

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

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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. 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 and warrants	Number of shares remaining available for future issuance under equity compensation plans (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.

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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.

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.

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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			All Other Compensation	Total
	Or Paid in Cash	Stock Awards	Option Awards		
	(\$)	(\$)(2)	(\$)(3)	(\$)	(\$)
Michael K. Clark (4)	-	475,000	&#		