World Surveillance Group Inc.
Form 10-Q
August 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark one)

x QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

or

¨ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from ____________ to _____________

Commission file number 001-32509

WORLD SURVEILLANCE GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	88-0292161
(State or other jurisdiction	(IRS Employer Identification No.)

of incorporation or organization)

State Road 405, Building M6-306A, Room 1400

Kennedy Space Center, Florida 32815

(Address of principal executive offices)

(321) 452-3545

(Issuer's telephone number)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes **x** No ¨

Indicated by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer“ and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

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

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

As of August 2, 2012, there were 470,523,363 shares of the registrant's Common Stock issued and outstanding.

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
CURRENT ASSETS		
Cash	$110,226	$5,532
Accounts receivable (includes accounts receivable from related party of $97,940 and $20,866 at June 30, 2012 and December 31, 2011, respectively.)	112,428	20,886
Inventories	0	4,500
Prepaid expenses	131,219	102,149
Assets of discontinued operations	0	6,406
TOTAL CURRENT ASSETS	353,873	139,473
PROPERTY AND EQUIPMENT		
Property and equipment, net of accumulated depreciation of $218,170 and $126,670 at June 30, 2012 and December 31,2011, respectively	2,544,466	2,635,966
OTHER NONCURRENT ASSETS		
Deferred financing costs	53,412	0
TOTAL ASSETS	$2,951,751	$2,775,439
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable	$4,934,287	$5,091,356
Notes payable	8,440,337	8,231,302
Other accrued liabilities	1,877,031	1,958,791
Deferred revenues	22,500	204,660
Derivative liabilities	6,574	125,420
Liabilities from discontinued operations	0	1,365,929
TOTAL CURRENT LIABILITIES	15,280,729	16,977,458
NONCURRENT LIABILITIES		
Convertible notes payable	455,000	0
TOTAL NONCURRENT LIABILITIES	455,000	0

TOTAL LIABILITIES	15,735,729	16,977,458
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, $0.00001 par value, 750,000,000 shares authorized; 464,990,029 shares and 426,884,160 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively.	4,650	4,269
Additional paid-in capital	133,363,665	131,426,211
Accumulated deficit	(146,152,293)	(145,632,499)
TOTAL STOCKHOLDERS' DEFICIT	(12,783,978)	(14,202,019)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$2,951,751	$2,775,439

See accompanying notes to condensed consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
REVENUES				
Contract revenues	$ 200,000	0	200,000	0
Net sales	351,664	26,093	498,393	26,093
Cost of sales	315,219	16,345	446,448	16,345
Gross profit	36,445	9,748	51,945	9,748
NET REVENUES	236,445	9,748	251,945	9,748
COSTS AND EXPENSES:				
General and administrative	921,100	790,358	1,995,994	1,155,835
Professional fees	389,480	407,977	536,965	626,680
Acquisition-related costs	0	65,000	0	65,000
Depreciation expense	45,750	12,950	91,500	12,950
Research and development	53,200	168,246	129,450	268,246
TOTAL EXPENSES	1,409,530	1,444,531	2,753,909	2,128,711
LOSS FROM OPERATIONS	(1,173,085)	(1,434,783)	(2,501,964)	(2,118,963)
OTHER INCOME (EXPENSE)				
Gain on extinguishment of liabilities to joint venture partner	0	0	0	2,474,753
Net gain from the release of restricted assets and the derecognition of liabilities of discontinued operations	544,201	0	544,201	0
Gain on derecognition of legacy payables	1,787,324	0	1,787,324	0
Loss from conversion agreement true-up	(237,120)	0	(237,120)	0
Change in fair value of derivative liabilities	68,113	(970,310)	118,846	(223,532)
Interest expense, net	(117,330)	(109,756)	(231,081)	(243,890)
NET OTHER INCOME (EXPENSE)	2,045,188	(1,080,066)	1,982,170	2,007,331
NET INCOME (LOSS)	$ 872,103	(2,514,849)	(519,794)	(111,632)
PER COMMON SHARE DATA (Note 13)				
NET LOSS PER SHARE:				
Basic and Diluted	$ 0.00	(0.01)	(0.00)	(0.00)
WEIGHTED AVERAGE SHARES:				
Basic and Diluted	428,520,996	362,484,346	393,701,894	344,881,070

See accompanying notes to condensed consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 2012

Description	COMMON STOCK SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
BALANCE, DECEMBER 31, 2011	426,884,160	$ 4,269	$ 131,426,211	$ (145,632,499)	$ (14,202,019)
Shares issued for convertible debt conversion	6,600,001	66	275,814	0	275,880
Shares issued for services	4,140,325	41	274,938	0	274,979
Shares issued for legal settlement	8,965,543	90	106,610	0	106,700
Shares issued for directors' compensation	11,900,000	119	563,601	0	563,720
Shares issued for employee bonuses	6,500,000	65	257,735	0	257,800
Fair value of vested restricted shares issued as performance-based compensation	0	0	342,370	0	342,370
Fair value of vested options issued as share-based compensation	0	0	116,386	0	116,386
Net loss				(519,794)	(519,794)
BALANCE, JUNE 30, 2012	464,990,029	$ 4,650	$ 133,363,665	$ (146,152,293)	$ (12,783,978)

See accompanying notes to condensed consolidated financial statements

5

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2012	2011
OPERATING ACTIVITIES:		
Net income (loss)	$(519,794)	$(111,632)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	91,500	12,950
Share-based compensation	1,280,280	467,869
Change in fair value of derivative liabilities	(118,846)	223,532
Net gain from the release of restricted assets and the derecognition of liabilities of discontinued operations	(544,201)	0
Gain on derecognition of legacy payables	(1,787,324)	0
Loss on conversion of debt	237,120	0
Loan interest capitalized to debt	209,035	208,171
Amortized deferred financing costs	8,614	0
Gain on extinguishment of liabilities to joint venture partner	0	(2,474,753)
Change in operating assets and liabilities:		
Receivables	(91,541)	(14,237)
Inventories	4,500	0
Prepaid expenses	(29,071)	(11,310)
Accounts payable	504,263	369,980
Other accrued liabilities	304,345	200,576
Deferred revenues	(182,160)	210,312
NET CASH USED IN OPERATING ACTIVITIES	(633,280)	(918,542)
INVESTING ACTIVITIES:		
Acquisition, net of cash acquired	0	(336,032)
Property and equipment	0	(2,322)
Deposits	0	(4,363)
NET CASH PROVIDED BY INVESTING ACTIVITIES	0	(342,717)
FINANCING ACTIVITIES:		
Proceeds from debenture, net of deferred financing costs	437,974	0
Proceeds from convertible debt conversion	300,000	1,941,625
NET CASH PROVIDED BY FINANCING ACTIVITIES	737,974	1,941,625
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	104,694	680,366
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	5,532	29,491
CASH AND EQUIVALENTS, END OF PERIOD	$110,226	$709,857
SUPPLEMENTAL INFORMATION:		
Interest paid	$0	$0
SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Common stock issued for acquisitions	0	2,250,000
Common stock issued for accounts payable	274,979	361,136

Common stock issued for accrued expenses	0	38,691
Common stock issued for settlements	106,700	0
Common stock issued for convertible debt conversion	275,880	0
Acquisition payable due seller	0	250,000
Stock options issued for accrued officers and directors bonuses	0	193,926

See accompanying notes to condensed consolidated financial statements

WORLD SURVEILLANCE GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

DESCRIPTION OF BUSINESS

World Surveillance Group Inc. (the "Company") designs, develops, markets and sells autonomous lighter-than-air (LTA) unmanned aerial vehicles (UAVs) capable of carrying payloads that provide persistent security and/or wireless communication from air to ground solutions at low, mid and high altitudes. The Company's airships and aerostats, 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.

The Company's wholly-owned subsidiary Global Telesat Corp. (GTC), provides mobile voice and data communications services globally via satellite to the U.S. government, defense industry and commercial users. GTC specializes in services related to the Globalstar satellite constellation, including ground station construction, satellite telecommunications voice airtime and tracking services. GTC has recently launched its e-commerce mobile satellite solution portal and is an authorized reseller of satellite telecommunications equipment and services offered by other leading satellite network providers such as Inmarsat, Iridium and Thuraya. GTC's equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

BASIS OF PRESENTATION

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

The consolidated balance sheet information as of December 31, 2011 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") for the fiscal year ended December 31, 2011. These interim condensed consolidated financial statements should be read in conjunction with the Company's most recently audited financial statements and the notes thereto included in such above referenced Annual Report on Form 10-K.

RECLASSIFICATIONS

Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as reflected in the accompanying condensed consolidated financial statements, the Company incurred a loss from operations of $2,501,964 for the six months ended June 30, 2012 and negative cash flows from operations of $633,280 for the six months ended June 30, 2012. The Company had a working capital deficit of $14,926,856 and total stockholders' deficit of $12,783,978 at June 30, 2012. The Company had an accumulated deficit of $146,152,293 at June 30, 2012. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise additional funds either through investments or by generating revenue from the sale of the Company's products to continue its business operations and implement its strategic plan, which includes, among other things, continued development of its UAVs, the pursuit or continued development of strategic relationships and expansion of the Company's subsidiary GTC's business. The Company's business plan, which if successfully implemented, will allow it to sell UAVs and other products for a profit, which in turn will reduce the Company's dependence on raising additional funds from outside sources. The condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company anticipates a net loss to continue for at least the next quarter if not for all of the year 2012.

Additional cash will be needed to support our ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. We are currently pursuing both short and long-term financing options from private investors as well as through institutional investors. We are also working to commercialize our Argus One airship, our aerostats and GTC products to begin generating revenues from customers. We anticipate generating revenues from the sale of our airships in 2012 and are already generating revenue from our GTC products. The costs associated with our strategic plan are variable and contingent on our ability to raise capital or begin generating revenue from customer contracts, but we expect to need funding of approximately $3 million over the next 12 months. We have an agreement with La Jolla Cove Investors for an additional $5.0 million of funding. We continue to have discussions with other entities relating to funding, but there can be no assurance that such funding will be received in the amounts required, on a timely basis, or at all. While we believe we will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at our current levels through at least December 31, 2012, if we are not able to do so and if we are not able to generate revenue through the sale of our products, we would likely need to modify our strategy or cut back or terminate some of our operations. If we are able to raise additional funds through the issuance of equity securities, substantial dilution to existing shareholders may result. However, if our plans are not achieved and/or if significant unanticipated events occur or if we are unable to obtain the necessary additional funding on favorable terms or at all, we will likely have to modify our business plan and reduce, delay or discontinue some or all of our operations to continue as a going concern or seek a buyer for all or a portion of our assets. As of the date hereof, we continue to raise capital to sustain our current operations.

REVENUE RECOGNITION

The Company recognizes revenue when all four of the following criteria are met: 1) persuasive evidence of an arrangement exists; 2) delivery has occurred and title has transferred or services have been rendered; 3) our price to the buyer is fixed or determinable; and 4) collectability is reasonably assured. The Company records unearned contract revenues and subscription fees as deferred revenues and their associated costs of sales as prepaid expenses. Deferred revenues from subscription fees and their related costs are amortized over the subscription term. Deferred revenues from contracts and their related costs are recognized upon completion and fulfillment of the contractual obligation using the completed contract method. Revenues of $200,000 from the Space Florida contract previously recorded as deferred revenues were recognized during the period ended June 30, 2012. The Company fulfilled its contractual obligation to Space Florida and provided parameters of the Argus One airship payload and flight tests completed in Nevada during May.

INCOME TAXES

The Company accounts for income taxes using the asset and liability approach. Under this approach, deferred income taxes are recognized based on the tax effects of temporary differences between the financial statement and tax bases of assets and liabilities, as measured by current enacted tax rates. Valuation allowances are recorded to reduce the deferred tax assets to an amount that will more likely than not be realized. (See Note 13).

U.S. GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that will likely be sustained under examination. There were no adjustments related to uncertain tax positions recognized during the six months ended June 30, 2012 and 2011, respectively.

FAIR VALUE MEASUREMENTS

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

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

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company’s financial instruments include cash, accounts payable, notes payable and derivative instruments. The carrying values for the current financial assets and liabilities approximate fair value due to their short maturity. The fair values of the Company’s derivative instruments are recorded in the condensed consolidated balance sheets. (See Note 9)

USE OF ESTIMATES

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

BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Basic and diluted net income (loss) per common share has been computed by dividing the net income (loss) by the weighted average number of shares of common stock outstanding during each period. Whenever losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would result in a diluted loss per share less than the basic loss per share and therefore would be anti-dilutive. If all outstanding options, warrants, purchase rights and convertible shares were converted or exercised as of June 30, 2012, the shares outstanding would be 537,368,705. There were no common stock equivalents in the money at June 30, 2012.

PROPERTY AND EQUIPMENT

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

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

Appliques	15 – 25 years
Machinery and equipment	3 – 12 years
Office furniture and fixtures	3 – 10 years
Computer hardware and software	3 – 7 years

Assets held for sale are separately presented on the balance sheet and are no longer depreciated.

LONG LIVED ASSETS

The Company evaluates the fair value of long-lived assets on an annual basis or whenever events or changes in circumstances indicate that its carrying amounts may not be recoverable. Accordingly, any impairment of value is recognized when the carrying amount of a long-lived asset exceeds its fair value. No impairment losses have been recognized.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative liabilities primarily relate to warrants to purchase common stock of the Company issued in conjunction with certain debt and equity financings. Each reporting period the Company determines the fair value of the stock warrants using the Black-Scholes option pricing model at the balance sheet date. Changes in the fair value of the stock warrants are recognized each period in current earnings. (See Note 9)

SHARE-BASED COMPENSATION

The Company offers share-based compensation programs to its officers, directors and employees that consist of employee stock options, common stock and restricted stock awards. Common stock and restricted stock awards are issued at the closing price of the Company's common stock on the date of grant. The Company recognizes compensation expense ratably over the vesting periods for restricted stock awards using the grant date fair value of the stock awarded. The Black-Scholes option pricing model is used to value stock options, and compensation expense is recognized ratably over the requisite service period. Stock options typically have contractual terms of three to seven years. Share-based compensation for employees and non-employees is reflected in the appropriate functional expense category, principally the general administrative and research and development categories, as appropriate. Share-based compensation incurred during the six months ended June 30, 2012 and 2011 was $1,322,290 and $467,869, respectively. (See Note 12)

NOTE 2. DISCONTINUED OPERATIONS

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

	Telecom	GlobeTel Wireless	Total
Cash	$6,406	$0	$6,406
ASSETS OF DISCONTINUED OPERATIONS	6,406	0	6,406
Accounts payable	140,116	1,216,208	1,356,324
Accrued liabilities	9,605	—	9,605
LIABILITIES FROM DISCONTINUED OPERATIONS	149,721	1,216,208	1,365,929
Net liabilities of discontinued operations	$143,315	$1,216,208	$1,359,523

During the quarter ended June 30, 2012, the Company conducted a detailed analysis of certain of its accounts payable and accrued liabilities including (i) liabilities from discontinued operations of $1,365,929, and (ii) legacy payables and accrued liabilities of $1,787,324. Certain of these liabilities represented legal judgments and thus were excluded from the potential write-off and will remain on WSGI's books. The remaining analyzed liabilities from discontinued operations and legacy payables and accrued liabilities are no longer enforceable debts of the Company due to the passage of the applicable statutes of limitation and were written-off the books of the Company. These liabilities along with the assets of discontinued operations of $6,406 have resulted in a gain of $2,331,525, consisting of the net gain from the release of restricted assets and the derecognition of liabilities of discontinued operations of $544,201 and the gain on the derecognition of legacy payables of $1,787,324.

NOTE 3. ACQUISITIONS

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

The purchase price paid by the Company for GTC consisted of cash and shares of the Company's common stock, and an earn-out equal to 5% of the gross revenues related to the construction by GTC of certain potential satellite ground stations. Pursuant to the Agreement and an Escrow Agreement, 5,500,000 shares of common stock out of the

30,000,000 shares issued by the Company were placed in escrow for one year to satisfy possible indemnification claims of the Company, but have since been released. David Phipps, the President of GTC, has entered into an employment agreement to continue in his role as President of GTC. The Shareholder has the right to nominate two members of the Company's Board of Directors, both of whom are required to be "independent" under the rules and regulations of the Securities and Exchange Commission. The Agreement also includes restrictions on the sale of the Company's securities issued as the purchase price by the Shareholder for a two-year period following the Closing.

In connection with the Closing, GTC, the Shareholder and the Company also entered into an Option Agreement pursuant to which the Shareholder was granted an exclusive option to purchase certain GTC assets on the occurrence of a bankruptcy event of WSGI occurring within 18 months of the Closing.

The common stock of the Company issued to pay the purchase price pursuant to the Agreement was issued as restricted securities under an exemption provided by Section 4(2) of the Securities Act of 1933, as amended. The Agreement provides the Shareholder with certain piggyback registration rights. However, these rights have been waived in connection with the registration statement the Company filed pursuant to certain other Registration Rights Agreements and in connection with the registration statement the Company filed relating to its February 2012 financing.

Management believes the Company's acquisition of GTC provides the Company with an opportunity to strategically expand and diversify our business. GTC provides mobile voice and data communications services globally via satellite to the U.S. government, the defense industry and to other commercial users. GTC specializes in services related to the Globalstar satellite constellation, including ground station construction, satellite telecommunications voice airtime and tracking services. GTC has recently launched its e-commerce mobile satellite solution portal and is an authorized reseller of satellite telecommunications equipment and services offered by other leading satellite network providers such as Inmarsat, Iridium and Thuraya. GTC's equipment is installed in various ground stations across Africa, Asia, Australia, Europe and South America.

The operating results of GTC for the current quarter ended are included in the Company's Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2012. The Company's Condensed Consolidated Balance Sheet at June 30, 2012 reflects the accounts of GTC, effective since the acquisition date of May 25, 2011.

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

	Original Allocation	Allocation Adjustment	Revised Allocation
Current assets	$203,780	$ (19,000)	$184,780
Property and equipment	2,736,732	19,000	2,755,732
Current liabilities assumed	(90,512)	0	(90,512)
Total Purchase Price	$2,850,000	$ 0	$2,850,000

The acquired property and equipment primarily consists of eight unique satellite network infrastructure devices, known as appliqués, which provide the signal receipt and processing technology that enables and powers Globalstar's satellite data service. GTC's appliqués are located at a number of Globalstar satellite ground stations and provide service across Europe, Russia and parts of Australia, Asia, the Middle East and South America. Long-term contracts with Globalstar allow GTC access to their satellite network for the purposes of offering tracking services for commercial applications over the useful life of the appliqués through 2025. GTC has developed various simplex satellite tracking devices that are capable of transmitting locational and other information from any location within the Globalstar satellite network. Although GTC can sell to U.S. government customers without the need for any form of certification, GTC can not sell such tracking devices commercially without certification from Globalstar and the Federal Communications Commission for use in the U.S., and from comparable entities globally, like CE Mark. GTC has begun the process to apply for certification to sell these devices both in the U.S. and globally. Although, GTC believes the likelihood of obtaining these certifications is high due to its experience in producing these tracking devices for government customers combined with its knowledge and experience of the Globalstar network and their certification requirements, there is no guarantee that GTC will be able to certify its tracking devices. GTC is currently obtaining certification of their proprietary tracking devices for commercial applications and expects to begin selling the tracking devices and service plans in 2012.

NOTE 4. RELATED PARTY TRANSACTIONS

The accounts receivable at June 30, 2012 and December 31, 2011, include trade receivables from Global Telesat Communications, Ltd. (“GTCL”) of $97,940 and $20,866, respectively. GTCL is a related party based in the United Kingdom and controlled by a current officer of GTC. Total sales to GTCL for the three and six-months ended June 30, 2012 were $246,051 and $370,287, respectively, and accounts for 70% and 74% of total sales for each period. Beginning in 2012, GTC began charging a 10% handling fee on all large orders from GTCL. Total sales to GTCL for the year ended 2011 were $184,789, accounting for 91% of the total 2011 sales of $203,682.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Appliques	$ 2,755,732	$ 2,755,732
Office furniture and fixtures	6,904	6,904
	2,762,636	2,762,636
Less: accumulated depreciation	(218,170)	(126,670)
PROPERTY AND EQUIPMENT, NET	$ 2,544,466	$ 2,635,966

11

NOTE 6. OTHER ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Payroll liabilities	$ 1,169,897	$ 1,304,303
Professional fees	10,000	15,000
Accrued legal claims payable	235,540	424,201
Accrued cash true-up from conversion	306,240	0
Accrued interest on debenture	9,560	0
Due to officer	0	50,000
GTC acquisition payable	75,000	125,000
Other	70,794	40,287
OTHER ACCRUED LIABILITIES	$ 1,877,031	$ 1,958,791

NOTE 7. NOTES PAYABLE

Notes payable consisted of the following:

	June 30, 2012 (Unaudited)	December 31, 2011
Unsecured promissory notes	$ 5,997,030	$ 5,997,030
Accrued interest	2,443,307	2,234,272
NOTES PAYABLE	$ 8,440,337	$ 8,231,302

As of June 30, 2012 and December 31, 2011, notes payable included two unsecured promissory notes aggregating $5,997,030 with no stated interest rate or terms of repayment. The Company has accrued interest at 7% per annum on both notes since their inception and includes the notes in current liabilities.

NOTE 8. IMPAIRMENT OF INTANGIBLE ASSETS AND EXTINGUISHMENT OF DEBT

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

In the first quarter of 2011, the Company entered into an agreement by and among the Company, TAO, Kroeplin and Global Telesat Corp., providing for, among other things, the termination of all existing agreements between the parties (the “Old Agreements”); the retention by TAO and Kroeplin of all cash and shares of the Company’s common stock previously paid to them; the return of the old STS 111 (SD34) airship by the Company to TAO; the discharge in full of $2,474,753 in debt owed by the Company under the Old Agreements; and the winding down and

dissolution of the joint venture, Sanswire-TAO Corp. The Company recorded a $2,474,753 gain on the extinguishment of the debt during the first quarter ended March 31, 2011. The Sanswire-TAO Corp. was dissolved on June 20, 2011.

NOTE 9. DERIVATIVE LIABILITIES

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

Warrants

In the past, the Company entered into financing agreements for convertible promissory notes and stock purchase agreements, which included

Class A and Class B warrants. Both Class A and Class B warrants contained anti-dilution rights and are considered to be derivative liabilities

under U.S. GAAP. During 2010 and 2011, the Company entered into new stock purchase agreements and issued an aggregate of 9,677,167 warrants under the 2010 and 2011 stock purchase agreements. Warrants issued under the 2010 and 2011 stock purchase agreements have no anti-dilution rights and are not considered to be derivative liabilities. Stock purchase rights pursuant to the Equity Investment Agreement ("EIA"), and warrants issued pursuant to a Broker Fee Agreement in connection with our February 2012 financing are not considered to be derivatives and are computed based upon the investment amount. All warrants and purchase rights have 3-year terms and are exercisable for a purchase price of $0.21 per share or, in the case of Class B warrants, $0.315 per share.

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

	Derivative Liabilities		Other Warrants & Purchase Rights	Weighted Average Exercise Price
	Warrants Class A	Warrants Class B		
Outstanding at December 31, 2011	19,631,826	18,988,965	8,293,834	$ 0.253
Warrants Granted	0	0	1,428,333	0.210
Purchase Rights Granted			2,142,856	0.210
Warrants Expired	(7,333,333)	(6,690,472)	0	0
Outstanding at June 30, 2012	12,298,493	12,298,493	11,865,023	$ 0.245

The following tables provide the assets and liabilities carried at fair value as determined under the U.S. GAAP measurement framework on a

recurring basis:

		Fair Value Measurements at June 30, 2012 Using:		
	Total	(Level 1)	(Level 2)	(Level 3)

Derivative liabilities	6,574	0	0	6,574
Totals	$6,574	$ 0	$ 0	$ 6,574

		Fair Value Measurements at December 31, 2011 Using:		
	Total	(Level 1)	(Level 2)	(Level 3)
Derivative liabilities	125,420	0	0	125,420
Totals	$125,420	$ 0	$ 0	$ 125,420

The derivative liabilities are measured at fair value using quoted market prices and estimated volatility factors, and are classified within Level 3 of the valuation hierarchy, due to use of an estimate of volatility factors. There were no changes in the valuation techniques during the six months ended June 30, 2012.

The following table provides a summary of the changes in the fair value of the derivative liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended June 30, 2012:

Fair Value Measurements using Level 3 Inputs

	Derivative Liability
Warrants:	
Beginning balance at December 31, 2011	$125,420
Fair value of warrants issued	0
Fair value of warrants expired	0
Total fair value adjustment	(118,846)
Ending balance at June 30, 2012	$6,574

13

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

	June 30, 2012	December 31, 2011
Warrants:		
Risk-free interest rate	0.21% - 0.33%	0.06% - .25%
Expected volatility	70% - 133%	29% - 146%
Expected life (in years)	0.58 - 1.25	0.33 - 1.75
Expected dividend yield	0	0
Fair value of warrants outstanding	$6,574	$125,420

The aggregate intrinsic value of the warrants outstanding and exercisable at June 30, 2012 and December 31, 2011 was $0. All warrants were fully exercisable and there was no unamortized cost to be recognized in future periods.

NOTE 10. CONVERTIBLE NOTES PAYABLE

	June 30, 2012 (Unaudited)	December 31, 2011
Secured Convertible Note Payable, principal due 2/1/15, interest payable monthly at 4.75%	$ 455,000	$ 0
CONVERTIBLE NOTES PAYABLE	$ 455,000	$ 0

On February 2, 2012, the Company closed on a Securities Purchase Agreement with a California-based institutional investor (the “Investor”) for an aggregate of $5.5 million. The $500,000 initial tranche was funded at the closing in connection with a Convertible Debenture due in February 2015 and an Equity Investment Agreement (the “EIA”). The Debenture is convertible by the Investor into shares of common stock beginning on the earlier to occur of (i) the effectiveness of the Registration Statement, but in no event prior to ninety-one (91) days following the Closing Date, or (ii) one hundred eighty one (181) days following the Closing Date subject to the terms and conditions of the conversion feature contained in the Debenture agreement.

The Debenture is secured by a personal guaranty of Michael K. Clark, then Chairman of the Board, and is backed by a mortgage on certain real property owned by Mr. Clark. The guaranty terminates on the earlier of nine (9) months, the conversion of the entire principal amount of the Debenture by the Investor, or the dates that the Investor has converted at least $350,000 of the Debenture and the volume weighted average price of the Company’s common stock exceeds a specified stock price for a specified duration of consecutive trading days.

The Debenture grants the Investor with a right of first refusal on future financings of the Company, subject to certain terms and conditions, and contains acceleration provisions requiring 120% of the principal amount, accrued and unpaid interest, to become immediately due and payable on certain events of default described therein. The Debenture contains provisions for a cash true-up in the event the conversion price is less than the floor price of $.075, in which the Company will pay to the holder an amount equal to the difference in the value of the actual common stock issued using the floor price as the conversion price, and the value of the common stock that would have been delivered had the conversion been done without regard to the floor price. The Company has accrued cash true-up balance of $306,240 and recognized an aggregate loss of $237,120 on the three conversions completed during the quarter ended June 30, 2012.

Pursuant to the EIA, the Investor agreed to invest an additional $5.0 million in monthly tranches beginning on the effectiveness of a registration statement the Company filed with the Securities and Exchange Commission, but not prior to 91 days following the closing. The Investor also has the right to purchase an additional $5.0 million of the Company’s common stock at an exercise price of $0.21 per share for a period of three years.

The Company incurred customary closing costs including attorney’s fees, commissions and closing costs of $62,027, which are recorded as deferred financing costs to be amortized as additional interest expense on a straight-line basis over the 3-year term of the related Debenture and EIA. During the six months ended June 30, 2012, we received net proceeds of $437,973 ($500,000 less financing cost of $62,027) from a 4 ¾% Secured Convertible Debenture and $300,000 in additional net proceeds from a total $5.5 million financing agreement with the Investor . The Debenture agreement contains provisions for an optional cash true-up adjustment in the event the conversion price is less than a floor price of $0.075 per share. When this occurs, we have the option to pay to the Investor an amount equal to the difference in the value of the actual common stock issued using the floor price as the conversion price, and the value of the common stock that would have been delivered had the conversion been done without regard to the floor price. At June 30, 2012, our accrued cash true-up balance was $306,240, and we recognized an aggregate loss of $237,120 on the three conversions completed during the period. The accrued cash true-up balance can be credited against the $5.0 million investment at the discretion of the Investor. Pursuant to the terms of a related Equity Investment Agreement (the “EIA”), on each successive thirty (30) day anniversary of the initial investment date, the Company is to receive minimum monthly tranches of $250,000, which can be increased to $500,000 if certain stock price performance criteria set forth in the EIA are met.

NOTE 11. COMMON STOCK TRANSACTIONS

During the six month period ended June 30, 2012, the Company issued the following shares of Common Stock:

SHARES	CONSIDERATION	VALUATION
4,140,325	Shares issued for services	$ 274,979
8,965,543	Shares issued for legal settlement	106,700
11,900,000	Shares issued for directors' compensation	563,720
6,500,000	Shares issued for employee bonuses	257,800
6,600,001	Shares issued for conversion of debt	275,880
38,105,869		$ 1,479,079

The valuation amounts of the above common stock transactions are based on the amounts reflected in common stock and related additional paid-in capital for each transaction.

NOTE 12. SHARE-BASED COMPENSATION

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

Common Stock

The Company recognizes the cost of the common stock issued to directors, officers, and employees as compensation expense at the closing market price on the grant date. All common stock awards are fully vested on the date of grant, therefore there is no unrecognized compensation expense associated with these awards. During the six months ended June 30, 2012, the Company has issued 11.9 million common shares, totaling $563,720 in directors fees, of which 5.0 million were awarded to the new Chairman of the Board of Directors and 6.0 million were awarded to the former Chairman of the Board of Directors. The Company accrued the second quarter directors' fees of $14,000.

Restricted Stock

Awards of restricted stock are independent of stock option grants and are generally subject to forfeiture if employment terminates prior to vesting. Prior to vesting, ownership of the restricted stock cannot be transferred. The restricted stock has the same voting rights as the common stock. The Company recognizes the grant date fair value of restricted stock awards ratably over the vesting period as compensation expense based upon the stock's closing market price on the grant date. Performance-based restricted stock and restricted stock issued as retention bonuses that vested during the six months ended June 30, 2012 totaled $600,170. There is approximately $372,855 in unrecognized compensation relating to performance-based restricted stock at June 30, 2012.

Stock Options

The Company has issued stock options at exercise prices equal to the Company's common stock market price on the date of grant with contractual terms of three to seven years. Historically, the stock options were fully vested and expensed as compensation on the grant date. During 2010, the Company began issuing stock options with vesting schedules and such stock options are generally subject to forfeiture if employment terminates prior to vesting. Stock options that vested during the six months ended June 30, 2012 had a grant date fair value that totaled $274,790; options that were rescinded pursuant to the revised compensation agreement with the former Chairman of the Board of Directors totals $158,400. As of June 30, 2012, there is approximately $3,500 in unrecognized compensation expense relating to unvested stock options.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options. The principal assumptions utilized in valuing stock options include the expected stock price volatility based on the most recent historical period equal to the expected life of the option; an estimate of the expected option life based upon historical experience; no expected dividend yield; and the risk-free interest rate based upon on the yields of Treasury constant maturities for the remaining term of the option.

There were no stock options awarded during the six months ended June 30, 2012.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2012:

	Options Outstanding and Exercisable		
Exercise prices	Number outstanding	Weighted average remaining contractual terms (years)	Weighted Average Exercise price
$ .045	4,444,444	2.75	$ .045
$ .066	9,750,000	5.75	.066
$ .070	1,426,571	1.61	.070
$ .073	2,250,000	.50	.073
$ .075	2,500,000	1.67	.075
$ .080	1,500,000	2.75	.080
$ .090	12,672,223	1.77	.090
$ .094	1,300,000	1.27	.094
	35,843,238	2.90	$ .075

The aggregate intrinsic value of the options outstanding and exercisable at June 30, 2012 was $0 and there were no options in-the-money. The aggregate intrinsic value for the options is the difference between the prices of the underlying awards and quoted price of the Company's common stock for options in-the-money at June 30, 2012.

NOTE 13. INCOME TAXES

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

The Company operates in multiple tax jurisdictions within the United States of America. Although management does not believe that the Company is currently under examination in any major tax jurisdiction in which it operates other than the issues with the IRS as described in Note 15, the Company remains subject to examination in all of those tax jurisdictions until the applicable statute of limitations expire. As of June 30, 2012, a summary of the tax years that remain subject to examination in the Company's major tax jurisdictions are: United States – Federal and State – 2005 and forward. The Company does not expect to have a material change to unrecognized tax positions within the next twelve months.

NOTE 14. PER SHARE INFORMATION:

The computation of basic and diluted earnings per share of common stock is below. There were no common stock equivalents in the money at June 30, 2012. Common stock equivalents totaling 86,817,432 shares were excluded from the computation of Diluted EPS for the six months ended June 30, 2011, as their effect on the computation of Diluted EPS would have been anti-dilutive.

	Six Months Ended June 30,	
	2012	2011
Numerator:		
Net income (loss)	$(519,794)	$(111,632)
Denominator:		
Weighted-average common shares outstanding	393,701,894	344,881,070
Net loss per share:		
Basic and diluted	$(0.00)	$(0.00)

16

NOTE 15. LITIGATION AND CONTINGENCIES

In the ordinary conduct of business, the Company is subject to periodic lawsuits, investigations and litigation claims, which are accounted for where appropriate. Management cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims asserted against the Company. As of June 30, 2012, we had the following material contingencies:

Brio Capital

Brio Capital, the holder of a warrant, filed an action against us on February 25, 2011 in the New York Supreme Court, County of New York, for the issuance of approximately 6.2 million shares of common stock upon the exercise of certain warrants. The Court granted a non-final Summary Judgment Order on a portion of the action in favor of Brio in December 2011 requiring the Company, among other things, to issue 6.2 million shares of common stock. The Company has issued the shares required by the Court order. We have also entered into a settlement agreement to pay $57,661 in legal fees as required by the Court order.

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, an Order 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 a Motion for Reconsideration asking the Court to both 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, which has been denied by the Court. We have issued the share portion of the Order, but we are in settlement discussions with the plaintiff relating to the cash portion of the Order.

Peter Khoury

The Company’s former CEO Peter Khoury filed an arbitration proceeding against us on October 10, 2010, and filed an action against us in Miami-Dade County in October 2010 which was amended in November 2011 but which was not served on us until December 2011, asserting claims for payment of amounts alleged to be due in connection with his services provided to the Company totaling over $400,000 in cash, 1.8 million shares of common stock and an additional $250,000 in shares of common stock. We reached a settlement with Mr. Khoury resolving this matter, without admitting or denying the allegations. Under the terms of the settlement, we are required to pay him $50,000 over a four month period and issue 2.75 million shares of our common stock.

The DeCarlo Group

A lawsuit was filed by the DeCarlo Group on November 24, 2010 in Miami-Dade County Courthouse for over $400,000 claimed in connection with CFO and accounting services allegedly rendered to the Company. It is our position that the Company was overcharged in connection with the services rendered and that no amounts are due. DeCarlo is again seeking a new attorney to represent him in this matter. 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 back in 2003. The parties have

begun preliminary discovery and participated in a mediation session. The Court has appointed a guardian to represent Mrs. Siegel. We 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 the default of the Company on a parent company guaranty with GlobeTel Wireless Europe. We reached a settlement with GlobeTel Wireless Europe resolving this lawsuit, without admitting or denying the allegations. Under the terms of the settlement, we are required to pay them $80,000 over a twelve month period.

Siefert

A lawsuit was filed by Thomas Seifert, a former officer and director of the Company, on April 9, 2012 in the Circuit Court of the 17th Judicial Circuit in Broward County for $548,000 and 7.0 million shares of common stock for alleged unpaid compensation. The Company has filed a motion to dismiss. We intend to defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

Dohan

We 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 the substantial fees and professional expenses necessary to restate our financials and defend allegations of wrongdoing asserted by the SEC against us. We have filed an amended complaint to add claims. Dohan and Company, P.A., C.P.A.'s filed a related lawsuit against us on July 29, 2011 in the same court alleging unpaid professional accounting fees of $126,820, which case has now been combined with our lawsuit. The parties have begun preliminary discovery. We intend to respond to these allegations and defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

IRS

During 2010 and 2009, we, under our former name Sanswire Corp., incurred and reported to the Internal Revenue Service ("IRS") payroll tax liabilities (and deposited the appropriate withholding amounts) during the normal course of business at each payroll cycle. The Company has reported its payroll tax liabilities for all the tax periods in 2007 and 2008, however, it failed to deposit the appropriate withholding amounts for those periods We recognized this issue and, accordingly, contacted the IRS to make arrangements to pay any taxes due. One such matter has been resolved with the IRS, and we currently estimate the amount involved in the second matter to be approximately $200,000. We may be subject to additional penalties and interest from the IRS in connection with these payroll tax matters. We are engaged in discussions with the IRS to settle this matter and filed an Offer in Compromise with the IRS, which was not accepted. We are continuing to cooperate with the IRS to resolve this matter.

The Company provides 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.

NOTE 16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events from the balance sheet date and determined no subsequent events occurred during the period requiring disclosure.

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

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

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

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

The following MD&A is intended to help readers understand the results of our operation and financial condition, and is provided as a supplement to, and should be read in conjunction with, our condensed consolidated financial statements and the accompanying Notes to Condensed Consolidated Financial Statements under Part I, Item1 of this Quarterly Report on Form 10-Q.

Growth and percentage comparisons made herein generally refer to the three and six months ended June 30, 2012 compared with the three and six months ended June 30, 2011 unless otherwise noted. 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.

General

We design, develop and market, and intend to 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 and aerostats 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.

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

On September 22, 2008 we filed a Certificate of Merger with the Secretary of State of the State of Delaware pursuant to which our newly formed wholly-owned subsidiary, Sanswire Corp., a Delaware corporation, was merged into us and our corporate name was changed from GlobeTel Communications Corp. to Sanswire Corp. Effective April 19, 2011, we merged a newly created, wholly-owned Delaware subsidiary, World Surveillance Group Inc., with and into the Company, with the Company being the surviving corporation. Our Restated Certificate of Incorporation is the charter of the surviving corporation except that our name has been changed to World Surveillance Group Inc. In connection with the change of our corporate name, effective April 25th our stock ticker symbol, under which our common stock is now traded, was changed to "WSGI".

Our current principal office is at State Road 405, Building M6-306A, Room 1400, Kennedy Space Center, FL 32815, and our telephone number at that location is (321) 452-3545. Our internet address is www.wsgi.com. Information contained on our website is not a part of this report and the inclusion of our website address in this report is an inactive textual reference only.

Results of Operations

Comparison of Three Months Ended June 30, 2012 and 2011

Revenues. Sales of satellite phones, accessories, activation and subscription service fees for the three months ended June 30, 2012 were $351,664 compared to sales of $26,093 for the same period of 2011, an increase of $325,571. Sales to Global Telesat Communications, Ltd., a related party, were $246,051 for the three months ended June 30, 2012. Contract revenues of $200,000 from the Space Florida contract was previously recorded as deferred revenues and were recognized as revenue during the quarter ended June 30, 2012. The Company fulfilled its contractual obligation by providing a report to Space Florida describing the performance parameters from the Argus One airship payload and flight tests completed in Nevada during May 2012.

Cost of Sales. Cost of sales totaled $315,219 for the three months ended June 30, 2012, compared to $16,345 for the same period of 2011, an increase of $298,874, and consists of the costs associated with satellite phones, accessories, activation and subscription service fees sold by GTC.

Operating Expenses. Operating expenses consist primarily of compensation, professional fees, research and development, as well as expenses for executive and administrative personnel, insurance, facilities expenses, travel and related expenses, depreciation and other general corporate expenses. Operating expenses for the three months ended June 30, 2012 totaled $1,409,530, compared to $1,444,531 during the same period of 2011. The decrease of $35,001, or 2.4%, resulted primarily from decreases of $115,046 in research and development and $65,000 in acquisition-related costs, and was partially offset by an increase of $130,742 in general and administrative expenses, as compared to the same period for 2011. The increase in general and administrative expense is primarily attributable to the $180,000 share-based compensation awarded to the new Chairman of the Board of Directors. The acquisition-related costs in the 2011 period were related to the GTC acquisition. The increased depreciation expense in the 2012 period reflects three months' depreciation on the appliqués acquired in the GTC acquisition compared to the 2011 period, which reflects depreciation only from the acquisition date of May 24, 2011.

Loss From Operations. The loss from operations of $1,173,085 for the three months ended June 30, 2012 compares to an operating loss of $1,434,783 for the same period in 2011. The decline of $261,698, or 18.2%, reflects the Space Florida revenues, the increase in GTC sales and the net reduction of operating expenses in the 2012 period described above.

Net Other Income (Expense). Net other income totaled $2,045,188 for the three months ended June 30, 2012, compared to net other expense of $1,080,066 for the same period of 2011. The net other income for the quarter ended June 30, 2012 primarily reflects the net gain from the release of restricted assets and the derecognition of liabilities of discontinued operations of $544,201 and the gain on the derecognition of legacy payables of $1,787,324. The $237,120 loss on convertible debt conversion in the 2012 period relates to the fair value of the converted common shares and the required cash true-up accrual when the shares are converted using the floor price of $.075 per share as opposed to the specified conversion price as computed under the debenture agreement. The $68,113 gain on the fair value of derivative liabilities in the 2012 period resulted from the fair value of the outstanding warrants determined from our Black-Scholes option pricing model. Interest expense of $117,330 during the 2012 period includes interest expense on the notes payable, convertible debt and amortization of the deferred financing costs over the 3-year term of the convertible debt. During the same period in 2011, net other expense of $1,080,066, included a $970,310 loss on the fair value of derivative liabilities and interest expense of $109,756.

Net Income (Loss). We had net income of $872,103 for the three months ended June 30, 2012 compared to a net loss of $2,514,849 for the three months ended June 30, 2011, an increase of $3,386,952, primarily reflecting the gain of $2,331,525 from the release of restricted assets and the derecognition of liabilities of the discontinued operations and legacy payables, and the $1,038,423 difference in the fair value of derivatives during the three months ended June 30, 2012 compared to 2011.

Comparison of Six Months Ended June 30, 2012 and 2011

Revenues. Sales of satellite phones, accessories, activation and subscription service fees for the six months ended June 30, 2012 were $498,393 compared to sales of $26,093 for the same period of 2011, an increase of $472,300. Sales to Global Telesat Communications, Ltd., a related party, were $370,287 for the six months ended June 30, 2012. Contract revenues of $200,000 from the Space Florida contract previously recorded as deferred revenues were recognized as revenue during the quarter ended June 30, 2012. The Company fulfilled its contractual obligation by reporting the performance parameters from the Argus One airship payload and flight tests completed in Nevada during May 2012 to Space Florida.

Cost of Sales. The cost of sales of $446,448 for the six months ended June 30, 2012 compared to $16,345 during the same period of 2011, an increase of $430,103 reflects the higher sales volume in 2012 and consists of the costs of satellite phones, accessories, activation and subscription service fees sold by GTC.

Operating Expenses. Operating expenses consist primarily of compensation, professional fees, research and development, as well as expenses for executive and administrative personnel, insurance, facilities expenses, travel and related expenses, depreciation and other general corporate expenses. Operating expenses for the six months ended June 30, 2012 totaled $2,753,909, compared to $2,128,711 during the same period of 2011. The increase of $625,198, or 29.4%, resulted primarily from an $840,159 increase in general and administrative expenses as compared to the same period 2011. The increase in general and administrative expense is primarily attributable to the $310,000 stock awarded to the former Chairman of the Board of Directors pursuant to his revised compensation agreement; a $180,000 stock award to the new Chairman of the Board of Directors; and $181,593 in general and administrative expenses related to GTC's six months of operations in 2012 compared to only one month in 2011. The increase in general and administrative expenses was partially off-set by a $89,715 reduction in professional fees; $65,000 reduction in acquisition-related cost; and a $138,796 reduction in research and development expense compared to the same period of 2011. The increase in depreciation expense of $78,550 in 2012 reflects six-months of depreciation on the GTC appliqués acquired in May 2011, as compared to one month's depreciation in 2011. No depreciation or amortization was recorded in the first quarter of 2011 due to the impairment and write-off of intellectual property that occurred during the last quarter of 2010.

Loss From Operations. The loss from operations of $2,501,964 for the six months ended June 30, 2012 compares to an operating loss of $2,118,963 for the same period in 2011. The increase of $383,001, or 18.1%, reflects the increase in operating expenses described above.

Net Other Income (Expense). Net other income totaled $1,982,170 for the six months ended June 30, 2012, compared to net other income of $2,007,331 for the same period of 2011. The net other income for the six months ended June 30, 2012 primarily reflects the gain on the release of restricted assets and the derecognition of liabilities of discontinued operations of $544,201 and the gain on the derecognition of legacy payables of $1,787,324. The $237,120 loss on convertible debt conversion in the 2012 period relates to the fair value of the converted common shares and the required cash true-up accrual when the shares are converted using the floor price of $.075 per share as opposed to the specified conversion price as computed under the debenture agreement. The $118,846 gain on the fair value of derivative liabilities in the 2012 period, primarily resulted from the fair value calculation of the outstanding warrants using our Black-Scholes option pricing model. Interest expense was $231,081 during the 2012 period includes interest expense on the notes payable, convertible debt and amortization of the deferred financing costs over the 3-year term of the convertible debt. During the same period in 2011, net other income of $2,007,331, included a $2,474,753 gain on the extinguishment of liabilities due to a former joint venture partner; a $223,532 loss on the fair value of derivative liabilities; and interest expense of $243,890.

Net Income (Loss). We had a net loss of $519,794 for the six months ended June 30, 2012 compared to a net loss of $111,632 during the same period of 2011, an increase of $408,162, primarily attributable to the increased loss from operations of $383,001 and the $237,120 loss on conversion of the convertible debt during 2012.

Liquidity and Capital Resources

Assets .. Our cash balance was $110,226 at June 30, 2012 compared to $5,532 on December 31, 2011 primarily attributable to collection of accounts receivable, increased GTC revenues during the period, and cash investments under the Equity Investment Agreement. Total assets were $2,951,751 at June 30, 2012 compared to $2,775,439 at December 31, 2011, an increase of $176,312 or 6.4%, resulting primarily from increases in cash of $104,694 and accounts receivable of $91,542.

Liabilities .. During the quarter ended June 30, 2012, the Company conducted a detailed analysis of certain of its accounts payable and accrued liabilities including (i) liabilities from discontinued operations of $1,365,929, and (ii) legacy payables and accrued liabilities of $1,787,324. Certain of these liabilities represented legal judgments and thus were excluded from the potential write-off and will remain on WSGI's books. The remaining analyzed liabilities from discontinued operations and legacy payables and accrued liabilities are no longer enforceable debts of the Company due to the passage of the applicable statutes of limitation and were written-off the books of the Company. These liabilities along with the assets of discontinued operations of $6,406 resulted in an aggregate gain of $2,331,525 consisting of the gain on the from the release of assets and the derecognition of liabilites of discontinued operations of $544,201 and the gain on the derecognition of legacy payables of $1,787,324.

At June 30, 2012, we had total liabilities of $15,735,729 compared to $16,977,458 at December 31, 2011, a decrease of $1,241,729 or 7.3%. This decrease reflects the $550,607 derecognition of the liabilities of the discontinued operations (excludes the gain on write-off of assets of $6,406) and $1,787,324 derecognition of legacy payables; the $200,000 decline in deferred revenues due to recognition of the Space Florida contract revenue; and the $118,846 decline in the fair value of the derivatives. These reductions were partially offset by the $455,000 of new convertible debt; the $306,240 increase in accrued liabilities relating to the convertible debt; and increases in the trade accounts payable and accrued payroll liabilities.

Cash Flows .. Our cash used in operating activities during the six months ended June 30, 2012 was $633,280 compared to $918,542 for the same period in 2011, reflecting a decrease of $285,262, or 31%, primarily a result of collections on accounts receivables.

There were no cash flows from investing activities during the six months ended June 30, 2012. Net cash used in investing activities during the six month period in 2011 were $342,717, of which $336,032 was the net cash used in the GTC acquisition.

Net cash provided by financing activities was $737,974 during the six months ended June 30, 2012 compared to $1,941,625 during the same period of 2011, reflecting a decrease of $1,203,651 or 62%. During the six months ended June 30, 2012, we received net proceeds of $437,973 ($500,000 less financing cost of $62,027) from a 4 ¾% Secured Convertible Debenture and $300,000 in additional net proceeds from a total $5.5 million financing agreement with an institutional investor (the "Investor"). The Debenture agreement contains provisions for an optional cash true-up adjustment in the event the conversion price is less than a floor price of $0.075 per share. When this occurs, we have the option to pay to the investor an amount equal to the difference in the value of the actual common stock issued using the floor price as the conversion price, and the value of the common stock that would have been delivered had the conversion been done without regard to the floor price. At June 30, 2012, our accrued cash true-up balance was $306,240, and we recognized an aggregate loss of $237,120 on the three conversions completed during the period. The accrued cash true-up can be credited against the $5.0 million investment at the discretion of the Investor. Pursuant to the terms of a related Equity Investment Agreement (the "EIA"), on each successive thirty (30) day anniversary of the initial investment date, the Company is to receive minimum monthly tranches of $250,000, which can be increased to $500,000 if certain stock price performance criteria set forth in the EIA are met. Under the terms of the EIA, the Investor also has the right to purchase an additional $5.0 million of our common stock at an exercise price of $0.21 per share for a period of three years. During the six months ended June 30, 2011, net cash provided by financing activities of $1,941,625 primarily from the sale of common stock.

Pursuant to a Stock Purchase Agreement relating to our acquisition of GTC in May 2011, the purchase price includes an earn-out equal to 5% of the gross revenues related to the construction by GTC of certain potential satellite ground stations. These earn-out payments are unlikely to materially impact our liquidity and capital resources since payments are required to be made to the former shareholder of GTC by us only upon the actual receipt of cash from a customer related to a ground station construction contract. The earn-out payments would have the effect of reducing our margin on any such contract. We are obligated to make these earn-out payments until the earlier of May 25, 2036 or the date on which GTC no longer has the right to construct ground stations under the applicable agreement with Globalstar.

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. However, as reflected in the accompanying condensed consolidated financial statements, the Company incurred a loss from operations of $2,501,964 and negative cash flows from operations of $633,280 for the six months ended June 30, 2012. The Company had a working capital deficit of $14,926,856, total accumulated deficits of $146,152,293 and total stockholders' deficit of $12,783,978 at June 30, 2012. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to raise additional funds either through investments or by generating revenue from the sale of the Company's products to continue its business operations and implement its strategic plan, which includes, among other things, continued development of its UAVs, the pursuit or continued development of strategic relationships and expansion of the Company's subsidiary GTC's business. The Company's business plan, which if successfully implemented, will allow it to sell UAVs and other products for a profit, which in turn will reduce the Company's dependence on raising additional funds from outside sources. The condensed consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. The Company anticipates a net loss to continue for at least the next several quarters if not for all of 2012.

Additional cash will be needed to support our ongoing operations until such time that operations provide sufficient cash flow to cover expenditures. We are currently pursuing both short and long-term financing options from private investors as well as through institutional investors. We are also working to commercialize our Argus One airship, our aerostats and GTC products to begin generating revenues from customers. We anticipate generating revenues from the sale of our airships in 2012 and are already generating revenue from our GTC products. The costs associated with our strategic plan are variable and contingent on our ability to raise capital or begin generating revenue from customer contracts, but we expect to need funding of approximately $3 million over the next 12 months. As noted above, we have an agreement with the Investor for $5.0 million of funding. We continue to have discussions with other entities relating to funding, but there can be no assurance that such funding will be received in the amounts required, on a timely basis, or at all. While we believe we will be able to continue to raise capital from various funding sources in such amounts sufficient to sustain operations at our current levels through at least December 31, 2012, if we are not able to do so and if we are not able to generate revenue through the sale of our products, we would likely need to modify our strategy or cut back or terminate some of our operations. If we are able to raise additional funds through the issuance of equity securities, substantial dilution to existing shareholders may result. However, if our plans are not achieved and/or if significant unanticipated events occur or if we are unable to obtain the necessary additional funding on favorable terms or at all, we will likely have to modify our business plan and reduce, delay or discontinue some or all of our operations to continue as a going concern or seek a buyer for all or a portion of our assets. As of the date hereof, we continue to raise capital to sustain our current operations.

Off-Balance Sheet Arrangements

We do not enter into off-balance sheet financing as a matter of practice except for the use of operating leases for office space; none of which have, or potentially may have, a material effect on our financial condition, revenue, expenses, results of operations, liquidity, capital

expenditures or capital resources. In accordance with U.S. GAAP, these leases do not meet the criteria for capitalization and are recorded as operating leases.

Critical Accounting Policies and Use of Estimates

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

Please refer to our Note 1 of our condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q, and our Management's Discussion and Analysis of Financial Condition and Results of Operation contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended December 31, 2011 and Note 1 of our consolidated financial statements contained therein for a more complete discussion of our critical accounting policies and use of estimates.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2012. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2012, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

We addressed certain areas of our control environment to strengthen our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during fiscal 2011 and the first six months of 2012 and intend on continuing to address these matters. We appointed a new Chairman of the Board of Directors in April 2012, who is independent under the SEC's rules. As a result of our acquisition of Global Telesat Corp., GTC's parent company has the right to appoint two additional members to our Board of Directors, both of whom are required to be fully independent under the SEC's rules. Upon such persons' appointment to the Board of Directors, we intend on forming a fully independent Nominating and Corporate Governance Committee. We believe the changes we took in 2011 and the first six months of 2012 are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary conduct of business, we are subject to periodic lawsuits, investigations and litigation claims, which we account for where appropriate. We cannot predict with certainty the ultimate resolution of such lawsuits, investigations and claims asserted against us. As of June 30, 2012, we had the following material contingencies:

Brio Capital

Brio Capital, the holder of a warrant, filed an action against us on February 25, 2011 in the New York Supreme Court, County of New York, for the issuance of approximately 6.2 million shares of common stock upon the exercise of certain warrants. The Court granted a non-final Summary Judgment Order on a portion of the action in favor of Brio in December 2011 requiring the Company, among other things, to issue 6.2 million shares of common stock. The Company has issued the shares required by the Court order. We have also entered into a settlement agreement to pay $57,661 in legal fees as required by the Court order.

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, an Order 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 a Motion for Reconsideration asking the Court to both 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, which has been denied by the Court. We have issued the share portion of the Order, but we are in settlement discussions with the plaintiff relating to the cash portion of the Order.

Peter Khoury

The Company's former CEO Peter Khoury filed an arbitration proceeding against us on October 10, 2010, and filed an action against us in Miami-Dade County in October 2010 which was amended in November 2011 but which was not served on us until December 2011, asserting claims for payment of amounts alleged to be due in connection with his services provided to the Company totaling over $400,000 in cash, 1.8 million shares of common stock and an additional $250,000 in shares of common stock. We reached a settlement with Mr. Khoury resolving this matter, without admitting or denying the allegations. Under the terms of the settlement, we are required to pay him $50,000 over a four month period and issue 2.75 million shares of our common stock.

The DeCarlo Group

A lawsuit was filed by the DeCarlo Group on November 24, 2010 in Miami-Dade County Courthouse for over $400,000 claimed in connection with CFO and accounting services allegedly rendered to the Company. It is our position that the Company was overcharged in connection with the services rendered and that no amounts are due. DeCarlo is again seeking a new attorney to represent him in this matter. 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 back in 2003. The parties have begun preliminary discovery and participated in a mediation session. The Court has appointed a guardian to represent Mrs. Siegel. We 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 the default of the Company on a parent company guaranty with GlobeTel Wireless Europe. We reached a settlement with GlobeTel Wireless Europe resolving this lawsuit, without admitting or denying the allegations. Under the terms of the settlement, we are required to pay them $80,000 over a twelve month period.

Siefert

A lawsuit was filed by Thomas Seifert, a former officer and director of the Company, on April 9, 2012 in the Circuit Court of the 17th Judicial Circuit in Broward County for $548,000 and 7.0 million shares of common stock for alleged unpaid compensation. The Company has filed a motion to dismiss. We intend to defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

Dohan

We 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 the substantial fees and professional expenses necessary to restate our financials and defend allegations of wrongdoing asserted by the SEC against us. We have filed an amended complaint to add claims. Dohan and Company, P.A., C.P.A.'s filed a related lawsuit against us on July 29, 2011 in the same court alleging unpaid professional accounting fees of $126,820, which case has now been combined with our lawsuit. The parties have begun preliminary discovery. We intend to respond to these allegations and defend ourselves vigorously in this matter, but the outcome of the action cannot be predicted.

IRS

During 2010 and 2009, we, under our former name Sanswire Corp., incurred and reported to the Internal Revenue Service ("IRS") payroll tax liabilities (and deposited the appropriate withholding amounts) during the normal course of business at each payroll cycle. The Company has reported its payroll tax liabilities for all the tax periods in 2007 and 2008, however, it failed to deposit the appropriate withholding amounts for those periods We recognized this issue and, accordingly, contacted the IRS to make arrangements to pay any taxes due. One such matter has been resolved with the IRS, and we currently estimate the amount involved in the second matter to be approximately $200,000. We may be subject to additional penalties and interest from the IRS in connection with these payroll tax matters. We are engaged in discussions with the IRS to settle this matter and filed an Offer in Compromise with the IRS, which was not accepted. We are continuing to cooperate with the IRS to resolve this matter.

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

Item 1A. Risk Factors

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

Risks Related to Our Business and Industry

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

We need to raise significant additional capital in order to meet our cash requirements to fully implement our business plan and continue our operations during the next twelve months. As of June 30, 2012, we had $110,226 in cash and negative working capital of $14,926,856. We also had a loss from operations of $2,501,964 for the six months ended June 30, 2012. We expect to use the funds raised, if any, 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. Other than our agreement with La Jolla Cove Investors, we do not have any firm commitments for additional capital from third parties or from our officers, directors or shareholders. Although our officers and directors or their affiliates have in the past provided us with or helped us obtain capital, they are not legally bound to do so. We may not be able to raise additional capital on terms acceptable to us or at all. In order to attract new investors and raise additional capital, we may be forced to provide rights and preferences to new investors that are not available to current stockholders and that may be adverse to existing investors. If we do not receive adequate additional financing on terms satisfactory to us on a timely basis, or at all, we would not be able to meet our cash payment obligations or fully implement our business plan. We would likely also have to delay, curtail, scale back or terminate some or all of our operations that could hurt our future performance, prematurely sell some or all of our assets on undesirable terms, merge with or be acquired by another company on unsatisfactory terms, or possibly shut down our operations.

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

We have a history of losses from operations and we anticipate that for the foreseeable future, we will continue to experience losses from operations. Those losses have resulted principally from costs incurred in our research and development efforts, and from general and administrative costs associated with our business. We had a net loss from operations of $2,501,964 during the six months ended June 30, 2012. Our accumulated deficit at June 30, 2012 was $146,152,293. We expect to continue to incur net losses from operations for the next several quarters if not for all of 2012 as we continue to develop and seek to commercialize our products.

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

Our indebtedness at June 30, 2012 was $15,706,655. 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 reduce this debt level due to the age and/or settlement of certain payables but we may not be able to do so. This level of indebtedness could, among other things:

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

Our independent auditors have issued a report stating that there is substantial doubt relating to our ability to continue as a going concern, which may impair our ability to raise additional financing.

The report of our independent auditors contained in our consolidated financial statements for the years ended December 31, 2011 and 2010 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, and its chief technologist for the development and commercialization of our products.

We currently rely exclusively on our technical partner, Eastcor Engineering, and its chief technologist for the development and commercialization of our airships and aerostats. We currently have no technical personnel as employees of the Company. While we believe the relationship with Eastcor and its chief technologist 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 and its chief technologist, it would cause a significant delay in our ability to continue to develop, manufacture and sell our airships and aerostats, postpone commercial revenue to us and increase the costs related to such development and commercialization. We had an agreement with Eastcor, which expired in accordance with its terms and we are presently negotiating a new agreement to establish responsibilities for the technical development of our products. There is no guarantee, however, that we will be able to enter into such an agreement.

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

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.

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

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

We entered into a joint venture in 2008 with our then technology partner TAO Technologies, but terminated all of the agreements between us and TAO and dissolved the joint venture in 2011**.** 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, aerostats 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 or aerostats in the commercial marketplace and our success in the market for the products we develop will depend largely on our ability to prove our products' capabilities. Upon demonstration, our airships and aerostats may not have the capabilities they were designed to have or that we believed they would have. Furthermore, even if we do successfully demonstrate our products' capabilities, potential customers may be more comfortable doing business with a larger, more established, more proven company than us. Moreover, competing products may prevent us from gaining wide market acceptance of our products. Significant revenue from new product investments may not be achieved for a number of years, if at all.

GTC has developed various custom designed commercial simplex satellite tracking devices that are capable of transmitting locational and other information from any location within the Globalstar satellite network. These devices were previously exclusively used by U.S. government customers and thus have satisfied stringent operational requirements for years. Users of these tracking products will be able to access their accounts online and view near-live location and status transmissions using GTC's proprietary mapping web interface. Although GTC can sell to U.S. government customers without the need for any form of certification, GTC can not sell such tracking devices commercially without certification from Globalstar and the Federal Communications Commission for use in the U.S., and from comparable entities globally, like CE Mark. GTC has begun the process to apply for certification to sell these devices both in the U.S. and globally and GTC plans to have a worldwide target customer base with no cost basis on the monthly service plans sold with each device. Although, GTC believes the likelihood of obtaining these certifications is high due to its experience in producing these tracking devices for government customers combined with its knowledge and experience of the Globalstar network and their certification requirements, there is no guarantee that GTC will be, however, able to certify its tracking devices. Moreover, in the past, the Company has dealt specifically with U.S. government customers but is now also focused on expanding this customer base and making 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 our airships, aerostats and GTC products other than website sales) at least in the foreseeable future will come from U.S. government and government-related entities, including both the Department of Defense and other departments and agencies. Government programs that we may seek to participate in and contracts for the construction of satellite ground stations must compete with other programs for consideration during Congress' budget and appropriations hearings, and may be affected by changes not only in political power and appointments but also general economic conditions and other factors beyond our control. Reductions, extensions or terminations in a program that we are seeking to participate in or overall defense or other spending could adversely affect our ability to generate revenues and realize any profits. We cannot predict whether potential changes in security, defense, communications and intelligence priorities will afford opportunities for our business in terms of research and development or product contracts, but any reduction in government spending on such programs could negatively impact our ability to generate revenues.

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

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

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

Our airships are subject to regulation by the Federal Aviation Administration (FAA), which currently does not allow any untethered flights by UAVs in commercial airspace in the U.S. without prior FAA clearance certifications that are difficult and time-consuming to obtain. In light of the recent law enacted regarding UAVs, the status of regulations regarding the testing, operations and safety of UAVs is in flux. Depending on the ultimate rules adopted by the FAA, the cost to test and fly our products and our ability to generate revenues may be significantly adversely affected. International sales of our products may also be subject to U.S. laws, regulations and policies like the International Traffic in Arms Regulations (ITAR) and other export laws and regulations and may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. If we are not allowed to export our 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 intend to sell products where insurance or indemnification may not be available, including:

- Designing and developing products using advanced and unproven technologies and airships and aerostats in intelligence and homeland security applications that are intended to operate in high demand, high risk situations; and
- Designing and developing products to collect, distribute and analyze various types of information.

28

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 UAVs.

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, aerostats 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. We filed a provisional patent application on our Argus One airship in February 2011. In February 2012 we filed both a U.S. utility patent application and a patent application under the Patent Cooperation Treaty for an airship design and method of controlling the airship based on our Argus One UAV. In May 2012 we filed a provisional patent application on our Argus Hybrid Releasable Aerostat and in August 2012, we filed a provisional patent application on our "Blimp in a Box™ " .. There is no assurance that a patent will issue from any such applications. We intend to continue to expand the patent protection for our airships, aerostats and other products as we deem appropriate, but there can be no assurance that we will be able to secure any such patent protection. Our intellectual property rights may be challenged, invalidated or circumvented by third parties. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees or competitors. Furthermore, our competitors may independently develop technologies and products that are substantially equivalent or superior to our technologies and/or products, which could result in decreased revenues. Moreover, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. Litigation may be necessary to enforce our intellectual property rights which could result in substantial costs to us and substantial diversion of management attention. If we do not adequately protect our intellectual property, our competitors could use it to enhance their products. Our inability to adequately protect our intellectual property rights could adversely affect our business and financial condition, and the value of our brand and other intangible assets.

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

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

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

For our business to be successful, we need to attract and retain highly qualified technical, management and sales personnel. As of June 30, 2012 we employed five employees and relied heavily on outside partners and contractors. The failure to recruit additional key personnel when needed with specific qualifications and on acceptable terms might impede our ability to continue to develop, commercialize and sell our products. To the extent the demand for skilled personnel exceeds supply, we could experience higher labor, recruiting and training costs in order to attract and retain such employees. The loss of any members of our management team may also delay or impair achievement of our business objectives and result in business disruptions due to the time needed for their replacements to be recruited and become familiar with our business. We face competition for qualified personnel from other companies with significantly more resources available to them and thus may not be able to attract the level of personnel needed for our business to succeed.

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

We have identified control deficiencies in our internal control over financial reporting as of the evaluation done by management as of June 30, 2012, including those related to (i) an ineffective global control environment such that control deficiencies in various other components of internal control could lead the auditor to conclude that a significant deficiency or material weakness exists in the control environment, (ii) absent or inadequate segregation of duties within a significant account or process, (iii) inadequate documentation of the components of internal control, and (iv) inadequate design of information technology general and application controls that prevent the information system from providing complete and accurate information consistent with financial reporting objectives and current needs. If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement or our filings may not be timely made with the SEC. Based on the work undertaken and performed by us, however, we believe the consolidated financial statements contained in our reports filed with the SEC are fairly stated in all material respects in accordance with GAAP for each of the periods presented. We 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.

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 $0.02 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 August 2, 2012, we had 692 registered stockholders and many more beneficial holders, 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 the private placement documents entered into in connection with the private placement we closed on February 2, 2012, we agreed to register for resale 50,000,000 shares of common stock which may be issuable to a certain selling stockholder pursuant to a convertible debenture issued in the private placement and such selling stockholder is not subject to a lock-up agreement. The registration statement (the “April Registration Statement”) we filed in connection with the private placement has been declared effective by the SEC, thus the selling stockholder named therein is able to resell publicly from time to time up to 50,000,000 shares of our common stock held by it. Pursuant to registration rights agreements entered into in connection with the private placements we closed on May 4 and May 27, 2011, we registered (the “May Registration Statement”) 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. The May Registration Statement has been declared effective by the SEC, thus the selling stockholders named therein are able to resell publicly from time to time up to 22,588,332 shares of our common stock held by such selling stockholders. If such shares registered under the April or May Registration Statements are sold, or if it is perceived they will be sold, the trading price of our common stock could decline. Because investors may be more reluctant to purchase shares of our common stock following substantial sales or issuances, the resale of these shares of common stock could impair our ability to raise capital in the near term.

There are a large number of shares underlying our convertible debenture and equity investment agreement that may be available for future sale and the sale of these shares may depress the market price of our common stock.

As of August 2, 2012, we had 470,523,363 shares of common stock issued and outstanding, a convertible debenture outstanding that may be converted into an estimated maximum 73,333,333 shares of common stock at current market prices with a conversion floor of $0.075, and an equity investment agreement to purchase 23,809,523 shares of common stock. There are 50,000,000 of the shares issuable upon conversion of the debenture may be sold without restriction upon effectiveness of a registration statement we filed with the SEC. The sale of these shares may adversely affect the market price of our common stock.

The issuance of shares upon conversion of the convertible debenture and exercise of the rights in the equity investment agreement may cause immediate and substantial dilution to our existing stockholders.

The issuance of shares upon conversion of the convertible debenture and purchase of shares under the equity investment agreement may result in substantial dilution to the interests of other stockholders since the selling stockholder under our registration statement may ultimately convert and sell the full amount issuable on conversion. Although the selling stockholder may not convert its convertible debenture if such conversion would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the selling stockholder from converting some of their holdings and then converting the rest of their holdings. In this way, the selling stockholder could sell more than this limit while never holding more than this limit.

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

In February 2012, we issued a convertible debenture, which is due and payable, with 4 3/4% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. In addition, any event of default could require the early repayment of the convertible debenture at a price equal to 110% of the amount due under the debenture. We anticipate that the full amount of the convertible debenture, together with accrued interest, will be converted into shares of our common stock, in accordance with the terms of the convertible debenture. If we are required to repay the convertible debenture, we would be required to use our limited working capital and raise additional funds. If we were unable to repay the debenture when required, the debenture holder could commence legal action against us and foreclose on our assets to recover the amounts due. Any such action would likely require us to curtail our operations.

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 which can be designated by our board of directors without shareholder approval.

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

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

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

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

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

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

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

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

Our common stock is subject to the requirements of Rule 15g-9, promulgated under the Exchange Act, as long as the price of our common stock is below $5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, also requires additional disclosure in connection with any trades involving a stock defined as a penny stock. Generally, the SEC defines a penny stock as any equity security not traded on an exchange or quoted on NASDAQ that has a market price of less than $5.00 per share. The required penny stock disclosures include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. In addition, various state securities laws impose restrictions on transferring penny stocks. Furthermore, certain brokers or on-line trading houses may not accept our common stock for brokerage accounts at their firms. Such requirements could severely limit the market liquidity of our securities and the ability of purchasers to sell our securities in the secondary market.

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

During the six month period ended June 30, 2012, we issued an aggregate of 38,105,869 shares of Common Stock for the settlement of debt, board compensation, employee bonuses, conversion of debt and for services rendered to us from consultants and partners. Of the aggregate shares issued, 18,400,000 shares, or 48.3% were issued to insiders and affiliates, as restricted securities under an exemption provided by Section 4(2) of the Securities Act of 1933 and/or Regulation D, Rule 506, promulgated under the Securities Act of 1933. Common Stock issuances were valued at prices based on the closing market prices on the date the Board of Directors authorized the issuances.

On February 2, 2012 (the “Closing Date”), we closed on a Securities Purchase Agreement (the “Agreement”) with an institutional investor relating to an aggregate $5.5 million financing, the initial investment of $500,000 of which was paid at closing, for the issuance by the Company of a 4 ¾% Secured Convertible Debenture (the “Debenture”) and an Equity Investment Agreement (the “EIA”) subject to the terms and conditions set forth therein (the “Financing”).

Pursuant to the EIA, the investor has agreed to invest in the Company an aggregate of $5.0 million in minimum monthly tranches of $250,000 beginning on the date that is earlier to occur of (i) the effectiveness of the Registration Statement but in no event prior to 91 days after the Closing Date, or (ii) one hundred eighty (180) days following the Closing Date and on each successive thirty (30) day anniversary of such initial investment date; *provided, however* , that such minimum investment shall increase from $250,000 to $500,000 as long as the VWAP of the Company's common stock, par value $0.00001 per share (the "Common Stock") is above $0.09 for the period of ten (10) consecutive Trading Days prior to an investment date; and *provided, further, however,* that the investor shall invest an additional $500,000 on each investment date for each and every increase in the VWAP of the Company's Common Stock of at least $0.02 above $0.09 for the period of ten (10) consecutive Trading Days prior to an investment date. Pursuant to the EIA, the investor also has a right to purchase up to an additional $5,000,000 of Common Stock of the Company, or an aggregate of 23,809,523 shares, at a purchase price equal to $0.21 as follows: on each investment date, the investor shall receive the right to purchase a number of shares of Common Stock equal to the amount invested on such investment date divided by $0.21. Under no circumstances will the Common Stock pursuant to this right be settled on a cashless exercise basis.

The Debenture is in the principal amount of $500,000, has a three (3) year term, and has an interest rate of 4 ¾%. The Debenture is convertible by the investor into shares of Common Stock beginning on the earlier to occur of (i) the effectiveness of the Registration Statement, but in no event prior to ninety-one (91) days following the Closing Date, or (ii) one hundred eighty one (181) days following the Closing Date as follows: from time to time during each thirty (30) day period from the Closing, the investor may convert up to five percent (5%) of the face amount of the Debenture if the VWAP of the Company's Common Stock is at or below $0.09 or up to ten percent (10%) if the VWAP of the Company's Common Stock is above $0.09 and for every $0.02 increase in the VWAP of the Company's Common Stock above $0.09, the investor can convert an additional ten percent (10%) of the Debenture. The number of shares of Common Stock into which the Debenture can be converted is equal to the dollar amount of the Debenture being converted divided by the quotient of the Conversion Price divided by 10, plus the Debenture amount being converted divided by the Conversion Price. The Conversion Price is equal to the lesser of (i) $0.35 or (ii) 75% of the average of the VWAP of the Company's Common Stock during the thirty (30) Trading Days prior to the date of the Conversion Notice, subject to a floor price of $0.075 (subject to adjustment), which if triggered gives the Company the option to convert the portion of the Debenture at a conversion price of $0.075 per share plus pay a cash True-Up Payment on the difference in value of the Common Stock issued versus the Common Stock that would have been issued but for the Floor Price.

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

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

Item 6. Exhibits

Exhibits	Description
10.1+	Letter Agreement, dated April 29, 2012, between the Company and Anthony R. Bocchichio (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 30, 2012 and incorporated herein by reference)
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document**
101.SCH*	XBRL Taxonomy Extension Schema Document**
101.CAL*	XBRL Taxonomy Calculation Linkbase Document**
101.PRE*	XBRL Taxonomy Presentation Linkbase Document**
101.LAB*	XBRL Taxonomy Label Linkbase Document**
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document**

* Filed herewith.
+ Indicates management contract relating to compensatory plans or arrangements

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 14, 2012

WORLD SURVEILLANCE GROUP INC.

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

Index to Exhibits

Number	Description
10.1+	Letter Agreement, dated April 29, 2012, between the Company and Anthony R. Bocchichio (filed as an Exhibit to the Company's Current Report on Form 8-K, as filed with the SEC on April 30, 2012 and incorporated herein by reference)
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document**
101.SCH*	XBRL Taxonomy Extension Schema Document**
101.CAL*	XBRL Taxonomy Calculation Linkbase Document**
101.PRE*	XBRL Taxonomy Presentation Linkbase Document**
101.LAB*	XBRL Taxonomy Label Linkbase Document**
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document**

* Filed herewith.
+ Indicates management contract relating to compensatory plans or arrangements

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