB) under its new stock symbol "WSGI".

On April 12, 2011, the Company entered into a Letter of Intent ("LOI") to acquire 100% of the outstanding shares of capital stock of Global Telesat Corp. ("GTC"), a privately held U.S. based satellite tracking firm for 30 million shares of the Company's common stock, \$500,000 cash and certain earn-out payments. If the acquisition is completed, GTC would become a wholly owned subsidiary of the Company. GTC designs, markets and provides satellite-based asset tracking hardware, airtime and related equipment primarily focused on providing customized tracking and monitoring solutions and ground station construction services to the U.S. Department of Defense and its prime contractors. The Company has begun the due diligence process with the intention of closing the transaction during the second quarter of 2011.



22,588,332  
Shares of Common Stock

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PROSPECTUS

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\_\_\_\_\_, 2011

Until \_\_\_\_\_, 2011, all dealers that effect transactions in these securities may be required to deliver a prospectus, regardless of whether they are participating in this offering. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses payable in connection with the sale of the securities being registered. All amounts are estimated except the SEC registration fee. All the expenses below will be paid by us.

|                                 |           |
|---------------------------------|-----------|
| SEC registration fee            | \$ 276    |
| Legal fees and expenses         | 3,000     |
| Accounting fees and expenses    | 10,000    |
| Miscellaneous fees and expenses | 1,000     |
| Total                           | \$ 14,276 |

## Item 14. Indemnification of Directors and Officers

Our restated certificate of incorporation provides that each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was one of our directors or officers whether the basis of such proceeding is alleged action in an official capacity as a director, officer or trustee or in any other capacity while serving as a director, officer or trustee, shall be indemnified and held harmless by us to the fullest extent authorized by the DGCL against all expense, liability and loss (including attorneys' fees, judgments, fines, or penalties and amounts paid in settlement) reasonably incurred or suffered by such person.

Section 145 of the DGCL permits a corporation to indemnify any director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any action, suit or proceeding brought by reason of the fact that such person is or was a director or officer of the corporation, if such person acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, if he or she had no reason to believe his or her conduct was unlawful. In a derivative action, or an action brought by or on behalf of the corporation, indemnification may be provided only for expenses actually and reasonably incurred by any director or officer in connection with the defense or settlement of such an action or suit if such person acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification shall be provided if such person shall have been adjudged to be liable to the corporation, unless and only to the extent that the court in which the action or suit was brought shall determine that the defendant is fairly and reasonably entitled to indemnity for such expenses despite such adjudication of liability.

Pursuant to Section 102(b)(7) of the DGCL, our restated certificate of incorporation eliminates the liability of a director to us or our stockholders for monetary damages for a breach of fiduciary duty as a director, except for liabilities arising:

- from any breach of the director's duty of loyalty to us or our stockholders;
- from acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- under Section 174 of the DGCL; and
- from any transaction from which the director derived an improper personal benefit.

In addition, we have entered into indemnification agreements with our directors, officers and some employees containing provisions that are in some respects broader than the specific indemnification provisions contained in the DGCL. The indemnification agreements require us, among other things, to indemnify our officers and directors against certain liabilities that may arise by reason of their status or service as officers or directors and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

The foregoing discussion of our restated certificate of incorporation, our indemnification agreements and Delaware law is not intended to be exhaustive and is qualified in its entirety by such restated certificate of incorporation, indemnification agreements or laws.

#### Item 15. Recent Sales of Unregistered Securities

During the last three years, the Registrant made sales of the following unregistered securities:

During the year ended December 31, 2010, we issued an aggregate of 59,497,973 shares of common stock for cash, the settlement of debt, board compensation, consulting agreements and for services to investors, board members, consultants and partners. Of the shares of common stock issued, 23,111,159 shares were issued for cash valued at \$0.075, or \$1,703,129 (net of offering costs) and 21,666,667 shares, or 36% were issued to insiders and affiliates, as restricted securities under an exemption provided by Section 4(2) of the Securities Act of 1933 and/or Regulation D, Rule 506, promulgated under the Securities Act of 1933. The common stock issued for cash was valued \$0.075 while other issuances were valued at prices based on the closing market prices on the date the board of directors authorized the issuances.

During the year ended December 31, 2009, we issued an aggregate of 2,970,346 shares of common stock in connection with the settlement of debt, 17,934,999 shares of common stock related to consulting services rendered to us, 75,000 shares of common stock upon the exercise of employee stock options, 35,387,971 shares of common stock upon the conversion of notes payable and the payment of accrued interest, 12,500,000 shares of common stock for services rendered to us in the form of performance bonuses to employees, officers and directors, 8,418,255 shares of common stock for cash, and 1,050,000 shares of common stock as payment for directors fees.

On May 5, 2009, the Company entered into three conversion agreements pursuant to which the Company agreed to convert an aggregate of \$625,994 in consulting fees and wages owed to several parties for services rendered from 2007 to 2009 into an aggregate of 100,000 shares of Series E Preferred Stock. These conversion agreements have been rescinded.

During the year ended December 31, 2008, we issued an aggregate of 9,532,479 shares of common stock in connection with the settlement of debt, 6,047,222 shares of common stock related to consulting services rendered to us, 2,680,000 shares of common stock in connection with the formation of a joint venture, 30,465,195 shares of common stock upon the conversion of notes payable and the payment of accrued interest, and 6,222,222 shares of common stock for services rendered to us in the form of performance bonuses to employees, officers and directors.

II-2

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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 or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed upon the stock certificates issued in these transactions. The investors are accredited investors as defined in Rule 501 of Regulation D promulgated under the Securities Act. In certain issuances of common stock for cash, the Company paid a placement agent a fee of ten percent (10%) of the aggregate capital raised.

Item 16. Exhibits and Financial Statements

(a) Exhibits

The exhibits set forth commencing on page II-6 are incorporated herein by reference.

(b) Financial Statement Schedules

All schedules have been omitted because the information required to be presented in them is not applicable or is shown in the financial statements or related notes.

Item 17. Undertakings

1. The undersigned registrant hereby undertakes:

a. To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

i. To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

ii. To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

iii. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

b. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

c. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.



d. For the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

II-3

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- i. Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
  - ii. Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
  - iii. The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
  - iv. Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.
- e. To provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.
  - f. That for purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.
  - g. That for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
2. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, we have duly caused this Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Kennedy Space Center, State of Florida, on the 1st day of July, 2011.

WORLD SURVEILLANCE GROUP INC.

By: /s/ Glenn D. Estrella  
Glenn D. Estrella  
President and Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Glenn D. Estrella and W. Jeffrey Sawyers, jointly and severally, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign the Registration Statement on Form S-1 of World Surveillance Group Inc., and any or all amendments (including post-effective amendments) thereto and any new registration statement with respect to the offering contemplated thereby filed pursuant to Rule 462(b) of the Securities Act, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature                                    | Title   | Date         |
|--|---|--------------|
| /s/ Glenn D. Estrella<br>Glenn D. Estrella   | Chief Executive Officer, President and<br>Director (Principal Executive Officer)      | July 1, 2011 |
| /s/ W. Jeffrey Sawyers<br>W. Jeffrey Sawyers | Chief Financial Officer and Treasurer<br>(Principal Financial and Accounting Officer) | July 1, 2011 |
| /s/ Michael K. Clark<br>Michael K. Clark     | Director  | July 1, 2011 |
| /s/ Kevin S. Pruett<br>Kevin S. Pruett       | Director  | July 1, 2011 |
| /s/ Wayne P. Jackson<br>Wayne P. Jackson     | Director  | July 1, 2011 |
| /s/ Anita S. Hulo<br>Anita S. Hulo           | Director  | July 1, 2011 |

II-5

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EXHIBIT INDEX

Exhibit

| No.  | Description of Exhibit  |
|------|---|
| 3.1  | Certificate of Correction for the Series E Preferred Stock of the Company (filed as an Exhibit to the Company's Annual Report on Form 10-K, as filed with the SEC on March 30, 2011 and incorporated herein by reference)   |
| 3.2  | Amended and Restated By-Laws of the Company (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on March 7, 2011 and incorporated herein by reference)  |
| 3.3* | Restated Certificate of Incorporation   |
| 3.4  | Certificate of Ownership of Sanswire Corp. and World Surveillance Group Inc. dated April 4, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 19, 2011 and incorporated herein by reference)                          |
| 4.1  | Form of Subscription Agreement between the Company and the Investors (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 24, 2009 and incorporated herein by reference)   |
| 4.2  | 7% Convertible Debenture (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 24, 2009 and incorporated herein by reference)   |
| 4.3  | Form of Class A Warrant (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 24, 2009 and incorporated herein by reference)  |
| 4.4  | Form of Class B Warrant (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 24, 2009 and incorporated herein by reference)  |
| 4.5  | Securities Purchase Agreement, dated November 10, 2010, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on November 10, 2010 and incorporated herein by reference) |
| 4.6  | Form of Common Stock Purchase Warrant (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 1, 2011 and incorporated herein by reference)   |
| 4.7  | Securities Purchase Agreement, dated November 23, 2010, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Annual Report on Form 10-K, as filed with the SEC on March 30, 2011 and incorporated herein by reference)    |
| 4.8  | Form of Common Stock Purchase Warrant (filed as an Exhibit to the Company's Annual Report on Form 10-K, as filed with the SEC on March 30, 2011 and incorporated herein by reference)   |
| 4.9  | Stock Purchase Agreement, dated May 2, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 9, 2011 and incorporated herein by reference)                  |
| 4.10 | Registration Rights Agreement, dated May 2, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 9, 2011 and incorporated herein by reference)             |
| 4.11 | Stock Purchase Agreement, dated May 27, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 2, 2011 and incorporated herein by reference)                |
| 4.12 | Registration Rights Agreement, dated May 2, 2011, by and among the Company and the purchasers identified therein (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on June 2, 2011 and incorporated herein by reference)            |
| 5.1* | Opinion of Fleming PLLC   |
| 10.1 | Credit Facility Agreement, dated April 15, 2009, by and between Sanswire Corp. and Global Telesat Corp. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 21, 2009 and incorporated herein by reference)                   |

II-6

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- 10.2 Assignment and Assumption Agreement, dated April 15, 2009, by and between Sanswire Corp., Global Telesat Corp. and International Legal Consultants (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 21, 2009 and incorporated herein by reference)
- 10.3 Services Agreement, dated April 15, 2009, by and between Sanswire Corp. and Global Telesat Corp. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 21, 2009 and incorporated herein by reference)
- 10.4 Amendment to the Subscription Agreement, dated September 17, 2008, by and between Sanswire Corp. and Global Telesat Corp., dated April 17, 2009 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 21, 2009 and incorporated herein by reference)
- 10.5 Loan Termination Agreement, dated April 17, 2009, by and among Sanswire Corp., Jonathan D. Leinwand and Global Telesat Corp. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 21, 2009 and incorporated herein by reference)
- 10.6 Subscription Agreement, dated April 17, 2009, by and between Sanswire Corp. and Global Telesat Corp. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 21, 2009 and incorporated herein by reference)
- 10.7+ Employment Agreement, dated October 6, 2010, by and between the Company and Barbara M. Johnson (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on November 12, 2010 and incorporated herein by reference)
- 10.8+ Amended and Restated Employment Agreement, dated December 27, 2010, by and between the Company and Glenn D. Estrella (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on January 3, 2011 and incorporated herein by reference)
- 10.09+ Employment Agreement, dated February 8, 2011, by and between the Company and Jeffrey Sawyers (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 8, 2011 and incorporated herein by reference)
- 10.10+ Form of Indemnification Agreement (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 8, 2011 and incorporated herein by reference)
- 10.11 Form of Option Agreement (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on January 3, 2011 and incorporated herein by reference)
- 10.12 Mutual Release and Separation Agreement by and between the Company and David A. Christian (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 12, 2010 and incorporated herein by reference)
- 10.13 Mutual Release and Separation Agreement by and between the Company and William J. Hotz (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 12, 2010 and incorporated herein by reference)
- 10.14 Purchase Agreement, dated April 20, 2010, by and between the Company and Global Telesat Corp. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 27, 2010 and incorporated herein by reference)
- 10.15 Amendment to Purchase Agreement, dated December 20, 2010, by and between the Company and Global Telesat Corp. (filed as an Exhibit to the Company's Annual Report on Form 10-K, as filed with the SEC on March 30, 2011 and incorporated herein by reference)
- 10.16+ Letter Agreement, dated April 21, 2009, by and between the Company and Wayne Jackson (filed as an Exhibit to the Company's Annual Report on Form 10-K, as filed with the SEC on March 30, 2011 and incorporated herein by reference)
- 10.17+ Letter Agreement, dated June 23, 2010, by and between the Company and Michael K. Clark (filed as an Exhibit to the Company's Annual Report on Form 10-K, as filed with the SEC on March 30, 2011 and incorporated herein by reference)
- 10.18 Escrow and Stock Purchase Agreement, dated September 29, 2010, by and among the Company, Michael K. Clark and Hinshaw & Culbertson LLP (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on September 30, 2010 and incorporated herein by reference)

- 10.19 First Amendment to Escrow and Stock Purchase Agreement, dated December 27, 2010, by and among the Company, Michael K. Clark and Hinshaw & Culbertson LLP (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on January 3, 2011 and incorporated herein by reference)

II-7

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- 10.20 Stock Purchase Agreement, dated December 27, 2010, by and between the Company and Michael K. Clark (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on January 3, 2011 and incorporated herein by reference)
- 10.21+ Agreement dated December 27, 2010, by and between the Company and Glenn D. Estrella (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on January 3, 2011 and incorporated herein by reference)
- 10.22 Agreement dated September 30, 2010, by and between the Company and Rocky Mountain Advisers Corp. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on October 12, 2010 and incorporated herein by reference)
- 10.23 Agreement dated September 30, 2010, by and between the Company and Jonathan Leinwand (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on October 12, 2010 and incorporated herein by reference)
- 10.24 Agreement dated September 30, 2010, by and between the Company and Daniyel Erdberg (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on October 12, 2010 and incorporated herein by reference)
- 10.25 GlobeTel Communications Corp. 2004 Employee Stock Option Plan (filed as an Exhibit to the Company's Registration Statement on Form S-8, as filed with the SEC on March 8, 2005 and incorporated herein by reference)
- 10.26 Settlement Agreement by and among the Company and TAO Technologies GmbH, Dr. Bernd-H Kroepelin and Global Telesat Corp., dated March 22, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on March 28, 2011 and incorporated herein by reference)
- 10.27+ Non-Qualified Stock Option Agreement dated March 30, 2011 with Michael K. Clark (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on May 16, 2011 and incorporated herein by reference)
- 10.28+ Non-Qualified Stock Option Agreement dated March 30, 2011 with Glenn D. Estrella (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on May 16, 2011 and incorporated herein by reference)
- 10.29+ Non-Qualified Stock Option Agreement dated March 30, 2011 with W. Jeffrey Sawyers (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on May 16, 2011 and incorporated herein by reference)
- 10.30+ Non-Qualified Stock Option Agreement dated March 30, 2011 with Barbara M. Johnson (filed as an Exhibit to the Company's Quarterly Report on Form 10-Q, as filed with the SEC on May 16, 2011 and incorporated herein by reference)
- 10.31 Form of Common Stock Purchase Warrant (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on February 1, 2011 and incorporated herein by reference)
- 10.32 Settlement Agreement dated May 17, 2011 between the Company and Hudson Bay Fund LP and Hudson Bay Master Fund Ltd. (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 20, 2011 and incorporated herein by reference)
- 10.33 Stock Purchase Agreement by and among World Surveillance Group Inc., Global Telesat Corp., Growth Enterprise Fund, S.A. and David Phipps dated May 25, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 31, 2011 and incorporated herein by reference)
- 10.34 Option Agreement by and among World Surveillance Group Inc., Global Telesat Corp., and Growth Enterprise Fund, S.A. dated May 25, 2011 (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on May 31, 2011 and incorporated herein by reference)
- 21.1\* List of the Company's Subsidiaries
- 23.1\* Consent of Independent Auditors
- 23.2\* Consent of Fleming PLLC (see Exhibit 5.1)
- 24.1 Power of Attorney (contained on Signature Page hereto)

II-8

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Filed herewith.

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Indicates a management contract or compensatory plan.

II-9

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