

# HARD COPY

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

ADMINISTRATIVE PROCEEDING  
File No. 3-18325

In the Matter of

GLOBAL DIGITAL SOLUTIONS, INC.

Respondent.

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DIVISION OF ENFORCEMENT'S MOTION FOR AN ORDER OF SUMMARY  
DISPOSITION AGAINST RESPONDENT GLOBAL DIGITAL SOLUTIONS, INC.

SECURITIES AND EXCHANGE COMMISSION  
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## I. INTRODUCTION

The Division of Enforcement (“Division”) pursuant to Rules 154 and 250 of the Commission’s Rules of Practice, respectfully moves for an order of summary disposition against Respondent Global Digital Solutions, Inc. (“GDSI”) on the grounds that there is no genuine issue with regard to any material fact. Pursuant to Section 12(j) of the Securities Exchange Act of 1934 (“Exchange Act”), the Division is entitled as a matter of law to an order revoking each class of GDSI’s securities registered pursuant to Section 12 of the Exchange Act.

The Division seeks summary disposition because the undisputed facts show GDSI has failed to comply with Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 because it has failed to make required annual and quarterly reports. GDSI’s prolonged and continuing delinquencies warrant revocation. *See Gateway Int’l Holdings, Inc.*, Exchange Act Rel. No. 53907, 2006 SEC LEXIS 1288 (May 31, 2006) (revocation appropriate where respondent admitted being in noncompliance with the filing requirements of Exchange Act Section 13(a) and Rules 13a-1 and 13a-13, by failing to file annual and quarterly reports); *Impax Laboratories, Inc.*, Exchange Act Rel. No. 57864, 2008 SEC LEXIS 1197 (May 23, 2008) (revocation appropriate where respondent failed to rectify its reporting delinquencies for twenty-one months).

The Commission has emphasized that “[t]he reporting requirements are the primary tools which Congress has fashioned for the protection of investors from negligent, careless, and deliberate misrepresentations in the sale of stock and securities.” *America’s Sports Voice, Inc.*, Exchange Act Rel. No. 55511, 2007 WL 858747 at \*7, n. 17 (March 22, 2007) (citation omitted). The Commission further stated in *America’s Sports Voice* that even in this rapidly shrinking world, with blogs, chat rooms, and 24-hour cable news, “corporate financial statements

are one of the primary sources of information available to guide the decisions of the investing public.” *Id.* at \*5, n. 11 (quoting *United States v. Arthur Young & Co.*, 465 U.S. 805, 810 (1984)). As set forth more fully below, the Division demonstrates that revocation is the necessary and appropriate sanction here.

## **II. PROCEDURAL BACKGROUND**

On December 26, 2017, the Commission issued an Order Instituting Administrative Proceeding and Notice of Hearing Pursuant to Section 12(j) of the Securities Exchange Act of 1934 (“OIP”) to determine whether it is necessary or appropriate for the protection of investors to suspend (for a period not exceeding twelve months) or revoke the registration of each class of GDSI’s securities registered pursuant to Section 12 of the Exchange Act. (OIP, Ex. 1 to Declaration of Jacqueline M. O’Reilly, appended to this Motion as Exhibit A<sup>1</sup>). On January 8, 2018, GDSI served its Answer to the OIP. (Dec. O’Reilly, Ex. 3).

## **III. STATEMENT OF FACTS**

GDSI is incorporated in New Jersey, with a class of securities registered with the Commission pursuant to Exchange Act Section 12(g). (Dec. O’Reilly, Ex. 1, ¶1; Ex. 3, ¶2). GDSI is currently quoted on OTC Link (previously “Pink Sheets”) operated by OTC Markets Group, Inc. (Dec. O’Reilly, Ex. 2).

It is undisputed that GDSI is currently in violation of its reporting obligations under Exchange Act Section 13(a) and Exchange Act Rules 13a-1 and 13a-13. (Dec. O’Reilly, Ex. 4, at 2-3). The last Form 10-K which GDSI filed was its 2014 Form 10-K Annual Report, filed on

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<sup>1</sup> The Declaration of Jacqueline M. O’Reilly and attached exhibits will be referred to as (Dec. O’Reilly, Ex. \_\_).

March 30, 2015. (Dec. O'Reilly, ¶5, Ex. 4; ¶9, Ex. 8; ¶10, Ex. 9). GDSI, both in its Answer to the OIP and in response to the Commission's Division of Corporate Finance Notice of Non-Compliance, admitted it never filed a Form 10-K beyond its 2014 Form-K. (Dec. O'Reilly, Ex. 3, pg 3; ¶9, Ex. 8; ¶11, Ex. 10). The Form 10-K is due 60 days after the end of the fiscal year. (Dec. O'Reilly, ¶6, Ex. 5).

The last Form 10-Q which GDSI filed was its third-quarter 2015 Form 10-Q Quarterly Report, filed on November 6, 2015. (Dec. O'Reilly, ¶7, Ex. 6; ¶10, Ex. 9). GDSI, both in its Answer to the OIP and in response to the Commission's Division of Corporate Finance Notice of Non-Compliance, admitted it never filed a Form 10-Q beyond its third-quarter 2015 Form 10-Q. (Dec. O'Reilly, Ex. 3, pg. 3; ¶11, Ex. 10). The Form 10-Q is due 45 days after the end of the fiscal quarter. (Dec. O'Reilly, ¶8, Ex. 7).

The absence of any disputed fact, including GDSI's admitted failure to comply with Section 13(a) of the Exchange Act and Exchange Act Rules 13a-1 and 13a-13, warrants revocation of each class of GDSI's securities registered pursuant to Section 12 of the Exchange Act.

#### **IV. LEGAL DISCUSSION**

##### **A. Applicable Standard**

The Law Judge may grant summary disposition if there is "no genuine issue with regard to any material fact" and the movant is entitled to judgment as a matter of law. 17 C.F.R. § 201.250(b). *See also Michael Puorro*, Initial Decision Rel. No. 253, 2004 SEC LEXIS 1348 at \*4 (June 28, 2004) citing 17 C.F.R. § 201.250(b); *Garcis, U.S.A.*, Exchange Act Rel. No. 38495, 1997 SEC LEXIS 838 (Apr. 10, 1997) (granting motion for summary disposition).

As one Administrative Law Judge explained,

By analogy to Rule 56 of the Federal Rules of Civil Procedure, a factual dispute between the parties will not defeat a motion for summary disposition unless it is both genuine and material. *See Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48 (1986). Once the moving party has carried its burden, ‘its opponent must do more than simply show that there is some metaphysical doubt as to the material facts.’ *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986). The opposing party must set forth specific facts showing a genuine issue for a hearing and may not rest upon the mere allegations or denials of its pleadings. At the summary disposition stage, the hearing officer’s function is not to weigh the evidence and determine the truth of the matter, but rather to determine whether there is a genuine issue for resolution at a hearing. *See Anderson*, 477 U.S. at 249.

*Edward Becker*, Initial Decision Rel. No. 252, 2004 SEC LEXIS 1135 at \*5 (June 3, 2004).

The Commission instituted the present administrative proceeding under Section 12(j) of the Exchange Act. Section 12(j) empowers the Commission to either suspend (for a period not exceeding twelve months) or permanently revoke the registration of a class of securities “if the Commission finds, on the record after notice and opportunity for hearing, that the issuer of such security has failed to comply with any provision of this title or the rules and regulations thereunder.” 15 U.S.C. §78l(j). It is appropriate to grant summary disposition and revoke a registrant’s registration in a Section 12(j) proceeding where, as here, there is no dispute the registrant has failed to comply with Section 13(a) of the Exchange Act. *See In the Matter of Digital Brand Media & Marketing, Group, Inc.*, Initial Decision Rel. No. 1226 (2017 WL 5516325 (Nov. 16, 2017)); *In the Matter of Advanced Life Sciences, Holding, Inc.*, Initial Decision Rel. No. 1065, 2016 WL 5930408 (Oct. 12, 2016); *In the Matter of Arrin Corp. et al.* Initial Decision Rel. No. 909, 2015 WL 6662347 (Nov. 2, 2015); *In the Matter of Genosys, Inc.*, Initial Decision Rel. No. 659, 2014 WL 4181614 (August 25, 2014); *California Service Stations, Inc.*, Initial Decision Rel. No. 368, 2009 SEC LEXIS 85 (Jan. 16, 2009); *Ocean Resources, Inc.*, Initial Decision Rel. No. 365, 2008 SEC LEXIS 2851 (Dec. 18, 2008); *Wall Street Deli, Inc.*, Initial Decision Rel. No. 361, 2008 SEC LEXIS 3153 (Nov. 14, 2008).



**B. GDSI has Violated and is Continuing to Violate Section 13(a) of the Exchange Act and Exchange Act Rules 13a-1 and 13a-13**

Section 13(a) of the Exchange Act requires all issuers of securities registered pursuant to Section 12 of the Exchange Act to “file...such annual reports...and such quarterly reports...as the Commission may prescribe.” 15 U.S.C. § 78m(a). Rules 13a-1 and 13a-13 require issuers to file annual and quarterly reports. 17 C.F.R. §§ 240.13a-1 and 240.13a-13. “Compliance with those requirements is mandatory and may not be subject to conditions from the registrant.” *America’s Sports Voice*, 2007 WL 858747 at \*4. Section 13(a) is a cornerstone of the Exchange Act, establishing a system of periodically reporting invaluable information about issuers of securities. As the Commission has stated:

Failure to file periodic reports violates a central provision of the Exchange Act. The purpose of the periodic filing requirements is to supply investors with current and accurate financial information about an issuer so that they may make sound decisions.... Those requirements are “the primary tool[s] which Congress has fashioned for the protection of investors from negligent, careless, and deliberate misrepresentations in the sale of stock and securities.” Proceedings initiated under Exchange Act Section 12(j) are an important remedy to address the problem of publicly traded companies that are delinquent in the filing of their Exchange Act reports, and thereby deprive investors of accurate, complete, and timely information upon which to make informed investment decisions.

*Gateway Int’l Holdings, Inc.*, 2006 SEC LEXIS 1288 at \*26, quoting *SEC v. Beisinger Indus. Corp.*, 552 F.2d 15, 18 (1st Cir. 1977).

No showing of scienter is necessary to establish a violation of Section 13(a) or the rules thereunder. *St. George Metals, Inc.*, Initial Decision Rel. No. 298, 2005 SEC LEXIS 2465 at \*7 (Sept. 29, 2005); *Gateway*, 2006 SEC LEXIS 1288, at \*22 n.28; *Stansbury Holdings Corp.*, Initial Decision Rel. No. 232, 2003 SEC LEXIS 1639 at \*15 (July 14, 2003); *WSF Corp.*, Initial Decision Rel. No. 204, 2002 SEC LEXIS 1242 at \*15-16 (May 8, 2002). Ultimately, if a company is in violation of Section 13(a) due to its failure to file such reports, Section 12(j) of the

Exchange Act authorizes the Commission “to revoke the registration of [the issuer’s] security” if the Commission “deems [it] necessary or appropriate for the protection of investors.” 15 U.S.C. § 78l(j).

It is wholly appropriate to revoke GDSI’s registration on a motion for summary disposition where, as here, the Section 12 issuer has failed to comply with Section 13(a). *See Chemfix*, Initial Decision Rel. No. 378, 2009 SEC LEXIS 2056 (May 15, 2009); *AIC Int’l, Inc.*, Initial Decision Rel. No. 34 2006 SEC LEXIS 2996 (Dec. 27, 2006) (summary disposition granted in Section 12(j) action); *Bilogic, Inc.*, Exchange Act Rel. No. 54567, 2006 SEC LEXIS 2596 (Nov. 9, 2006) (same); *Investco, Inc.*, Initial Decision Rel. No. 240, 2003 SEC LEXIS 2792 (Nov. 24, 2003) (same); *Nano World Projects Corp.*, Initial Decision Rel. No. 228, 2003 SEC LEXIS 1968 (May 20, 2003) (Division’s motion for summary disposition in Section 12(j) action granted where certifications on filings and respondent’s admission established failure to file annual or quarterly reports); *Hamilton Bancorp, Inc.*, Initial Decision Rel. No. 223, 2003 SEC LEXIS 431 (Feb. 24, 2003) (summary disposition in Section 12(j) action).

There is no dispute GDSI has not filed its periodic reports for over two years. Thus, there is no genuine issue with regard to any material fact as to GDSI’s violations of Exchange Act Section 13(a) and the rules thereunder, and the Law Judge should grant summary disposition as a matter of law.

**C. Revocation is the Appropriate Sanction for GDSI’s Violations**

The Commission’s determination of whether suspension or revocation is appropriate “turns on the effect on the investing public, including both current and prospective investors, of the issuer’s violations, on the one hand, and the Section 12(j) sanctions on the other hand.”

*America’s Sports Voice*, 2007 WL 858747 at \*3 (quoting *Gateway*, 2006 SEC LEXIS 1288 at

\*19.) In judging the appropriateness of revocation, the Commission has said it will consider, among other things: (1) the seriousness of the issuer's violations; (2) the isolated or recurrent nature of the violations; (3) the degree of culpability involved; (4) the extent of the issuer's efforts to remedy its past violations and ensure future compliance; and (5) the credibility of the issuer's assurances, if any, against future violations. *Id.*; see also *Steadman v. SEC*, 603 F.2d 1126, 1140 (5th Cir. 1979) (setting forth the public interest factors that informed the Commission's *Gateway* decision).

Although no one factor is controlling (*Stansbury*, 2003 SEC LEXIS 1639 at \*15; *WSF Corp.*, 2002 SEC LEXIS 1242 at \*5), the Commission has stated that it views the "recurrent failure to file periodic reports as so serious that only a strongly compelling showing with respect to the other factors we consider would justify a lesser sanction than revocation." *Impax Laboratories, Inc.*, Rel. No. 57864, 2008 SEC LEXIS 1197 at \*27 (May 23, 2008). Consideration of these factors dictates that revocation of the registration of GDSI's securities is the appropriate remedy.

#### **1. The seriousness of the violations**

The seriousness of the violations weighs heavily against GDSI. GDSI has failed to file two annual reports and six quarterly reports. (Dec. O'Reilly, Ex. 9). Failure to file periodic reports as required by Commission rules and regulations is a serious violation of "a central provision of the Exchange Act." *Gateway*, 2006 SEC LEXIS 1288 at \*26; see also *Cosmetic Center, Inc.*, Initial Decision Rel. No. 329, 2007 WL 1245314 at \*10 (April 30, 2007).

Given the central importance of the reporting requirements imposed by Section 13(a) and accompanying rules, Administrative Law Judges have found violations of similar duration as GDSI's to be egregious. In *Energy Source, Inc.*, the Law Judge revoked the defaulted

respondent's registration when it failed to file its previous six required periodic reports and was more than one year delinquent in its periodic filing obligations. *Energy Source, Inc.*, Exchange Act Rel. No. 60920, 2009 WL 3633868 (Nov. 3, 2009). Similarly, in *Freedom Golf Corp.*, the Law Judge found a respondent's failure to file periodic reports for a period less than one year was an egregious violation. *Freedom Golf Corp.*, Initial Decision Rel. No. 227, 2003 WL 21106567 (May 15, 2003). Again, in *Cosmetic Center, Inc.*, the Law Judge considered the respondent's failure to file three annual and six quarterly reports severe because the failure to file caused investors to be without "current and accurate financial information about an issuer so that they can make an informed investment decision." *Cosmetic Center, Inc.*, 2007 WL 1245314 at \*10. See also *iBIZ Technology Corp.*, Initial Decision Release No. 312, 2006 WL 1675913 at \*4 (June 16 2006) (delinquency of two years to be "serious and recurrent"); *Investco, Inc.*, 2003 SEC LEXIS 2792 (delinquency of two years found egregious); *WSF Corp.*, 2002 SEC LEXIS 1242 (registration revoked where respondent failed to file periodic reports over a two-year period). Similarly, GDSI's violations are serious and revocation is warranted.

## **2. The recurrent nature of the violations**

Consideration of this second *Gateway* factor also favors revocation of GDSI's registration. GDSI's violations of Section 13(a) of the Exchange Act are repeated, recurrent, and ongoing. See *iBIZ Technology Corp.*, 2006 WL 1675913 at \*4; *Investco, Inc.*, 2003 SEC LEXIS 2792 at \*6 (delinquency of two years found egregious and recurrent); *WSF Corp.*, 2002 SEC LEXIS 1242 (respondent failed to file periodic reports over a two year period). GDSI's failure to file multiple annual and quarterly reports over more than a year constitutes recurrent violations of the Exchange Act and its rules. In short, GDSI engaged in repeated violations of the reporting requirements. GDSI bears sole responsibility for its failure to make timely filings. It has sought

no extension, nor has it provided any assurances as to when or if it will make its required filings. *See Investco, Inc.*, 2003 SEC LEXIS 2792 at \*6 (delinquent issuer's actions were found to be egregious and recurrent where there was no evidence that any extension to make the filings was sought); *Freedom Golf Corp.*, 2003 WL 21106567 at \*3 (respondent's failure to file periodic reports for a period less than one year described as recurrent and egregious).

### **3. The degree of culpability involved**

GDSI is entirely at fault for failing to file its Forms 10-K and 10-Q in a timely manner. Culpability in the failure to file reports required by the Exchange Act requires nothing more than knowledge that the reports must be filed and an accompanying failure to make such filings. *Cosmetic Center, Inc.*, 2007 WL 1245314 at \*10. In *Cosmetic Center, Inc.*, the Law Judge considered the issuer's violations to have been committed with "a high degree of culpability" because its "President, CEO, COO, and CFO knew that [the issuer] was required to file periodic reports and that it had not done so since the last quarter of 2004." *Id.* at 10. Similarly, in *Gateway*, the Commission found the conduct of the delinquent issuer "evidenced a high degree of culpability," because the company "knew of its reporting obligations, yet failed to file" seven periodic reports. *Gateway*, 2006 SEC LEXIS 1288 at \*22.

The same conclusion is inescapable here. GDSI has not denied knowing its reporting obligations but rather admits it failed to file its periodic reports for more than two years. (Dec. O'Reilly, Ex. 3). GDSI's excuse that it accumulated liabilities and had to litigate ongoing legal claims, and hence was without funds to pay auditors and consultants to complete the delinquent Forms 10-K and 10-Q, does not absolve its culpability. *See Freedom Golf Corp.*, 2003 WL 21106567 at \*3 (respondent's admitted lack of funds makes the likelihood of future violations a

foregone conclusion and illustrates respondent's failure to recognize the wrongful nature of its conduct).

GDSI's conduct illustrates "that the company has treated Commission imposed deadlines as little more than suggestions." *Phlo Corp.*, Initial Decision Rel. No. 307, 2006 WL 372657 at \*15 (Feb. 17, 2006). Long after GDSI was provided notice of the Division's potential action against it on October 16, 2016 (Dec. O'Reilly, Ex. 10), GDSI continues to avoid its reporting requirements. This apparent lack of urgency on the part of GDSI to bring its filings current further illustrates why revocation is the appropriate remedy in this case. In fact, GDSI has not stated when it will be prepared to issue a report, if ever. GDSI's high degree of culpability suggests the company's securities registration should be revoked.

**4. The extent of GDSI's efforts to ensure compliance and the credibility of assurances against future violations**

GDSI has made no assurance of future compliance. GDSI has not provided any information suggesting it will comply with its reporting requirements. In short, GDSI has made no effort to become compliant. Even if GDSI made a subsequent filing, which it has not, such filing would not preclude revocation of its registration. Neither a company's subsequent filing of previously omitted reports, nor assurances that the company will soon file such reports, are sufficient to categorically exempt the delinquent filer from registration revocation pursuant to Section 12(j) of the Exchange Act. *See Bilogic, Inc.*, 2006 SEC LEXIS 2596 at \*17 (Nov. 9, 2006). An issuer cannot escape penalties under Section 12(j) simply on the basis of bare assertions that the issuer will soon return to full compliance. In *Bilogic, Inc.*, in granting the Division's motion for summary disposition, the Administrative Law Judge stated "[a]s a general matter, a respondent cannot defeat the Division's motion...by using its attorney to make vague, generalized representations about its beliefs and aspirations." *Id.* at 12. Here, GDSI has not

made any assurances it will be in compliance with the reporting requirements. Thus, consideration of this element of the *Gateway* framework weighs heavily against GDSI.

V. CONCLUSION

For the reasons set forth above, the Division respectfully requests the Administrative Law Judge grant the Division's Motion for Summary Disposition and revoke the registration of GDSI's securities registered under Exchange Act Section 12.

Dated: February 15, 2018

Respectfully submitted,



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**CERTIFICATE OF SERVICE**

I hereby certify that an original and three copies of the foregoing were filed with the Securities and Exchange Commission, Office of the Secretary, 100 F Street, N.E., Washington, D.C. 20549-9303, and that a true and correct copy of the foregoing has been served on this 15th day of February 2018, on the following persons entitled to notice:

Hon. Jason S. Patil  
Administrative Law Judge  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-2557  
***Service via Email: ALJ@sec.gov***

Joshua D. Brinen, Esq.  
Brinen & Associates, LLC  
90 Broad Street, Second Floor  
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(Counsel to Respondent)  
***Service via First-Class Mail and Email to jbrinen@brinenlaw.com***



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Russell Koonin



**EXHIBIT A**

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**ADMINISTRATIVE PROCEEDING**

File No. 3-18325

In the Matter of

**GLOBAL DIGITAL SOLUTIONS,  
INC.,**

**Respondent.**

**DECLARATION OF JACQUELINE M. O'REILLY**

JACQUELINE M. O'REILLY, pursuant to 28 U.S.C. §1746, declares:

1. I am Senior Counsel with the Division of Enforcement at the Securities and Exchange Commission (the "Commission") in Washington, DC – Headquarters.
2. Attached as Exhibit 1 is a true copy of the Order Instituting Administrative Proceedings ("OIP") in the matter of Global Digital Solutions, Inc. ("GDSI") issued by the Commission on December 26, 2017.
3. GDSI's common stock (ticker "GDSI") is currently quoted on OTC Link (formerly "Pink Sheets") operated by OTC Markets Inc. Attached as Exhibit 2
4. Attached as Exhibit 3 is a true copy of the GDSI's Answer to the OIP filed on January 8, 2018.
5. Attached as Exhibit 4 is a true copy of Global Digital's Form 10-K filed on March 30, 2015, which I printed from EDGAR. To date, this is the last 10-K filed by the company.

6. Attached as Exhibit 5 is a true copy of Form 10-K general instructions noting that the form due date is 60 days after the end of the fiscal year.

7. Attached as Exhibit 6 is a true copy of Global Digital's Form 10-Q filed on November 6, 2015, which I printed from Edgar. To date, this is the last 10-Q filed by the company.

8. Attached as Exhibit 7 is a true copy of Form 10-Q general instructions noting that the form due date is 45 days after the end of a fiscal quarter.

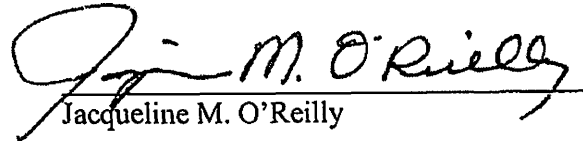
9. Attached as Exhibit 8 is a true copy of Form 12b-25 filed on March 30, 2016, which I printed from Edgar. Therein, Global Digital states that it was unable to file its Form 10-K for the year ended December 31, 2015 but hoped to file one by April 14, 2016. No subsequent Form 10-K Annual Report was ever filed.

10. Attached as Exhibit 9 is a true copy of an attestation prepared by the official custodian of the Commission certifying that Global Digital had not filed any Form 10-Q or Form 10-K reports since the filing of its Form 10-Q on November 6, 2015.

11. Attached as Exhibit 10 is a true copy of a letter dated October 28, 2016 from the Commission's Division of Corporation Finance stating that Global Digital was not in compliance with its filing requirements and thus had fifteen days to file all required reports or be subject to an administrative proceedings to revoke its registration status under Section 12(j) of the Securities Exchange Act of 1934. Exhibit 10 also includes a response from Global Digital's attorney dated November 22, 2016 which states that the company would file its remaining Forms 10-Q and Form 10-K "in a timely manner." To date, none of these reports have been filed.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on February 13, 2018.

  
Jacqueline M. O'Reilly

# **EXHIBIT 1**

**UNITED STATES OF AMERICA**  
Before the  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
Release No. 82404 / December 26, 2017

**ADMINISTRATIVE PROCEEDING**  
File No. 3-18325

**In the Matter of**

**Global Digital Solutions, Inc.,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
PROCEEDINGS AND NOTICE OF HEARING  
PURSUANT TO SECTION 12(j) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**I.**

The Securities and Exchange Commission (“Commission”) deems it necessary and appropriate for the protection of investors that public administrative proceedings be, and hereby are, instituted pursuant to Section 12(j) of the Securities Exchange Act of 1934 (“Exchange Act”) against the Respondent Global Digital Solutions, Inc.

**II.**

After an investigation, the Division of Enforcement alleges that:

**A. RESPONDENT**

1. Global Digital Solutions, Inc. (“GDSI”) (CIK Nos. 0001011662 & 0001273668) is incorporated in New Jersey, with its principal place of business located in West Palm Beach, Florida, with a class of securities registered with the Commission pursuant to Exchange Act Section 12(g). GDSI is delinquent in its periodic filings with the Commission, having not filed any periodic reports since it filed a Form 10-Q for the quarterly period ending September 30, 2015, which reported a net loss of \$2,994,943 for the prior nine months. As of August 31, 2017, the common stock of GDSI was quoted on OTC Link (formerly “Pink Sheets”) operated by OTC Markets Inc. (“OTC Link”), had 7 market makers, and was eligible for the “piggyback” exception of Exchange Act Rule 15c2-11(f)(3).

**B. DELINQUENT PERIODIC FILINGS**

2. As discussed in more detail above, Respondent is delinquent in its periodic filings with the Commission, has repeatedly failed to meet its obligations to file timely periodic reports, and failed to heed a delinquency letter sent to Respondent by the Division of Corporation

Finance requesting compliance with its periodic filing obligations or, through its failure to maintain a valid address on file with the Commission as required by Commission rules, did not receive such letter.

3. Exchange Act Section 13(a) and the rules promulgated thereunder require issuers of securities registered pursuant to Exchange Act Section 12 to file with the Commission current and accurate information in periodic reports, even if the registration is voluntary under Section 12(g). Specifically, Rule 13a-1 requires issuers to file annual reports, and Rule 13a-13 requires domestic issuers to file quarterly reports.

4. As a result of the foregoing, Respondent failed to comply with Exchange Act Section 13(a) and Rules 13a-1 and 13a-13 thereunder.

### III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate for the protection of investors that public administrative proceedings be instituted to determine:

A. Whether the allegations contained in Section II hereof are true and, in connection therewith, to afford the Respondent an opportunity to establish any defenses to such allegations; and,

B. Whether it is necessary and appropriate for the protection of investors to suspend for a period not exceeding twelve months, or revoke the registration of each class of securities registered pursuant to Section 12 of the Exchange Act of the Respondent identified in Section II hereof, and any successor under Exchange Act Rules 12b-2 or 12g-3, and any new corporate names of Respondent.

### IV.

IT IS HEREBY ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS HEREBY FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within ten (10) days after service of this Order, as provided by Rule 220(b) of the Commission's Rules of Practice, 17 C.F.R. § 201.220(b).

If Respondent fails to file the directed Answer, or fails to appear at a hearing after being duly notified, the Respondent, and any successor under Exchange Act Rules 12b-2 or 12g-3, and any new corporate names of Respondent, may be deemed in default and the proceedings may be determined against it upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f), and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f), and 201.310.

This Order shall be served forthwith upon Respondent as provided for in the Commission's Rules of Practice.

IT IS FURTHER ORDERED that, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice, 17 C.F.R. § 201.360(a)(2), the Administrative Law Judge shall issue an initial decision no later than 30 days from the occurrence of one of the following events: (A) The completion of post-hearing briefing in a proceeding where the hearing has been completed; (B) Where the hearing officer has determined that no hearing is necessary, upon completion of briefing on a motion pursuant to Rule 250 of the Commission's Rules of Practice, 17 C.F.R. § 201.250; or (C) The determination by the hearing officer that a party is deemed to be in default under Rule 155 of the Commission's Rules of Practice, 17 C.F.R. § 201.155 and no hearing is necessary.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.


By the Commission.

Brent J. Fields  
Secretary



## **EXHIBIT 2**

<a href="#">Home</a>	<a href="#">Marketplaces</a>	<b>Market Activity</b>	<a href="#">News</a>	<a href="#">Services</a>	<a href="#">Research</a>	<a href="#">Learn</a>	
<input type="text" value="Enter Symbol/Company Name"/>			<b>Pink Market Totals</b>	<b>8,987</b> Securities	<b>\$491.9M</b> Dollar Volume	<b>4.8B</b> Share Volume	<b>52,041</b> Trades
<a href="#">Company Directory</a>   <a href="#">Stock Screener</a>							

<b>Quote</b>	<b>GDSI Global Digital Solutions, Inc.</b>						
<b>Charts</b>	Common Stock						Pink No Information
<b>Company Profile</b>	SEC Reporting - Delinquent						
<b>News</b>	<b>Warning!</b> This company may not be making material information publicly available						
<b>Financials</b>	If you are an affiliate, employee, insider, or any person in possession of nonpublic material information about this company, please be advised that buying or selling this security may constitute trading on the basis of material nonpublic information prohibited under Section 10(b) of the Securities Exchange Act of 1934 and Rules 10b-5 and 10b5-1 thereunder. Violators of these laws are subject to civil and criminal penalties. <a href="#">More</a>						
<b>Filings and Disclosure</b>							
<b>Short Sales</b>	<b>0.0123</b>	<b>0.0017 (12.14%)</b>	<b>Previous Close</b>	<b>Daily Range</b>	<b>Volume</b>	<b>Average Vol (30d)</b>	
<b>Insider Disclosure</b>	<b>Real-Time Best Bid &amp; Ask</b>		<b>0.014</b>	<b>0.0119 - 0.014</b>	<b>2,486,966</b>	<b>1,078,654</b>	
<b>Research Reports</b>	<b>0.012 / 0.0124 (1 x 1) Why is size 1?</b>		<b>Open</b>	<b>52wk Range</b>	<b>Dividend</b>	<b>Net Dividend Yield</b>	
<b>Videos and Presentations</b>			<b>0.014</b>	<b>0.0011 - 0.0195</b>	<b>N/A</b>	<b>N/A</b>	
<small>Trade Data Delayed 15 minutes. Trade Time: 15:49:27 ET / Last Best Bid &amp; Ask Update: Feb 7, 2018 4:00 PM ET</small>							

**Unlock Real-Time Quotes For  
Global Digital Solutions, Inc.**

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# **EXHIBIT 3**

UNITED STATES OF AMERICA  
before the  
SECURITIES AND EXCHANGE COMMISSION  
ADMINISTRATIVE PROCEEDING

SECURITIES EXCHANGE ACT OF 1934  
Release No. 82404 / December 26, 2017

ADMINISTRATIVE PROCEEDING  
File No. 3-18325

In the Matter of  
Global Digital Solutions, Inc.,  
Respondent.

ANSWER TO ORDER INSTITUTING  
ADMINISTRATIVE PROCEEDINGS AND  
NOTICE OF HEARING PURSUANT TO  
SECTION 12(j) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Global Digital Solutions, Inc. ("GDSI") by its attorneys, Brinen & Associates, LLC by Joshua D. Brinen answers the allegations contained in the Order Instituting Administrative Proceedings and Notice of Hearing Pursuant to Section 12(j) of the Securities Exchange Act of 1934 (the "Act"), as follows:

**RESPONDENT'S STATEMENT OF FACTS**

GDSI was originally incorporated in the State of New Jersey on or about August 28, 1995, as Creative Beauty Supply, Inc. ("Beauty"). On April 1, 1996, Beauty filed a Form S-1 with the Securities and Exchange Commission (the "Commission"). On June 15, 1999, Beauty filed a Form 10-SB12G Registration Statement with the Commission to voluntarily become a registrant under Section 12(g) of the Act. In March 2004, Creative acquired Global Digital Solutions, Inc., a Delaware corporation ("Global"). The merger was treated as a recapitalization of Global, and Creative changed its name to Global Digital Solutions, Inc. GDSI continued its reporting

obligations under the Securities Exchange Act of 1934 (the "34 Act") until August 9, 2013 when GDSI filed a valid Form 15 terminating its reporting obligations. GDSI filed a Form S-1 Registration Statement with the Securities and Exchange Commission on September 2014. Said Registration Statement become effective October 2014. GDSI maintained its 34 Act Reporting obligations from November 2014 through November 2015.

GDSI engaged in acquisition negotiations with a Brazilian manufacturer of mobile command centers and fire-responder vehicles, Rontan. Negotiations started in mid-December 2014. The Rontan Acquisition was signed on or about October 21<sup>st</sup>, 2015. GDSI and Rontan entered into a contract, and GDSI arranged sufficient financing to complete the acquisition and maintain the '34 Act obligations. Rontan defaulted on the contract in April 2016. Due to Rontan's bad acts, the financing fell through. Rontan's actions are currently the subject of litigation in the Florida courts.

On or about May 13, 2016, William Delgado ("Delgado") became a board member and sole officer of GDSI. Delgado requested the resignations of all of the officers and directors of GDSI based on events that had come to light over the previous twelve (12) months. Delgado assumed the roles of CEO and CFO along with board responsibility.

An SEC inquiry was initiated around three press releases issued by the prior Chief Executive Officer and Chairman of the Board, Richard Sullivan. The first release announced the acquisition of Airtronic, a maker of RPG's. The second release announced the purchase of Remington firearms. The third release was a forecast of projected revenue and earnings. These press releases

were initiated and pushed through by the prior officers, Richard Sullivan and David Loppert, and the prior board under the control of Richard Sullivan.

The company as of that date had not filed its required 10K for year ending 2015 and the 10Q for quarter ending March 31<sup>st</sup>, 2016. The company also had accumulated liabilities in excess of \$1,200,000. In addition, there was an ongoing legal claim against the company regarding the acquisition of NACSV for damages in the approximate amount of \$300,000.

Delgado immediately began a review of the company's operations and finances. Delgado also began investigating a potential breach of contract claim to the benefit of the company during this time. The company engaged additional legal counsel around this time as it had received a Wells notice regarding actions of its previous officers and certain directors.

During this time, the company was also served with two class action lawsuits regarding the SEC enforcement actions. The company has been maintaining its financial and accounting records internally during this time. The company has not had the funds to pay the auditors and consultants to complete the delinquent K's and Q's. Since that time and with an additional investment of approximately \$150,000, GDSI:

- Settled the \$300,000 NACSV-Deckle lawsuit.
- Settled approximately \$250,000 in liabilities, pending monthly payments.
- Secured \$1,200,000 in funding.
- Obtained the dismissal of the Hull class action.
- Ensured that internal company financials are materially complete.

- Retained an auditor, Turner Stone, & Co., which is being paid out of funding.

GDSI's main business is the construction of mobile command centers. GDSI is currently negotiating to construct one unit for an existing customer and is evaluating requests for proposals to bid on several more contracts.

On December 27, 2017, the Division of Enforcement filed the Order Instituting Administrative Proceeding against the Company. While the actions by the Enforcement Division are designed to be remedial, they may in fact be having a punitive effect on the GDSI's stockholders by further depriving the shareholders of an opportunity to bring GDS back into compliance after the mismanagement and bad acts under Sullivan's management.

#### WITH RESPECT TO SECTION I

1. Respondent GDSI admits, upon information and belief, that the commission's public official files disclose the matters set forth in paragraph 1, and refers to said files for their contents.

#### WITH RESPECT TO SECTION II

2. Respondent GDSI admits that Respondent is a New Jersey corporation; admits that Respondent GDSI's common stock is registered under Section 12(g) of the Exchange Act; and denies that GDSI's principal place of business is West Palm Beach, Florida. As of May 2016, GDSI's principal place of business is Sacramento, California. Respondent GDSI alleges that it



does not have and cannot obtain information sufficient to admit or deny any other allegations contained in such paragraph, and on that basis, denies such allegations.

3. With respect to paragraph 2 of Section II, Respondent GDSI admits, upon information and belief, that the Commission's Section 13(a) of the Exchange Act rules disclose the matter set forth in paragraph 2 and refers to said files for their contents.

4. With respect to paragraph 3 of Section II, Respondent GDSI admits the allegations contain in such paragraph.

5. With respect to paragraph 4 of Section II, Respondent GDSI does not have and cannot obtain information sufficient to admit or deny the allegations contained in paragraph 4.

#### WITH RESPECT TO SECTION III

6. With respect to Section III, Respondent GDSI does not have and cannot obtain information sufficient to admit or deny the statements contained in said paragraph, however, denies that a public administrative proceeding instituted pursuant to Section 12(j) of the Exchange Act is appropriate for the protection of investors.

#### WITH RESPECT TO SECTION IV

7. With respect to Section IV, Respondent GDSI admits upon information and belief that the Commission's public official files disclose the matters set forth in said Section, and refers to said files for their content, and the Orders stated therein.

This Respondent, GDSI denies each and every allegation of the Division of Enforcement not herein admitted, qualified, or denied.

#### FIRST AFFIRMATIVE DEFENSE

Respondent GDSI alleges and believes that the Commission lacks authority to conduct the proceedings herein.

#### SECOND AFFIRMATIVE DEFENSE

The allegations of the Office of the Division of Enforcement fail to state a claim upon which the Commission can render sanctions as requested in Section III B of the Order Instituting Administrative Proceeding.

#### THIRD AFFIRMATIVE DEFENSE

Allegations of the Office of the Division of Enforcement are barred by laches.

#### FOURTH AFFIRMATIVE DEFENSE

In light of the allegations contained in Section II of the Division of Enforcement, the allegations that the Commission deems it necessary and appropriate for the protection of investors, that a public administrative proceeding be instituted against Respondent GDSI to suspend it for a period not exceeding twelve months, or revoke the registration of each class of GDSI' securities is inconsistent with Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder.

#### FIFTH AFFIRMATIVE DEFENSE

In light of the Statement of Facts as enunciated by Respondent, Respondent deems the sanctions as proposed by the Division of Enforcement to be punitive remedies against indispensable parties who have not had an opportunity for appearance herein, and on that basis, it would be unconstitutional for the Commission to take any disciplinary action based thereon.

#### SIXTH AFFIRMATIVE DEFENSE

In light of the Statement of Facts as enunciated by Respondent, Respondent deems the sanctions as proposed by the Division of Enforcement to be punitive in nature against the Respondent GDSI for the following reasons:

1. Respondent's actions were isolated and not recurrent;
2. As soon as funding had been received, the Respondent immediately commenced setting into motion the preparation of financial statements, and the scheduling of meetings with

the Company's auditors, and counsel for the Company in anticipation of the preparation of the periodic reports.

3. Respondent lacked the scienter required for willful misconduct

4. Respondent has demonstrated the sincerity of Respondent's intentions to avoid future violations by terminating the prior bad actors, nominating a board member for purposes of conducting an internal investigation of the Respondent's corporate matters, setting up procedural internal controls, and setting into motion the coordination of bringing current the outstanding periodic reports. As a result, significant dollars have been spent by Respondent to assure its corporate compliance with the reporting requirements of the Act.

5. Respondent has established significant reporting controls to provide assurances that Respondent will not either mistakenly, or intentionally violate the reporting requirements, once such reports are brought up to date and current.

6. Respondent's financial position is such that Respondent is able to incur the costs associated with its reporting obligation.

7. Respondent has retained professionals specializing in federal securities and public company reporting requirements and is sincere in its desire to continue with its reporting requirements under the Act.

#### SEVENTH AFFIRMATIVE DEFENSE

The relief sought in Section III and IV is vague and ambiguous.

#### EIGHTH AFFIRMATIVE DEFENSE

In light of the allegations brought by the Division of Enforcement, the allegations that the Commission deems it necessary and appropriate for the protection of investors that a public administrative proceeding be instituted against Respondent GDSI, Inc. to suspend it for a period not exceeding twelve months, or revoke the registration of each class of GDSI' securities is inconsistent with the allegations contained in such paragraphs. The purpose of the sanction imposed is intended to be remedial in nature, not to punish the Respondent or its stockholders, but to protect the public, to achieve voluntary compliance with the law and to deter the respondent from future violations.

#### NINTH AFFIRMATIVE DEFENSE

As an affirmative defense to the proposed sanctions. Respondent asserts that (i) Respondent has no prior record of non-compliance with SEC regulations; (ii) Respondent has taken corrective action by contacting the Commission itself prior to the issuance of an Order Instituting Administrative Proceeding; (iii) Respondent has demonstrated to the Commission a willingness to take corrective action; (iv) Respondent has cooperated with the commission; (v) Respondent's alleged violations are not fraudulent in nature; (vi) Respondent did not have intent to fail to comply with Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder; and (vii) Respondent's management made every effort to take the steps necessary to operating a public company.

#### TENTH AFFIRMATIVE DEFENSE

Respondent hereby adopts and incorporates by this reference any and all other affirmative defenses it may eventually assert in this proceeding.

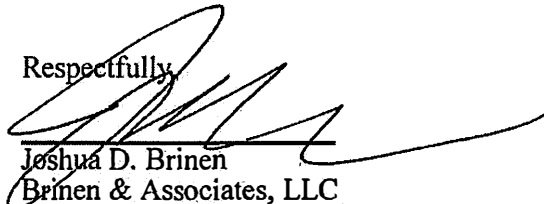
WHEREFORE, having fully answered, Respondent, GDSI Inc. prays:

1. That the relief described in Section III B of the Order Instituting Administrative Proceeding be denied and the proceedings herein be dismissed; and

2. That Respondent GDSI be given all and such other relief as the Commissioner may deem just and proper.

DATED: New York, New York  
January 8, 2018

Respectfully,



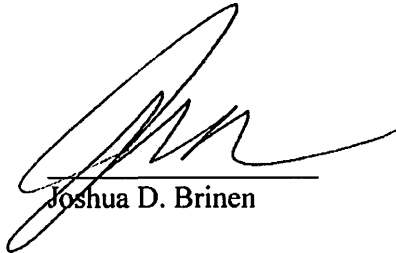
Joshua D. Brinen  
Brinen & Associates, LLC  
90 Broad Street, Second Floor  
New York, New York 10004  
(212) 330-8151 (Telephone)  
(212) 227-0201 (Fax)  
jbrinen@brinenlaw.com  
Attorneys for Respondent

CERTIFICATE OF SERVICE

I hereby certify that an original and three copies of the foregoing were filed with the Securities and Exchange Commission, Office of the Secretary, 100 F Street, N.E., Washington, D.C. 20549-9303, and that a true and correct copy of the foregoing has been served by overnight mail and email as indicated below, on this 8<sup>th</sup> day of January 2018, on the following persons entitled to notice:

The Honorable Jason S. Patil  
Administrative Law Judge  
Securities and Exchange Commission  
100 F. Street, N.E.  
Washington, D.C. 20549-2557  
Email: ALJ@sec.gov

Russell Koonin  
Senior Trial Counsel  
U.S. Securities and Exchange Commission  
801 Brickell Avenue, Suite 1800  
Miami, Florida 33131  
kooninr@sec.gov



Joshua D. Brinen

**EXHIBIT 4**



10-K 1 f10k2014\_globaldigital.htm ANNUAL REPORT

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2014

or

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

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

Commission file number: 000-26361

**GLOBAL DIGITAL SOLUTIONS, INC.**  
(Exact Name of Registrant as Specified in Its Charter)

<u>New Jersey</u>	<u>22-3392051</u>
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
<u>777 South Flagler Drive, Suite 800 West Tower West Palm Beach, Florida</u>	<u>33401</u>
(Address of Principal Executive Offices)	(Zip Code)
<u>(561) 515-6163</u>	
(Registrant's Telephone Number, Including Area Code)	

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$.001 per share

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company"

in Rule 12b-2 of the Exchange Act.

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

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

As of the last business day of our most recently completed second fiscal quarter, i.e. June 30, 2014, the aggregate market value of the voting and non-voting common stock held by non-affiliates was approximately \$17.03 million, computed by reference to the price at which the stock was last sold on that date of \$0.31 per share as reported on the OTCQB Market.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at March 26, 2015
Common Stock, \$0.001 par value per share	109,170,531 shares

**DOCUMENTS INCORPORATED BY REFERENCE: NONE**

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K (“Annual Report” or “Form 10-K”) contains forward-looking statements that involve risks and uncertainties. Many of the forward-looking statements are located in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” and similar terms. Forward-looking statements are not guarantees of future performance and the Company’s actual results may differ significantly from the results discussed in the forward-looking statements. Forward-looking statements are only predictions based on our current expectations and projections, or those of third parties, about future events and involve risks and uncertainties. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled “Risk Factors” under Part I, Item 1A of this Form 10-K. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements included in this Annual Report.

## PART I

### Item 1. Business.

Unless the context provides otherwise, when we refer to the “Company,” “we,” “our,” or “us” in this Annual Report, we are referring to Global Digital Solutions, Inc. and, where applicable, our wholly-owned subsidiaries.

#### *Overview*

We were incorporated in New Jersey as Creative Beauty Supply, Inc. (“Creative”) in August 1995. In March 2004, Creative acquired Global Digital Solutions, Inc., a Delaware corporation (“Global”). The merger was treated as a recapitalization of Global, and Creative changed its name to Global Digital Solutions, Inc., Global provided structured cabling design, installation and maintenance for leading information technology companies, federal, state and local government, major businesses, educational institutions, and telecommunication companies. Our mission was to target the United States government contract marketplace for audio and video services. Due to capital constraints, our operations team focused mainly in Northern California. On May 1, 2012, we made the decision to wind down our operations in the telecommunications area while concurrently refocusing our efforts in the area of cyber arms technology and complementary security and technology solutions. We completed the wind down our telecommunications operations in June 2014. As discussed below, from August 2012 through November 2013 we were actively involved in managing Airtronic USA, Inc., and in June 2014 we acquired North American Custom Specialty Vehicles, LLC (“NACSV”).

#### *Implications of Being an Emerging Growth Company*

We qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, as amended, or the JOBS Act. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include:

- Reduced disclosure about our executive compensation arrangements;
- No non-binding shareholder advisory votes on executive compensation or golden parachute arrangements;
- Exemption from the auditor attestation requirement in the assessment of our internal controls over financial reporting; and
- Reduced disclosure of financial information in this Annual Report, including two years of audited financial information.

We may take advantage of these exemptions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenues as of the end of a fiscal year, if we are deemed to be a large-accelerated filer under the rules of the Securities and Exchange Commission, or if we issue more than \$1.0 billion of non-convertible debt over a three-year-period.

The JOBS Act permits an emerging growth company to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have irrevocably chosen to “opt out” of the exemption for the delayed adoption of certain accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

#### *Our Strategy*

We believe that technological convergence is the future in the cyber/smart arms arena and we’re eager to leverage our management’s history by helping companies that combine with us navigate the transition from “Analog to Digital”. Our management has a history of building fast-growing companies through acquisitions and internal growth. The GDSI management team previously executed a private-to-public company roll-up at Applied Digital Solutions, Inc. totaling some 42 acquisitions and growing annual revenue from \$1 million to over \$350 million over eight years.

*Analog to Digital*

Since the switch to high definition digital television, most people are aware of an evolution in radio, TV and data transmission from the older analog method to the newer digital method. Examples of this are the demise of the telephone modem handset cradle and the “bleep-blap” sounds people were familiar with when connecting from their home computers during the early days of the Internet. Even earlier, the cell phone industry went through a transition from analog transmission to digital transmission. Earmarks of a transition from analog to digital are typically smaller devices, faster data rates and more detail in content.

GDSI uses *Analog to Digital* to refer to these changes in data transmission protocols and the devices that support them and also as a “meme” to represent other advancements in digital technology and the application of that technology. In the military, an example would be “The Army of One” – a single soldier outfitted with advanced GPS, wireless and security hardware and software that enables him to know his position at all times, communicate with base operations, his fellow soldiers and other, public sources of information. People are not the only military assets being deployed with advanced communications and location-awareness capabilities.

GDSI also uses the *Analog to Digital* meme to represent the application of any transformative technology. We are seeking potential acquisition targets that have software, firmware and hardware IP that we believe can be applied to other GDSI divisions (as we acquire more companies) to improve operating efficiencies, upgrade products and services and create new products and services. NACSV’s mobile emergency operations centers (MEOC) can be tailored to the needs of Police, Fire, EMS, Military, Homeland Security, National Guard, FBI, Air National Guard Coast Guard, Chemical/ Petrochemical, Humanitarian Aid, Non-Governmental Organizations, Drug Enforcement”, Immigration & Customs, Bureau of Alcohol, Tobacco, Firearms and Explosives, Water Management, Wildlife Management, D.O.T. Engineering & Maintenance, Air & Water Quality Management (EPA), Meteorological Seismic/Oil & Gas Exploration, IS/Mapping Power Generation (Nuclear & Conventional), Power Transmission and Strategic Infrastructure Security. The company has already built customized vehicles for customers involved in one or more of the above categories and we see many opportunities to improve NACSV and its products and services through the integration of additional software, hardware and firmware technologies.

So, for GDSI, *Analog to Digital* means the literal transition in communications protocols from analog to digital and also the application of transformative technology generally.

Our growth plan is a unique combination of experience, technological innovation and broad reach. To implement it we hope to:

- Identify, target, and acquire profitable businesses with proven and established track records of serving Government, Law Enforcement Agencies, and related Corporate Customers.
- Aggregate and integrate Product, Service and Technology providers serving this defined customer base.
- Integrate the significant customer relationships developed from each business to cross sell products and services and expand the GDSI presence within the Industry.
- Become a Facilitator in the “Analog to Digital” shift in the Defense and Intelligence Marketplace over the balance of this decade.

Our business plan is to acquire between two and three companies by the end of December 2015. We have and continue to identify companies that provide services and equipment to law enforcement and federal agencies, engineering services and OEM design that will enable us to simulate and analyze prospective inventions and designs prior to making a commitment to license or acquire technology, interoperable communications businesses which combine radio, phones, computers, VoIP and video assets within one interface for local, state and federal agencies, and a satellite network communications company. We estimate at this time that to complete the potential acquisitions we will need to raise or borrow, through a combination of equity and or debt offerings, approximately \$70 - \$150 million. There can be no assurance however, that management will be successful in identifying and closing these acquisitions, or that the Company will be successful in raising the capital it needs to complete the acquisitions.

***Cool Sound Industries***

In August 2013 we announced that we had entered into a letter of intent to acquire Cool Sound Industries, Inc. with the intent of developing its technology for use in both commercial and defense-related projects. During the period from August 2013 through February 2014 we commissioned and undertook exhaustive studies both internally and by external consultants to evaluate the feasibility of the technology and its use and application, and we concluded that the technology would not accomplish what we had envisioned. In February 2014 we terminated the letter of intent.

***Gatekeeper***

GDSI was exploring various aspects of so-called “Smart Gun” technology *i.e.* weapons, the use of which are limited only to the owners of the weapon, protecting the owner from his/her weapon being used against them or by an unauthorized person. Areas of exploration include the market for such weapons, various technologies that can be employed, feasibility, manufacturability and other practical aspects of producing such a weapon. GDSI is calling this potential future product “Gatekeeper”. Technologies being evaluated included GPS, Wi-Fi, various near-field communication protocols, and RFID. In Q4, 2014, we made the decision to, for the time being, cease pursuing the development of Gatekeeper. We may, in the future continue to explore its possibilities.

***Formation of subsidiaries***

In December 2012 we incorporated GDSI Florida LLC, and in January 2013 we incorporated Global Digital Solutions, LLC, both Florida limited liability companies. In November 2013, we incorporated GDSI Acquisition Corporation, a Delaware corporation. We pay administrative expense for our Florida office through GDSI Florida LLC; it has no other business operations. On June 16, 2014, we and GDSI Acquisition Corporation acquired NACSV. In July 2014, we announced the formation of GDSI International (fka Global Digital Solutions, LLC) to spearhead our efforts overseas. In September 2014, we merged North American Custom Specialty Vehicles, LLC into GDSI Acquisition Corporation, and changed the latter’s name to North American Custom Specialty Vehicles, Inc.

***Acquisition of North American Custom Specialty Vehicles***

On June 16, 2014, we and our wholly owned subsidiary, GDSI Acquisition Corporation, a Delaware corporation (“Buyer”), entered into an Equity Purchase Agreement (“EPA”) with Brian A. Dekle and John Ramsey (collectively, “Sellers”) and North American Custom Specialty Vehicles, LLC, an Alabama limited liability company (“NACSV”), pursuant to which Buyer purchased all of Sellers’ membership interests in NACSV for total consideration of up to \$3.6 million (the “Acquisition”) with (a) \$1.2 million payable at closing as follows: (i) a cash payment of \$1.0 million and (ii) 645,161 shares of GDSI’s restricted common stock valued at \$0.31 per share, or \$200,000 in the aggregate, (b) up to \$2.4 million of additional post-closing contingent consideration as certain milestones are met as set forth in the EPA through December 31, 2017, and (c) a post closing date purchase price adjustment of the excess, if any, of the total value of closing date audited assets of NACSV over \$1.2 million. NACSV specializes in building mobile command/communications and specialty vehicles for emergency management, first responders, national security and law enforcement operations. In September 2014, we merged North American Custom Specialty Vehicles, LLC into GDSI Acquisition Corporation, and changed the latter’s name to North American Custom Specialty Vehicles, Inc.

Subsequent to December 31, 2014, we became embroiled in litigation with the Sellers – See Item 3 – *Legal Proceedings*, below.

The foregoing description of the acquisition of NACSV does not purport to be complete and is qualified in its entirety by reference to the complete text of the EPA which is filed as Exhibit 2.5 hereto and which is incorporated herein by reference.

*Airtronic USA, Inc.*

On October 22, 2012, we entered into an Agreement of Merger and Plan of Reorganization (“Merger Agreement”) to acquire 70% of Airtronic USA, Inc. (“Airtronic”), a debtor in possession under chapter 11 of the Bankruptcy Code in a case pending in the US Bankruptcy Court for the Northern District of Illinois, Eastern Division (the “Court”) once Airtronic successfully reorganized and emerged from bankruptcy (the “Merger”). During the period from October 2012 through November 2013, GDSI was actively involved in the day to day management of Airtronic pending the completion of the Merger.

On October 22, 2012, we entered into a Debtor In Possession Note Purchase Agreement (“Bridge Loan”) with Airtronic. We agreed to lend Airtronic a maximum of \$2,000,000, with an initial advance of \$750,000 evidenced by an 8¼% Secured Promissory Note made by Airtronic in favor of the Company (the “Original Note”) and a Security Agreement pledging all of Airtronic’s assets. As of December 31, 2012 we had not advanced any funds to Airtronic under the Bridge Loan and Original Note. The Original Note bears interest at 8¼% per annum, and, unless an event of default shall have previously occurred and be continuing, the full amount of principal and accrued interest under the note shall be due and payable on the consummation of Airtronic’s plan of reorganization. In March 2013, the Company and Airtronic amended the Bridge Loan to provide for a maximum advance of up to \$700,000 in accordance with draws submitted by Airtronic and approved by the Company in accordance with the budget set forth in the amendment. On June 26, 2013, we agreed to a second modification of the Bridge Loan agreement with Airtronic, and agreed to loan Airtronic up to an additional \$550,000 under the Bridge Loan. On August 5, 2013, we entered into the Second Bridge Loan Modification and Ratification Agreement, received a new 8¼% secured promissory note in principal amount of \$550,000 (the “Second Note”), and entered into a Security Agreement with the CEO of Airtronic, which granted a security interest in certain intellectual property for patent-pending applications and trademarks that were registered in the CEO’s name. On October 10, 2013, we entered into a third modification of the Bridge Loan Agreement, and agreed to loan Airtronic up to an additional \$200,000. On October 10, 2013, we entered into the Third Bridge Loan Modification and Ratification Agreement, and received a new 8¼% secured promissory note for \$200,000 (the “Third Note”).

On October 2, 2013, Airtronic’s amended plan of reorganization (the “Plan”) was confirmed by the Court, but the Plan was never substantially consummated and has now been terminated. Under the terms of the Plan, Airtronic needed to close the Merger with the Company within 60 days following the confirmation date, i.e., on or before December 2, 2013, to obtain the funds necessary to pay its creditors in accordance with the Plan. Nevertheless, Airtronic refused to close the Merger with the Company on or before December 2, 2013, and as a result the Plan terminated and the reorganized Airtronic re-vested in the bankruptcy estate of Airtronic as debtor in possession.

As the principal funding source for Airtronic during 2013, and as the expectant owner of Airtronic upon the conclusion of the bankruptcy proceedings, the Company took an active roll in managing its investment in Airtronic.

The Company was actively involved in all aspects of Airtronic’s finances. The Company’s CFO took over the day-to-day management of cash, which included the approval of all purchase orders and all expenditures. In addition, GDSI recreated the inventory and fixed asset records from the beginning of 2010, a significant task which involved over 500 man hours. In addition, the Company created GAAP based fixed asset ledgers, reconciled on a monthly basis, starting from January 2010, all the balance sheet accounts. Additionally, the Company rationalized the bidding process, updated Airtronic’s standard costing procedures and costs, and its inventory management system.

GDSI’s CEO was responsible for sales and marketing for Airtronic. Airtronic’s CEO had been responsible in the past for this and worked closely with the Company’s CEO to land new OEM orders which resulted in Airtronic finally being awarded a large OEM order in mid 2013. Airtronic’s team included its CEO, a bookkeeper who also acted as office manager, a part-time engineer who oversaw assembly, one assembly line worker, one warehouse worker who assisted in assembly, a quality control engineer, an IT assistant and a bidding engineer.

On March 31, 2014, Airtronic filed a First Amended Modified Plan of Reorganization (“First Modified Plan”) which was confirmed on April 28, 2014. On May 14, 2014 Airtronic repaid the Original Note, the Second Note and the Third Note together with all accrued interest thereon.



On August 12, 2014 we recovered approximately \$414,000 for legal fees and expenses. We had filed a claim for \$567,806.27. GDSI's involvement with Airtronic and its bankruptcy proceedings are now concluded.

#### *Convertible Notes Payable*

##### *DeLos Reyes Note*

In December 2012, we entered into a Promissory Note Purchase Agreement ("GDL PNPA"), under which Gabriel a De Los Reyes (the "Lender") agree to lend us \$750,000 evidenced by a secured promissory note (the "GDL Note") and a Security Agreement ("GDL SA"). The GDL Note bears interest at 8¼%, is secured by all of our assets and had a maturity date of May 1, 2013. In connection with the loan, we issued the Lender a warrant to acquire 3,000,000 shares of our common stock at an exercise price of \$0.15, exercisable for a period of three years (the "GDL Warrant").

On May 6, 2013, the Company and the Lender entered into an amendment (the "GDL Amendment") which:

- (1) Extended the GDL Note's maturity date to July 1, 2013;
- (2) Provided that on or before the maturity date, we may elect to convert the GDL Note into 3,000,000 shares of our common stock at a conversion price of \$0.25; and
- (3) Reduced the exercise price of the GDL Warrant from \$0.15 to \$0.10.

On July 1, 2013, the Lender converted the GDL Note into 3,000,000 shares of our restricted common stock. On December 18, 2013, the Lender partially exercised the GDL Warrant and we issued 1,250,000 shares of our restricted common stock in consideration for \$125,000.

The foregoing description of the GDL PNPA, the GDL Note, the GDL SA, the GDL Warrant, and the GDL Amendment is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.8, Exhibit 10.9, Exhibit 10.10, Exhibit 10.11 and Exhibit 10.12 respectively.

##### *Charter Note*

On December 8, 2014, the Company entered into a Securities Purchase Agreement ("Charter SPA") with Charter 804CS Solutions, Inc. ("Charter"), an affiliate of Richard J. Sullivan, our Chairman and CEO, providing for the purchase of a Convertible Promissory Note in the principal amount of \$37,500 ("Charter Note"). The Charter Note: contains a \$1,500 original issue discount to cover legal fees such that the cash proceeds received on the closing of Charter Note is \$36,000; bears interest at the rate of 8% per annum; is due and payable on December 8, 2015; and by amendment (the "Charter Amendment") may be converted by Charter at any time after 180 days of the date of closing into shares of Company common stock at a fixed conversion price of \$0.09 per share of Common Stock. The Charter Note also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the note in the event of such defaults.

The foregoing description of the Charter SPA, the Charter Note and the Charter Amendment is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.22, Exhibit 10.23 and Exhibit 10.24, respectively.

##### *Loppert Note*

On December 8, 2014, the Company entered into a Securities Purchase Agreement ("Loppert SPA") with David A. Loppert ("Loppert"), our Chief Financial Officer, providing for the purchase of a Convertible Promissory Note in the principal amount of \$31,500 ("Loppert Note"). The Loppert Note: contains a \$1,500 original issue discount to cover legal fees such that the cash proceeds received on the closing of the Loppert Note is \$30,000; bears interest at the rate of 8% per annum; is due and payable on December 8, 2015; and may be converted by Loppert at any time after 180 days of the date of closing into shares of Company common stock at a conversion price of \$0.09 per share of Common Stock. The Loppert also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the note in the event of such defaults.

The foregoing description of the Loppert SPA, the Loppert Note and the Loppert Amendment is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.25, Exhibit 10.26 and Exhibit 10.27 respectively.

***Convertible Notes Payable entered into Subsequent to December 31, 2014***

Subsequent to December 31, 2014 we entered into the Convertible Notes Payable described below and received net proceeds in the aggregate amount of \$471,630. We determined that the conversion option within these notes is an embedded derivative that has to be recognized separately from the host (note) instrument. Accordingly, at inception of the notes we recognized the fair value of the embedded derivative liability and then re-measure its fair value using the Black-Scholes-Merton pricing model at the end of each period and record the change in the fair value of the derivative liability as either other income or other expense, as appropriate:

***LG Capital Funding, LLC***

On January 16, 2015, we entered into a Securities Purchase Agreement (LG SPA) with LG Capital Funding, LLC (“LG Capital”) providing for the purchase of a Convertible Redeemable Note (“LG Note”) in the aggregate principal amount of \$78,750. The LG Note was funded on January 20, 2015, and we received \$67,500 of net proceeds (net of \$3,750 legal fees and \$7,500 finders fees). The LG Note bears interest at the rate of 8% per annum; is due and payable on January 16, 2016; is subject to prepayment penalties up to a 145% multiple of the principal, interest and other amounts owing, as defined. After the expiration of 180 days following the date of the LG Note, the Company has no right of prepayment; and the note may be converted by LG Capital at any time after 180 days of the date of closing into shares of our common stock at a conversion price equal to a 40% discount of the lowest closing bid price for 20 prior trading days including the notice of conversion date.

The foregoing description of the LG SPA and the LG Note is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.28 and Exhibit 10.29, respectively.

The estimated fair value of the embedded derivative liability at inception was \$128,438, of which \$78,750 was discounted against the note and will be accreted over the term of the note and \$49,688 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

***JSJ Investments, Inc.***

On January 26, 2015 (the “Issuance Date”) we entered into a financing agreement with JSJ Investments Inc. (“JSJ”) providing for the purchase of a 10% Convertible Note in the aggregate principal amount of \$66,000 (the “JSJ” Note). The JSJ Note contains a \$6,000 original issue discount such that the purchase price of the JSJ Note was \$60,000. The JSJ Note was funded on January 27, 2015, and we received \$52,000 of net proceeds (net of \$2,000 legal fees and \$6,000 due diligence fees). The JSJ Note bears interest at the rate of 10% per annum; is due and payable on January 26, 2016; may be prepaid until the one hundred and fiftieth (150th) day after the Issuance Date at a cash redemption of 150%; and the note may be converted by JSJ at any time into shares of our common stock at a conversion price equal to the lower of (i) a 40% discount of the lowest trading price during the previous twenty (20) trading days prior to the date of conversion; or (ii) a 40% discount to the lowest trading price during the previous twenty (20) trading days before the date that the JSJ Note was executed.

The foregoing description of the JSJ Note is not intended to be complete and is qualified in its entirety by the complete text of the document listed hereon as Exhibit 10.30.

The estimated fair value of the embedded derivative liability at inception was \$132,002, of which \$66,000 was discounted against the note and will be accreted over the term of the note and \$66,002 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*Adar Bays, LLC*

On January 26, 2015, we entered into a Securities Purchase Agreement (“AB SPA”) with Adar Bays, LLC (“Adar Bays”) providing for the purchase of a Convertible Redeemable Note (the “AB Note”) in the aggregate principal amount of \$35,000. The AB Note was funded on January 27, 2015, and we received \$29,750 of net proceeds (net of \$1,750 of legal fees and \$3,500 finders fees). The AB Note bears interest at the rate of 8% per annum; is due and payable on January 26, 2016; is subject to prepayment penalties up to a 145% multiple of the principal, interest and other amounts owing, as defined. After the expiration of 180 days following the date of the AB Note, the Company has no right of prepayment; and the note may be converted by Adar Bays at any time after 180 days of the date of closing into shares of our common stock at a conversion price equal to a 40% discount of the lowest closing bid price for 20 prior trading days including the notice of conversion date.

The foregoing description of the AB SPA and the AB Note is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.31 and Exhibit 10.32, respectively.

The estimated fair value of the embedded derivative liability at inception was \$65,333, of which \$35,000 was discounted against the note and will be accreted over the term of the note and \$30,333 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*JMJ Financial*

On January 28, 2014, we received an initial funding of \$82,500 (including an original issue discount of \$7,500) pursuant to a \$250,000 Convertible Note (the “JMJ Note”) dated January 28, 2015 with JMJ Financial. We received \$67,500 of proceeds, net of \$7,500 original issue discount and \$7,500 finders fee. The JMJ Note matures twenty four months from the date funded, has a one-time 12% interest charge if not paid within 90 days, may be prepaid at any time on or before 90 days after the effective date, and is convertible at any time the option of JMJ Financial into shares of our common stock at the lesser of \$0.075 per share or 60% of the average of the trade price in the 25 trading days prior to conversion.

The foregoing description of the JMJ Note is not intended to be complete and is qualified in its entirety by the complete text of the document listed hereon as Exhibit 10.33.

The estimated fair value of the embedded derivative liability at inception was \$157,208, of which \$82,500 was discounted against the note and will be accreted over the term of the note and \$74,708 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*Vista Capital Investments, LLC*

On February 4, 2015 (the “Issuance Date”), we entered into a Convertible Note (the “Vista Note”) with Vista Capital Investments, LLC (“Vista”) in the original principal amount of \$250,000 (including a 10% original issue discount (“OID”)). The Company and Vista agreed to an initial funding under the Vista Note of \$55,000, including an OID of \$5,000 (“Initial Funding”). Future advances under the Vista Note are at the sole discretion of Vista. We are only required to repay the amount funded, including the prorated portion of the OID. On February 9, 2015, we received \$45,000 of net proceeds under the Initial Funding, net of \$5,000 OID and a \$5,000 finders fee. The Vista Note matures twenty four months from the date funded, has a one-time 12% interest charge if not paid within 90 days; may be prepaid at any time within the 90 day period immediately following the Issuance Date at a multiple of 145% of the original principal amount; and may be convertible at the option of Vista at any time after the Issuance Date into shares of our common stock at the lesser of \$0.10 per share or 60% of the lowest trade occurring during the twenty five (25) consecutive trading days immediately preceding the applicable conversion date on which the holder elects to convert all or part of the Vista Note, subject to adjustment as provided for in the Vista Note.

The foregoing description of the Vista Note is not intended to be complete and is qualified in its entirety by the complete text of the document listed hereon as Exhibit 10.34.

The estimated fair value of the embedded derivative liability at inception was \$91,712, of which \$55,000 was discounted against the note and will be accreted over the term of the note and \$36,712 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*KBM Worldwide, Inc.*

On February 17, 2015, we entered into a Securities Purchase Agreement (“KBM SPA”) with KBM Worldwide, Inc. (“KBM”) providing for the purchase of a Convertible Promissory Note bearing interest at 8% per annum in the principal amount of \$115,000 due February 17, 2016 (the “KBM Note”). The KBM Note includes an \$11,000 Original Issue Discount (“OID”). The KBM Note was funded on February 20, 2015, with the Company receiving net proceeds of \$90,000, (net of the \$11,000 OID, KBM’s legal expenses of \$4,000, and a finders fee of \$10,000). The terms of the KBM SPA also provide, for a period of six months following the effective date, a right of first refusal to KBM for certain future financings entered into by the Company for amounts less than \$75,000.

The KBM Note can be prepaid, at redemption premiums ranging from 10% to 35%, until 180 days following the issuance date of the KBM Note, after which we have no right of repayment. The KBM Note is convertible at a price per share equal to 61% of the average of the lowest three trading prices of the Company’s common stock during the 10 trading days prior to conversion. If, at any time when the KBM Note is outstanding, the Company issues or sells, or is deemed to have issued or sold, any shares of its common stock in connection with a subsequent placement for no consideration or for a consideration per share based on a variable price formula that is less than the conversion price in effect on the date of such issuance of shares of common stock, then the KBM conversion price will be reduced to the amount of the consideration per share received for such issuance.

The foregoing description of the KBM SPA and the KBM Note is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.35 and Exhibit 10.36, respectively.

The estimated fair value of the embedded derivative liability at inception was \$250,590, of which \$115,000 was discounted against the note and will be accreted over the term of the note and \$125,590 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*EMA Financial, LLC*

On February 19, 2015, we entered into a Securities Purchase Agreement (the “EMA SPA”) with EMA Financial, LLC (“EMA”) providing for the purchase of a Convertible Note bearing interest at 10% per annum in the principal amount of \$68,000 due February 19, 2016 (the “EMA Note”). The EMA Note includes an \$6,800 Original Issue Discount (“OID”). The EMA Note was funded on February 23, 2015, with the Company receiving net proceeds of \$52,080, (net of the \$6,800 OID, EMA’s due diligence and documentation preparation expenses of \$3,000, and a finders fee of \$6,120).

The EMA Note can be prepaid, at a redemption premium of 50%, until 180 days following the issuance date of the EMA Note, after which the Company has no right of repayment. The EMA Note is convertible at a price per share equal to the lower of either (i) the closing sale price of the Company’s common stock on the day prior to the closing date, and (ii) 60% of the lowest trade price of the Company’s common stock Common Stock on the Principal Market during the twenty five (25) consecutive trading days prior to conversion.

The foregoing description of the EMA SPA and the EMA Note is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.37 and Exhibit 10.38, respectively.

The estimated fair value of the embedded derivative liability at inception was \$167,167, of which \$68,000 was discounted against the note and will be accreted over the term of the note and \$99,167 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*Tangiers Investment Group, LLC*

On March 8, 2015, we entered into a Note Purchase Agreement (the "Tangiers NPA") with Tangiers Investment Group, LLC ("Tangiers"), for the sale of a 10% convertible promissory note in the principal amount of up to \$220,000, plus a 10% original issue discount (the "Tangiers Note"). On March 10, 2015, the Company closed on an initial funding of \$82,500 and received net proceeds of \$67,500, after deducting \$7,500 retained by Tangiers for the original issue discount for due diligence and legal bills related to the transaction, and \$7,500 that the Company paid to a third party for a finders fee. Tangiers has the option to finance additional amounts, up to the balance of the \$220,000, during the term of the Tangiers Note.

The principal due under the Tangiers Note bears interest at the rate of 10% per annum. Upon an event of default, interest will accrue at the lower of 20% or the highest rate permitted by law. Events of default under the note include, among others, failure to pay principal or interest on the note or comply with certain covenants under the note. All interest and principal must be repaid on or before March 8, 2016. The Tangiers Note may be prepaid in whole or in part by the Company within 180 days, at redemption premiums ranging from 15% to 35% of the funded amount of the Tangiers Note plus accrued interest. After 180 days, the Tangiers Note may not be prepaid without the consent of Tangiers. The principal and interest underlying the Tangiers Note is convertible at any time into common stock, at Tangiers's option, at a conversion price equal to the lower of \$0.04 or 60% of the lowest trading price of the Company's common stock during the twenty consecutive trading days prior to the date on which Tangiers (or the then-holder of the Tangiers Note) elects to convert all or part of the Tangiers Note.

The foregoing description of the Tangiers NPA and the Tangiers Note is not intended to be complete and is qualified in its entirety by the complete text of the documents listed hereon as Exhibit 10.39 and Exhibit 10.40, respectively.

The estimated fair value of the embedded derivative liability at inception was \$139,078, of which \$82,500 was discounted against the note and will be accreted over the term of the note and 58,578 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*Increase in Authorized Share Capital*

On July 7, 2014, we filed a Certificate of Amendment to Certificate of Incorporation, a copy of which is attached hereto as Exhibit 3.5, to increase the number of our authorized shares of capital stock from 185,000,000 shares to 485,000,000 shares, divided into two classes: 450,000,000 shares of common stock, par value \$0.001 per share (the "Common stock"), and 35,000,000 shares of preferred stock, par value \$0.001 per share (the "Preferred Stock").

On March 18, 2015, our Board of Directors approved a resolution recommending that our shareholders approve increasing the number of our authorized shares of common stock from 450,000,000 to 650,000,000. The Company is in the process of obtaining shareholder approval for the increase and will then prepare and file an Information Statement pursuant to Section 14 (c) of the Securities Exchange Act of 1934. Once that has been filed and the requisite passage of time has passed, the Company will file an Amendment to its Certificate of Incorporation, at which time the increase in the number of authorized shares of common stock will become effective.

**Financial Advisor, Investment Banking and Placement Agent Agreements**

On October 16, 2013 we entered into a six-month exclusive placement agent agreement with Midtown Partners & Co LLC ("Midtown"), in connection with the private placement of the Company's securities. On April 16, 2014, we agreed to extend the term through October 16, 2014. We agreed to pay Midtown the following fees for services to be rendered:

(a) A non-refundable retainer fee of twenty-five thousand dollars (\$25,000.00) and a three year warrant to purchase one million (1,000,000) shares of the Company's restricted common stock at \$1.00.

(b) a placement fee equal to eight percent (8%) of the gross purchase price paid for securities issued in transactions arranged through Midtown, payable in full, in cash, at a closing for the sale of any of such securities.

(c) at each closing, the Company shall issue to Midtown, or its permitted assigns, warrants (the "PA Warrants") to purchase that number of shares of common stock of the Company equal to eight percent (8%) of the sum of (i) the number of shares of common stock of the Company issued at each such closing or in the event of a convertible or equity linked security, the number of shares of common stock issuable by the Company upon exercise or conversion of any and all convertible or equity linked securities issued at each such closing (including, but not limited to, all convertible promissory notes, convertible preferred stock and all series of warrants). The PA Warrants shall be transferable by Midtown to its representatives and agents at closing.

The foregoing description of the placement agent agreement with Midtown does not purport to be complete and is qualified in its entirety by reference to the complete text of the placement agent agreement and the addendum, copies of which are filed as Exhibits 10.18 and 10.17, respectively, hereto and which are incorporated herein by reference.

On December 19, 2014, we entered into an agreement with Carter, Terry & Company ("CTC") to act, on a non-exclusive basis, as Financial Advisor, Investment Bank and Placement Agent for the Company on a "best efforts" basis for a period of 12 months with an option by CTC to extend for an additional 6 months. The agreement may be terminated by either party by written notice to the other. We have agreed to pay CTC the following fees:

- (i) A cash success fee for debt and/or equity capital raised by CTC on behalf of Company shall be subject to the following fee structure:
  - a. 10% of the amount for any equity or hybrid equity capital raised up to \$1,000,000; or
  - b. 8% of the amount for any equity or hybrid equity capital raised up to \$5,000,000; or
  - c. 6% of the amount for any equity or hybrid equity capital raised over \$5,000,000.
- (ii) A success fee which shall be the identical terms as in (i) above of the Aggregate Consideration (except as further defined in (iii)) received by Company from any Transaction closed, including multiple successive Transactions, with an Investor Candidate or a Strategic Candidate (or upon closing a Transaction with a Covered Party, including multiple successive Transactions, within twelve months after the Termination Date), which amount will be paid when the Company receives the proceeds from the Transaction (capitalized items having the meaning ascribed in the agreement).
- (iii) In connection with the compensation set forth above, the Company agrees to pay CTC an amount of restricted shares equal to 4% of the capital raised divided by the closing price of the stock on the date of close of the capital raise transaction facilitated by CTC. These shares shall have piggy back registration rights.

The foregoing description of the agreement with CTC does not purport to be complete and is qualified in its entirety by reference to the complete text of the agreement, a copy of which is filed hereto as Exhibit 10.41 hereto and which is incorporated herein by reference.

**Executive Offices**

Our executive officers are located at 777 South Flagler Drive, Suite 800 West, West Palm Beach, FL 33401 and our telephone number is 561-515-6163. Our executive office is a virtual office which means that our executives each work from their home offices, but utilize this facility for meetings and conferences, and telephone and message support.

**Patents, Trademarks, and Licenses**

Except for the NACSV trademark, we do not own any patents or trademarks and we have not entered into any license agreements.

**Environmental Laws and Regulation**

In the future we expect that we may be subject to various federal, state, local, provincial and foreign laws and regulations governing the protection of human health and the environment. In 2014, we did not make any significant capital expenditures for equipment required by environmental laws and regulations.

**Available Information**

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are filed with the U.S. Securities and Exchange Commission (the "SEC"). Such reports and other information filed by the Company with the SEC are available free of charge on the Company's website at [www.gdsi.co](http://www.gdsi.co) when such reports are available on the SEC website. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The contents of these websites are not incorporated into this filing or any registration statement that incorporates this Form 10-K by reference. Further, the Company's references to the URLs for these websites are intended to be inactive textual references only.

**Employees**

As of December 31, 2014, we employed eleven full-time employees. We also use professionals on an as-needed basis. We have no collective bargaining agreements and believe our relations with our employees are good.

**Item 1A. Risk Factors.**

*Our operations could be affected by various risks, many of which are beyond our control. Based on current information, we believe that the following identifies the most significant risks that could affect our business. Investors should carefully consider the following risk factors, together with all of the information included in this Annual Report on Form 10-K, in evaluating our company, our business and our prospects.*

**Risks Relating to Our Business*****There is doubt about our ability to continue as a going concern.***

Our independent registered public accounting firm has issued an opinion on our December 31, 2014 financial statements that states that the financial statements were prepared assuming we will continue as a going concern. As discussed in Note 1 to the financial statements, we have sustained losses and experienced negative cash flows from operations since inception, and for the year ended December 31, 2014 we incurred a net loss of \$11,657,188, and used net cash of \$708,040 to fund operating activities, and net cash of \$239,697 for financing activities. At December 31, 2014, we had an accumulated deficit of \$28,515,563, cash and cash equivalents of \$160,102, working capital of \$192,628 and stockholders' equity of \$152,406. These matters raise substantial doubt about our ability to continue as a going concern. Our plan in regards to these matters is also described in Note 1 to our financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our future is dependent on our ability to meet our financing requirements, and complete other identified and unidentified acquisitions. If we fail for any reason, we might not be able to continue as a going concern.

***We have a limited operating history, limited revenue and may continue to incur losses.***

There can be no assurance that our business will be profitable in the future. We may continue to incur losses and negative cash flows from operations. This would have a material adverse affect on our financial condition.

***We will need additional financing to fully implement our business plan, and we cannot assure you that we will be successful in obtaining such financing or in continuing our operations.***

We acquired North American Custom Specialty Vehicles (“NACSV”) in June 2014. NACSV specializes in building mobile command/communications and specialty vehicles for emergency management, first responders, national security and law enforcement operations. We may acquire complementary businesses in the future, but there can be no assurance that we will successfully close a future acquisition, or that additional public or private financing, including debt or equity financing, will be available as needed, or, if available, on terms favorable to us to close such an acquisition. Any additional equity financing may be dilutive to our stockholders and holders of such additional equity securities may have rights, preferences or privileges that are senior to those of our existing common or preferred stock. Furthermore, debt financing, if available, will require payment of interest and may involve restrictive covenants that could impose limitations on our operating flexibility. Our failure to successfully obtain additional future funding may jeopardize our ability to continue our business and operations.

***While part of our strategy is to pursue strategic acquisitions, we may not be able to identify businesses that we can acquire on acceptable terms: we may not be able to obtain necessary financing or may face risks due to additional indebtedness: and our acquisition strategy may incur significant costs or expose us to substantial risks inherent in the acquired business's operations.***

Our strategy of pursuing strategic acquisitions may be negatively impacted by several risks, including the following:

- We may not successfully identify companies that have complementary product lines or technological competencies or that can diversify our revenue or enhance our ability to implement our business strategy.
- We may not successfully acquire companies if we fail to obtain financing, or to negotiate the acquisition on acceptable terms, or for other related reasons.
- We may incur additional expenses due to acquisition due diligence, including legal, accounting, consulting and other professional fees and disbursements. Such additional expenses may be material, will likely not be reimbursed and would increase the aggregate cost of any acquisition.
- Any acquired business will expose us to the acquired company’s liabilities and to risks inherent to its industry. We may not be able to ascertain or assess all of the significant risks.
- We may require additional financing in connection with any future acquisition. Such financing may adversely impact, or be restricted by, our capital structure.
- Achieving the anticipated potential benefits of a strategic acquisition will depend in part on the successful integration of the operations, administrative infrastructures and personnel of the acquired company or companies in a timely and efficient manner. Some of the challenges involved in such an integration include:
  - demonstrating to the customers of the acquired company that the consolidation will not result in adverse changes in quality, customer service standards or business focus;
  - preserving important relationships of the acquired company;
  - coordinating sales and marketing efforts to effectively communicate the expanded capabilities of the combined company; and
  - coordinating the supply chains.

Any integration is expected to be complex, time-consuming and expensive and may harm the newly-consolidated company’s business, financial condition and results of operations.



***We depend upon our senior management and our business may be adversely affected if we cannot retain them.***

Our success depends upon our ability to attract and retain experienced senior management with specialized industry and technical knowledge and/or industry relationships. On August 12, 2013, Richard J. Sullivan was appointed Chairman and CEO of the Company and David A. Loppert was appointed CFO. In July 2014, Stephen L. Norris was appointed Vice Chairman and CEO of GDSI International. Mr. Norris subsequently resigned on January 9, 2015. On December 3, 2014, Jennifer S. Carroll was appointed President of NACSV. Ms. Carroll resigned on March 7, 2015.

Mr. Sullivan and Mr. Loppert have significant experience as CEO and CFO, respectively, of public companies. We might not be able to find or replace qualified individuals to fill the slots of senior management that we anticipate if their services do not become available to us or are no longer available to us; accordingly the inability to fill positions in, or the loss of critical members of, our anticipated senior management team could have a material adverse effect on our ability to effectively pursue our business and acquisition strategy. We do not have key-man life insurance policies covering these employees at this time.

***If we are unable to manage future growth, our business may be negatively affected.***

We are continuing to pursue a strategy of rapid growth, and plan to expand significantly our capability and devote substantial resources to our marketing, sales, administrative, operational, financial and other systems and resources. Such expansion will place significant demands on our marketing, sales, administrative, operational, financial and management information systems, controls and procedures. Accordingly, our performance and profitability will depend on the ability of our officers and key employees to:

- manage our business and our subsidiaries as a cohesive enterprise;
- manage expansion through the timely implementation and maintenance of appropriate administrative, operational, financial and management information systems, controls and procedures;
- add internal capacity, facilities and third-party sourcing arrangements as and when needed;
- maintain service quality controls; and
- attract, train, retain, motivate and manage effectively our employees.

There can be no assurance that we will integrate and manage successfully new systems, controls and procedures for our business, or that our systems, controls, procedures, facilities and personnel, even if successfully integrated, will be adequate to support our projected future operations. Any failure to implement and maintain such systems, controls and procedures, add internal capacity, facilities and third-party sourcing arrangements or attract, train, retain, motivate and manage effectively our employees could have a material adverse effect on our business, financial condition and results of operations. In addition, we may incur substantial expenses identifying, investigating and developing appropriate products and services in our targeted business markets. There can be no assurance that any expenditures incurred in identifying, investigating and developing such products and services will ever be recouped.

***We will need additional capital to fund ongoing operations, future acquisitions, and to respond to business opportunities, challenges, acquisitions or unforeseen circumstances. If such capital is not available to us, our business, operating results and financial condition may be harmed.***

At December 31, 2014 we had \$160,102 cash on hand. Subsequent to December 31, 2014, we entered into a number of convertible note transactions, receiving net proceeds in the aggregate of \$471,630. We will continue to seek equity financing to provide funding for operations but there is no assurance that we will be successful in these efforts. If we are not successful in raising additional equity capital or generating sufficient cash flows to meet our obligations as they come due, we may not be able to fully fund our ambitious growth plans. We may then be required to reduce our overhead expenses by the reduction of headcount and other available measures.

***We may face strong competition from larger, established companies.***

We likely will face intense competition from other companies that provide the same or similar custom specialty vehicle manufacturing and other services that compete with acquired businesses, virtually all of whom can be expected to have longer operating histories, greater name recognition, larger installed customer bases and significantly more financial resources, R&D facilities and manufacturing and marketing experience than we have. There can be no assurance that developments by our potential competitors will not render our existing and future products or services obsolete. In addition, we expect to face competition from new entrants into the custom specialty vehicle business. As the demand for products and services grows and new markets are exploited, we expect that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products and services. We may not have sufficient resources to maintain our research and development, marketing, sales and customer support efforts on a competitive basis. Additionally, we may not be able to make the technological advances necessary to maintain a competitive advantage with respect to our products and services. Increased competition could result in price reductions, fewer product orders, obsolete technology and reduced operating margins, any of which could materially and adversely affect our business, financial condition and results of operations.

***If we are unable to keep up with technological developments, our business could be negatively affected.***

If we are successful in acquiring complementary companies in the future, the markets for our anticipated products and services are expected to be characterized by rapid technological change and be highly competitive with respect to timely innovations. Accordingly, we believe that our ability to succeed in the sale of our products and services will depend significantly upon the technological quality of our products and services relative to those of our competitors, and our ability to continue to develop and introduce new and enhanced products and services at competitive prices and in a timely and cost-effective manner. In order to develop such new products and services, we will depend upon close relationships with existing customers and our ability to continue to develop and introduce new and enhanced products and services at competitive prices and in a timely and cost-effective manner. There can be no assurance that we will be able to develop and market our new products and services successfully or respond effectively to technological changes or new product and service offerings of our potential competitors. We may not be able to develop the required technologies, products and services on a cost-effective and timely basis, and any inability to do so could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to protect intellectual property that we hope to acquire, which could adversely affect our business.***

The companies that we hope to acquire may rely on patent, trademark, trade secret and copyright protection to protect their technology. We believe that technological leadership can be achieved through additional factors such as the technological and creative skills of our personnel, new product developments, frequent product enhancements, name recognition and reliable product maintenance. Nevertheless, our ability to compete effectively depends in part on our ability to develop and maintain proprietary aspects of our technology, such as patents. We may not secure future patents; and patents that we may secure may become invalid or may not provide meaningful protection for our product innovations. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as the United States. Furthermore, there can be no assurance that competitors will not independently develop similar products, "reverse engineer" our products, or, if patents are issued to us, design around such patents. We also expect to rely upon a combination of copyright, trademark, trade secret and other intellectual property laws to protect our proprietary rights by entering into confidentiality agreements with our employees, consultants and vendors, and by controlling access to and distribution of our technology, documentation and other proprietary information. There can be no assurance, however, that the steps to be taken by us will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide a competitive advantage to us. Any such circumstance could have a material adverse effect on our business, financial condition and results of operations. While we are not currently engaged in any intellectual property litigation or proceedings, there can be no assurance that we will not become so involved in the future or that our products do not infringe any intellectual property or other proprietary right of any third party. Such litigation could result in substantial costs, the diversion of resources and personnel, and subject us to significant liabilities to third parties, any of which could have a material adverse effect on our business.

***We may not be able to protect our trade names and domain names.***

We may not be able to protect our trade names and domain names against all infringers, which could decrease the value of our brand name and proprietary rights. We currently hold the Internet domain names "www.gdsi.co" and "www.nacsvehicles.com" and we use "GDSF" and "NACS Vehicles" as trade names. Domain names generally are regulated by Internet regulatory bodies and are subject to change and may be superseded, in some cases, by laws, rules and regulations governing the registration of trade names and trademarks with the United States Patent and Trademark Office and certain other common law rights. If the domain registrars are changed, new ones are created or we are deemed to be infringing upon another's trade name or trademark, we could be unable to prevent third parties from acquiring or using, as the case may be, our domain name, trade names or trademarks, which could adversely affect our brand name and other proprietary rights.

***We expect a number of factors to cause our operating results to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance.***

Our revenues and operating results could vary significantly from quarter to quarter and year-to-year because of a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. In addition to other risk factors discussed in this section, factors that may contribute to the variability of our quarterly and annual results include:

- our ability to accurately forecast revenues and appropriately plan our expenses;
- the impact of worldwide economic conditions, including the resulting effect on consumer spending;
- our ability to maintain an adequate rate of growth;
- our ability to effectively manage our growth;
- our ability to attract new customers;
- our ability to successfully enter new markets and manage our expansion;
- the effects of increased competition in our business;
- our ability to keep pace with changes in technology and our competitors;
- our ability to successfully manage any future acquisitions of businesses, solutions or technologies;
- the success of our marketing efforts;
- interruptions in service and any related impact on our reputation;
- the attraction and retention of qualified employees and key personnel;
- our ability to protect our intellectual property;
- costs associated with defending intellectual property infringement and other claims;
- the effects of natural or man-made catastrophic events;
- the effectiveness of our internal controls; and
- changes in government regulation affecting our business.

As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indications of our future operating performance, and any unfavorable changes in these or other factors could have a material adverse effect on our business, financial condition and results of operation.

***Growth may place significant demands on our management and our infrastructure.***

We plan for substantial growth in our business, and this growth would place significant demands on our management and our operational and financial infrastructure. If our operations grow in size, scope and complexity, we will need to improve and upgrade our systems and infrastructure to meet customer demand. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. Continued growth could also strain our ability to maintain reliable service levels for our customers and meet their expected delivery schedules. develop and improve our operational, financial and management controls, enhance our reporting systems and procedures and recruit, train and retain highly skilled personnel.

Managing our growth will require significant expenditures and allocation of valuable management resources. If we fail to achieve the necessary level of efficiency in our organization as it grows, our business, operating results and financial condition would be harmed.

***Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.***

In order to protect our proprietary technology and processes, we will rely in part on confidentiality agreements with our employees, customers, potential customers, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

***We will continue to incur increased costs as a result of being a public reporting company and our management expects to devote substantial time to public reporting company compliance programs.***

As a public reporting company, we incur significant legal, insurance, accounting and other expenses that we would not incur as a non-reporting public company. We expect to invest resources to comply with evolving laws, regulations and standards, and this investment will result in increased general and administrative expenses and may divert management's time and attention from product development activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. We maintain directors' and officers' insurance coverage, which increases our insurance cost. In the future, it may be more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

In addition, in order to comply with the requirements of being a public reporting company, we may need to undertake various actions, including implementing new internal controls and procedures and hiring new accounting or internal audit staff. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. Any failure to develop or maintain effective controls could adversely affect the results of periodic management evaluations. In the event that we are not able to demonstrate compliance with the Sarbanes-Oxley Act, that our internal control over financial reporting is perceived as inadequate, or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results and the price of our ordinary shares could decline.

As discussed below, because we are an emerging growth company, we are exempt from the auditor attestation requirement of Section 404 of the Sarbanes-Oxley Act of 2002, but that does not preclude us from complying with certain of these rules, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report. This assessment will need to include the disclosure of any material weaknesses in our internal control over financial reporting identified by our management or our independent registered public accounting firm.

Our independent registered public accounting firm will not be required to formally attest to effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the Commission following the date we are no longer an "emerging growth company" as defined in the JOBS Act. We have identified certain material weaknesses addressed in *Item 9A – Controls and Procedures* in this Annual Report on Form 10-K hereof, and we cannot assure you that there will not be additional material weaknesses or significant deficiencies in our internal controls in the future.

#### **Risks Related to our Common and Preferred Stock**

*We are eligible to be treated as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.*

We are an "emerging growth company", as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including (1) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley, (2) reduced disclosure obligations regarding executive compensation in this Form 10-K and our other periodic reports, and registration and proxy statements and (3) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, as an emerging growth company, we are only required to provide two years of audited financial statements. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds \$700.0 million as of any June 30 before that time (i.e., we become a large accelerated filer) or if we have total annual gross revenue of \$1.0 billion or more during any fiscal year before that time, in which cases we would no longer be an emerging growth company as of the following December 31 or, if we issue more than \$1.0 billion in non-convertible debt during any three-year period before that time, we would cease to be an emerging growth company immediately. Even after we no longer qualify as an emerging growth company, we may still qualify as a "smaller reporting company" which would allow us to take advantage of many of the same exemptions from disclosure requirements, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies that are not emerging growth companies.

***We have not paid dividends in the past and do not expect to pay dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.***

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates. We recently entered into certain convertible note transactions that prohibit us from paying dividends until the amounts owing under the notes have been satisfied.

***There is currently a limited liquid trading market for our common stock and we cannot ensure that one will ever develop or be sustained.***

Our common stock is quoted for trading on the OTCQB Marketplace ("OTCQB"). As soon as is practicable, we anticipate applying for listing of our common stock on either the American Stock Exchange, The Nasdaq Capital Market or other national securities exchange, assuming that we can satisfy the initial listing standards for such exchange. We currently do not satisfy the initial listing standards, and cannot ensure that we will be able to satisfy such listing standards or that our common stock will be accepted for listing on any such exchange. Should we fail to satisfy the initial listing standards of such exchanges, or our common stock is otherwise rejected for listing and remains listed on the OTCQB or suspended from the OTCQB, the trading price of our common stock could suffer and the trading market for our common stock may be less liquid and our common stock price may be subject to increased volatility.

Furthermore, for companies whose securities are traded in the OTCQB, it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to obtain needed capital.

***Our common stock may be deemed a "penny stock," which would make it more difficult for our investors to sell their shares.***

Our common stock may be subject to the "penny stock" rules adopted under Section 15(g) of the Exchange Act. The penny stock rules generally apply to companies whose common stock is not listed on The Nasdaq Capital Market or other national securities exchange and trades at less than \$4.00 per share, other than companies that have had average revenue of at least \$6,000,000 for the last three years or that have tangible net worth of at least \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. Our shares are currently subject to the penny stock rules. If we remain subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

If our stockholders sell substantial amounts of our common stock in the public market, including shares issued in our private placements that were subsequently registered and are free trading, or upon the expiration of any statutory holding period, under Rule 144, or issued upon the exercise of outstanding options, warrants, convertible debt, contingent consideration and additional shares issued under price protection agreements, it could create a circumstance commonly referred to as an "overhang" and in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

***Investor Relations Activities, Nominal "Float" and Supply and Demand Factors May Affect the Price of our Stock.***

We may utilize various techniques such as non-deal road shows and investor relations campaigns in order to create investor awareness for the Company. These campaigns may include personal, video and telephone conferences with investors and prospective investors in which our business practices are described. We have provided in the past, and we will continue to provide, compensation to investor relations firms. Additionally we may pay for newsletters, websites, mailings and email campaigns that are produced by third-parties based upon publicly-available information concerning the Company. We will not be responsible for the content of analyst reports and other writings and communications by investor relations firms not authored by the Company or from publicly available information. We do not intend to review or approve the content of such analysts' reports or other materials based upon analysts' own research or methods. Investor relations individuals or firms should generally disclose when they are compensated for their efforts, but whether such disclosure is made or complete is not under our control.

The SEC and the Financial Industry Regulatory Authority, Inc. ("FINRA") enforce various statutes and regulations intended to prevent manipulative or deceptive devices in connection with the purchase or sale of any security and carefully scrutinize trading patterns and company news and other communications for false or misleading information, particularly in cases where the hallmarks of "pump and dump" activities may exist, such as rapid share price increases or decreases. The Company and its shareholders may be subjected to enhanced regulatory scrutiny due to the relatively small number of holders who own the registered shares of the Company's common stock publicly available for resale, and the limited trading markets in which such shares may be offered or sold which have often been associated with improper activities concerning penny stocks, such as the OTCQB Marketplace. The Supreme Court has stated that manipulative action is a term of art connoting intentional or willful conduct designed to deceive or defraud investors by controlling or artificially affecting the price of securities. Often times, manipulation is associated by regulators with forces that upset the supply and demand factors that would normally determine trading prices. The supply of Company common stock for sale has been and may continue to be limited for an indeterminate amount of time, which could result in higher bids, asks or sales prices than would otherwise exist. Securities regulators have often cited thinly-traded markets, small numbers of holders, and awareness campaigns as components of their claims of price manipulation and other violations of law when combined with manipulative trading, such as wash sales, matched orders or other manipulative trading timed to coincide with false or touting press releases. There can be no assurance that the Company's or third-parties' activities, or the small number of potential sellers or small percentage of stock in the "float," or determinations by purchasers or holders as to when or under what circumstances or at what prices they may be willing to buy or sell stock will not artificially impact (or would be claimed by regulators to have affected) the normal supply and demand factors that determine the price of the stock.

***We may apply the proceeds of future private placements to uses that ultimately do not improve our operating results or increase the value of your investment.***

We have used and intend to use the net proceeds from future private placements for general working capital purposes. Our management has and will have broad discretion in how we use these proceeds. These proceeds could be applied in ways that do not ultimately improve our operating results or otherwise increase the value of the investment in shares of our common stock sold.

***Because our current directors and executive officers are among our largest stockholders, they can exert significant control over our business and affairs and have actual or potential interests that may depart from those of subscribers in our private placements.***

Our current directors and executive officers beneficially own or control approximately 42% of our issued and outstanding shares of common stock. Additionally, the holdings of our directors and executive officers may increase in the future upon vesting or other maturation of exercise rights under any of the restricted stock grants, options or warrants they may hold or in the future be granted or if they otherwise acquire additional shares of our common stock. The interests of such persons may differ from the interests of our other stockholders. As a result, in addition to their board seats and offices, such persons may have significant influence over and may control corporate actions requiring stockholder approval, irrespective of how the Company's other stockholders may vote, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment of our Certificate of Incorporation or By-laws;
- to effect or prevent a transaction, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our stockholders for vote.

Such persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of the Company, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

***Exercise of options and warrants, conversion rights under convertible notes, and price protection agreements may have a dilutive effect on our common stock.***

If the price per share of our common stock at the time of exercise of any options, or any other convertible securities is in excess of the various exercise or conversion prices of such convertible securities, exercise or conversion of such convertible securities would have a dilutive effect on our common stock. As of December 31, 2014, we had: (a) outstanding options to acquire 5,840,000 shares of our common stock at exercise prices of \$0.11 per share for 340,000 options, and \$0.64 per share for 5.5 million options, (b) warrants to acquire 4,250,000 shares of our common stock at exercise prices ranging from \$0.10 to \$1.00, (c) convertible debt of \$69,000 potentially convertible into 76,666 shares of our common stock at \$0.09 per shares, and (d) 645,161 shares issued that are subject to price protection agreements that, if sold at December 31, 2014, would have resulted in us having to issue an additional 1,854,838 shares of our common stock. Further, any additional financing that we secure may require the granting of rights, preferences or privileges senior to those of our common stock and which result in additional dilution of the existing ownership interests of our common stockholders. Subsequent to December 31, 2014, we entered into convertible note transactions that, had they been outstanding at December 31, 2014, are potentially convertible into approximately an additional 12 million shares of our common stock.

***Our certificate of incorporation allows for our board to create new series of preferred stock without further approval by our stockholders, which could adversely affect the rights of the holders of our common stock.***

Our board of directors has the authority to fix and determine the relative rights and preferences of preferred stock. Our board of directors also has the authority to issue preferred stock without further stockholder approval. As a result, our board of directors could authorize the issuance of a series of preferred stock that would grant to holders a preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock. In addition, our board of directors could authorize the issuance of a series of preferred stock that has greater voting power than our common stock or that is convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing stockholders.

#### **Item 1B. Unresolved Staff Comments.**

Not applicable.

#### **Item 2. Properties.**

Our corporate headquarters are located in West Palm Beach, Florida. In August 2013 we entered into a twelve-month lease for a virtual office in West Palm Beach, Florida at a monthly rental of \$299 plus taxes. The lease automatically renews on the anniversary unless terminated by either party on thirty days notice prior to expiration.

NACSV leases its office and manufacturing facilities in Melbourne, FL under a year-to-year operating lease with monthly rent payments totaling \$8,748 in January 2015 and \$5,637 for February – December, 2015. The lease provides that either party may cancel it on thirty day's notice. In September 2014, NACSV entered into a 12-month operating lease for a condominium for a



vice president with monthly rent payments of \$2,160.

**Item 3. Legal Proceedings.**

The Company is plaintiff or defendant in two actions:

*Dekle, et. al. v. Global Digital Solutions, Inc. et. al.*

Brian A. Dekle and John Ramsay filed suit against the Company and its wholly owned subsidiary, North American Custom Specialty Vehicles, Inc. ("NACSV") in the Circuit Court of Baldwin Alabama, on January 14, 2015, case no. 05-CV-2015-900050.00, relating to our acquisition of NACSV (the "Dekle Action"). Prior to instituting the Dekle Action, in June 2014, the Company had entered into an equity purchase agreement with Dekle and Ramsay to purchase their membership interest in North American Custom Specialty Vehicles, LLC. The Dekle Action originally sought payment for \$300,000 in post-closing consideration Dekle and Ramsay allege they are owed pursuant to the equity purchase agreement.

On February 9, 2015, the Company and NACSV removed the Dekle Action to federal court in the United States District Court in and for the Southern District of Alabama, case no. 1:15-CV-00069. The Company and NACSV subsequently moved to dismiss the complaint for (1) failing to state a cause of action, and (2) lack of personal jurisdiction. Alternatively, the Company and NACSV sought a transfer of the case to the United States District Court in and for Middle District of Florida.

In response to the Company's and NACSV's motion to dismiss, Dekle and Ramsay filed an amended complaint on March 2, 2015 seeking specific performance and alleging breach of contract, violations of SEC Rule 10b-5, and violations of the Alabama Securities Act. The amended complaint also names the Company's Chairman, President, and CEO, Richard J. Sullivan ("Sullivan") as a defendant. On March 17, 2015, the Company, NACSV and Sullivan filed a motion to dismiss the amended complaint seeking dismissal for failure to state valid causes of action, for lack of personal jurisdiction, or alternatively to transfer the case to the United States District Court in and for Middle District of Florida. Dekle and Ramsay's response is due on or before March 31, 2015 and thereafter the Company has until April 7, 2015 to file a reply. If the court determines that oral argument is appropriate, the parties will then be notified and a hearing will be scheduled; otherwise the motion will be taken under submission after April 7, 2015.

*Global Digital Solutions, Inc. et. al. v. Communications Laboratories, Inc., et. al.*

On January 19, 2015 the Company and NACSV filed suit against Communications Laboratories, Inc., ComLabs Global, LLC, Roland Lussier, Brian Dekle, John Ramsay and Wallace Bailey for conversion and breach of contract in a dispute over the payment of a \$300,000 accounts receivable that ComLabs owed to NACSV but sent payment directly to Brian Dekle. The case was filed in the Eighteenth Judicial Circuit in and for Brevard County Florida, case no. 05-2015-CA-012250-XXXX. On February 18, 2015 (i) defendants Communications Laboratories, Inc., ComLabs Global, LLC and Roland Lussier and (ii) defendant Wallace Bailey filed their respective motions to dismiss seeking, among other things, dismissal for failure to state valid causes of action, lumping and failure to post a non-resident bond. On February 26, 2015, defendants Dekle and Ramsay filed their motion to dismiss, or stay action, based on already existing litigation between the parties. NACSV has posted the bond.

To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business, financial condition and operating results.

*Legal Proceedings terminated in the fourth quarter of 2014:*

On January 9, 2014, the Company filed a lawsuit against Merriellyn Kett Murphy (“Kett”) asserting three causes of action against her: Tortious Interference with Contract and/or with Prospective Economic Advantage; Fraudulent Inducement; and Negligent Misrepresentation. On May 30, 2014, the Company amended its Complaint to allege four causes of action against Kett: Tortious Interference with Contract and/or with Prospective Economic Advantage; Fraudulent Inducement; Fraudulent Concealment; and Civil Conspiracy. Kett was the CEO, President and sole director and stockholder of Airtronic. The Company had entered into a merger agreement with Airtronic and Kett had made numerous representations to the Company that she would close the merger if the Company met her personal demands, which the Company believes that it did. Nonetheless, Kett refused to close the merger. The case, captioned *Global Digital Solutions, Inc. v. Merriellyn Kett Murphy*, was filed in Palm Beach County Circuit Court and Kett later removed it to Federal Court in the Southern District of Florida. The case number is 14-cv-80190-DTKH (the “Case”). The Company was seeking a judgment against Kett, damages, costs and such other relief as may be awarded by the court. On October 27, 2014, Kett filed a counterclaim against the Company alleging fraud and civil conspiracy seeking damages based on her allegation that the merger prevented her from getting a better personal employment contract on the open market. The Company denied Kett’s allegations.

On December 11, 2014 the Company and Kett (collectively, the “Parties”) entered into a Confidential Settlement Agreement to settle their disputes. The disputes between the Parties have been resolved, with all of the claims and counterclaims dismissed, with a payment by Kett of a confidential amount to the Company, which amount is in keeping with recognition of the expense of litigation, the likely inability to collect any judgment due to financial status, and the prior assignment to Airtronic of Kett’s proprietary rights to intellectual property relating to Airtronic. Accordingly the Case has been dismissed by the Parties with prejudice.

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

**Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.**

Our common stock is quoted on the OTCQB Marketplace ("OTCQB") maintained by the OTC Markets Group under the symbol "GDSI".

The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTCQB.

	<u>Fourth Quarter</u>	<u>Third Quarter</u>	<u>Second Quarter</u>	<u>First Quarter</u>
Fiscal 2013 price range per common share	\$ .87- \$.26	\$1.11 - \$.70	\$ 1.39 - \$.09	\$ .14 - \$.07
Fiscal 2014 price range per common share	\$ .15 - \$.07	\$ .37 - \$.08	\$ .80 - \$.27	\$ .98 - \$.41

The last reported sales price of our Common Stock on the OTCQB on December 31, 2014, was \$0.08 and on March 26, 2015, the last reported sales price was \$0.12.

 **Holders**

As of December 31, 2014, there were 196 holders of record of our common stock, which number does not reflect beneficial stockholders who hold their stock in nominee or "street" name through various brokerage firms.

 **Dividend Policy**

Any determination with respect to the payment of dividends on our common stock will be at the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, general business conditions, terms of financing arrangements and other factors that our Board of Directors may deem relevant. We do not anticipate declaring any cash dividends on our common stock and some of our existing financing agreement currently prohibits the payment of cash dividends on our common stock while the obligations under the notes issued in the financing are outstanding.

 **Securities Authorized for Issuance under Equity Compensation Plans**

On May 19, 2014 our shareholders approved the amended and restated 2014 Global Digital Solutions Equity Incentive Plan (the "Plan") and reserved 20,000,000 shares of our common stock for issuance pursuant to awards under the Plan. The Plan is intended as an incentive, to retain in the employ of, and as directors, officers, consultants, advisors and employees of the Company, persons of training, experience and ability, to attract new directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage the sense of proprietorship and to stimulate the active interest of such persons in the development and financial success of the Company and its subsidiaries. Under the Plan, we are authorized to issue incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, stock appreciation rights, performance shares, restricted stock and long term incentive awards. The Plan is administered by the Board of Directors.

The following table presents information regarding options and rights outstanding under our compensation plans as of December 31, 2014:

<b>Plan Category</b>	<b>Equity Compensation Plan Information</b>		
	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b> <b>(a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b> <b>(b)</b>	<b>Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b> <b>(c)</b>
Equity compensation plans approved by security holders	20,000,000	\$ 0.38	2,500,000
Equity compensation plans not approved by security holders (1)	33,000,000	\$ 0.23	-
<b>Total</b>	<b>53,000,000</b>	<b>\$ 0.28</b>	<b>2,500,000</b>

(1) We have granted restricted stock under restricted stock awards made outside of and prior to the approval of our Plan. These grants were made in lieu of compensation. For further information on our stock incentive plans, see Note 10 to our accompanying consolidated financial statements.

#### **Recent Sales of Unregistered Securities/Recent Purchase of Securities**

We did not repurchase any shares of our Common Stock during the year ended December 31, 2014. During the three months ended December 31, 2014, we issued the following shares of our common stock that were not registered under the Securities Act, and were not previously disclosed in a Current Report on Form 8-K as follows:

On October 17, 2014 we issued 1,976,306 shares of our common stock to Brian A. Dekle and 658,768 shares of our common stock to John Ramsey for their respective shares of the "True-Up" payable in connection with our acquisition of NACSV. We valued these shares at \$816,373.

The shares of common stock described above were issued without registration in reliance upon the exemption provided, among others, by Section 4(2) of the Securities Act of 1933, as amended, as a transaction not involving any public offering. Our reliance on Section 4(2) of the Securities Act was based upon the following factors: (a) the transaction did not involve a public offering; (b) there were only a limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the securities by us; (d) the securities were not broken down into smaller denominations; and (e) the negotiations for the sale of the stock took place directly between the offeror and us.

#### **Item 6. Selected Financial Data.**

Not required because we are a smaller reporting company.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Annual Report contains forward-looking that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, without limitation, statements about our market opportunities, our business and growth strategies, our projected revenue and expense levels, possible future consolidated results of operations, the adequacy of our available cash resources, our financing plans, our ability to pay dividends, our competitive position and the effects of competition and the projected growth of the industries in which we intend to operate. Forward-looking statements are only predictions based on our current expectations and projections about future events and involve risks and uncertainties.

Although we believe that the expectations reflected in the forward-looking statements contained in this Annual Report are based upon reasonable assumptions, no assurance can be given that such expectations will be attained or that any deviations will not be material. In light of these risks, uncertainties and assumptions, the forward-looking statements, events and circumstances discussed in this Annual Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Important factors that could cause our actual results, level of performance or achievements to differ materially from those expressed or forecasted in, or implied by, the forward-looking statements we make in this Annual are discussed under "Item 1A. Risk Factors" and elsewhere in this Annual Report and include:

- our ability to fund our operations and continue as a going concern;
- our ability to have excess cash available for future actions;
- our ability or inability to implement our business plan, including the completion of the acquisitions of companies under letters of intent;
- anticipated trends in our business and demographics;
- relationships with and dependence on technological partners;
- our future profitability and liquidity and the impact of potential future acquisitions on our financial condition, results of operations and cash flows;
- our ability to preserve our intellectual property and trade secrets and operate without infringing on the proprietary rights of third parties;
- regulatory, competitive or other economic influences;
- our operational strategies including, without limitation, our ability to develop or diversify into new businesses;
- our expectation that we will not suffer costly or material product liability claims and claims that our products infringe the intellectual property rights of others;
- our ability to comply with current and future regulations relating to our businesses;
- the impact of new accounting pronouncements;
- our ability to establish and maintain proper and effective internal accounting and financial controls;
- the potential of further dilution to our common stock based on transactions effected involving issuance of shares; and
- our actual results may differ materially from those reflected in forward-looking statements as a result of (i) the risk factors described under the heading "Risk Factors" set forth in Item 1A hereof, (ii) general economic, market or business conditions, (iii) the opportunities (or lack thereof) that may be presented to and pursued by us, (iv) competitive actions by other companies, (v) changes in laws, and (vi) other factors, many of which are beyond our control.

In some cases, you can identify forward-looking statements by terms such as "may," "should," "could," "would," "anticipates," "expects," "attempt," "intends," "plans," "hopes," "believes," "seeks," "estimates" and similar expressions intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from estimates or forecasts contained in the forward-looking statements. Some of these risks and uncertainties are beyond our control. Also, these forward-looking statements represent our estimates and assumptions only as of the date the statement was made.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying audited consolidated financial statements and related footnotes included in Item 8 of this Annual Report.

#### Business:

Our operations presently consist of the business we operate through NACSV. NACSV specializes in building mobile command/communications and specialty vehicles for emergency management, first responders, national security and law enforcement operations. We presently manufacture the following specialty vehicles:

- **Mobile Command Centers:** A properly equipped mobile command center is a response and recovery vehicle that facilitates an agency's ability to expand their command and control capabilities to a remote location. Full interoperable communications are a standard for the mobile command center. For the emergency management agency, the vehicle is an extension of the fixed base emergency operations center. The vehicle should be built with long-term deployment in mind but also be easy to operate in order to allow for quick deployment by minimum personnel if necessary. The successful design of a mobile command center will dictate the frequency of use. In other words, the more difficult to move and operate, the fewer deployments.
- **Command and Control:** In the law enforcement environment, the vehicle can be utilized for command and control as well as hostage negotiations and even as a mobile precinct. Full law enforcement dispatch capabilities can be installed as well as back-up systems to the 9-1-1 Center.
- **Incident Command:** The fire service unit, properly equipped, gives the incident commander the visibility and informational flow along with space for ICS functional personnel all in one area. A meeting area for functional ICS officers to share and evaluate information with the IC is necessary.

We build fiberglass reinforced bodies, the most rugged, lightweight, and weather tolerant body available. The roof design is a unique walk-on surface that provides the greatest flexibility for that space. All vehicle production is done in-house. We build out the body, electrical, and install all equipment. All systems are integrated onsite: satellite, IT, radios, audio/video, electrical and metal fabrication. We provide video surveillance cameras and special lighting packages for night operations and general security. We provide custom requirements, including custom graphics, NIMS and other required compatibility options.

#### Impact of Recently Issued Accounting Standards

For information regarding recent accounting pronouncements and their expected impact on our future consolidated results of operations or financial condition, see Note I to our accompanying consolidated financial statements.

#### Critical Accounting Policies and Estimates

Listed below are descriptions of the accounting policies that our management believes involve a high degree of judgment and complexity, and that, in turn, could materially affect our consolidated financial statements if various estimates and assumptions were changed significantly. The preparation of our consolidated financial statements requires that we make certain estimates and judgments that affect the amounts reported and disclosed in our consolidated financial statements and related notes. We base our estimates on historical experience and on other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. For more detailed information on our significant accounting policies, see Note I to our accompanying consolidated financial statements.

#### *Principles of Consolidation*

We consolidate all subsidiaries in which we hold a greater than 50% voting interest, which requires that we include the revenue, expenses, assets and liabilities of such subsidiaries in our financial statements. As of December 31, 2014, we owned 100% of our active subsidiaries.

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles, or GAAP in the United States of America, or U.S., requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on the knowledge of current events and actions we may undertake in the future, they may ultimately differ from actual results. Included in these estimates are assumptions used in: (i) determining the lives of long-lived assets; (ii) Black-Scholes-Merton, or BSM, valuation models used to estimate the fair value of stock-based compensation and warrants; (iii) determining the value of a promissory note with an embedded convertible option; (iv) the amount of beneficial conversion feature of convertible debt; (v) the liability for estimated contingent consideration payable and (vi) determining valuation allowances for deferred tax assets, among other items.





#### *Goodwill and Intangible Asset*

Goodwill represents the excess of purchase price over the fair value assigned to the net assets acquired in business combinations. Goodwill is allocated to reporting units as of the acquisition date for the purpose of goodwill impairment testing. Currently, we operate in only one reporting unit. Our goodwill arose from our acquisition of NACSV in June 2014. Intangible assets deemed to have an indefinite life such as goodwill are not amortized, but instead are reviewed at least annually for impairment. Intangible assets with finite lives are amortized over their estimated useful lives. As of December 31, 2014, other than goodwill, we had no intangible assets with indefinite lives. We tested our goodwill for impairment during the fourth quarter as a part of our annual business planning cycle. Goodwill is also required to be tested between testing dates if an impairment condition or event is determined to have occurred.

In September 2011, the FASB issued revised goodwill impairment guidance. Under the revised guidance, entities have an option to perform a qualitative assessment to determine whether the two-step impairment testing described in ASC 350, "Intangibles — Goodwill and Other," is necessary. The two-step impairment test is required only if the entity concludes that it is more likely than not that a reporting unit's fair value is less than its carrying value. Management believed that it was more likely than not that a goodwill impairment existed as of December 31, 2014, such that a qualitative assessment was not required and that it was appropriate to proceed directly to the two-step impairment testing. In making such determination, we placed emphasis on the historical results of NACSV's operations, which had declined from our initial expectations in part due to recent changes in senior management, changes in its customer base, and the reduction in the existing backlog of customer orders.

Under Step 1 of the two-step impairment testing, management used an income valuation approach and prepared a discounted cash flow model that calculated what management believed to be the fair value of the reporting unit. The approach considered the likelihood of future cash flows that management expects our NACSV business to generate over the next ten years, along with a terminal value based on a long-term sustainable growth rate subsequent to 2015 of 1%, which were discounted using a 20% discount rate. The fair value of the reporting unit was then compared to the carrying value of the reporting unit. Since the carrying value was more than the fair value, management proceeded to Step 2 of the impairment testing. Under Step 2, management calculated the implied fair value of the existing net assets, excluding goodwill. The implied fair value of the existing net assets was then compared to fair value of the reporting unit. This resulted in an implied fair value of goodwill of nil. Accordingly, we recorded a \$1,156,192 goodwill impairment charge in the fourth quarter of 2014.

We have one other intangible asset consisting of customer relationships, which is being amortized over its expected economic life of five years. The life was determined based upon the expected use of the asset, and other contractual provisions associated with the asset, the estimated average life of NACSV's products, the stability of the industry, and other factors deemed appropriate. In accordance with ASC 350 and ASC 360, we continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful life of our customer relationships asset may warrant revision or that the remaining balance of such asset may not be recoverable. We use an estimate of the related discounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable.

#### *Revenue Recognition*

We follow specific and detailed guidelines in measuring revenue; however, certain judgments affect the application of our revenue policy. The complexity of the estimation process and all issues related to the assumptions, risks and uncertainties inherent with our revenue recognition policies affect the amounts reported in our financial statements. A number of internal and external factors affect the timing of our revenue recognition, including estimates of customer service/warranty periods, estimates of customer returns and the timing of customer acceptance. Our revenue results are difficult to predict, and any shortfall in revenue or delay in recognizing revenue could cause our operating results to vary significantly from quarter to quarter and year to year.

#### *Stock-Based Compensation*

At December 31, 2014, we had one stock-based employee compensation plan. In accordance with ASC 718, awards granted are valued at fair value and compensation cost is recognized on a straight line basis over the service period of each award.

#### *Income Taxes*

We adopted ASC subtopic 740-10, Income Taxes which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns as more fully discussed in our consolidated financial statements.

*Loss Per Common Share and Common Share Equivalent*

Basic and diluted loss per common share has been computed by dividing the loss by the weighted average number of common shares outstanding for the period. Since we have incurred losses attributable to common stockholders, diluted loss per common share has not been computed by giving effect to all potentially dilutive common shares that were outstanding during the period. Dilutive common shares consist of incremental shares issuable upon exercise of stock options, warrants and convertible notes payable to the extent that the average fair value of our common stock for each period is greater than the exercise/conversion price of the derivative securities.

**Results of Continuing Operations**

Revenue and cost of revenue in the year ended December 31, 2014 were \$695,022 and \$662,307, respectively. Revenue was from fixed-price and modified fixed-price construction contracts that are recognized using the percentage-of-completion method of revenue recognition as well as from service and refurbishment work which are recognized on the completion of the job. Cost of revenue include all direct material and labor costs and indirect costs related to contract performance. We had no revenue, or cost of revenue, in the year ended December 31, 2013.

Selling, General and Administrative expense increased by \$2,545,371, or 30.4%, from \$8,384,247 in the year ended December 31, 2013 to \$10,929,618 in the year ended December 31, 2014, and were comprised of:

	<u>2014</u>	<u>2013</u>	<u>Increase / (decrease)</u>	<u>% Change</u>
Stock based compensation expense	\$ 7,687,566	\$ 5,158,208	\$ 2,529,358	49.0%
Acquisition costs	754,572	-	754,572	100.0%
Advertising	13,000	-	13,000	100.0%
Communications	6,768	5,016	1,752	34.9%
Compensation and benefits	480,667	320,000	160,667	50.2%
Debt issuance costs	100,000	1,385,000	(1,285,000)	-92.8%
Facility costs	102,610	13,275	89,335	673.0%
Investment banking fees	412,498	514,808	(102,310)	-19.9%
Investor relations and marketing	600,552	380,944	219,608	57.6%
Marketing and trade shows	65,843	-	65,843	100.0%
Office supply and support	257,275	55,231	202,044	365.8%
Professional fees	236,212	519,908	(283,696)	-54.6%
Travel and entertainment	131,361	31,857	99,504	312.3%
Depreciation and amortization	80,694	-	80,694	100.0%
	<u>\$ 10,929,618</u>	<u>\$ 8,384,247</u>	<u>\$ 2,545,371</u>	<u>30.4%</u>

Stock-based compensation expense increased by \$2,529,358, or 49.0%, from \$5,128,208 in the year ended December 31, 2013 to \$7,687,566 in the year ended December 31, 2014, and was comprised of:

	<u>2014</u>	<u>2013</u>
Fair value expense of restricted stock grants	\$ 3,047,012	\$ 5,158,208
Fair value expense of stock option grants	3,527,620	-
Fair value expense of restricted stock unit grants	1,112,934	-
	<u>\$ 7,687,566</u>	<u>\$ 5,158,208</u>

- We granted restricted stock to officers and advisors which vest ratably through June 2016. \$3,047,012 was expensed in the year ended December 31, 2014, compared to \$5,158,208 in the year ended December 31, 2013.
- Options with a fair market value of \$3,557,400 were granted in 2014 and \$3,527,620 was expensed in the year ended December 31, 2014. We had no such expense in 2013.
- We granted performance based restricted stock units to an officer/director and an employee and expensed \$1,112,934 in the year ended December 31, 2014. We had no such expense in 2013.

See Note 10 to our consolidated financial statements and Item 11 – *Executive Compensation* for additional information on stock-based compensation.

Acquisition costs were related to the NACSV acquisition in the year ended December 31, 2014 and comprised of non-cash charges totaling \$729,572 comprising (i) non-cash compensation costs of \$664,000 to advisors paid in shares of our common

stock, (ii) discount expense of \$65,572 on shares issue to the NACSV sellers, and (iii) cash expenses of \$25,000 paid for due diligence services.

Compensation and benefits increased by \$160,667, or 50.2% to \$480,667 in the year ended December 31, 2014 compared to \$320,000 in the year ended December 31, 2013 comprised:

	<u>2014</u>	<u>2013</u>
Officer compensation	\$ 294,000	\$ 310,000
Payroll	<u>186,667</u>	<u>10,000</u>
	<u>\$ 480,667</u>	<u>\$ 320,000</u>

- Officer compensation represents amounts paid or accrued as payable to officers in the years ended December 31, 2014 and 2013, respectively.
- Payroll represents non-officer salaries and wages for the years ended December 31, 2014 and 2013.

See Item 11 – *Executive Compensation* for additional information on officer compensation.

Debt issuance costs decreased by \$(1,285,000), or (92.8)% from \$1,385,000 in the year ended December 31, 2013 to \$100,000 in the year ended December 31, 2014. In connection with the issuance of convertible notes payable in prior years, we issued a warrant to a consultant which vested over one year. In year ended December 31, 2014 we expensed \$100,000 for amortization of the warrant. In the year ended December 31, 2013 we amortized \$1,350,000 of expense related to warrants and for a debt guaranty issued by an affiliate of our CEO. and \$35,000 was paid in cash for loan fees.

Facility costs increased by \$89,335, or 673.0% from \$13,275 in the year ended December 2013 to \$102,610 in the year ended December 31, 2014. The increased costs were attributable to NACSV's facility costs, which include rent, taxes and insurance.

Investment banking fees decreased by \$(102,310), or (19.9)% from \$514,808 in the year ended December 2013 to \$412,498 in the year ended December 31, 2014. In the year ended December 31, 2014 the \$412,498 expense represented the amortization of a cash fee and the fair value of a warrant granted to an investment banking company. In the year ended December 31, 2013, \$413,498 of the expense represented the amortization of a cash fee and the fair value of a warrant granted to an investment banking company and \$101,310 were for placement fees in connection with private placements.

Investor relations and marketing expense increased by \$219,608, or 57.6%, from \$380,944 in the year ended December 2013 to \$600,552 in the year ended December 31, 2014. In the year ended December 31, 2014, we amortized the fair value of warrants and shares of our common stock totaling \$584,169 issued to IR consultants for IR services, and we paid \$16,383 related to issuing press releases and wire fees. In the year ended December 31, 2013, we amortized the fair value of warrants and shares of our common stock totaling \$318,331 issued to IR consultants, and we paid \$62,613 for public relations, press releases, wire fees, shareholder communication costs and other associated costs.

Marketing and trade show expense was \$65,843 in the year ended December 31, 2014 and related to NACSV expenses of attending trade shows and associated marketing costs. We had no such expense in 2013.

Office supply and support expenses increased by \$202,044 or 365.8% from \$55,231 in the year ended December 2013 to \$257,275 in the year ended December 31, 2014. In the year ended December 31, 2014, the expense included a bad debt charge of \$104,085, \$87,465 for directors and officers liability insurance, \$37,052 for key life and commercial insurance, and \$28,673 for other office related expenses, which included costs from NACSV. In the year ended December 31, 2013, the expense included \$20,386 for directors and officers liability insurance, \$12,000 for research and development, \$8,050 for key life and commercial insurance, \$6,250 for web development expense and \$8,545 for other office related expenses.

Professional fees for the year ended December 31, 2014 decreased by \$(283,696), or (54.6)% from the prior year. In the years ended December 31, 2014 and 2013, such fees consisted of:

	<u>2014</u>	<u>2013</u>
Accounting and auditing fees	\$ 141,043	\$ 99,802
Consulting fee	61,914	57,869(1)
Legal fees	(18,279)	353,978
Directors fees	30,000	-
Other	21,534	8,259
	<u>\$ 236,212</u>	<u>\$ 519,908</u>

(1) \$34,500 classified as consulting in 2013 had been reclassified.

Major changes in professional and filing fees include:

- Accounting and auditing fees increased by \$41,241 or 41.3%. In 2014 the amount included \$45,300 for our annual audit and quarterly reviews, \$1,500 for the review of our registration statement, \$71,454 for the preparation of audited and reviewed financial statements for NACSV required for our SEC filings and closing, \$10,989 for internal audit fees, \$10,000 for tax return preparation, and \$1,800 for other services. In 2013 the amount included \$32,500 for our annual audit and reviews, \$2,465 for review of other SEC filings, \$58,556 for the audit of Airtronic USA, Inc.. and \$6,281 for other expenses.
- Consulting fees in 2014 include \$30,000 NACSV paid to a sales and marketing consultant, \$24,057 for due diligence reviews, and \$7,857 for other miscellaneous services. In 2013, the amount included \$45,369 for reconstructive accounting work in connection with our proposed acquisition of Airtronic and \$12,500 for other consulting services.
- Legal fees decreased by \$(372,257) or (105.2)%. In 2014 we recovered \$414,761 of legal fees in the Airtronic bankruptcy matter, reduced by \$396,482 of legal fees incurred of which approximately \$65,000 was in connection with the NACSV acquisition, \$150,000 in connection with the Airtronic bankruptcy, \$157,000 in connection with litigation against Kett, and \$24,000 for other legal services. In 2013 we incurred approximately \$238,000 in connection with the Airtronic bankruptcy, \$99,000 in connection with the acquisition of Airtronic and \$17,000 for other legal services.
- Directors fees include a monthly payment of \$6,000 to one of our directors from July – November 2014. We had no such expense in 2013.
- Other includes \$19,445 of SEC related fees for filing of SEC reports and XBRL fees, OTC fees and other filing and reporting fees.

Depreciation and amortization in the year ended December 31, 2014 consists of \$72,469 of amortization of intangible assets which are being amortized over five years and \$8,225 of depreciation. We had no such expense in in the year ended December 31, 2013.

Gain on extinguishment of debt in in the year ended December 31, 2014 consists of \$350,000 for forgiveness on the payoff of a convertible note payable, and the recapture of \$37,642 of interest not paid. We had no such income in the year ended December 31, 2013.

Interest income is the interest on the bridge loans we made to Airtronic. Interest expense was expense incurred on notes payable and convertible notes payable.

There is no income tax benefit for the losses for the years ended December 31, 2014 and 2013 since we determined that the realization of the net deferred tax asset is not more likely than not to be realized and we created a valuation allowance for the entire amount of such benefit.

Loss from discontinued operations were \$2,832 and \$271,221 in the years ended December 31, 2014 and 2013, respectively, and represented the direct costs and loss on sale of assets we incurred as we completed the wind down our telecommunications business.

Our results of operations for the years ended December 31, 2014 and 2013 did not contain any unusual gains or losses from transactions not in our ordinary course of business or discussed above.

#### **Liquidity and Capital Resources**

As of December 31, 2014, we had cash and cash equivalents totaling \$160,102 and working capital of \$192,628. For the year ended December 31, 2014, we incurred a net loss of \$11,657,188, and at December 31, 2014, we had an accumulated deficit of \$28,515,563 and total stockholders' equity of \$152,406. We expect to incur losses in fiscal 2015. There is no guarantee that we will ultimately be able to generate sufficient revenue or reduce our costs in the anticipated time frame to achieve and maintain profitability and have sustainable cash flows.

We do not have any material commitments for capital expenditures during the next twelve months. Any required expenditure will be completed through internally generated funding or from proceeds from the sale of common or preferred stock, or borrowings.

#### **Cash Flows**

##### ***Cash used in operating activities***

Net cash used in operating activities totaled \$708,040 for the year ended December 31, 2014 compared to \$983,345 for the year ended December 31, 2013. In the year ended December 31, 2014, cash was used to fund a net loss of \$11,657,188, increased by a gain on extinguishment of debt of \$387,642, and reduced by depreciation and amortization of \$80,694, loss on disposal of fixed assets of \$12,500, a goodwill impairment loss of \$1,156,192, non-cash stock-based compensation expense of \$7,687,566, amortization expense of common stock and warrants issued for services of \$1,009,168, acquisition expenses settled with shares of common stock valued at \$664,000, non-cash discount on stock issued for acquisition of \$65,572, convertible debt discount amortization of \$2,011, non cash interest expense of \$11,696, and changes in operating assets and liabilities of \$647,391.

In the year ended December 31, 2013, cash was used to fund a net loss of \$9,297,253, reduced by non-cash stock-based compensation of \$5,158,208, amortization expense of common stock and warrants issued for services of \$1,080,230, a beneficial conversion feature of debt and warrant of \$676,487, common stock issued for a debt guaranty of \$360,000, and amortization of warrant expense of \$750,000, changes in operating assets and liabilities of \$43,238 and cash provided by discontinued operations of \$245,745.

##### ***Cash used in investing activities***

Net cash provided by investing activities totaled \$598,615 for the year ended December 31, 2014. During the period we, received cash of \$1,465,874 from Airtronic for the repayment of the bridge loans, reduced by net cash of \$864,575 paid for the acquisition of NACSV and \$2,684 for deposits.

Net cash used in investing activities for the year ended December 31, 2013, totaled \$1,446,072 and comprised \$1,465,874 of advances to Airtronic under a bridge loan and \$198 for deposits.

##### ***Cash from financing activities***

Net cash used in financing activities was \$239,697 in the year ended December 31, 2014. We received proceeds of \$125,000 from the exercise of warrants and \$162,242 from issuing notes payable, reduced by \$376,939 used to repay notes payable and \$150,000 used to pay off a convertible note payable.

Net cash provided by financing activities was \$2,573,500 in the year ended December 31, 2013. We received \$1,966,100 of proceeds from the sale of common stock, \$300,000 from the proceeds of warrants exercised, \$374,900 from the issuance of notes payable, reduced by \$67,500 used to repay notes payable.

#### **Financial Condition**

As of December 31, 2014, we had cash and cash equivalents totaling \$160,102, working capital of \$192,628 and stockholders' equity of \$152,406. We do not have a line of credit facility and have relied on short-term borrowings and the sale of common stock to provide cash to finance our operations. We believe that we will need to raise additional capital in 2015 to sustain our operations and fund future acquisitions. We plan to seek additional equity and debt financing to provide funding for operations and future acquisitions.

At December 31, 2014 our registered independent public accounting firm expressed substantial doubt as to our ability to continue as a going concern because we have incurred substantial losses and negative cash flows from operations. Management's plans in order to meet our operating cash flow requirements include (i) financing activities such as private placements of common stock, and issuances of debt and convertible debt instruments, (ii) the establishment of strategic relationships which we expect will lead to the generation of additional revenue or acquisition opportunities and (iii) the acquisition of complementary businesses.

We will need to secure additional funds to finance our operations in 2015, but there are no assurances that such additional funding will be achieved or that we will succeed in our future operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

#### **Inflation**

We do not believe that inflation has had a material effect on our results of operations.

#### **Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements for the year ended December 31, 2014.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market Risk.**

As a smaller reporting company, we are not required to provide the information required by this item.

#### **Item 8. Financial Statements and Supplementary Data.**

<b>Index to Consolidated Financial Statements</b>	<b>Page</b>
<u>Report of PMB Helin Donovan L.L.P. Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	F-3
<u>Consolidated Statements of Operations for the years ended December 31, 2014 and 2013</u>	F-4
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2014 and 2013</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7-30

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls And Procedures***Evaluation of Disclosure Controls and Procedures*

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were not effective as of December 31, 2014, to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

*Inherent Limitations Over Internal Controls*

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's principal executive officer and principal financial officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods is subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Management's Annual Report on Internal Control Over Financial Reporting*

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting, and based on the Company's assessment, management has concluded that its internal control over financial reporting were not effective as of December 31, 2014, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP a result of the identified material weaknesses in our internal control over financial reporting described below. In making this assessment, management used the framework set forth in the report entitled Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), or COSO. The COSO framework summarizes each of the components of a company's internal control system, including (i) the control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring.



*Identified Material Weaknesses*

A material weakness in our internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement or the financial statements will not be prevented or detected. Management identified the following material weaknesses during its assessment of internal controls over financial reporting as of December 31, 2014:

*Resources:* As of December 31, 2014, our Chief Financial Officer performed all accounting functions. As a result, there is a lack of proper segregation of duties.

*Audit Committee:* We do not have, and are not required to have, an audit committee. An audit committee would improve oversight in the establishment and monitoring of required internal controls and procedures.

*Management's Remediation Initiatives*

As we expand, we plan to hire additional accounting staff and implement systems where we have adequate segregation of duties. In the future we may add an audit committee financial expert to our board and create an audit committee made up of one or more of our independent directors.

This Annual Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm as such report is not required for non-accelerated filers such as us because we are an "emerging growth company" pursuant to the JOBS Act.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

## PART III

**Item 10. Directors, Executive Officers and Corporate Governance.**

Our executive officers and our directors, their age and business experience are as follows:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Richard J. Sullivan	76	Director, Chairman, President, Chief Executive Officer and Assistant Secretary
Stephen L. Norris (1)	64	Director, Vice Chairman, CEO GDSI International (1)
Arthur F. Noterman	73	Director
Stephanie S. Sullivan	26	Director
William J. Delgado	55	Director, Executive Vice President
Jenifer S. Carroll (2)	55	President, NACSV and Senior Advisor GDSI
David A. Loppert	60	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Gary A. Gray	62	Vice President, Chief Technology Officer

(1) – Mr. Norris resigned as a director and officer on January 9, 2015.

(2) - Ms. Carroll resigned as President of NACSV, and as a senior advisor of the Company, on March 7, 2015.

Richard J. Sullivan (age 76) was elected a director and appointed Chairman, CEO, President and assistant secretary on August 12, 2013. Prior thereto, from May 2012 through August 2013 Mr. Sullivan served as a consultant to the Company. Mr. Sullivan is responsible for the Company's strategy, leadership and day-to-day operational activities. Mr. Sullivan founded and since 1993 has served as Chairman and CEO of Solutions, Inc. and World Capital Markets, Inc., a both private investment banking companies that specialize in advising corporations on acquiring other business entities and assisting owners and management who are considering selling all or part of their business. Mr. Sullivan founded and from 1993 to 2003 served as Chairman and Chief Executive Officer of Applied Digital Solutions, Inc., a Nasdaq listed technology company that spawned two other listed companies of which he was Chairman of the Board: Digital Angel Corporation (AMEX) and VeriChip Corporation (Nasdaq). Mr. Sullivan is an "Entrepreneur in Residence" with Accretive Exit Partners, LLC whose business is taking positions in mid-stage private companies, replacing financing partners who wish to divest themselves of their equity share of those businesses. He is also co-founder of Vox Equity Partners, LLC, a specialized private equity fund manager that has been purchasing bank private equity portfolio investments since 2006. Management believes that Mr. Sullivan's many years as Chairman and CEO of public companies qualifies him for his positions with the Company.

Stephen L. Norris (age 64) was elected a director and CEO of GDSI International on July 2, 2014 and appointed Vice Chairman on July 7, 2014. Mr. Norris resigned as a director and officer on January 9, 2015.

Arthur F. Noterman (age 73) was appointed to our Board on August 12, 2013. Mr. Noterman is a Chartered Life Underwriter. Mr. Noterman has owned an investment and insurance business for over 40 years located in Massachusetts and is a registered FINRA Broker affiliated with a Cincinnati, Ohio Broker/ Dealer. Mr. Noterman served on the Board of Directors of Applied Digital Solutions Inc. from 1997 to 2003, serving on the Audit and Compensation Committees. Mr. Noterman attended Northeastern University, Boston, MA from 1965-1975 and obtained the Chartered Life Underwriter Professional Designation in 1979 from The American College, Bryn Mawr, Pennsylvania. Management believes that Mr. Noterman's many years as a director of public companies, his financial background, and his many years serving on audit and compensation committees uniquely qualifies him for his position as a director of the Company.

Stephanie C. Sullivan (age 26) was appointed to our Board on August 12, 2013. Ms. Sullivan is a business entrepreneur and has served, since May 2011, as financial manager at Alexis Miami, a privately held upscale women's fashion designer and manufacturer. Ms. Sullivan graduated from the University of Miami in May 2011 with a Bachelor of Arts in Business Administration. Management believes that Ms. Sullivan's marketing and financial background bring a new and young approach that the Board will benefit from.

William J. Delgado (age 55) has served as our President, Chief Executive Officer and Chief Financial Officer from August 2004 to August 2013. Effective August 12, 2013, Mr. Delgado assumed the position of Executive Vice President, and is responsible, along with Mr. Sullivan, for business development. Mr. Delgado has over 33 years of management experience including strategic planning, feasibility studies, economic analysis, design engineering, network planning, construction and maintenance. He began his career with Pacific Telephone in the Outside Plant Construction. He moved to the network engineering group and concluded his career at Pacific Bell as the Chief Budget Analyst for the Northern California region. Mr. Delgado founded All Star Telecom in late 1991, specializing in OSP construction and engineering and systems cabling. All Star Telecom was sold to International FiberCom in April of 1999. After leaving International FiberCom in 2002, Mr. Delgado became President/CEO of Pacific Comtel in San Diego, California. After the Company acquired Pacific Comtel in 2004, Mr. Delgado became Director, President, CEO and CFO of the Company. Management believes that Mr. Delgado's many years of business experience uniquely qualifies him for his positions with the Company.

Jennifer S Carroll (age 55) was appointed president of NACSV on December 3, 2014. She resigned from that position on March 7, 2015. She had served as a senior advisor to the Company since April 2013.

David A. Loppert (age 60) was appointed Executive Vice President, CFO, Treasurer and Secretary on August 12, 2013. From October 2012 through August 2013 Mr. Loppert served as a consultant to the Company. Mr. Loppert is responsible for the Company's finance and administrative functions. He is a financial executive with over 30 years experience. He previously served as chief financial officer, secretary and treasurer of rVue Holdings, Inc. (OTCQB: RVUE), from May 2010 until June 2012. Prior thereto he served as Argo Digital Solutions, Inc.'s senior vice president from March 2009 through January 2010, and from March 2010 through May 2010. He was formerly a director, executive vice president and chief financial officer of Surgical Outcome Support, Inc. from August 2006 through March 2009. From October 2003 through July 2006 he was an independent financial consultant to public and private companies. From June 2001 until September 2003, he was a vice president and director of QSGI Inc. (OTCBB: QSGI). From February 1997 through December 2000, he was vice president, chief financial officer and assistant secretary of Applied Digital Solutions, Inc. (NASDAQ: DIGA) and also served as chief executive officer of SysComm International Corporation, (NASDAQ: SYCM) a network and systems integrator, and an affiliate of Applied Digital. Mr. Loppert began his financial career with Price Waterhouse, an international accounting firm, in 1978 in Johannesburg, South Africa, before moving to its Los Angeles Office in 1980 where over time he became a senior manager. Mr. Loppert earned bachelor's degrees in commerce in 1978 and in accounting in 1980, and a higher diploma in accounting in 1980, all from the University of the Witwatersrand, Johannesburg, South Africa, and was designated a Chartered Accountant (South Africa) in 1980.

Gary A. Grey (age 62) was appointed Vice President and Chief Technology Officer on August 12, 2013. From May 2012 through August 2013 Mr. Gray served as a consultant to the Company. Mr. Gray was most recently President of Digital Angel Wireless and Software, Riverside, CA, a company that designed and built GPS/wireless systems for parole and probation tracking. Mr. Gray is past President of Applied Digital Solutions, Inc., Delray Beach, Florida (NASDAQ: ADSX) and was President of three divisions of the company: ADS Software, Springfield, MO. Atlantic Systems, Wall Township, NJ and Thermo Life Energy Corp., Riverside, CA. ADS Software provided custom-developed manufacturing and wholesale distribution software, Atlantic Systems provides in-store register and accounting systems for retail stores and Thermo Life is a laboratory specializing in thin-film, renewable energy devices. Mr. Gray was Vice president of Verichip, Inc., (NASDAQ: CHIP) a company affiliated with Applied Digital. Mr. Gray was previously National Sales Manager for CAD/CAM company Point Control Corporation, Eugene, Oregon. Point Control's SmartCAM Computer-Aided Manufacturing software has been installed at 12,000 locations in 67 countries. Previously, Mr. Gray was the principal developer of a comprehensive Manufacturing Resource Planning (MRP) software system, one of the first available for the then-newly-introduced 32-bit Digital Equipment Corporation Vax computer platform. The system was installed at approx. 150 locations and several Fortune 1000 companies. The company, White Hat Systems, Woburn, MA, was later sold to Pacific Telesis. Mr. Gray has participated in merger and acquisition activities with Richard Sullivan since 1985. He received a bachelor degree in physics from Hope College, Holland, Michigan in 1974.

Neither Mr. Noterman nor Ms. Sullivan have been involved in any transaction with the Company that would require disclosure under Item 404(a) of the Regulation S-K. Neither Mr. Noterman, Mr. Delgado nor Mr. Loppert has any family relationship with any officer or director of the Company. Stephanie C. Sullivan is the daughter of Richard J. Sullivan. Our Board has determined that Mr. Noterman is independent under the NASDAQ Stock Market Listing Rules.

A vacancy on our board of directors may be filled by the vote of a majority of the directors holding office. All directors hold office for one-year terms and until the election and qualification of their successors. Officers are appointed by the board of directors and serve at the discretion of the board.

**Director or Officer Involvement in Certain Legal Proceedings**

Our directors and executive officers were not involved in any legal proceedings as described in Item 401(f) of Regulation S-K in the past ten years.

**Directors' and Officers' Liability Insurance**

We maintain directors' and officers' liability insurance insuring our directors and officers against liability for acts or omissions in their capacities as directors or officers, subject to certain exclusions. Such insurance also insures us against losses which we may incur in indemnifying our officers and directors. In addition, we have entered into indemnification agreements with key officers, directors and consultants, and such persons shall also have indemnification rights under applicable laws, and our Certificate of Incorporation and Bylaws.

## Corporate Governance

### *Board Responsibilities and Structure*

The Board oversees, counsels, and directs management in the long-term interest of GDSI and its shareholders. The Board's responsibilities include establishing broad corporate policies and reviewing the overall performance of GDSI. The Board is not, however, involved in the operating details on a day-to-day basis.

### *Board Committees*

We presently have no board committees and are not required to until we elect to seek listing on a national securities exchange. Our board may appoint an audit committee, compensation committee, or nominating committee in the future.

### *Code of Ethics*

Our Board of Directors has approved and we have adopted a Code of Business Conduct and Ethics, or the Code of Conduct, which applies to all of our directors, officers and employees. Our Board of Directors has also approved and we have adopted a Code of Ethics for Senior Financial Officers, or the Code for SFO, which applies to our chief executive officer, president and chief financial officer. The Code of Conduct and the Code for SFO are available upon written request to the Company, Attention: Secretary, 777 South Flagler Drive, Suite 800 West, West Palm Beach, FL 33401. Our Board of Directors is responsible for overseeing the Code of Conduct and the Code for SFO and they must approve any waivers of the Code of Conduct for directors and executive officers and any waivers of the Code for SFO.

### **Board Diversity**

While we do not have a formal policy on diversity, our Board considers diversity to include the skill set, background, reputation, type and length of business experience of our Board members as well as a particular nominee's contributions to that mix. Although there are many other factors, the Board seeks individuals with experience on public company boards as well as experience with advertising, marketing, legal and accounting skills.

### **Board Assessment of Risk**

Our risk management function is overseen by our Board. Through our policies, our Code of Conduct and Ethics and our Board's review of financial and other risks, our management keeps our Board apprised of material risks and provides our directors access to all information necessary for them to understand and evaluate how these risks interrelate, how they affect the Company, and how management addresses those risks. Mr. Sullivan, a director and our chief executive officer, and Mr. Loppert, our chief financial officer, work closely together with the Board once material risks are identified on how to best address such risk. If the identified risk poses an actual or potential conflict with management, our independent director may conduct the assessment. Presently, the primary risks affecting GDSI include our ability to close acquisitions and raise sufficient capital to scale our business. The Board focuses on these key risks and interfaces with management on seeking solutions.

### **Advisory Board**

Our advisory board, which advises senior management, was comprised of the following individuals at December 31, 2014:

Edwin J. Wang	Chairman, Advisory Board
Jennifer S. Carroll (1)	Advisor
Matthew K. Kelley	Advisor
Richard J. Feldman	Advisor

(1) Ms. Carroll resigned as an advisor on March 7, 2015.

**Edwin J. Wang** is the Founder and Senior Managing Director of Accretive Exit Partners and Accretive Capital, Boston, MA. Mr. Wang draws from over 20 years of experience in private equity, principal investing and cross border merchant banking. From 2002 to 2007, while at predecessor firm Asymmetry Capital LLC, Mr. Wang led the financial restructuring and liquidation of \$450MM in distressed private equity portfolio assets and monetized value-added liquidity creation in excess of \$200MM. These accomplishments were chronicled in two Harvard Business School case studies and other publications, including The Deal Magazine. Previously, during an eight-year investment banking career, Mr. Wang led the development of Non-Japan Asia business at Credit Suisse First Boston. He began his career in financial services as an Associate in the Capital Markets Group at Lehman Brothers. Mr. Wang earned his B.A. degree in Economics from Columbia University and was a Visiting Fellow in Finance at the MIT Sloan School of Management under the supervision of the late Nobel laureate, Dr. Franco Modigliani.

**Matthew Kelley** is the founder of Vox Equity Partners, LLC, a specialized private equity firm created to manage constructed, primarily bank (LP) owned, venture capital and private equity investments. Vox Equity Partners was initially formed to manage the assets of a constructed fund in 2007. The firm continued to acquire the assets of three other funds. Vox Equity Partners is capitalized to participate in follow-on investments in promising underlying opportunities in the portfolio in order to maximize exit value. From February 2001 through May 2006 Mr. Kelley was a Partner at Accretive Capital, and from October 1997 through October 2000 Matt was Director of Private Equity at MB Capital, a mezzanine capital fund management. Mr. Kelley has an AB in Political Science and Government from Dartmouth College (1987 – 1991), and an MS in Accounting and an MBA, both from Northeastern University (1993 – 1997). Richard J. Sullivan, our Chairman and CEO, is a co-founder of Vox.

**Richard J. Feldman** is an attorney specializing in public affairs, is a former Reagan White House appointee at the Commerce Department, and later became the regional political director for the National Rifle Association. From 1991-1999, Mr. Feldman served as Executive Director of the American Shooting Sports Council (ASSC). In his role as chief lobbyist and spokesman for the firearm industry's national trade association, Mr. Feldman formulated and implemented national litigation strategy and forged collaborative relationships with regulatory and law enforcement agencies. He is the author of RICOCHET: Confessions of a Gun Lobbyist, published by John Wiley & Sons in 2007. Since 2004, Mr. Feldman has served as the founder and CEO of MLS Communication, LLC, a public relations and political consulting firm. He also serves as President and CEO of the Independent Firearm Owners Association. A member of the Washington, DC. bar. Mr. Feldman earned his law degree at Vermont Law School and his BA degree from Union College (NY).

#### **Advisory Board Compensation**

In order to align the advisors with the interest of the stakeholders of the Company, the Board has granted the advisors restricted stock awards which vest over a period of 12 – 24 months and which are forfeited if the advisor is no longer an advisor on the anniversary of the advisory award. See Note 10 to our consolidated financial statements for additional information on our Advisory Board compensation.

#### **Item 11. Executive Compensation.**

The following Summary Compensation Table sets forth, for the years ended December 31, 2014 and 2013, the compensation earned by our named executive officers.

<b>Summary Compensation Table</b>								
<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Stock Awards (5)</b>	<b>Option Awards (5)</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>All other compensation (6)</b>	<b>Total</b>
Richard J. Sullivan (1), Chairman, CEO, President and Assistant Secretary	2014	\$ 120,000	\$ 60,000	\$ -	\$ 1,920,000	\$ -	\$ 19,000	\$ 2,119,000
	2013	\$ 60,000	\$ 37,000	\$ 2,960,000	\$ -	\$ -	\$ 60,000	\$ 3,177,000
David A. Loppert (2), Executive Vice President, CFO, Treasurer and Secretary	2014	\$ 60,000	\$ 30,000	\$ -	\$ 960,000	\$ -	\$ -	\$ 1,050,000
	2013	\$ 30,000	\$ 18,500	\$ 1,380,000	\$ -	\$ -	\$ 30,000	\$ 1,458,500
William J. Delgado (3), Director, Former President, Chief Executive Officer & Chief Financial Officer, currently Executive Vice President	2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	2013	\$ 50,000	\$ -	\$ 260,000	\$ -	\$ -	\$ -	\$ 310,000
Gary A. Gray (4), Vice President, CTO	2014	\$ 24,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,000
	2013	\$ 12,000	\$ 2,500	\$ 260,000	\$ -	\$ -	\$ 10,000	\$ 284,500
Jennifer S. Carroll President, NACSV (7)	2014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	2013	\$ -	\$ -	\$ 425,000	\$ -	\$ -	\$ -	\$ 425,000

- (1) Mr. Sullivan was appointed Chairman, CEO, President and Assistant Secretary on August 12, 2013. Mr. Sullivan acted as a consultant to the Company from May 2012 to August 2013 and received compensation of \$60,000 during this period included in the "all other compensation" column in the above table.
- (2) Mr. Loppert was appointed Executive Vice President, CFO, Treasurer and Secretary on August 12, 2013. Mr. Loppert acted as a consultant to the Company from October 2012 to August 2013 and received compensation of \$30,000 during this period included in the "all other compensation" column in the above table.
- (3) Mr. Delgado was appointed Executive Vice President on August 12, 2013. Prior thereto he served as our CEO, President and CFO.
- (4) Mr. Gray was appointed Vice President, CTO on August 12, 2013. Mr. Gray acted as a consultant to the Company from May 2012 to August 2013 and received compensation of \$10,000 during this period included in the "all other compensation" column in the above table.
- (5) The amounts in these columns represent the fair value of the award as of the grant date as computed in accordance with ASC 718. These amounts represent restricted stock awards granted to the named executive officers, and do not reflect the actual amounts that may be realized by those officers.
- (6) In 2014, \$19,000 is for reimbursement of unallocable expenses. In 2013, the amounts for Messrs. Sullivan, Loppert and Gray is compensation paid to them during the period January – August 2013 whilst they served as consultants to the Company.
- (7) Ms. Carroll was appointed President of NACSV on December 3, 2014 and she resigned on March 7, 2015. She received no compensation from NACSV in 2014. As a senior advisor to the Company, Ms. Carroll was awarded 2,500,000 restricted shares of common stock in 2013 with a grant-date fair value of \$425,000. Such expense was recognized in accordance with ASC 718 over the vesting and service period.

We have not entered into any employment agreements or arrangements with our named executive officers.

#### ***Options Granted to Named Executives***

On March 5, 2014, we granted 3 million stock options under our 2014 Equity Compensation Plan to Richard J. Sullivan, our CEO, and 1.5 million stock options to David A. Loppert, our CFO. The options were granted at \$0.64 per share, the grant date fair value of our common stock, vested after six months and are exercisable through March 5, 2024.

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

The following table provides information as of December 31, 2014 regarding unexercised stock options and restricted stock awards granted to each of our named executive officers:

<b>Outstanding Equity Awards at Fiscal Year-End</b>									
Name	Option Awards					Stock Awards			
	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: number of securities underlying unexercised unearned options (#)	Option exercise price (\$)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested (\$)
Richard J. Sullivan	3,000,000	-	-	\$ 0.64	3/5/2024	-	\$ -	-	\$ -
David A. Loppert	1,500,000	-	-	\$ 0.64	3/5/2024	-	\$ -	-	\$ -
William J. Delgado	-	-	-	\$ -	-	-	\$ -	-	\$ -
Gary A. Gray	-	-	-	\$ -	-	-	\$ -	-	\$ -
Jennifer S. Carroll	-	-	-	\$ -	-	104,167	\$ 8,333	-	\$ -

**2014 Option Exercises and Stock Vested**

The following table provides information regarding options exercised and restricted stock that vested in the year ended December 31, 2014 for our named executive officers:

Name	Option Exercises and Stock Vested			
	Option Awards		Stock Awards	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$)	Number of shares acquired on vesting (#)	Value realized on vesting (\$)
Richard J. Sullivan	-	\$ -	1,083,333	\$ 352,696
David A. Loppert	-	\$ -	666,667	\$ 143,652
William J. Delgado	-	\$ -	83,333	\$ 32,500
Gary A. Gray	-	\$ -	83,333	\$ 32,500
Jennifer S. Carroll	-	\$ -	1,406,250	\$ 239,062

(1) These amounts represent the grant date fair value expense amortized in 2014, and do not reflect the actual amounts that may be realized by those officers.

**Pension Benefits**

None of our named executive officers is covered by a pension plan or other similar benefit plan that provides for payments or other benefits at, following, or in connection with retirement.

**Nonqualified Deferred Compensation**

None of our named executive officers is covered by a defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

**Director Compensation**

We do not have a compensation arrangement in place for members of our Board and we have not finalized any plan to compensate directors in the future for their services as directors. We anticipate that we will develop a compensation plan for our independent directors in order to attract qualified persons and to retain them. We expect that the compensation arrangements will generally be comprised of equity awards and cash for reimbursement of expenses only; however exceptions may be made if circumstances warrant.

Name (1)	Director Compensation					Total(\$)
	Fees earned or paid in cash	Stock awards (2)	Option awards (3)	Non-equity incentive plan compensation	All other compensation	
Arthur F. Noterman	\$ -	\$ -	\$ 320,000	\$ -	\$ -	\$ 320,000
Stephanie C. Sullivan	\$ -	\$ -	\$ 320,000	\$ -	\$ -	\$ 320,000
Stephen L. Norris (4)	\$ 30,000	\$ 3,600,000	\$ -	\$ -	\$ -	\$ 3,630,000

- (1) Does not include directors who are named executive officers whose compensation is reflected in the Summary Compensation Table above.
- (2) Represents the fair value of the restricted stock unit award as of the grant date as computed in accordance with ASC 718, and does not reflect the actual amount that may be realized.
- (3) Represents the fair value of the award as of the grant date as computed in accordance with ASC 718, and do not reflect the actual amounts that may be realized.
- (4) Effective as of July 2, 2014, Stephen L. Norris was appointed a director of the Company In July 2014 and resigned in January 2015. We paid Mr. Norris a monthly fee of \$6,000 in cash, monthly in arrears commencing July 31, 2014 through November 30, 2014.

None of our directors exercised options during the year ended December 31, 2014.





**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth the number of shares of our Common Stock beneficially owned as of March 26, 2015, by (i) those persons known by us to be owners of more than 5% of our Common Stock, (ii) each director (iii) our named executive officers (as disclosed in the Summary Compensation Table), and (iv) all of our executive officers and directors as a group. Except as otherwise indicated, the address of each stockholder listed below is: c/o Global Digital Solutions, Inc. 777 South Flagler Drive, Suite 800W, West Palm Beach, FL 33401.

Name and Address of Beneficial Owner	Number of shares of Common Stock Beneficially Owned (1)	Percent of Class (%)
<b>Officers and Directors:</b>		
Richard J. Sullivan (2)	30,240,000	27.7%
David A. Loppert (3)	9,500,000	8.7%
William J. Delgado (4)	3,322,032	3.0%
Arthur F. Noterman (5)	500,000	*
Stephanie C. Sullivan (5)	1,000,000	*
Gary A. Gray	1,500,000	1.4%
All Directors and Officers	46,062,032	42.2%

**5% or Greater Shareholders:**

None known

\* Less than 1%.

- (1) Applicable percentages are based on 109,170,531 shares outstanding as of March 26, 2015 and includes issued and outstanding shares of common stock as well as vested but unissued restricted shares. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. A person is deemed to be the beneficial owner of securities that can be acquired by such person within 60 days whether upon the exercise of options or otherwise. Shares of Common Stock subject to options and warrants currently exercisable, or exercisable within 60 days after the date of this report, are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Unless otherwise indicated in the footnotes to this table, the Company believes that each of the shareholders named in the table has sole voting power.
- (2) Includes (a) 3,000,000 currently exercisable stock options, (b) 3,000,000 shares owned by Bay Acquisition Corp., an entity controlled by Mr. Sullivan, and (c) 530,000 shares owned by Mr. Sullivan's minor son.
- (3) Includes 1,500,000 currently exercisable stock options.
- (4) Includes (a) 3,221,032 shares owned by Bronco Communications, LLC, an entity which Mr. Delgado controls and (b) 101,000 shares owned by Mr. Delgado's minor daughter.
- (5) Includes 500,000 currently exercisable stock options.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Shares of our common stock that were authorized for issuance under our equity compensation plans is presented in Item 5 on page 24 of this Annual Report.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Since the beginning of our fiscal year 2013, there has not been, and there is not currently proposed, any transaction or series of similar transactions in which the amount involved exceeded or will exceed the lesser of \$120,000 or 1% of the average of our total assets at year end for the last two completed fiscal years and in which any related person, including any director, executive officer, holder of more than 5% of our capital stock during such period, or entities affiliated with them, had a material interest, other than as described in the transactions set forth below:

In December 2012, we entered into a Promissory Note Purchase Agreement, under which Gabriel a De Los Reyes (the "Lender") agree to lend us \$750,000 evidenced by a secured promissory note (the "Note") and a Security Agreement. As part of the agreement with the Lender, Bay Acquisition Corp. (aka Bay Acquisition LLC), an entity controlled by Richard J. Sullivan, our Chairman and CEO, agreed to pledge certain collateral as additional security for the loan. In consideration for this pledge of collateral, we agreed to issue to Bay Acquisition Corp. 3,000,000 shares of our restricted common stock valued at \$360,000.

In January 2013, we granted Richard J. Sullivan and David A. Loppert restricted stock grants of 3,000,000 and 5,000,000 shares of common stock, respectively. In June 2013, we granted Richard J. Sullivan, David A. Loppert, William J. Delgado and Gary A. Gray, restricted stock grants of 10,000,000, 3,000,000, 1,000,000 and 1,000,000 shares of common stock, respectively. The grants vested in January 2014. The shares were valued at \$0.12 and \$0.26, respectively.

In February 2013, we granted Jennifer S. Carroll, a Senior Advisor, restricted stock grants of 2,500,000 shares of common stock valued at \$0.17.

On February 4, 2014 we granted 500,000 options exercisable \$0.64 per share, to each of Arthur F. Noterman and Stephanie C. Sullivan, directors. The options vested on August 4, 2014, are exercisable through February 4, 2024, and had an aggregate grant date fair value of \$320,000 each.

On March 5, 2014 we granted 3,000,000 options to Richard J. Sullivan, and 1,500,000 options to David A. Loppert, exercisable \$0.64 per share. The options vested on September 5, 2014, are exercisable through March 5, 2024, and had an aggregate grant date fair value of \$1,920,000 and \$960,0000, respectively.

On August 25, 2014 we granted Stephen L. Norris, then Chairman and CEO of our wholly owned subsidiary, GDSI International, 12 million restricted stock units ("RSU's") convertible into 12 million shares of the Company's common stock, with a grant date fair market value of \$3,600,000. The grant was made under our 2014 Equity Incentive Plan. Mr. Norris resigned on January 9, 2015 and forfeited the RSU's.

On December 8, 2014, we entered into a Securities Purchase Agreement ("Charter SPA") with Charter 804CS Solutions, Inc. ("Charter"), an affiliate of Richard J. Sullivan, our Chairman and CEO, providing for the purchase of a Convertible Promissory Note in the principal amount of \$37,500 ("Charter Note"). The Charter Note: contains a \$1,500 original issue discount to cover legal fees such that the cash proceeds received on the closing of Charter Note is \$36,000; bears interest at the rate of 8% per annum; is due and payable on December 8, 2015; and by amendment (the "Charter Amendment") may be converted by Charter at any time after 180 days of the date of closing into shares of Company common stock at a fixed conversion price of \$0.09 per share of Common Stock. The Charter Note also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the note in the event of such defaults.

On December 8, 2014, we entered into a Securities Purchase Agreement ("Loppert SPA") with David A. Loppert ("Loppert"), our Chief Financial Officer, providing for the purchase of a Convertible Promissory Note in the principal amount of \$31,500 ("Loppert Note"). The Loppert Note: contains a \$1,500 original issue discount to cover legal fees such that the cash proceeds received on the closing of the Loppert Note is \$30,000; bears interest at the rate of 8% per annum; is due and payable on December 8, 2015; and may be converted by Loppert at any time after 180 days of the date of closing into shares of Company common stock at a conversion price of \$0.09 per share of Common Stock. The Loppert also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the note in the event of such defaults.

In the twelve-month periods ended December 31, 2014 and 2013 our named executive officers were compensated as per the details in "Item 11 – *Executive Compensation*", as follows:

Name	2014	2013
Richard J. Sullivan	\$ 2,119,00	\$ 3,177,000
David A. Loppert	1,050,000	1,458,500
William J. Delgado	-	310,000
Gary A. Gray	24,000	284,500
Jennifer S. Carroll	-	425,000

#### Item 14. Principal Accounting Fees and Services.

Our Board of Directors reviews and pre-approves audit and permissible non-audit services performed by our independent registered public accounting firm PMB Helin Donovan LLP ("PMB") as well as the fees charged for such services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to our Board of Directors regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Board of Directors may also pre-approve particular services on a case-by-case basis.

In its review of non-audit service and its appointment of PMB as our independent registered public accounting firm, Our Board considered whether the provision of such services is compatible with maintaining independence.

The following table shows the fees for services provided by PMB, and Crow, Shields Bailey, PC ("CSB") , NACSV's prior accounting firm, for the years ended December 31, 2014 and 2013:

	2014	2013
Audit Fees - GDSI (1)	\$ 45,300	\$ 32,500
Audit Related Fees (2)	1,500	2,465
Tax Fees (tax-related services)	-	-
All other fees (3)	-	58,556
Total GDSI Fees Paid to PMB	46,800	93,521
Audit Fees – NACSV paid to CSB (3)	71,453	
Total	\$ 118,253	\$ 93,521

- (1) Audit fees — these fees relate to the audit of our annual financial statements and the review of our interim quarterly financial statements.
- (2) Audit related fees — these fees relate to assistance with a registration statement.
- (3) All other fees – these fees relate to fees incurred in connection with the proposed acquisition of Airtronic and the audit of its historical financial statements.
- (4) Fees paid to Crow, Shields Bailey, PC, NACSV's prior accountants for December 31, 2013 and 2012 audit and for review the review of the June 15, 2014 financial statements.

All services performed by PMB were performed by full-time, permanent employees. All services provided by and all fees paid to PMB in fiscal 2014 and 2013 were pre-approved by our Board of Directors. None of the services described above were approved pursuant to the exception provided in Rule 2-01(c)(7)(i)(C) of Regulation S-X promulgated by the SEC.

## PART IV

**Item 15. Exhibits, Financial Statement Schedules.****(a) Documents filed as part of this report**

## (1) All financial statements

<u>Index to Consolidated Financial Statements</u>	<u>Page</u>
<u>Report of PMB Hclin Donovan LLP, Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	F-3
<u>Consolidated Statements of Operations for the years ended December 31, 2014 and 2013</u>	F-4
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2014 and 2013</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7-30

## (2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

**(b) Exhibits required by Item 601 of Regulation S-K**

See the Exhibit Index filed as part of this Annual Report.

**SIGNATURES**

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

**GLOBAL DIGITAL SOLUTIONS, INC.**

By: /s/ Richard J. Sullivan  
Richard J. Sullivan  
Chief Executive Officer

Date: March 30, 2015

**Power of Attorney**

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

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Richard J. Sullivan</u> <b>Richard J. Sullivan</b>	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 30, 2015
<u>/s/ David A. Loppert</u> <b>David A. Loppert</b>	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 30, 2015
<u>/s/ William J. Delgado</u> <b>William J. Delgado</b>	Director, Executive Vice President	March 30, 2015
<u>/s/ Arthur F. Noterman</u> <b>Arthur F. Noterman</b>	Director	March 30, 2015
<u>/s/ Stephanie C. Sullivan</u> <b>Stephanie C. Sullivan</b>	Director	March 30, 2015

<b><u>Index to Consolidated Financial Statements</u></b>	<b><u>Page</u></b>
<u>Report of PMB Helin Donovan LLP, Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013</u>	F-3
<u>Consolidated Statements of Operations for the years ended December 31, 2014 and 2013</u>	F-4
<u>Consolidated Statements of Stockholders' Equity (Deficit) for the years ended December 31, 2014 and 2013</u>	F-5
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2014 and 2013</u>	F-6
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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Global Digital Solutions, Inc.

We have audited the accompanying consolidated balance sheets of Global Digital Solutions, Inc. (“the Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders’ equity and cash flows for each of the years in the two-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Global Digital Solutions, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders’ equity and cash flows for the years ended December 31, 2014 and 2013 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has sustained a net loss from operations and has an accumulated deficit. These factors raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in this regard are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PMB Helin Donovan, LLP  
PMB Helin Donovan, LLP  
Seattle, Washington  
March 30, 2015



**GLOBAL DIGITAL SOLUTIONS, INC.  
CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 160,102	\$ 509,224
Notes receivable	-	1,465,874
Accounts receivable, net	302,400	-
Inventory	226,897	-
Prepaid expenses	81,498	122,056
<b>Total current assets</b>	<b>770,897</b>	<b>2,097,154</b>
<b>Property and equipment, net</b>	<b>9,040</b>	<b>-</b>
<b>Intangible assets</b>	<b>596,471</b>	<b>-</b>
<b>Deposits</b>	<b>2,882</b>	<b>198</b>
<b>Total assets</b>	<b>\$ 1,379,290</b>	<b>\$ 2,097,352</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 281,726	\$ 166,256
Accrued expenses	197,578	165,537
Convertible notes payable	-	529,309
Notes payable	58,258	25,000
Convertible notes payable to related parties, net of discount	40,707	-
<b>Total current liabilities</b>	<b>578,269</b>	<b>886,102</b>
<b>Contingent consideration payable</b>	<b>648,615</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,226,884</b>	<b>886,102</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value, 35,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.001 par value, 450,000,000 and 175,000,000 shares authorized, 108,291,855 and 93,024,117 shares issued and outstanding	\$ 108,292	\$ 93,025
Additional paid-in capital	28,559,677	17,976,600
Accumulated deficit	(28,515,563)	(16,858,375)
<b>Total stockholders' equity</b>	<b>152,406</b>	<b>1,211,250</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,379,290</b>	<b>\$ 2,097,352</b>

The accompanying notes are an integral part of these consolidated financial statements.

**GLOBAL DIGITAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Years Ended December 31,	
	2014	2013
<b>Revenue</b>	\$ 695,022	\$ -
<b>Cost of revenue</b>	662,307	-
<b>Gross profit</b>	<u>32,715</u>	<u>-</u>
<b>Operating expenses</b>		
Selling, general and administrative expenses	10,929,618	8,384,247
<b>Other (income)/expense</b>		
Goodwill impairment loss	1,156,192	-
Gain on extinguishment of debt	(387,642)	(31,712)
Loss on disposal of fixed assets	12,500	-
Interest income	(43,182)	(59,701)
Interest expense	19,585	733,198
<b>Total costs and expenses</b>	<u>11,687,071</u>	<u>9,026,032</u>
<b>Loss from continuing operations before provision for income taxes</b>	(11,654,356)	(9,026,032)
<b>Provision for income taxes</b>	-	-
<b>Loss from continuing operations</b>	<u>(11,654,356)</u>	<u>(9,026,032)</u>
<b>Loss from discontinued operations</b>	(2,832)	(271,221)
<b>Net loss</b>	<u>\$ (11,657,188)</u>	<u>\$ (9,297,253)</u>
<b>Loss per common share</b>		
<b>common stockholders - basic and diluted:</b>		
Loss from continuing operations	\$ (0.11)	\$ (0.12)
Loss from discontinued operations	-	-
<b>Net loss</b>	<u>\$ (0.11)</u>	<u>\$ (0.12)</u>
<b>Shares used in computing net loss per share:</b>		
<b>Basic and diluted</b>	<u>101,755,501</u>	<u>74,484,164</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GLOBAL DIGITAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2014**

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2012	-	\$ -	52,263,451	\$ 52,264	\$ 7,326,336	\$ (7,561,122)	\$ 115,414	\$ (67,108)
Stock-based compensation expense	-	-	23,000,000	23,000	5,135,208	-	-	5,158,208
Common stock issued for debt guaranty	-	-	3,000,000	3,000	357,000	-	-	360,000
Sale of common stock	-	-	5,634,000	5,634	1,960,466	-	-	1,966,100
Shares or warrants issued for services	-	-	1,876,666	1,877	1,078,353	-	-	1,080,230
Convertible debt beneficial conversion	-	-	-	-	676,487	-	-	676,487
Warrant expense, net of discount	-	-	-	-	400,000	-	-	400,000
Common stock issued upon conversion of debt	-	-	3,000,000	3,000	747,000	-	-	750,000
Common stock issued upon exercise of warrants	-	-	4,250,000	4,250	420,750	-	-	425,000
Stock subscription receivable	-	-	-	-	(125,000)	-	-	(125,000)
Loss on disposal of discontinued operations	-	-	-	-	-	-	(115,414)	(115,414)
Net loss	-	-	-	-	-	(9,297,253)	-	(9,297,253)
Balance, December 31, 2013	-	-	93,024,117	93,025	17,976,600	(16,858,375)	-	1,211,250
Stock-based compensation expense	-	-	8,937,503	8,937	7,678,629	-	-	7,687,566
Common stock issued for acquisition of business	-	-	3,280,235	3,280	1,078,665	-	-	1,081,945
Shares or warrants issued for services	-	-	1,250,000	1,250	1,007,918	-	-	1,009,168
Common stock issued for services in connection with acquisitions	-	-	1,800,000	1,800	662,200	-	-	664,000
Stock subscription received	-	-	-	-	125,000	-	-	125,000
Beneficial conversion feature of convertible notes	-	-	-	-	30,665	-	-	30,665
Net loss	-	-	-	-	-	(11,657,188)	-	(11,657,188)
Balance, December 31, 2014	-	\$ -	108,291,855	\$ 108,292	\$28,559,677	\$ (28,515,563)	\$ -	\$ 152,406

The accompanying notes are an integral part of these consolidated financial statements.

**GLOBAL DIGITAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,	
	2014	2013
<b>Operating Activities</b>		
Net loss	\$(11,657,188)	\$ (9,297,253)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	80,694	-
Gain on extinguishment of debt	(387,642)	-
Loss on disposal of fixed assets	12,500	-
Goodwill impairment loss	1,156,192	-
Stock- based compensation expense	7,687,566	5,158,208
Common stock and warrants issued in payment of services	1,009,168	1,080,230
Non cash acquisition expense settled with shares	664,000	-
Non-cash discount on price of shares issued	65,572	-
Convertible debt discount amortization	2,011	-
Non cash interest expense	11,696	-
Beneficial conversion feature of debt and warrant	-	676,487
Debt guaranty settled by issuing common stock	-	360,000
Amortization of warrant expense	-	750,000
Changes in operating assets and liabilities:		
Accounts receivable	68,081	-
Inventory	(256,991)	-
Costs in excess of billings	570,787	-
Prepaid expenses	66,561	(122,056)
Accounts payable	151,193	166,101
Accrued expenses	34,129	(807)
Billings in excess of costs	13,631	-
Cash provided by discontinued operations	-	245,745
<b>Net cash used in operating activities</b>	<b>(708,040)</b>	<b>(983,345)</b>
<b>Investing Activities</b>		
Repayment of loans to Airtronic USA, Inc.	1,465,874	-
Loans to Airtronic USA, Inc.	-	(1,465,874)
Payment for NACSV, net of cash acquired	(864,575)	-
Deposits	(2,684)	(198)
<b>Net cash provided by (used in) investing activities</b>	<b>598,615</b>	<b>(1,466,072)</b>
<b>Financing Activities</b>		
Proceeds from the sale of common stock	-	1,966,100
Proceeds from the exercise of warrants	125,000	300,000
Proceeds from notes payable	162,242	374,900
Payments on notes payable	(376,939)	(67,500)
Payment on convertible notes	(150,000)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(239,697)</b>	<b>2,573,500</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(349,122)</b>	<b>124,083</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>509,224</b>	<b>385,141</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 160,102</b>	<b>\$ 509,224</b>
<b>Supplementary disclosure of cash flow information</b>		
Cash paid during the year for:		
Interest	<b>\$ 5,878</b>	<b>\$ -</b>

Taxes	\$	-	\$	-
<b>Supplementary disclosure of non-cash investing and financing activities</b>				
Purchase of NACSV with common shares	\$	1,081,945	\$	-
Debt settled with shares of common stock	\$	-	\$	750,000

The accompanying notes are an integral part of these consolidated financial statements.

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**GLOBAL DIGITAL SOLUTIONS, INC.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2014 and 2013**

**Note 1 – Organization, Liquidity and Summary of Significant Accounting Policies**

**Organization and History**

We were incorporated in New Jersey as Creative Beauty Supply, Inc. (“Creative”) in August 1995. In March 2004, Creative acquired Global Digital Solutions, Inc., a Delaware corporation (“Global”). The merger was treated as a recapitalization of Global, and Creative changed its name to Global Digital Solutions, Inc.. Global provided structured cabling design, installation and maintenance for leading information technology companies, federal, state and local government, major businesses, educational institutions, and telecommunication companies. Our mission was to target the United States government contract marketplace for audio and video services. Due to capital constraints our operations team focused mainly in Northern California. On May 1, 2012, we made the decision to wind down our operations in the telecommunications area and to refocus our efforts in the area of cyber arms technology and complementary security and technology solutions. From August 2012 through November 2013 we were actively involved in managing Airtronic USA, Inc., and effective as of June 16, 2014 we acquired North American Custom Specialty Vehicles (“NACSV”).

**Summary of Significant Accounting Policies**

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries, NACSV, GDSI Florida, LLC and Global Digital Solutions, LLC, dba GDSI International. All intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent liabilities. Actual results could differ materially from these estimates. Significant estimates include allowance for doubtful accounts receivable, provision for excess and obsolete inventory, valuation of intangible and long-lived assets, fair value of convertible debt and derivative liabilities, income taxes and share-based compensation expense.

*Financial Condition and Liquidity*

The accompanying financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. We have sustained losses and experienced negative cash flows from operations since inception, and for the year ended December 31, 2014 we incurred a net loss of \$11,657,188, used net cash of \$708,040 to fund operating activities, and net cash of \$239,697 for financing activities. At December 31, 2014, we had an accumulated deficit of \$28,515,563, cash and cash equivalents of \$160,102, working capital of \$192,628 and stockholders’ equity of \$152,406. We have funded our activities to date almost exclusively from equity and debt financings.

We will continue to require substantial funds to continue development of our core business. Management’s plans in order to meet our operating cash flow requirements include (i) financing activities such as private placements of common stock, and issuances of debt and convertible debt instruments, (ii) the establishment of strategic relationships which we expect will lead to the generation of additional revenue or acquisition opportunities and (iii) the acquisition of additional businesses that provide complementary security and technology solutions.

While we believe that we will be successful in obtaining the necessary financing to fund our operations, there are no assurances that such additional funding will be achieved or that we will succeed in our future operations. Subsequent to December 31, 2014, we have entered into a series of convertible debt financings and received net proceeds of \$471,630, and we expect to raise additional funds through additional convertible debt offerings in the future. See Note 16, *Subsequent Events*.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern as a result of our history of net losses. Our ability to achieve and maintain profitability and positive cash flow is dependent upon our ability to successfully execute the plans to pursue pending acquisitions and raise the funds necessary to complete such acquisitions as described in this Form 10-K. The outcome of these matters cannot be predicted at this time. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded

asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

*Cash and Cash Equivalents*

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents.

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#### *Accounts Receivable*

We record accounts receivable at the invoiced amount and we do not charge interest. We maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. We review the accounts receivable by customers which are past due to identify specific customers with known disputes or collectability issues. In determining the amount of the reserve, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Allowance for doubtful accounts was \$104,085 at December 31, 2014.

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and accounts receivable.

#### *Inventory*

Inventory consists of the in progress mobile command units and is stated at the lower of cost (first-in, first-out) or market.

#### *Property and equipment*

Property and equipment are carried at cost. Expenditures which materially increase values or extend useful lives are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are charged against income as incurred. The net gain or loss on items retired or otherwise disposed of is credited or charged to operations and the cost and accumulated depreciation are removed from the accounts.

A provision for depreciation of property and equipment is made on a basis considered adequate to amortize the related costs (net of salvage value) over their estimated useful lives using the straight-line method. Estimated useful lives are principally as follows: vehicles, 5 years; furniture and fixtures and office equipment, 5-10 years; leasehold improvements, term of lease or 15 years, whichever is less; machinery and equipment 5-10 years.

#### *Goodwill and Intangible Assets*

Goodwill represents the excess of purchase price over the fair value assigned to the net assets acquired in business combinations. Goodwill is allocated to reporting units as of the acquisition date for the purpose of goodwill impairment testing. Currently, we operate in only one reporting unit. Our goodwill arose from our acquisition of NACSV in June 2014, as more fully discussed in Notes 2 and 3. Intangible assets deemed to have an indefinite life such as goodwill are not amortized, but instead are reviewed at least annually for impairment. Intangible assets with finite lives are amortized over their estimated useful lives. As of December 31, 2014, other than goodwill, we have no intangible assets with indefinite lives. We tested our goodwill for impairment during the fourth quarter as a part of our annual business planning cycle. Goodwill is also tested between testing dates if an impairment condition or event is determined to have occurred. As a result of our annual assessment, we determined that the implied value of our existing goodwill was nil and, therefore, we recorded a \$1,156,192 goodwill impairment charge in the fourth quarter of 2014. In performing our assessment, we placed emphasis on the estimated future cash flows from NACSV's operations, which had declined from our initial expectations in part due to recent changes in its senior management, changes in the customer base, and the reduction in the existing backlog of customer orders. We based our valuation on the income valuation approach using a discounted cash flow model.

We have one other intangible asset consisting of customer relationships, which is being amortized over its expected economic life of five years. The life was determined based upon the expected use of the asset, and other contractual provisions associated with the asset, the estimated average life of NACSV's products, the stability of the industry, and other factors deemed appropriate. In accordance with ASC 350 and ASC 360, we continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful life of our customer relationships asset may warrant revision or that the remaining balance of such asset may not be recoverable. We use an estimate of the related discounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. See Note 3 for more information regarding goodwill and intangible assets.

#### *Fair Value Measurements*

The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term debt approximate fair value due to their relatively short maturities.

#### *Convertible Notes With Variable Conversion Options*

We have entered into convertible notes with related parties that contain a variable conversion options, whereby the outstanding principal and accrued interest may be converted, by the holder, into shares of our common stock at a fixed price which represented a 30% discount to the price of our common stock at the time of issuance. We measure the fair value of the notes at the time of issuance, which is the result of the share price conversion discount, and record the discount (beneficial conversion feature) as a reduction of debt. We then accrete the discount as interest expense utilizing the effective interest rate method over



the life of the debt.

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*Debt Issued with Warrants*

We account for the issuance of debt and related warrants by allocating the debt proceeds between the debt and warrants based on the relative estimated fair values of the debt security without regard for the warrants and the estimated fair value of the warrants themselves. The amount allocated to the warrants would then be reflected as both an increase to equity, and as a debt discount that would be amortized over the term of the debt. However, in circumstances where warrants must be accounted for as a liability, the full estimated fair value of the warrants is established as both a liability and a debt discount. In some cases, if the value of the warrants is greater than the principal amount received, an immediate interest expense charge is recorded for the excess.

In accounting for convertible debt instruments, the proceeds from issuance of the convertible notes are first allocated between the convertible notes and the warrants. If the amount allocated to convertible notes results in an effective per share conversion price less than the fair value of our common stock on the date of issuance, the intrinsic value of this beneficial conversion feature is recorded as a further discount to the convertible debt with a corresponding increase to additional paid in capital.

*Revenue and Cost Recognition*

In accordance with U.S. generally accepted accounting principles, the revenue under fixed-price contracts is accounted for on the percentage-of-completion method. This methodology recognizes revenue and earnings as work progresses on the contract and is based on an estimate of the revenue and earnings earned to date, less amounts recognized in prior periods. The Company bases its estimate of the degree of completion of the contract by reviewing the relationship of costs incurred to date to the expected total costs that will be incurred on the project. Estimated contract earnings are reviewed and revised periodically as the work progresses, and the cumulative effect of any change in estimate is recognized in the period in which the change is identified. Estimated losses are charged against earnings in the period such losses are identified. The Company recognizes revenue arising from contract claims either as income or as an offset against a potential loss only when the amount of the claim can be estimated reliably and realization is probable and there is a legal basis of the claim. Because of inherent uncertainties in estimating costs, it is possible that the estimates used will change within the near-term.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as payroll taxes and worker's compensation insurance premiums. Operating expenses are charged to expense as incurred.

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts", represents revenues recognized in excess of amounts billed. The liability, "Billings in excess of costs and estimated earnings on uncompleted contracts", represents billings in excess of revenues recognized.

Revenue for service and refurbishment work are recognized when the job is complete.

#### *Advertising*

All advertising costs are expensed as incurred.

#### *Provision for Income Taxes*

Income taxes are calculated based upon the asset and liability method of accounting. Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard to allow for recognition of such an asset. In addition, realization of an uncertain income tax position must be estimated as "more likely than not" (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the recognition of tax benefits recorded in the financial statements, if any, is based on the amount most likely to be realized assuming a review by tax authorities having all relevant information.

#### *Stock Based Compensation*

We adopted the fair value recognition provisions of ASC 718, "Compensation – Stock Compensation". Under the fair value recognition provisions, we are required to measure the cost of employee services received in exchange for share-based compensation measured at the grant date fair value of the award.

The Company's accounting policy for equity instruments issued to advisors, consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the advisor, consultant or vendor is reached or (ii) the date at which the advisor, consultant or vendor's performance is complete. In the case of equity instruments issued to advisors and consultants, the fair value of the equity instrument is recognized over the term of the advisor or consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable.

#### *Basic and Fully Diluted Loss Per Share*

Basic and diluted loss per common share is computed by dividing the loss by the weighted average number of common shares outstanding for the period. Since we have incurred losses attributable to common stockholders during each of the two years ended December 31, 2014 and 2013, diluted loss per common share has not been computed by giving effect to all potentially dilutive common shares that were outstanding during the period. Dilutive common shares consist of convertible debt and incremental shares issuable upon exercise of warrants and options to the extent that the average fair value of our common stock for each period is greater than the exercise price of the warrants.

#### *Contingent consideration for business acquisitions*

Acquisitions may include contingent consideration payments based on future financial measures of an acquired company. Contingent consideration is required to be recognized at fair value as of the acquisition date. We estimate the fair value of these liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. At each reporting date, the contingent consideration obligation is revalued to its estimated fair value and changes in fair value subsequent to the acquisition are reflected in income or expense in the consolidated statements of operations, and could cause a material impact to our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

#### *Deferred financing fees*

The Company amortizes the cost incurred to obtain debt financing using the straight-line method over the term of the underlying obligations. The amortization of deferred financing costs is included in interest expense. The Company recognized \$5,011 and \$393,243 of expense related to the amortization of deferred financing costs during the years ended December 31, 2014 and 2013, respectively.

#### *Subsequent Events*

We evaluate events that occur subsequent to the balance sheet date of periodic reports, but before financial statements are issued for periods ending on such balance sheet dates, for possible adjustment to such financial statements or other disclosure.

*Reclassifications*

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

*New Accounting Standards Issued But Not Yet Adopted*

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the "FASB"), which are adopted by the Company as of the specified date. Unless otherwise discussed, management believes the impact of recently issued standards, which are not yet effective, will not have a material impact on its consolidated financial statements upon adoption.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The guidance establishes the principles to apply to determine the amount and timing of revenue recognition, specifying the accounting for certain costs related to revenue, and requiring additional disclosures about the nature, amount, timing and uncertainty of revenues and related cash flows. The guidance supersedes most of the current revenue recognition requirements, and will be effective January 1, 2017. We are currently evaluating the impact this guidance, including the method of implementation, will have on our financial position, results of operations and cash flows, among other items.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation—Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Entities are required to apply the standard for annual periods and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. The Company is currently assessing the impact of this new guidance.

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. Under the new guidance, management will be required to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. The provisions of this ASU are effective for annual periods beginning after December 15, 2016, and for annual and interim periods thereafter. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures.

## Note 2 – Acquisition of North American Custom Specialty Vehicles ("NACSV")

On June 16, 2014, we acquired all of the outstanding membership interest of NACSV in a transaction accounted for using the purchase method of accounting (the "Acquisition"). NACSV specializes in building mobile emergency operations centers ("MEOC's") and specialty vehicles for emergency management, first responders, national security and law enforcement operations.

As consideration for the consummation of the Acquisition, at the closing of the Acquisition, the Company paid \$1,000,000 in cash to the selling members, and issued them 645,161 shares of the Company's common stock valued at \$200,000 (the "Stock Consideration"). In connection with the Acquisition, the Company is required to make a true-up payment of the excess of total assets over \$1.2 million, valued at \$816,373 payable in shares of the Company's common stock (the "True-Up Payment"), and additional consideration as certain events or transactions occur in the future, up to a maximum of \$2.4 million, payable in shares of the Company's common stock or in cash at the seller's option (the "Contingent Consideration"). Additionally, the Company issued 1.8 million shares of common stock for acquisition services rendered in conjunction with the Acquisition valued at \$664,000. The Company recorded nonrecurring charges of \$843,488 during the year ended December 31, 2014 related to the direct costs of the Acquisition, consisting of the \$664,000 value of the shares of common stock issued for acquisition services and \$179,488 of cash costs for legal, accounting fees and due diligence fees which are recorded in general and administrative expenses in the accompanying condensed consolidated statements of operations.

The purchase price of the Acquisition totaled \$2,713,079, comprised of \$1,000,000 in cash, the Stock Consideration of \$200,000, the True-Up Payment of \$816,373, and the fair value of the Contingent Consideration of \$696,706. The fair value of the Contingent Consideration was estimated based upon the present value of the expected future payouts. On October 17, 2014, we issued 2,635,074 shares of our common stock valued at \$0.31 as settlement for the True-Up Payment.

Under the purchase method of accounting, the purchase price of the Acquisition was allocated to NACSV's net tangible and identifiable intangible assets and liabilities assumed based on their estimated fair values as of the date of the completion of the Acquisition, as follows:

### Assets Acquired:

Cash and cash equivalents	\$ 135,425
Accounts receivable, net	370,481
Inventory	73,140
Prepaid expenses	26,004
Costs in excess of billings	570,787
Property and equipment, net	68,157
Customer relationships	668,940
Goodwill	1,156,192
	<u>3,069,126</u>

### Liabilities assumed:

Accounts payable	35,724
Accrued expenses	2,087
Notes payable	304,605
Billings in excess of costs	13,631
	<u>356,047</u>

Total purchase price

\$ 2,713,079

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The fair values of certain assets and liabilities have been determined by management. No portion of the intangible assets, including goodwill, is expected to be deductible for tax purposes.

The results of operations of NACSV are included in the Company's consolidated statements of operations from the date of the acquisition of June 16, 2014, including approximately \$205,700 of revenue and approximately \$317,000 of net loss. The following unaudited supplemental pro forma information assumes that the Acquisition had occurred as of January 1, 2014 and as of January 1, 2013:

	<u>Year-ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Revenue	\$ 2,658,798	\$ 5,172,955
Net Loss	<u>\$(11,255,057)</u>	<u>\$(9,509,974)</u>
Loss per common share - basic and diluted	<u>\$ (0.11)</u>	<u>\$ (0.13)</u>

The unaudited pro forma financial information is not necessarily indicative of the results that would have occurred if the Acquisition had occurred on the dates indicated or that may result in the future.

### Note 3 - Goodwill and Intangible Assets

#### Goodwill

Goodwill consists of the excess of cost over the fair value of net tangible and identifiable intangible assets of acquired businesses. In accordance with ASC 350, "Intangibles — Goodwill and Other," we do not amortize goodwill. Instead, we are required to test goodwill for impairment annually as part of our annual business planning cycle during the fourth quarter of each year or earlier depending on specific changes in conditions surrounding our reporting units. We currently operate in only one reporting unit. Goodwill arose in connection with our acquisition of NACSV in June 2014, which is more fully discussed in Note 2. We do not presently have any other intangible assets with indefinite lives.

In testing our goodwill during the fourth quarter of 2014, we used an income valuation approach based on information currently available. The approach considered the likelihood of future cash flows that we expect our NACSV business to generate over the next ten years, along with a terminal value based on a long-term sustainable growth rate subsequent to 2015 of 1%, which were discounted using a 20% discount rate. Based on our analysis, the implied value of our goodwill was nil and, accordingly, we recorded a goodwill impairment charge of as of December 31, 2014 as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Beginning balance	\$ —	\$ —
Acquired goodwill (see Note 2)	1,156,192	—
Goodwill impairment loss	<u>(1,156,192)</u>	—
Ending balance	<u>\$ —</u>	<u>\$ —</u>

**Intangible Asset**

Our intangible asset consists of customer relationships that we acquired in connection with the acquisition of NACSV in June 2014. Customer relationships is carried at cost less accumulated amortization, computed using the straight-line method over the estimated useful life of five years as follows (we did not have any intangible assets with finite lives during 2013):

	<u>December 31, 2014</u>		
	<u>Gross</u>		
	<u>Carrying</u>	<u>Accumulated</u>	
	<u>Amount</u>	<u>Amortization</u>	<u>Net</u>
Customer relationships	<u>\$ 668,940</u>	<u>\$ (72,469)</u>	<u>\$ 596,471</u>

Amortization of intangible assets amounted to \$72,469 for the year ended December 31, 2014. Estimated future amortization expense is as follows:

2015	\$ 133,788
2016	133,788
2017	133,788
2018	133,788
2019	61,319
	<u>\$ 596,471</u>

In accordance with ASC 360-10, we continually evaluate whether events or circumstances have occurred that indicate the remaining estimated useful life of our customer relationships asset may warrant revision or that the remaining balance of such asset may not be recoverable. We use an estimate of the related discounted cash flows attributable to such asset over the remaining life of the asset in measuring whether the asset is recoverable.



**Note 4 – Financial Instruments***Cash and Cash Equivalents*

Cash and cash equivalents at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash in bank	\$ 160,102	\$ 509,224
Cash and cash equivalents	<u>\$ 160,102</u>	<u>\$ 509,224</u>

We classify highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. We maintain cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. We have not experienced any losses in such accounts and believe it is not exposed to any significant risk for cash on deposit. As of December 31, 2013, we had uninsured cash amounts. We maintained this balance with a high quality financial institution, which we believe limits this risk.

*Concentrations of Credit Risk*

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and accounts receivable.

**Note 5 – Fair Value Measurements**

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable directly or indirectly.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

We had no Level 1 or Level 2 assets or liabilities at December 31, 2014 and 2013. The following table sets forth our Level 3 assets and liabilities measured at fair value, whether recurring or non-recurring, at December 31, 2014 and 2013, and the fair value calculation input hierarchy level that we have determined applies to each asset and liability category.

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
<b>Assets:</b>		
Non-recurring: Goodwill	\$ —	\$ —
<b>Liabilities:</b>		
Recurring: Contingent Consideration	\$ 648,615	\$ —

The following is a summary of activity of Level 3 assets and liabilities for the twelve months ended December 31, 2014:

	<u>Goodwill</u>
<b>Assets:</b>	
Balance December 31, 2013	\$ -
Goodwill acquired	1,156,192
Goodwill impairment loss	(1,156,192)
Balance, December 31, 2014	<u>\$ -</u>
<b>Liabilities:</b>	
	<u>Contingent Consideration</u>

Balance at December 31, 2013	\$ -
Contingent consideration	696,706
Offset amounts due from NACSV seller	<u>(48,091)</u>
Balance, December 31, 2014	<u>\$ 648,615</u>

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**Contingent Consideration**

ASC Topic 805 requires that contingent consideration be recognized at fair value on the acquisition date and be re-measured each reporting period with subsequent adjustments recognized in the consolidated statement of operations. We estimate the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement and discount the liabilities to present value using a weighted-average cost of capital. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. We believe our estimates and assumptions are reasonable, however, there is significant judgment involved. At each reporting date, the contingent consideration obligation is revalued to its estimated fair value, and changes in fair value subsequent to the acquisitions are reflected in income or expense in the consolidated statements of operations, and could cause a material impact to, and volatility in, our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

As of December 31, 2014, contingent consideration included in the other current liabilities on the consolidated balance sheet totaled \$648,615.

**Note 6 – Inventory**

Inventory consists of the following at December 31, 2014:

	<u>2014</u>
Trailer inventory	\$ 187,881
Work in process	226,897
	<u>414,778</u>
Less: Reserve for inventory loss	(187,881)
	<u>\$ 226,897</u>

The Company has established a reserve for inventory loss for certain trailer inventory on hand at NACSV. Pursuant to the terms of the Equity Purchase Agreement between the Company and the NACSV sellers, all of the proceeds from the sale of this inventory are to be paid to the NACSV sellers and thus the Company's potential net realizable value on this inventory is zero.

**Note 7 – Acquisition of Airtronic and Notes Receivable from Airtronic**

On October 22, 2012, we entered into an Agreement of Merger and Plan of Reorganization (“Merger Agreement”) to acquire 70% of Airtronic USA, Inc. (“Airtronic”), a debtor in possession under chapter 11 of the Bankruptcy Code in a case pending in the US Bankruptcy Court for the Northern District of Illinois, Eastern Division (the “Court”) once Airtronic successfully reorganized and emerged from bankruptcy (the “Merger”). During the period from October 2012 through November 2013, GDSI was actively involved in the day to day management of Airtronic pending the completion of the Merger.

Contemporaneously, on October 22, 2012, we entered into a Debtor In Possession Note Purchase Agreement (“Bridge Loan”) with Airtronic. We agreed to lend Airtronic a maximum of \$2,000,000, with an initial advance of \$750,000 evidenced by an 8¼% Secured Promissory Note made by Airtronic in favor of the Company (the “Original Note”) and a Security Agreement pledging all of Airtronic's assets. As of December 31, 2012 we had not advanced any funds to Airtronic under the Bridge Loan and Original Note. In March 2013, the Company and Airtronic amended the Bridge Loan to provide for a maximum advance of up to \$700,000 in accordance with draws submitted by Airtronic and approved by the Company in accordance with the budget set forth in the amendment. On August 5, 2013, we entered into the Second Bridge Loan Modification and Ratification Agreement, received a new 8¼% secured promissory note in principal amount of \$550,000 (the “Second Note”), and entered into a Security Agreement with the CEO of Airtronic, which granted a security interest in certain intellectual property for patent-pending applications and trademarks that were registered in the CEO's name. On October 10, 2013, we entered into the Third Bridge Loan Modification and Ratification Agreement, and received a new 8¼% secured promissory note for \$200,000 (the “Third Note”).

On October 2, 2013, Airtronic's amended plan of reorganization (the “Plan”) was confirmed by the Court, but the Plan was never substantially consummated and was terminated. Under the terms of the Plan, Airtronic needed to close the Merger with the Company on or before December 2, 2013 which Airtronic refused to do, and, as a result, the Plan terminated and the reorganized Airtronic re-vested in the bankruptcy estate of Airtronic as a debtor-in-possession.

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On March 31, 2014, Airtronic filed a First Amended Modified Plan of Reorganization ("First Modified Plan") which was confirmed on April 28, 2014. On May 14, 2014 Airtronic repaid the Original Note, the Second Note and the Third Note together with all accrued interest thereon in the total amount of \$1,509,056. On August 12, 2014, we received \$414,761 that we were awarded for legal fees and expenses incurred.

#### Note 8 – Notes Payable

##### *Convertible Notes Payable*

Convertible notes payable at December 31, 2014 and December 31, 2013 consisted of the following:

<u>Type</u>	<u>Collateral (If any)</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Maturity</u>	<u>2014</u>	<u>2013</u>
Laurus Master Fund	None	5.00%	\$ -	May-13	\$ -	\$ 529,309

In July 2004 we issued convertible notes payable to Laurus Master Fund and received total proceeds of \$500,000. The Laurus note is non interest bearing, and is convertible at a fixed conversion price of \$0.35 per share. The Company imputed interest at 5% which is included in the balance. In January 2013, we entered into a Debt Forgiveness Agreement with Laurus in which we agreed to pay them \$150,000 in full satisfaction of the note on or before June 30, 2014. On May 21, 2014, we paid the balance on the Laurus note, and recognized a gain on extinguishment of debt of \$387,642, of which \$350,000 was a discount against the principal and \$37,642 was for accrued imputed interest forgiven.

##### *Notes Payable*

In December 2012, we entered into a Promissory Note Purchase Agreement, a Secured Promissory Note ("Note") and Security Agreement with the Investor to lend us \$750,000. The Note bears interest at 8¼%, is secured by all of our assets and was due on May 1, 2013. In connection with the transaction, we issued to the Investor the Warrant.

On May 6, 2013, we amended the terms of the Note and (i) extended the maturity date to July 1, 2013, (ii) provided that the Note may be convertible to shares of our common price at a conversion price of \$0.25, and (iii) reduced the exercise price of the Warrant from \$0.15 to \$0.10. On July 1, 2013, the Note was converted into 3,000,000 shares of our common stock and on conversion we recognized a gain of \$31,712 as a result of the forgiveness of accrued but unpaid interest on the note.

The \$360,000 fair value of the Warrant was calculated using a Black-Scholes pricing model. We calculated that the fair market value of the beneficial conversion feature ("BCF") of the Note at \$393,243, and we amortized the BCF over the life of the loan using the effective interest rate method. At December 31, 2013 the discount was fully amortized to interest expense.

Notes payable at December 31, 2014 and 2013 consist of the following:

<u>Type</u>	<u>Collateral (if any)</u>	<u>Interest Rate</u>	<u>Monthly Payments</u>	<u>Maturity</u>	<u>December 31,</u>	
					<u>2014</u>	<u>2013</u>
Premium finance agreement	None	5.35%	\$ 9,862	Jun-15	\$ 58,258	\$ -
Private	None	10.00%	\$ -	May-13	-	20,000
Private	None	5.00%	\$ -	Demand	-	5,000
Notes payable					<u>\$ 58,258</u>	<u>\$ 25,000</u>

On May 22, 2014 we paid off the balance outstanding on two notes payable for \$20,000 and \$5,000, respectively. In September 2014 we entered into a premium finance agreement bearing interest at 5.35% with 10 equal monthly payments of principal and interest of \$9,862.

*Convertible Notes Payable to Related Parties*

Convertible notes payable to related parties at December 31, 2014 consist of the following:

	<u>2014</u>
Convertible note payable to an entity controlled by our Chairman and CEO, bears interest at 8% per annum, due December 8, 2016. After June 6, 2015, at the option of the holder, principal plus accrued interest is convertible into shares of our common stock at \$0.09 per share.	\$ 37,500
Convertible note payable to our CFO, bears interest at 8% per annum, due December 8, 2016. After June 6, 2015, at the option of the holder, principal plus accrued interest is convertible into shares of our common stock at \$0.09 per share.	<u>31,500</u>
	69,000
Add: Accrued interest	363
Less: Unamortized debt discount	<u>(28,656)</u>
Convertible notes payable to related parties at December 31,	<u>\$ 40,707</u>

The 8% convertible notes payable to related parties are convertible into common stock at the rate of \$0.09 per share. The Company has determined that the conversion feature is considered a beneficial conversion feature and determined its value to be \$30,667 as of December 8, 2014, which the Company recorded as a debt discount to the notes. As of December 31, 2014 the Company owed principal of \$69,000 and accrued interest of \$363 on these notes.

**Note 9 – Commitments and Contingencies***Legal Proceedings terminated in the fourth quarter of 2014*

On January 9, 2014, the Company filed a lawsuit against Merriellyn Kett Murphy (“Kett”) asserting three causes of action against her: Tortious Interference with Contract and/or with Prospective Economic Advantage; Fraudulent Inducement; and Negligent Misrepresentation. On May 30, 2014, the Company amended its Complaint to allege four causes of action against Kett: Tortious Interference with Contract and/or with Prospective Economic Advantage; Fraudulent Inducement; Fraudulent Concealment; and Civil Conspiracy. Kett was the CEO, President and sole director and stockholder of Airtronic. The Company had entered into a merger agreement with Airtronic and Kett had made numerous representations to the Company that she would close the merger if the Company met her personal demands, which the Company did. Nonetheless, Kett refused to close the merger. The case, captioned *Global Digital Solutions, Inc. v. Merriellyn Kett Murphy*, was filed in Palm Beach County Circuit Court and Kett later removed it to Federal Court in the Southern District of Florida. The case number is 14-cv-80190-DTKH (the “Case”). The Company was seeking a judgment against Kett, damages, costs and such other relief as may be awarded by the court. On October 27, 2014, Kett filed a counterclaim against the Company alleging fraud and civil conspiracy seeking damages based on her allegation that the merger prevented her from getting a better personal employment contract on the open market. The Company denied Kett’s allegations.

On December 11, 2014 the Company and Kett (collectively, the “Parties”) entered into a Confidential Settlement Agreement to settle their disputes. The disputes between the Parties have been resolved, with all of the claims and counterclaims dismissed, with a payment by Kett of a confidential amount to the Company, which amount is in keeping with recognition of the expense of litigation, the likely inability to collect any judgment due to financial status, and the prior assignment to Airtronic of Kett’s proprietary rights to intellectual property relating to Airtronic. Accordingly the Case has been dismissed by the Parties with prejudice.

See Note 16 - *Subsequent Events*, for litigation instituted after December 31, 2014.

*Price Protection*

In connection with our acquisition of NACSV, we granted the sellers “price protection” for the shares of restricted common stock they received at the closing of the transaction. If the sellers sell any such shares of our common stock in arm’s-length transactions within the 12 month period commencing June 16, 2014, and if the average selling price of the shares sold is less than \$0.31 per share, then the Company shall deliver to the sellers, within 30 days following a request from the sellers, additional shares of our common stock having a market price at the time of delivery equal to the excess if any of (x) the sales price the sellers would have received if the shares had sold for \$0.31 per share *minus* the actual sales price received by the sellers; *divided* by (y) the actual price per share received by the sellers. At December 21, 2014, the market price of our common stock was \$0.13. Therefore, had the sellers sold the 645,161 shares of the restricted common stock they received at \$0.08 per share, we would have been required to issue an additional 1,854,838 shares valued at \$.08 per share or \$148,387.

*Operating Leases*

In August 2013 we entered into a twelve-month lease for a virtual office in West Palm Beach, Florida at a monthly rental of \$299 plus taxes. The lease automatically renewed for an additional twelve months on its anniversary unless terminated in writing 30 days in advance.

On January 1, 2015, NACSV renewed a lease agreement for one building under a year-to-year operating lease with monthly rent payments totaling \$8,748 in January 2015 and \$5,637 for February – December, 2015. The lease provides that either party may cancel it on thirty days notice. In September 2014, NACSV entered into a 12-month operating lease for a condominium for a vice president with monthly rent payments of \$2,160.

Future minimum lease payments on all operating leases at December 31, 2014 are \$82,510.

*Consulting Agreements*

Effective May 9, 2012, we entered into a one-year "referral compensation agreement" with a third party consulting firm pursuant to which the firm would facilitate meetings and introductions on our behalf with certain potential investors in return for our agreement to pay the consulting firm compensation for these introduction. The consulting firm was issued 250,000 shares of restricted shares of commons stock valued at \$15,000.

Effective May 15 2012, we entered into a one-year "referral compensation agreement" with a third party consulting firm pursuant to which the firm would facilitate meetings and introductions on our behalf with certain potential investors in return for our agreement to pay the consulting firm compensation for these introduction. The consulting firm was issued 500,000 shares of restricted shares of commons stock valued at \$25,000.

Effective July 27 2012, we entered into a one-year "referral compensation agreement" with a third party consulting firm pursuant to which the firm would facilitate meetings and introductions on our with certain potential investors in return for our agreement to pay the consulting firm compensation for these introduction. The consulting firm was issued 250,000 shares of restricted shares of commons stock valued a \$13,000.

Effective January 1, 2013, we entered into a three-month consulting agreement with a consulting firm pursuant to which the firm would provide investor relations services. The consulting firm was issued 500,000 shares of restricted shares of common stock valued at \$50,000 and the expense was recognized over the three-month service period.

Effective April 3, 2013, we entered into a twelve-month consulting agreement with a consultant pursuant to which the consultant would provide investor relations services. The consultant was issued 500,000 shares of restricted shares of common stock valued at \$50,000 and the expense is being recognized over the term of the agreement. In June 2013, we entered into an amendment to the consulting agreement. The consultant agreed to provide additional services over the remaining term of the agreement and, in consideration, we issued the consultant 250,000 shares of our restricted common stock valued at \$125,000 and we agreed to issue the consultant a warrant to purchase 500,000 shares of our common stock at an exercise price of \$.50, with a fair market value of \$250,000. The warrant was issued on July 1, 2013.

Effective July 1, 2014, we entered into a 12-month consulting agreement with the consultant pursuant to which the consultant would provide investor relations services. The consultant was issued 1,000,000 shares of restricted shares of common stock with a grant date value of \$330,000 and was expensed to services on the grant date as the shares all vested upon grant.

Effective July 1, 2014, we entered into a 12-month consulting agreement with the consultant pursuant to which the consultant would provide investor relations services. The consultant was issued 500,000 shares of restricted shares of common stock with a grant date value of \$150,000 which is being expensed over the twelve-month term of the agreement. At December 31, 2014, 250,000 shares had vested and 250,000 shares were unvested. The unvested shares had no intrinsic value.

**Note 10 - Stockholders' Equity***Preferred Stock*

We are authorized to issue 35,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$0.001 par value per share. At December 31, 2014 and 2013, no shares of preferred stock were outstanding.

*Common Stock*

We are authorized to issue 450,000,000 shares of common stock, \$0.001 par value per share. At December 31, 2014 and 2013, 108,291,855 and 93,024,117 shares were issued, outstanding, or vested but unissued under stock compensation plans, respectively



During the years ended December 31, 2014 and 2013, we issued the following shares of common stock, and accounted for shares that vested but were unissued under stock compensation plans as follows:

<b>In Consideration For</b>	<b>Date of Issue</b>	<b>Number of Shares</b>	<b>Issue Price</b>
<b>2013</b>			
Services	01/01/13	1,000,666	\$ 0.10
Stock-based compensation	01/10/13	11,000,000	\$ 0.12(1)
Services	04/15/13	500,000	\$ 0.10
Private placement	04/15/13	250,000	\$ 0.10
Private placement	05/31/13	200,000	\$ 0.25
Private placement	06/06/13	2,150,000	\$ 0.25
Services	06/25/13	310,000	\$ 0.50
Stock based compensation	06/25/13	15,000,000	\$ 0.26(1)
Private placement	06/25/13	408,000	\$ 0.45
Private placement	06/30/13	260,000	\$ 0.50
Note conversion	07/01/13	3,000,000	\$ 0.25
Warrant exercise	08/19/13	3,000,000	\$ 0.10
Private Placement	09/20/13	1,100,000	\$ 0.45
Private Placement	09/25/13	1,100,000	\$ 0.45
Services	09/25/13	66,000	\$ 0.45
Private Placement	11/11/13	100,000	\$ 0.05
Services	12/11/13	66,000	\$ 0.001
Warrant Exercise	12/18/13	1,250,000	\$ 0.10
Net change in shares issued		<u>40,760,666</u>	
<b>2014</b>			
Stock based compensation	01/01/14	1,500,000	\$ 0.88(1)
Stock based compensation	02/04/14	5,000,000	\$ 0.17(1)
Stock based compensation	02/04/14	1,500,000	\$ 0.64(1)
Acquisition services	05/15/14	500,000	\$ 0.47(2)
Acquisition services	09/15/14	1,300,000	\$ 0.33(2)
Acquisition of NACSV	06/16/14	645,161	\$ 0.31(2)
Consulting Services	08/19/14	1,000,000	\$ 0.33
Consulting Services	08/19/14	500,000	\$ 0.30
Issued restricted stock award shares forfeited and cancelled	06/03/14	(1,500,000)	\$ 0.001
True Up Payment - NACSV	10/17/14	2,635,074	\$ 0.31(2)
Vested but unissued shares issued in connection with awards granted under equity compensation plans	Various	<u>2,187,503</u>	\$ 0.001
Net change in shares issued		<u>15,267,738</u>	

- (1) Stock-based compensation was calculated at fair value on the grant date and the expense is being amortized over the vesting period and service period. Amount shown is par value of shares issued.
- (2) Issued at \$0.31 per share. The fair market value on the date of issuance was \$0.33 per share and the Company recognized an acquisition expense of \$12,903 related to the \$0.02 share discount.

As consideration for the consummation of the Acquisition, at the closing of the Acquisition, the Company paid \$1,000,000 in cash to the selling members, and issued them 645,161 shares of the Company's common stock valued at \$200,000 (the "Stock Consideration"). Subsequent to the closing, we issued an additional 2,635,074 shares for the "True-Up" valued at \$869,042. In connection with the Acquisition, the Company issued 1,800,000 shares of common stock valued at \$664,000 for acquisition services.

*Common Stock Warrants*

We have issued warrants, which are fully vested and available for exercise, as follows:

<b>Class of Warrant</b>	<b>Issued in connection with or for</b>	<b>Number Outstanding</b>	<b>Exercise Price</b>	<b>Date of Issue</b>	<b>Date Vest</b>	<b>Date of Expiration</b>
A-1	Debt	1,750,000(1)	\$ 0.10	December 2012	December 2013	December 2015
A-2	Services	1,000,000	\$ 0.15	May 2013	May 2014	May 2018
A-3	Services	500,000	\$ 0.50	June 2013	June 2014	June 2018
A-4	Services	1,000,000	\$ 1.00	October 2013	October 2013	October 2016

(1) – 1,250,000 warrants were exercised in 2013.

We recognize compensation costs of \$604,168 related to the amortization of the fair value of the warrants in the year ended December 31, 2014. At December 31, 2014 the fair value of warrants had been fully amortized.

All warrants are exercisable at any time through the date of expiration. All agreements provides for the number of shares to be adjusted in the event of a stock split, a reverse stock split, a share exchange or other conversion or exchange event in which case the number of warrants and the exercise price of the warrants shall be adjusted on a proportional basis.

The following is a summary of outstanding and exercisable warrants at December 31, 2014:

<b>Range of Exercise Prices</b>	<b>Outstanding</b>			<b>Exercisable</b>	
	<b>Weighted Average Number Outstanding at 12/31/14</b>	<b>Outstanding Remaining Contractual Life (in yrs.)</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable at 12/31/14</b>	<b>Weighted Average Exercise Price</b>
\$ 0.10	1,750,000	1.0	\$ 0.10	1,750,000	\$ 0.10
\$ 0.15	1,000,000	3.3	\$ 0.15	1,000,000	\$ 0.15
\$ 0.50	500,000	3.5	\$ 0.50	500,000	\$ 0.50
\$ 1.00	1,000,000	1.8	\$ 1.00	1,000,000	\$ 1.00
\$ 0.37	4,250,000	2.40	\$ 0.37	4,250,000	\$ 0.37

The intrinsic value of warrants outstanding at December 31, 2014 was \$0. Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the exercise price of the warrant multiplied by the number of warrants outstanding or exercisable.

We determined the value of warrants issued using the Black-Scholes-Merton ("BSM") valuation model

<b>Warrant</b>	<b>Fair Value</b>	<b>Dividend Yield</b>	<b>Volatility</b>	<b>Contractual Lives (Yrs.)</b>	<b>Risk-Free Rate</b>
A-1	\$ 210,000	0.00%	593.00%	2.0	1.58%
A-2	\$ 300,000	0.00%	593.00%	5.0	0.84%
A-3	\$ 250,000	0.00%	598.12%	5.0	1.20%
A-4	\$ 800,000	0.00%	647.97%	3.0	0.64%

The expected life represents an estimate of the weighted average period of time that options are expected to remain outstanding given consideration to vesting schedules and the Company's historical exercise patterns. Expected volatility is estimated based on the historical volatility of the Company's common stock. The risk free interest rate is estimated based on the U.S. Federal Reserve's historical data for the maturity of nominal treasury instruments that corresponds to the expected term of the option. The expected dividend yield is 0% based on the fact that we have never paid dividends and have no present intention to pay dividends

*Stock Incentive Plans*

*2014 Global Digital Solutions Equity Incentive Plan*

On May 9, 2014 our shareholders approved the 2014 Global Digital Solutions Equity Incentive Plan (“Plan”) and reserved 20,000,000 shares of our common stock for issuance pursuant to awards thereunder, including options, stock appreciation right, restricted stock, restricted stock units, performance awards, dividend equivalents, or other stock-based awards. The Plan is intended as an incentive, to retain in the employ of the Company, our directors, officers, employees, consultants and advisors, and to attract new officers, employees, directors, consultants and advisors whose services are considered valuable, to encourage the sense of proprietorship and to stimulate the active interest of such persons in the development and financial success of the Company and its subsidiaries.

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In accordance with the ACS 718, *Compensation – Stock Compensation*, awards granted are valued at fair value at the grant date. The Company recognizes compensation expense on a pro rata straight-line basis over the requisite service period for stock-based compensation awards with both graded and cliff vesting terms. The Company recognizes the cumulative effect of a change in the number of awards expected to vest in compensation expense in the period of change. The Company has not capitalized any portion of its stock-based compensation.

Stock-based compensation expense for the years ended December 31, 2014 and 2013 is comprised as follows:

	<u>2014</u>	<u>2013</u>
Fair value expense of stock option grants	\$ 3,527,620	\$ -
Fair value expense of restricted stock unit grants	1,112,934	-
Fair value expense of restricted stock grants	3,047,012	5,158,208
	<u>\$ 7,687,566</u>	<u>\$ 5,158,208</u>

#### *Awards Issued Under Stock Incentive Plans*

##### *Stock Option Activity*

We granted 5,840,000 options to directors and employees during the year ended December 31, 2014 resulting in stock-based compensation expense of \$3,527,620 for the year ended December 31, 2014. The options are exercisable at prices ranging from \$0.11 to \$0.64 and expire in between February 2024 and September 2024.

A summary of the stock option activity for our stock options plans for 2014 is as follows:

	<u>Weighted Number of Options</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2013	-	-	-	-
Options granted	5,840,000	\$ 0.61	9.6	\$ -
Options exercised	-			-
Options forfeited	-			-
Outstanding at December 31, 2014	<u>5,840,000</u>	<u>\$ 0.61</u>	<u>9.6</u>	<u>\$ -</u>
Exercisable at December 31, 2014	<u>5,500,000</u>	<u>\$ 0.64</u>	<u>9.1</u>	<u>\$ -</u>

We account for our stock-based compensation plans in accordance with ASC 718-10. Under the provisions of ASC 718-10, the fair value of each stock option is estimated on the date of grant using a BSM option-pricing formula, and amortizing that value to expense over the expected performance or service periods using the straight-line attribution method. The weighted average values of the assumptions used to value the options granted in the year ended December 31, 2014 were as follows: exercise price of \$0.11 and \$0.64, expected term of 10 years, expected volatility of 684.6%, risk-free interest rates of 1.83%, and expected dividend yield of 0%. The expected life represents an estimate of the weighted average period of time that options are expected to remain outstanding given consideration to vesting schedules and the Company's historical exercise patterns. Expected volatility is estimated based on the historical volatility of the Company's common stock. The risk free interest rate is estimated based on the U.S. Federal Reserve's historical data for the maturity of nominal treasury instruments that corresponds to the expected term of the option. The expected dividend yield is 0% based on the fact that we have never paid dividends and have no present intention to pay dividends.

As of December 31, 2014, there was \$29,781 of total unrecognized stock-based compensation cost related to these stock options that will be recognized through August 2017. The intrinsic value of options outstanding at December 31, 2014 was \$0. Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the exercise price of the option multiplied by the number of options outstanding.

##### *Restricted Stock Units*

In August 2014 we granted Stephen L. Norris, then Chairman and CEO of our wholly owned subsidiary, GDSI International, 12 million restricted stock units ("RSU's") convertible into 12 million shares of the Company's common stock, with a grant date fair market value of \$3,600,000 as of July 1, 2014, the effective grant date. The grant was made under our 2014 Equity Incentive Plan. 4,000,000 RSU's will vest in respect of each fiscal year of GDSI International from 2015 through 2017 if the

company has achieved at least 90% of the total revenue targets set forth in the agreement. If less than 90% of the target is achieved in respect of any such fiscal year, then the number of RSU's vesting for that fiscal year shall be 4,000,000 times the applicable percentage shown below; *provided that*, if the company shall exceed 100% of the revenue target for the 2016 or 2017 fiscal year, and shall have failed to reach 90% of the target for a prior fiscal year, the excess over 100% shall be applied to reduce the deficiency in the prior year(s), and an additional number of RSU's shall vest to reflect the increased revenue for such prior fiscal year. Any such excess shall be applied first to reduce any deficiency for the 2015 fiscal year and then for the 2016 fiscal year. The vesting of the RSU's shall be effective upon the issuance of the audited financial statements of the Company for the applicable fiscal year, and shall be based upon the total revenue of GDSI International as reflected in such financial statements. Effective January 9, 2015, Mr. Norris resigned and forfeited all rights in and to his RSU's.

On October 10, 2014 we granted an employee 1 million RSU's convertible into 1 million shares of the Company's common stock, with a grant date fair market value of \$100,000. The grant was made under our 2014 Equity Incentive Plan. 333,333 RSU's will vest in respect of each calendar year (commencing January 1 and ending December 31) of the Company from 2015 through 2017 if the company has achieved at least 90% of the total revenue and EBITDA midpoint targets set forth in the agreement. If less than 90% of the target is achieved in respect of any such fiscal year, then the number of RSU's vesting for that fiscal year shall be 333,333 times the applicable percentage set forth in the agreement; *provided that*, if the company shall exceed 100% of the revenue and EBITDA midpoint target for the 2016 or 2017 calendar year, and shall have failed to reach 90% of the target for a prior calendar year, the excess over 100% shall be applied to reduce the deficiency in the prior year(s), and an additional number of RSU's shall vest to reflect the increased revenue for such prior calendar year. Any such excess shall be applied first to reduce any deficiency for the 2015 calendar year and then for the 2016 calendar year. The vesting of the RSU's shall be effective upon the issuance of the audited financial statements of the Company for the applicable calendar year, and shall be based upon the total revenue and EBITDA of the acquired companies as reflected in such financial statements.

A summary of RSU's outstanding as of December 31, 2014 and changes during the year then ended is presented below:

	<u>Number</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value</u>
Nonvested at December 31, 2013	-	-	-
Issued	13,000,000	\$ 0.28	\$ 0.00
Vested	-		
Forfeited	-		
Nonvested at December 31, 2014	<u>13,000,000</u>	<u>\$ 0.28</u>	<u>\$ 0.00</u>

We recorded stock-based compensation expense related to these RSU's of \$1,112,934 for the year ended December 31, 2014. On January 9, 2015, a recipient of 12 million RSU's resigned from the Board of Directors of and as an officer of the Company, and consequently forfeited his 12 million RSU's. As of December 31, 2014, after taking into account the forfeited 12 million RSU's, there was \$81,945 of total unrecognized stock-based compensation expense related to 1 million unvested RSU's that will be recognized on a straight-line basis over the performance periods of the award through December 2017. The aggregate intrinsic value of nonvested RSU's was \$0 at December 31, 2014.

#### *Awards Not Issued Under Stock Incentive Plans*

##### *Restricted Stock Grants Awarded to Employees*

Since January 2013, we have granted restricted stock to officers in lieu of cash compensation as follows:

<u>Name</u>	<u>Date of Grant</u>	<u>Number of Shares</u>			<u>December 31, 2014</u>		
					<u>Vest from</u>	<u>Vest To</u>	<u>Vested</u>
Richard J. Sullivan	1/10/13	3,000,000	1/10/13	1/31/14	3,000,000	-	-
	6/2/13	10,000,000	6/2/13	1/31/14	10,000,000	-	-
David A. Loppert	1/10/13	5,000,000	1/10/13	1/31/14	5,000,000	-	-
	6/2/13	3,000,000	6/2/13	1/31/14	3,000,000	-	-
Gary A. Gray	6/2/13	1,000,000	6/2/13	1/31/14	1,000,000	-	-
William J. Delgado	6/2/13	1,000,000	6/2/13	1/31/14	1,000,000	-	-
		<u>23,000,000</u>			<u>23,000,000</u>	<u>-</u>	<u>-</u>

In January 2013, we granted Richard J. Sullivan, our Chairman and CEO and David A. Loppert, Our CFO, restricted stock grants of 3,000,000 and 5,000,000 shares of common stock, respectively for services rendered to the Company in negotiating a the bridge loan discussed under notes payable in Note 8, and for Mr. Loppert's work with Airtronic in structuring the DIP loan to it. 3 million of the shares to Mr. Sullivan and Mr. Loppert vested upon the funding of the \$750,000 bridge loan to the Company to provide the initial DIP loan to Airtronic and an additional 2 million shares to Mr. Loppert vested at the time that the bankruptcy court approved the bridge loan modification and ratification agreement between the Company and Airtronic. The shares were valued at \$0.12 per share, and the aggregate grant date fair value was \$960,000 which was recognized as stock-based compensation on a straight line basis over the vesting period.

In June 2013, we granted Richard J. Sullivan, David A. Loppert, William J. Delgado and Gary A. Gray restricted stock grants of 10,000,000, 3,000,000, 1,000,000 and 1,000,000 shares of common stock, respectively. The grants were fully vested in January 2014. The shares were valued at \$0.12 per share, and the aggregate grant date fair value was \$3,900,000 which was recognized as stock-based compensation on a straight line basis over the vesting period.

*Restricted Stock Grants Awarded to Advisors*

In order to align our senior advisors with the interest of the stakeholders of the Company, the Board of Directors of the Company has granted the advisors restricted stock awards valued at \$0.17 to \$0.364 per share which vest over a period of 12 – 24 months, subject to remaining and advisor for a minimum of twelve months, and which are forfeited if the advisor is terminated or is no longer an advisor on the anniversary of the advisory award, as follows:

Name	Date of Grant	Number of Shares	Vest from	Vest To	December 31, 2014		
					Vested	Unvested	Forfeited
Edwin J. Wang	4/17/13	1,250,000	4/30/13	3/31/14	1,250,000	-	-
	4/17/13	1,250,000	2/28/14	1/31/15	1,145,834	104,166	-
	2/4/14	1,500,000	2/4/14	1/31/15	1,375,000	125,000	-
Jennifer S. Carroll	4/17/13	1,250,000	4/30/13	3/31/14	1,250,000	-	-
	4/17/13	1,250,000	2/28/14	1/31/15	1,145,833	104,167	-
Mathew Kelley	4/17/13	1,250,000	4/30/13	3/31/14	1,250,000	-	-
	4/17/13	1,250,000	2/28/14	1/31/15	1,145,833	104,167	-
Scott Brown (1)	9/9/13	1,500,000	9/1/13	8/31/14	-	-	1,500,000
Richard J. Feldman	4/30/14	500,000	4/30/14	3/30/15	375,000	125,000	-
		500,000	4/30/15	3/30/16	-	-	-
Thomas W. Janes (2)	5/7/14	500,000	5/7/14	4/30/14	-	-	500,000
		500,000	5/30/15	4/30/16	-	-	N/A
		<u>11,500,000</u>			<u>8,937,500</u>	<u>562,500</u>	<u>2,000,000</u>

(1) Mr. Brown resigned from the advisory board in June 2014. Since he had not been an advisor for the minimum period, the shares had not vested, were forfeited, returned to treasury and cancelled.

(2) Forfeited in September 2014 upon termination as an advisor.

A summary of restricted stock grants outstanding as of December 31, 2013 and 2014, and the changes during the twelve months then ended is presented below:

	Number	Weighted Average Grant Date	Aggregate Intrinsic Value
		Fair Value	
Nonvested at December 31, 2012	-		-
Granted	28,250,000	\$ 0.24	
Vested	(23,284,226)		
Forfeited	-		
Nonvested at December 31, 2013	<u>4,965,774</u>	-	<u>\$ 0.00</u>
Granted	6,250,000	\$ 0.33	
Vested	(8,653,274)		
Forfeited	(2,000,000)		
Nonvested at December 31, 2014	<u>562,500</u>	<u>\$ 0.28</u>	<u>\$ 0.00</u>

We recorded stock-based compensation expense related to these restricted stock grants of \$3,047,012 and \$5,158,208 for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 there was \$420,633 of total unrecognized stock-based compensation expense related to these restricted stock grants that will be recognized through March 2016. The aggregate intrinsic value of nonvested restricted stock grants was \$0 at December 31, 2014.

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**Note 11 - Income Taxes**

We have incurred losses since inception, which have generated net operating loss carryforwards. Pre-tax losses were \$11,657,188 for the year ended December 31, 2014 and \$9,297,253 the year ended December 31, 2013, which includes a pre-tax loss of \$9,026,032 from continuing operations and a pre-tax loss of \$271,221 from discontinued operations. At December 31, 2014, we had a federal net operating loss carryforward of approximately \$2,075,000 that will expire beginning in 2025. Current or future ownership changes may limit the future realization of these net operating losses. Our policy is to record interest and penalties associated with unrecognized tax benefits as additional income taxes in the consolidated statements of operations. As of January 1, 2014, we had no unrecognized tax benefits, or any tax related interest or penalties. There were no changes in our unrecognized tax benefits during the year ended December 31, 2014. We did not recognize any interest or penalties during 2014 or 2013 related to unrecognized tax benefits.

Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the future.

We recognize deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss carryforwards. We have established a valuation allowance to reflect the likelihood of realization of deferred tax assets. There is no income tax benefit for the losses for the years ended December 31, 2014 and 2013, since management has determined that the realization of the net deferred tax asset is not more likely than not to be realized and has created a valuation allowance for the entire amount of such benefit.

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets and liabilities consist of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Deferred tax assets (liabilities):		
Stock-based compensation	\$ 2,892,008	\$ 2,075,853
Accrued expenses and reserves	215,976	42,159
Transactions costs	(12,279)	-
Net operating loss	709,300	1,781,765
Gross deferred tax assets	<u>3,805,096</u>	<u>3,899,777</u>
Valuation allowance	<u>(3,805,096)</u>	<u>(3,899,777)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance for deferred tax assets decreased by approximately \$95,000 in 2014 due mainly to the generation of net operating losses and timing differences resulting from stock-based compensation and accrued expenses and reserves and transaction costs.

The difference between the effective rate reflected in the provision for income taxes on loss before taxes and the amounts determined by applying the applicable statutory tax rate are analyzed below:

	<u>2014</u>	<u>2013</u>
	<u>%</u>	<u>%</u>
Statutory tax/(benefit) rate	(34.0)	(34.0)
State income taxes, net of federal benefit	(3.6)	(5.8)
Permanent items	4.3	0.0
Change in deferred tax assets valuation allowance	<u>33.3</u>	<u>39.8</u>
	<u>0.0</u>	<u>0.0</u>

We did not have an unrecognized tax benefit at December 31, 2014 and 2013. We file income tax returns in the U.S. federal jurisdiction and the various states in which we operate. The former members of NACSV are required to file separate federal and state tax returns for NACSV for the periods prior to our acquisition of NACSV. We will file consolidated tax returns for subsequent periods. We have not yet filed our U.S. federal and certain state tax returns for 2014 and we do not currently have any examinations ongoing. Tax returns for the years 2011 onwards are subject to federal, state or local examinations.

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**Note 12 - Loss Per Common Share**

Basic and diluted loss per common share is computed by dividing the loss by the weighted average number of common shares outstanding for the period. Since we incurred losses attributable to common stockholders during the years ended December 31, 2014 and 2013, diluted loss per common share has not been computed by giving effect to all potentially dilutive common shares that were outstanding during the years ended December 31, 2014 and 2013. Dilutive common shares consist of shares issuable on the conversion of debt and incremental shares issuable upon the exercise of warrants and options to the extent that the average fair value of our common stock for each period is greater than the exercise price of the warrant.

The following table sets forth the computation of basic and diluted loss per common share for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Numerator:		
Loss from continuing operations	\$ (11,654,356)	\$ (9,026,032)
Loss from discontinued operations	(2,832)	(271,221)
Net loss	<u>\$ (11,657,188)</u>	<u>\$ (9,297,253)</u>
Denominator:		
Weighted-average shares outstanding	101,755,501	74,484,164
Effect of dilutive securities <sup>(1)</sup>	-	-
Weighted-average diluted shares	<u>101,755,501</u>	<u>74,484,164</u>
Loss per common share – basic and diluted:		
Continuing operations	\$ (0.11)	\$ (0.12)
Discontinued operations	(0.00)	(0.00)
Total – basic and diluted	<u>\$ (0.11)</u>	<u>\$ (0.12)</u>

- (1) The following common stock equivalents outstanding as of December 31, 2014 and 2013 were not included in the computation of dilutive loss per share because the net effect would have been anti-dilutive:

	<u>2014</u>	<u>2013</u>
Warrants	4,250,000	4,250,000
Stock Options	5,840,000	-
Vested but unissued restricted stock awards	2,187,503	-
Convertible debt	766,666	-
Price protection	1,854,838	-
Total common stock equivalents	<u>14,899,007</u>	<u>4,250,000</u>

**Note 13 – Discontinued Operations**

In January 2012, we acquired 51% of Bronco Communications LLC. We subsequently discontinued the operations of Bronco and disposed of its remaining assets in January 2013 although we were responsible for contract oversight which was concluded in June 2014. In accordance with ASC Topic 205, *Presentation of Financial Statements - Discontinued Operation*, we have presented the loss from discontinued operations in the accompanying consolidated statements of operations for the year ended December 31, 2013. The following table details the operating results included of discontinued operations for the year ended December 31, 2013:

	<u>2014</u>	<u>2013</u>
Net sales	\$ -	\$ -
Cost of goods sold	-	-
Gross profit	-	-
Selling, general and administrative expenses	2,832	25,477
Loss on sale of assets of discontinued operations	-	245,744

Interest expense	-	-
Other income	-	-
Loss before provision for income taxes	<u>2,832</u>	<u>271,221</u>
Provision for income taxes	-	-
Loss from discontinued operations	<u>\$ 2,832</u>	<u>\$ 271,221</u>

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**Note 14 – Related Party Transactions***Convertible Notes Payable to Related Parties*

During the year ended December 31, 2014, we issued convertible notes payable to an affiliate of our Chairman and CEO, and to our CFO. These notes are further discussed in Note 8 - *Notes Payable – Convertible Notes Payable to Related Parties*.

**Note 15 – Customer Concentrations**

The Company had revenue from three customers in the year ended December 31, 2014 that were greater than 10% of total revenue:

	<b>Year Ended December 31, 2014</b>	
	<b>Amount</b>	<b>% of Total Revenue</b>
Customer 1	\$ 300,000	43.2%
Customer 2	\$ 161,994	23.3%
Customer 3	\$ 102,462	14.7%

Accounts receivable were \$302,400, net of allowance of \$104,085, at December 31, 2014. One customer accounted for 99.2% of this balance. The Company expects to continue to have customers with revenues or accounts receivable balances of 10% or more of total revenue or total accounts receivable in the foreseeable future.

**Note 16 – Subsequent Events**

We have completed an evaluation of all subsequent events after the audited balance sheet date of December 31, 2014 through the date this Annual Report on Form 10-K was submitted to the SEC, to ensure that this filing includes appropriate disclosure of events both recognized in the financial statements as of December 31, 2014, and events which occurred subsequently but were not recognized in the financial statements. We have concluded that no subsequent events have occurred that require recognition or disclosure, except as disclosed within these financial statements and except as described below.

We have entered into convertible notes payable subsequent to December 31, 2014 and adopted new accounting policies as a result thereof as follows:

***New Accounting Policies****Derivative Financial Instruments*

We will account for conversion options embedded in convertible notes payable issued subsequent to December 31, 2014 in accordance with ASC 815, “*Derivatives and Hedging*”. Subtopic ASC 815-15, *Embedded Derivatives* generally requires companies to bifurcate conversion options embedded in the convertible notes from their host instruments and to account for them as free standing derivative financial instruments. Derivative liabilities are recognized in the consolidated balance sheet at fair value as *Derivative Liabilities* and based on the criteria specified in FASB ASC 815-40, *Derivatives and Hedging – Contracts in Entity’s own Equity*. The estimated fair value of the derivative liabilities is calculated using the Black-Scholes-Merton pricing model and such estimates are revalued at each balance sheet date, with changes recorded to other income or expense as *Change in Fair Value – Derivatives* in the consolidated statement of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or equity, is evaluated at the instrument origination date and reviewed at the end of each event date (i.e. conversions, payments, etc.) and the measurement period end date for financial reporting, as applicable. Derivative instrument liabilities are classified on the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument would be required within twelve months of the balance sheet date.

*Convertible Securities*

Based upon ASC 815-15, we have adopted a sequencing approach regarding the application of ASC 815-40 to convertible securities issued subsequent to December 31, 2014. We will evaluate our contracts based upon the earliest issuance date. In the event partial reclassification of contracts subject to ASC 815-40-25 is necessary, due to our inability to demonstrate we have sufficient shares authorized and unissued, shares will be allocated on the basis of issuance date, with the earliest issuance date receiving first allocation of shares. If a reclassification of an instrument were required, it would result in the instrument issued latest being reclassified first.

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### *Convertible Notes Payable*

#### *LG Capital Funding, LLC*

On January 16, 2015, we entered into a Securities Purchase Agreement with LG Capital Funding, LLC (“LG Capital”) providing for the purchase of a Convertible Redeemable Note (“LG Note”) in the aggregate principal amount of \$78,750. The LG Note was funded on January 20, 2015, and we received \$67,500 of net proceeds (net of \$3,750 legal fees and \$7,500 finders fees). The LG Note bears interest at the rate of 8% per annum; is due and payable on January 16, 2016; is subject to prepayment penalties up to a 145% multiple of the principal, interest and other amounts owing, as defined. After the expiration of 180 days following the date of the LG Note, the Company has no right of prepayment; and the note may be converted by LG Capital at any time after 180 days of the date of closing into shares of our common stock at a conversion price equal to a 40% discount of the lowest closing bid price for 20 prior trading days including the notice of conversion date. The LG Note also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rate under the Note in the event of such defaults.

The estimated fair value of the embedded derivative liability at inception was \$128,438, of which \$78,750 was discounted against the note and will be accreted over the term of the note and \$49,688 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

#### *JSJ Investments, Inc.*

On January 26, 2015 (the “Issuance Date”) we entered into a financing agreement with JSJ Investments Inc. (“JSJ”) providing for the purchase of a 10% Convertible Note in the aggregate principal amount of \$66,000 (the “JSJ” Note). The JSJ Note contains a \$6,000 original issue discount such that the purchase price of the JSJ Note was \$60,000. The JSJ Note was funded on January 27, 2015, and we received \$52,000 of net proceeds (net of \$2,000 legal fees and \$7,500 due diligence fees). The JSJ Note bears interest at the rate of 10% per annum; is due and payable on January 26, 2016; may be prepaid until the one hundred and fiftieth (150th) day after the Issuance Date at a cash redemption of 150%; and the note may be converted by JSJ at any time into shares of our common stock at a conversion price equal to the lower of (i) a 40% discount of the lowest trading price during the previous twenty (20) trading days prior to the date of conversion; or (ii) a 40% discount to the lowest trading price during the previous twenty (20) trading days before the date that the JSJ Note was executed. The JSJ Note also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rate under the JSJ Note in the event of such defaults.

The estimated fair value of the embedded derivative liability at inception was \$132,002, of which \$66,000 was discounted against the note and will be accreted over the term of the note and \$66,002 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

#### *Adar Bays, LLC*

On January 26, 2015, we entered into a Securities Purchase Agreement (with Adar Bays, LLC (“Adar Bays”) providing for the purchase of a Convertible Redeemable Note (the “AB Note”) in the aggregate principal amount of \$35,000. The AB Note was funded on January 27, 2015, and we received \$29,750 of net proceeds (net of \$1,750 of legal fees and \$3,500 finders fees). The AB Note bears interest at the rate of 8% per annum; is due and payable on January 26, 2016; is subject to prepayment penalties up to a 145% multiple of the principal, interest and other amounts owing, as defined. After the expiration of 180 days following the date of the AB Note, the Company has no right of prepayment; and the note may be converted by Adar Bays at any time after 180 days of the date of closing into shares of our common stock at a conversion price equal to a 40% discount of the lowest closing bid price for 20 prior trading days including the notice of conversion date. The AB Note also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rate under the AB Note in the event of such defaults.

The estimated fair value of the embedded derivative liability at inception was \$65,333, of which \$35,000 was discounted against the note and will be accreted over the term of the note and \$30,333 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

#### *JMJ Financial*

On January 28, 2014, we received a funding of \$82,500 (including an original issue discount of \$7,500) pursuant to a \$250,000 Convertible Note (the “JMJ Note”) dated January 28, 2015 with MJM Financial. We received \$67,500 of proceeds, net of \$7,500 original issue discount and \$7,500 finders fee. The JMJ Note matures twenty four months from the date funded, has a one-time 12% interest charge if not paid within 90 days, may be prepaid at any time on or before 90 days of its effective date, and is

convertible at any time the option of JMJ Financial into shares of our common stock at the lesser of \$0.075 per share or 60% of the average of the trade price in the 25 trading days prior to conversion. The JMJ Note might be accelerated if an event of default occurs under the terms of the JMJ Note, including the Company's failure to pay principal and interest when due, certain bankruptcy events or if the Company is delinquent in its SEC filings.

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The estimated fair value of the embedded derivative liability at inception was \$157,208, of which \$82,500 was discounted against the note and will be accreted over the term of the note and \$74,708 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*Vista Capital Investments, LLC*

On February 4, 2015 (the "Issuance Date"), we entered into a Convertible Note (the "Vista Note") with Vista Capital Investments, LLC ("Vista") in the original principal amount of \$250,000 (including a 10% original issue discount ("OID")). The Company and Vista agreed to an initial funding under the Vista Note of \$55,000, including an OID of \$5,000 ("Initial Funding"). Future advances under the Vista Note are at the sole discretion of Vista. We are only required to repay the amount funded, including the prorated portion of the OID. On February 9, 2015, we received \$45,000 of net proceeds under the Initial Funding, net of \$5,000 OID and a \$5,000 finders fee. The Vista Note matures twenty four months from the date funded, has a one-time 12% interest charge if not paid within 90 days; may be prepaid at any time within the 90 day period immediately following the Issuance Date at a multiple of 145% of the original principal amount; and may be convertible at the option of Vista at any time after the Issuance Date into shares of our common stock at the lesser of \$0.10 per share or 60% of the lowest trade occurring during the twenty five (25) consecutive trading days immediately preceding the applicable conversion date on which the holder elects to convert all or part of the Vista Note, subject to adjustment as provided for in the Vista Note.

The Vista Note might be accelerated if an event of default occurs under the terms of the Vista Note, including the our failure to pay principal and interest when due, certain bankruptcy events or if we are delinquent in our SEC filings. The Vista Note also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rate under the Note in the event of such defaults.

The estimated fair value of the embedded derivative liability at inception was \$91,712, of which \$55,000 was discounted against the note and will be accreted over the term of the note and \$36,712 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*KBM Worldwide, Inc.*

On February 17, 2015, we entered into a Securities Purchase Agreement ("KBM SPA") with KBM Worldwide, Inc. ("KBM") providing for the purchase of a Convertible Promissory Note bearing interest at 8% per annum in the principal amount of \$115,000 due February 17, 2016 (the "KBM Note"). The KBM Note includes an \$11,000 Original Issue Discount ("OID"). The KBM Note was funded on February 20, 2015, with the Company receiving net proceeds of \$90,000, (net of the \$11,000 OID, KBM's legal expenses of \$4,000, and a finders fee of \$10,000). The terms of the KBM SPA also provide, for a period of six months following the effective date, a right of first refusal to KBM for certain future financings entered into by the Company for amounts less than \$75,000.

The KBM Note can be prepaid, at redemption premiums ranging from 10% to 35%, until 180 days following the issuance date of the KBM Note, after which we have no right of repayment. The KBM Note is convertible at a price per share equal to 61% of the average of the lowest three trading prices of the Company's common stock during the 10 trading days prior to conversion. If, at any time when the KBM Note is outstanding, The Company issues or sells, or is deemed to have issued or sold, any shares of its common stock in connection with a subsequent placement for no consideration or for a consideration per share based on a variable price formula that is less than the conversion price in effect on the date of such issuance of shares of common stock, then the KBM conversion price will be reduced to the amount of the consideration per share received for such issuance.

The KBM Note contains certain covenants and restrictions including, among others, that for so long as the KBM Note is outstanding the Company will not pay dividends or dispose of certain assets, and that the Company will maintain our listing on an over-the-counter market. Events of default under the note include, among others, failure to pay principal or interest on the note or comply with certain covenants under the note.

The estimated fair value of the embedded derivative liability at inception was \$250,590, of which \$115,000 was discounted against the note and will be accreted over the term of the note and \$125,590 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*EMA Financial, LLC*

On February 19, 2015, we entered into a Securities Purchase Agreement (the "EMA SPA") with EMA Financial, LLC ("EMA") providing for the purchase of a Convertible Note bearing interest at 10% per annum in the principal amount of \$68,000 due February 19, 2016 (the "EMA Note"). The EMA Note includes an \$6,800 Original Issue Discount ("OID"). The EMA Note was funded on February 23, 2015, with the Company receiving net proceeds of \$52,080, (net of the \$6,800 OID, EMA's due diligence and documentation preparation expenses of \$3,000, and a finders fee of \$6,120).

The EMA Note can be prepaid, at a redemption premium of 50%, until 180 days following the issuance date of the EMA Note, after which the Company has no right of repayment. The EMA Note is convertible at a price per share equal to the lower of either (i) the closing sale price of the Company's common stock on the day prior to the closing date, and (ii) 60% of the lowest trade price of the Company's common stock Common Stock on the Principal Market during the twenty five (25) consecutive trading days prior to conversion.

The EMA Note contains certain covenants and restrictions including, among others, that for so long as the EMA Note is outstanding the Company will not pay dividends or dispose of certain assets, and that the Company will maintain its listing on an over-the-counter market. Events of default under the note include, among others, failure to pay principal or interest on the note or comply with certain covenants under the note.

The estimated fair value of the embedded derivative liability at inception was \$167,167, of which \$68,000 was discounted against the note and will be accreted over the term of the note and \$99,167 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

*Tangiers Investment Group, LLC*

On March 8, 2015, we entered into a Note Purchase Agreement (the "Tangiers NPA") with Tangiers Investment Group, LLC ("Tangiers"), for the sale of a 10% convertible promissory note in the principal amount of up to \$220,000, plus a 10% original issue discount (the "Tangiers Note"). On March 10, 2015, the Company closed on an initial funding of \$82,500 and received net proceeds of \$67,500, after deducting \$7,500 retained by Tangiers for the original issue discount for due diligence and legal bills related to the transaction, and \$7,500 that the Company paid to a third party for a finders fee. Tangiers has the option to finance additional amounts, up to the balance of the \$220,000, during the term of the Tangiers Note.

The principal due under the Tangiers Note bears interest at the rate of 10% per annum. Upon an event of default, interest will accrue at the lower of 20% or the highest rate permitted by law. Events of default under the note include, among others, failure to pay principal or interest on the note or comply with certain covenants under the note. All interest and principal must be repaid on or before March 8, 2016. The Tangiers Note may be prepaid in whole or in part by the Company within 180 days, at redemption premiums ranging from 15% to 35% of the funded amount of the Tangiers Note plus accrued interest. After 180 days, the Tangiers Note may not be prepaid without the consent of all parties. The principal and interest underlying the Tangiers Note is convertible at any time into common stock, at Tangiers's option, at a conversion price equal to the lower of \$0.04 or 60% of the lowest trading price of the Company's common stock during the twenty consecutive trading days prior to the date on which Tangiers (or the then-holder of the Tangiers Note) elects to convert all or part of the Tangiers Note. In connection therewith, Company agreed to reserve from its authorized and unissued shares at least four times the number of shares that may be issuable upon conversion of the note.

The estimated fair value of the embedded derivative liability at inception was \$139,078, of which \$82,500 was discounted against the note and will be accreted over the term of the note and 58,578 will be recorded as interest expense at inception. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the effective interest rate is not meaningful.

Interest expense for these convertible notes is estimated at approximately \$566,000 for the year ended December 31, 2015, and includes approximately \$539,000 for the initial fair value of the embedded derivative (conversion option) of the convertible notes. Given the significant amount of non-cash interest expense associated with the conversion option fair value, the weighted average effective interest rate for the above notes for 2015 will not be a meaningful number.

#### ***Legal Proceedings***

##### *Dekle, et. al. v. Global Digital Solutions, Inc. et. al.*

Brian A. Dekle and John Ramsay filed suit against the Company and its wholly owned subsidiary, North American Custom Specialty Vehicles, Inc. ("NACSV") in the Circuit Court of Baldwin Alabama, on January 14, 2015, case no. 05-CV-2015-900050.00. relating to our acquisition of NACSV (the "Dekle Action"). Prior to instituting the Dekle Action, in June 2014, the Company had entered into an equity purchase agreement with Dekle and Ramsay to purchase their membership interest in North American Custom Specialty Vehicles, LLC. The Dekle Action originally sought payment for \$300,000 in post-closing consideration Dekle and Ramsay allege they are owed pursuant to the equity purchase agreement.

On February 9, 2015, the Company and NACSV removed the Dekle Action to federal court in the United States District Court in and for the Southern District of Alabama, case no. 1:15-CV-00069. The Company and NACSV subsequently moved to dismiss the complaint for (1) failing to state a cause of action, and (2) lack of personal jurisdiction. Alternatively, the Company and NACSV sought a transfer of the case to the United States District Court in and for Middle District of Florida.

In response to the Company's and NACSV's motion to dismiss, Dekle and Ramsay filed an amended complaint on March 2, 2015 seeking specific performance and alleging breach of contract, violations of SEC Rule 10b-5, and violations of the Alabama Securities Act. The amended complaint also names the Company's Chairman, President, and CEO, Richard J. Sullivan ("Sullivan;") as a defendant. On March 17, 2015, the Company, NACSV and Sullivan filed a motion to dismiss the amended complaint seeking dismissal for failure to state valid causes of action, for lack of personal jurisdiction, or alternatively to transfer the case to the United States District Court in and for Middle District of Florida.

##### *Global Digital Solutions, Inc. et. al. v. Communications Laboratories, Inc., et. al.*

On January 19, 2015 the Company and NACSV filed suit against Communications Laboratories, Inc., ComLabs Global, LLC, Roland Lussier, Brian Dekle, John Ramsay and Wallace Bailey for conversion and breach of contract in a dispute over the payment of a \$300,000 accounts receivable that ComLabs owed to NACSV but sent payment directly to Brian Dekle. The case was filed in the Eighteenth Judicial Circuit in and for Brevard County Florida, case no. 05-2015-CA-012250-XXXX. On February 18, 2015 (i) defendants Communications Laboratories, Inc., ComLabs Global, LLC and Roland Lussier and (ii) defendant Wallace Bailey filed their respective motions to dismiss seeking, among other things, dismissal for failure to state valid causes of action, lumping and failure to post a non-resident bond. On February 26, 2015, defendants Dekle and Ramsay filed their motion to dismiss, or stay action, based on already existing litigation between the parties.

## EXHIBIT INDEX

Exhibit No.	Description	Incorporated by Reference		
		Form	Filing Date / Period End	Exhibit Number
2.1	Purchase Agreement, dated as of January 1, 2012, by and between Global Digital Solution, Inc., and Bronco Communications, LLC	10	8/9/13	2.1
2.2	Amendment to Purchase Agreement dated October 15, 2012, by and between Global Digital Solution, Inc., and Bronco Communications, LLC	10	8/9/13	2.2
2.3	Agreement of Merger and Plan of Reorganization dated as of October __, 2012, by and between Global Digital Solution, Inc., and Airtronic USA, Inc.	10/A	9/10/13	2.3
2.4	First Amendment to Agreement of Merger and Plan of Reorganization dated as of August 5, 2013, by and between Global Digital Solution, Inc. and Airtronic USA, Inc.	10 /A	9/10/13	2.4
2.5	Equity Purchase Agreement dated June 16, 2014 by and among Brian A. Dekle, John Ramsey, GDS1 Acquisition Corporation, Global Digital Solutions, Inc. and North American Custom Specialty Vehicles, LLC.	8-K	6/19/14	2.1
3.1	Certificate of Incorporation	10	8/9/13	3.1
3.2	Articles of Merger	10	8/9/13	3.2
3.3	Certificate of Amendment to Certificate of Incorporation	10	8/9/13	3.3
3.4	Bylaws	10	8/9/13	3.4
3.5	Certificate of Amendment to Certificate of Incorporation filed July 7, 2014	8-K	7/30/14	3.1
10.1	Debtor In Possession Note Purchase Agreement by and between the Company and Airtronic USA, Inc. dated October 22, 2012	10	8/9/13	10.1
10.2	8 1/4% Secured Promissory Note in the original principal amount of \$750,000 dated October 22, 2012 in favor of the Company	10	8/9/13	10.2
10.3	Security Agreement by and between the Company and Airtronic USA, Inc. dated October 22, 2012	10	8/9/13	10.3
10.4	Bridge Loan Modification and Ratification Agreement by and between the Company and Airtronic USA, Inc. dated March __, 2013	10/A	9/10/13	10.4
10.5	Second Bridge Loan Modification and Ratification Agreement by and between the Company and Airtronic USA, Inc. dated as of August 5, 2013	10/A	9/10/13	10.5
10.6	8 1/4% Secured Promissory Note in the original principal amount of \$550,000 dated August 5, 2013, in favor of the Company	10/A	9/10/13	10.6
10.7	Intellectual Property Security Agreement dated as of August 5, 2013, by and between Merriellyn Kett and the Company	10/A	9/10/13	10.7
10.8	Promissory Note Purchase Agreement by and between the Company and the investors listed therein dated December __, 2012	10	8/9/13	10.8
10.9	Secured Promissory Note in the original principal amount of \$750,000 dated December __, 2012 in favor of Gabriel De Los Reyes	10	8/9/13	10.9
10.10	Security Agreement dated December __, 2012 by and between the Company, Bay Acquisition, LLC and the noteholder identified on Schedule A	10	8/9/13	10.10

Exhibit No.	Description	Incorporated by Reference		
		Form	Filing Date / Period End	Exhibit Number
10.11	Warrant dated December __, 2012 for 3,000,000 shares of common stock	10	8/9/13	10.11
10.12	Amendment dated May 6, 2013, by and between the Company and Gabriel De Los Reyes	10	8/9/13	10.12
10.13	Form of Subscription Agreement and Securities Purchase Agreement	10	8/9/13	10.13
10.14	Form of Indemnification Agreement	10	8/9/13	10.14
10.15	8 1/4% Secured Promissory Note in the original principal amount of \$200,000 dated October 10, 2013, in favor of the Company	10-K	3/28/14	10.15
10.16	Third Bridge Loan Modification and Ratification Agreement by and between the Company and Airtronic USA, Inc. dated as of October 10, 2013	10-K	3/28/14	10.16
10.17	Investment Banking Agreement with Midtown Partners & Co, LLC dated October 16, 2013	10-K	3/28/14	10.17
10.18	Addendum dated April 16, 2014 to Investment Banking Agreement with Midtown Partners & Co, LLC dated October 16, 2013	DRS/A	8/5/14	10.17
10.19*	Global Digital Solutions, Inc. 2014 Equity Incentive Plan approved by Shareholders May 19, 2014	DRS/A	8/5/14	10.19
10.20	Online Virtual Office Agreement dated August 19, 2013	DRS/A	8/5/14	10.20
10.21*	Restricted Stock Unit Agreement dated as of August 25, 2014 between Global Digital Solutions, Inc. and Stephen L. Norris	8-K/A	8/25/14	10.1
10.22	Securities Purchase Agreement, dated December 8, 2014, with Charter 804CS Solutions, Inc.	8-K	12/12/14	10.1
10.23	Convertible Promissory Note, dated December 8, 2014, with Charter 804CS Solutions, Inc.	8-K	12/12/14	10.2
10.24	First Amendment to 8% Convertible Redeemable Note dated February 4, 2015, with Charter 804CS Solutions, Inc.	8-K	2/9/15	10.2
10.25	Securities Purchase Agreement, dated December 8, 2014, with David A. Loppert	8-K	12/12/14	10.3
10.26	Convertible Promissory Note, dated December 8, 2014, with David A. Loppert	8-K	12/12/14	10.4
10.27	First Amendment to 8% Convertible Redeemable Note dated February 4, 2015, with David A. Loppert	8-K/A	2/9/15	10.3
10.28	Securities Purchase Agreement, dated January 16, 2015, with LG Capital	8-K	1/20/15	10.1
10.29	8% Convertible Redeemable Note, dated January 16, 2015, with LG Capital	8-K	1/20/15	10.2
10.30	10% Convertible Note, dated January 26, 2015, with JSJ Investments Inc.	8-K	1/30/15	10.1
10.31	Securities Purchase Agreement, dated January 26, 2015, with Adar Bays, LLC	8-K	1/30/15	10.2
10.32	8% Convertible Redeemable Note, dated January 26, 2015, with Adar Bays, LLC	8-K	1/30/15	10.3
10.33	\$250,000 Convertible Note, dated January 28, 2015, with MJ Financial	8-K	1/30/15	10.4
10.34	\$250,000 Convertible Note, dated February 4, 2015, with Vista Capital Investments, LLC	8-K	2/9/15	10.1
10.35	Securities Purchase Agreement dated February 17, 2015 with KBM Worldwide, Inc.	8-K	2/24/15	10.1
10.36	Convertible Promissory Note dated February 17, 2015 with KBM Worldwide, Inc.	8-K	2/24/15	10.2

Exhibit No.	Description	Incorporated by Reference		
		Form	Filing Date / Period End	Exhibit Number
10.37	Securities Purchase Agreement dated February 17, 2015 with EMA Financial, LLC	8-K	2/24/15	10.3
10.38	Convertible Promissory Note dated February 17, 2015 with EMA Financial, LLC	8-K	2/24/15	10.4
10.39	Note Purchase Agreement dated March 8, 2015 with Tangiers Investment Group, LLC	8-K	3/13/15	10.1
10.40	Convertible Promissory Note dated March 8, 2015 with Tangiers Investment Group, LLC	8-K	3/13/15	10.2
10.41**	Non – exclusive agreement with Carter, Terry & Company dated December 19, 2014 to provide Financial Advisor, Investment Banking and Placement Agent services			
21.1**	List of Subsidiaries			
24.1**	Power of Attorney (included on the Signature Page of this Annual Report on Form 10-K)			
31.1**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer			
31.2**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer			
32.1***	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer			
99.1	NIMS Standards for Mobile Command Center Vehicles	DRS/A	9/2/14	99.1
101. INS	XBRL Instance			
101. SCH	XBRL Taxonomy Extension Scheme			
101. CAL	XBRL Taxonomy Extension Calculation			
101. DEF	XBRL Taxonomy Extension Definition			
101. LAB	XBRL Taxonomy Extension Labels			
101. PRE	XBRL Taxonomy Extension Presentation			

- 
- \* Management contract or compensatory plan or arrangement.  
 \*\* Filed herewith.  
 \*\*\* Furnished herewith.

# **EXHIBIT 5**

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

OMB APPROVAL	
OMB Number:	3235-0063
Expires:	December, 31, 2020
Estimated average burden hours per response ...	2391.73

FORM 10-K

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

GENERAL INSTRUCTIONS

**A. Rule as to Use of Form 10-K.**

- (1) This Form shall be used for annual reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) (the "Act") for which no other form is prescribed. This Form also shall be used for transition reports filed pursuant to Section 13 or 15(d) of the Act.
- (2) Annual reports on this Form shall be filed within the following period:
  - (a) 60 days after the end of the fiscal year covered by the report (75 days for fiscal years ending before December 15, 2006) for large accelerated filers (as defined in 17 CFR 240.12b-2);
  - (b) 75 days after the end of the fiscal year covered by the report for accelerated filers (as defined in 17 CFR 240.12b-2); and
  - (c) 90 days after the end of the fiscal year covered by the report for all other registrants.
- (3) Transition reports on this Form shall be filed in accordance with the requirements set forth in Rule 13a-10 (17 CFR 240.13a-10) or Rule 15d-10 (17 CFR 240.15d-10) applicable when the registrant changes its fiscal year end.
- (4) Notwithstanding paragraphs (2) and (3) of this General Instruction A., all schedules required by Article 12 of Regulation S-X (17 CFR 210.12-01 - 210.12-29) may, at the option of the registrant, be filed as an amendment to the report not later than 30 days after the applicable due date of the report.

**B. Application of General Rules and Regulations.**

- (1) The General Rules and Regulations under the Act (17 CFR 240) contain certain general requirements which are applicable to reports on any form. These general requirements should be carefully read and observed in the preparation and filing of reports on this Form.
- (2) Particular attention is directed to Regulation 12B which contains general requirements regarding matters such as the kind and size of paper to be used, the legibility of the report, the information to be given whenever the title of securities is required to be stated, and the filing of the report. The definitions contained in Rule 12b-2 should be especially noted. *See also* Regulations 13A and 15D.

**C. Preparation of Report.**

- (1) This form is not to be used as a blank form to be filled in, but only as a guide in the preparation of the report on paper meeting the requirements of Rule 12b-12. Except as provided in General Instruction G, the answers to the items shall be prepared in the manner specified in Rule 12b-13.
- (2) Except where information is required to be given for the fiscal year or as of a specified date, it shall be given as of the latest practicable date.
- (3) Attention is directed to Rule 12b-20, which states: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."



#### **D. Signature and Filing of Report.**

- (1) Three complete copies of the report, including financial statements, financial statement schedules, exhibits, and all other papers and documents filed as a part thereof, and five additional copies which need not include exhibits, shall be filed with the Commission. At least one complete copy of the report, including financial statements, financial statement schedules, exhibits, and all other papers and documents filed as a part thereof, shall be filed with each exchange on which any class of securities of the registrant is registered. At least one complete copy of the report filed with the Commission and one such copy filed with each exchange shall be manually signed. Copies not manually signed shall bear typed or printed signatures.
- (2) (a) The report must be signed by the registrant, and on behalf of the registrant by its principal executive officer or officers, its principal financial officer or officers, its controller or principal accounting officer, and by at least the majority of the board of directors or persons performing similar functions. Where the registrant is a limited partnership, the report must be signed by the majority of the board of directors of any corporate general partner who signs the report.  
  
(b) The name of each person who signs the report shall be typed or printed beneath his signature. Any person who occupies more than one of the specified positions shall indicate each capacity in which he signs the report. Attention is directed to Rule 12b-11 (17 CFR 240.12b-11) concerning manual signatures and signatures pursuant to powers of attorney.
- (3) Registrants are requested to indicate in a transmittal letter with the Form 10-K whether the financial statements in the report reflect a change from the preceding year in any accounting principles or practices, or in the method of applying any such principles or practices.

#### **E. Disclosure With Respect to Foreign Subsidiaries.**

Information required by any item or other requirement of this form with respect to any foreign subsidiary may be omitted to the extent that the required disclosure would be detrimental to the registrant. However, financial statements and financial statement schedules, otherwise required, shall not be omitted pursuant to this Instruction. Where information is omitted pursuant to this Instruction, a statement shall be made that such information has been omitted and the names of the subsidiaries involved shall be separately furnished to the Commission. The Commission may, in its discretion, call for justification that the required disclosure would be detrimental.

#### **F. Information as to Employee Stock Purchase, Savings and Similar Plans.**

Attention is directed to Rule 15d-21 which provides that separate annual and other reports need not be filed pursuant to Section 15(d) of the Act with respect to any employee stock purchase, savings or similar plan if the issuer of the stock or other securities offered to employees pursuant to the plan furnishes to the Commission the information and documents specified in the Rule.

#### **G. Information to be Incorporated by Reference.**

- (1) Attention is directed to Rule 12b-23 which provides for the incorporation by reference of information contained in certain documents in answer or partial answer to any item of a report.
- (2) The information called for by Parts I and II of this form (Items 1 through 9A or any portion thereof) may, at the registrant's option, be incorporated by reference from the registrant's annual report to security holders furnished to the Commission pursuant to Rule 14a-3(b) or Rule 14c-3(a) or from the registrant's annual report to security holders, even if not furnished to the Commission pursuant to Rule 14a-3(b) or Rule 14c-3(a), provided such annual report contains the information required by Rule 14a-3.

**Note 1.** In order to fulfill the requirements of Part I of Form 10-K, the incorporated portion of the annual report to security holders must contain the information required by Items 1-3 of Form 10-K; to the extent applicable.

**Note 2.** If any information required by Part I or Part II is incorporated by reference into an electronic format document from the annual report to security holders as provided in General Instruction G, any portion of the annual report to security holders incorporated by reference shall be filed as an exhibit in electronic format, as required by Item 601(b)(13) of Regulation S-K.

- (3) The information required by Part III (Items 10, 11, 12, 13 and 14) may be incorporated by reference from the registrant's definitive proxy statement (filed or required to be filed pursuant to Regulation 14A) or definitive information statement (filed or to be filed pursuant to Regulation 14C) which involves the election of directors, if such definitive proxy statement or information statement is filed with the Commission not later than 120 days after the end of the fiscal year covered by the Form 10-K. However, if such definitive proxy statement or information statement is not filed with the Commission in the 120-day period or is not required to be filed with the Commission by virtue of Rule 3a12-3(b) under the Exchange Act, the Items comprising the Part III information must be filed as part of the Form 10-K, or as an amendment to the Form 10-K, not later than the end of the 120-day period. It should be noted that the information regarding executive officers required by Item 401 of Regulation S-K (§ 229.401 of this chapter) may be included in Part I of Form 10-K under an appropriate caption. See Instruction 3 to Item 401(b) of Regulation S-K (§ 229.401(b) of this chapter).
- (4) No item numbers or captions of items need be contained in the material incorporated by reference into the report. However, the registrant's attention is directed to Rule 12b-23(e) (17 CFR 240.12b-23(e)) regarding the specific disclosure required in the report concerning information incorporated by reference. When the registrant combines all of the information in Parts I and II of this Form (Items 1 through 9A) by incorporation by reference from the registrant's annual report to security holders and all of the information in Part III of this Form (Items 10 through 14) by incorporating by reference from a definitive proxy statement or information statement involving the election of directors, then, notwithstanding General Instruction C(1), this Form shall consist of the facing or cover page, those sections incorporated from the annual report to security holders, the proxy or information statement, and the information, if any, required by Part IV of this Form, signatures, and a cross-reference sheet setting forth the item numbers and captions in Parts I, II and III of this Form and the page and/or pages in the referenced materials where the corresponding information appears.

#### **H. Integrated Reports to Security Holders.**

Annual reports to security holders may be combined with the required information of Form 10-K and will be suitable for filing with the Commission if the following conditions are satisfied:

- (1) The combined report contains full and complete answers to all items required by Form 10-K. When responses to a certain item of required disclosure are separated within the combined report, an appropriate cross-reference should be made. If the information required by Part III of Form 10-K is omitted by virtue of General Instruction G, a definitive proxy or information statement shall be filed.
- (2) The cover page and the required signatures are included. As appropriate, a cross-reference sheet should be filed indicating the location of information required by the items of the Form.
- (3) If an electronic filer files any portion of an annual report to security holders in combination with the required information of Form 10-K, as provided in this instruction, only such portions filed in satisfaction of the Form 10-K requirements shall be filed in electronic format.

#### **I. Omission of Information by Certain Wholly-Owned Subsidiaries.**

If, on the date of the filing of its report on Form 10-K, the registrant meets the conditions specified in paragraph (1) below, then such registrant may furnish the abbreviated narrative disclosure specified in paragraph (2) below.

- (1) Conditions for availability of the relief specified in paragraph (2) below.
  - (a) All of the registrant's equity securities are owned, either directly or indirectly, by a single person which is a reporting company under the Act and which has filed all the material required to be filed pursuant to section 13, 14, or 15(d) thereof, as applicable, and which is named in conjunction with the registrant's description of its business;
  - (b) During the preceding thirty-six calendar months and any subsequent period of days, there has not been any material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within thirty days, with respect to any indebtedness of the registrant or its subsidiaries, and there has not been any material default in the payment of rentals under material long-term leases;
  - (c) There is prominently set forth, on the cover page of the Form 10-K, a statement that the registrant meets the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K and is therefore filing this Form with

the reduced disclosure format; and

(d) The registrant is not an asset-backed issuer, as defined in Item 1101 of Regulation AB (17 CFR 229.1101).

(2) Registrants meeting the conditions specified in paragraph (1) above are entitled to the following relief:

- (a) Such registrants may omit the information called for by Item 6, Selected Financial Data, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations provided that the registrant includes in the Form 10-K a management's narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items between the most recent fiscal year presented and the fiscal year immediately preceding it. Explanations of material changes should include, but not be limited to, changes in the various elements which determine revenue and expense levels such as unit sales volume, prices charged and paid, production levels, production cost variances, labor costs and discretionary spending programs. In addition, the analysis should include an explanation of the effect of any changes in accounting principles and practices or method of application that have a material effect on net income as reported.
- (b) Such registrants may omit the list of subsidiaries exhibit required by Item 601 of Regulation S-K (§ 229.601 of this chapter).
- (c) Such registrants may omit the information called for by the following otherwise required Items: Item 4, Submission of Matters to a Vote of Security Holders; Item 10, Directors and Executive Officers of the Registrant; Item 11, Executive Compensation; Item 12, Security Ownership of Certain Beneficial Owners and Management; and Item 13, Certain Relationships and Related Transactions.
- (d) In response to Item 1, Business, such registrant only need furnish a brief description of the business done by the registrant and its subsidiaries during the most recent fiscal year which will, in the opinion of management, indicate the general nature and scope of the business of the registrant and its subsidiaries, and in response to Item 2, Properties, such registrant only need furnish a brief description of the material properties of the registrant and its subsidiaries to the extent, in the opinion of the management, necessary to an understanding of the business done by the registrant and its subsidiaries.

## **J. Use of this Form by Asset-Backed Issuers.**

The following applies to registrants that are asset-backed issuers. Terms used in this General Instruction J. have the same meaning as in Item 1101 of Regulation AB (17 CFR 229.1101).

(1) *Items that May be Omitted.* Such registrants may omit the information called for by the following otherwise required Items:

- (a) Item 1, Business;
- (b) Item 1A, Risk Factors;
- (c) Item 2, Properties;
- (d) Item 3, Legal Proceedings;
- (e) Item 4, Submission of Matters to a Vote of Security Holders;
- (f) Item 5, Market for Registrant's Common Equity and Related Stockholder Matters;
- (g) Item 6, Selected Financial Data;
- (h) Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations;
- (i) Item 7A, Quantitative and Qualitative Disclosures About Market Risk;
- (j) Item 8, Financial Statements and Supplementary Data;
- (k) Item 9, Changes in and Disagreements With Accountants on Accounting and Financial Disclosure;
- (l) Item 9A, Controls and Procedures;
- (m) If the issuing entity does not have any executive officers or directors, Item 10, Directors and Executive Officers of the Registrant, Item 11, Executive Compensation, Item 12, Security Ownership of Certain Beneficial Owners and Management, and Item 13, Certain Relationships and Related Transactions; and
- (n) Item 14, Principal Accountant Fees and Services.

(2) *Substitute Information to be Included.* In addition to the Items that are otherwise required by this Form, the registrant must furnish in the Form 10-K the following information:

- (a) Immediately after the name of the issuing entity on the cover page of the Form 10-K, as separate line items, the exact name of the depositor as specified in its charter and the exact name of the sponsor as specified in its charter. Include a Central Index Key number for the depositor and the issuing entity, and if available, the sponsor.
- (b) Item 1112(b) of Regulation AB;
- (c) Items 1114(b)(2) and 1115(b) of Regulation AB;
- (d) Item 1117 of Regulation AB;
- (e) Item 1119 of Regulation AB;
- (f) Item 1122 of Regulation AB; and
- (g) Item 1123 of Regulation AB.

(3) *Signatures.*

The Form 10-K must be signed either:

- (a) On behalf of the depositor by the senior officer in charge of securitization of the depositor; or
- (b) On behalf of the issuing entity by the senior officer in charge of the servicing function of the servicer. If multiple servicers are involved in servicing the pool assets, the senior officer in charge of the servicing function of the master servicer (or entity performing the equivalent function) must sign if a representative of the servicer is to sign the report on behalf of the issuing entity.

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

OMB APPROVAL	
OMB Number:	3235-0063
Expires:	December 31, 2020
Estimated average burden hours per response . . .	2003.78

**FORM 10-K**

(Mark One)

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

For the fiscal year ended \_\_\_\_\_  
or

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

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

Commission file number \_\_\_\_\_

\_\_\_\_\_  
(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
State or other jurisdiction of  
incorporation or organization

\_\_\_\_\_  
(I.R.S. Employer  
Identification No.)

\_\_\_\_\_  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code \_\_\_\_\_

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
_____	_____
_____	_____

Securities registered pursuant to section 12(g) of the Act:

_____	(Title of class)
_____	(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

**Note** – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

**Note.**—If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

#### APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

##### PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

##### (APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

##### DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

## PART I

[See General Instruction G2]

### **Item 1. Business.**

Furnish the information required by Item 101 of Regulation S-K (§ 229.101 of this chapter) except that the discussion of the development of the registrant's business need only include developments since the beginning of the fiscal year for which this report is filed.

### **Item 1A. Risk Factors.**

Set forth, under the caption "Risk Factors," where appropriate, the risk factors described in Item 503(c) of Regulation S-K (§229.503(c) of this chapter) applicable to the registrant. Provide any discussion of risk factors in plain English in accordance with Rule 421(d) of the Securities Act of 1933 (§230.421(d) of this chapter). Smaller reporting companies are not required to provide the information required by this item.

### **Item 1B. Unresolved Staff Comments.**

If the registrant is an accelerated filer or a large accelerated filer, as defined in Rule 12b-2 of the Exchange Act (§240.12b-2 of this chapter), or is a well-known seasoned issuer as defined in Rule 405 of the Securities Act (§230.405 of this chapter) and has received written comments from the Commission staff regarding its periodic or current reports under the Act not less than 180 days before the end of its fiscal year to which the annual report relates, and such comments remain unresolved, disclose the substance of any such unresolved comments that the registrant believes are material. Such disclosure may provide other information including the position of the registrant with respect to any such comment.

### **Item 2. Properties.**

Furnish the information required by Item 102 of Regulation S-K (§ 229.102 of this chapter).

### **Item 3. Legal Proceedings.**

- (a) Furnish the information required by Item 103 of Regulation S-K (§ 229.103 of this chapter).
- (b) As to any proceeding that was terminated during the fourth quarter of the fiscal year covered by this report, furnish information similar to that required by Item 103 of Regulation S-K (§ 229.103 of this chapter), including the date of termination and a description of the disposition thereof with respect to the registrant and its subsidiaries.

### **Item 4. Mine Safety Disclosures.**

If applicable, provide a statement that the information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in exhibit 95 to the annual report.

## PART II

[See General Instruction G2]

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

- (a) Furnish the information required by Item 201 of Regulation S-K (17 CFR 229.201) and Item 701 of Regulation S-K (17 CFR 229.701) as to all equity securities of the registrant sold by the registrant during the period covered by the report that were not registered under the Securities Act. If the Item 701 information previously has been included in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K (17 CFR 249.308), it need not be furnished.
- (b) If required pursuant to Rule 463 (17 CFR 230.463) of the Securities Act of 1933, furnish the information required by Item 701(f) of Regulation S-K (§229.701(f) of this chapter).
- (c) Furnish the information required by Item 703 of Regulation S-K (§229.703 of this chapter) for any repurchase made in a month within the fourth quarter of the fiscal year covered by the report. Provide disclosures covering repurchases made on a monthly basis. For example, if the fourth quarter began on January 16 and ended on April 15, the chart would show repurchases for the months from January 16 through February 15, February 16 through March 15, and March 16 through April 15.

### **Item 6. Selected Financial Data.**

Furnish the information required by Item 301 of Regulation S-K (§ 229.301 of this chapter).

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Furnish the information required by Item 303 of Regulation S-K (§ 229.303 of this chapter).

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Furnish the information required by Item 305 of Regulation S-K (§ 229.305 of this chapter).

### **Item 8. Financial Statements and Supplementary Data.**

(a) Furnish financial statements meeting the requirements of Regulation S-X (§ 210 of this chapter), except § 210.3-05 and Article 11 thereof, and the supplementary financial information required by Item 302 of Regulation S-K (§ 229.302 of this chapter). Financial statements of the registrant and its subsidiaries consolidated (as required by Rule 14a-3(b)) shall be filed under this item. Other financial statements and schedules required under Regulation S-X may be filed as "Financial Statement Schedules" pursuant to Item 15, Exhibits, Financial Statement Schedules, and Reports on Form 8-K, of this form.

(b) A smaller reporting company may provide the information required by Article 8 of Regulation S-X in lieu of any financial statements required by Item 8 of this Form.

### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

Furnish the information required by Item 304(b) of Regulation S-K (§ 229.304(b) of this chapter).

### **Item 9A. Controls and Procedures.**

Furnish the information required by Item 307 and 308 of Regulation S-K (§229.307 and §229.308 of this chapter).



## **Item 9B. Other Information.**

The registrant must disclose under this item any information required to be disclosed in a report on Form 8-K during the fourth quarter of the year covered by this Form 10-K, but not reported, whether or not otherwise required by this Form 10-K. If disclosure of such information is made under this item, it need not be repeated in a report on Form 8-K which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 10-K.

## **PART III**

[See General Instruction G(3)]

## **Item 10. Directors, Executive Officers and Corporate Governance.**

Furnish the information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K (§ 229.401, § 229.405, § 229.406 and § 229.407(c)(3), (d)(4) and (d)(5) of this chapter).

### *Instruction*

Checking the box provided on the cover page of this Form to indicate that Item 405 disclosure of delinquent Form 3, 4, or 5 filers is not contained herein is intended to facilitate Form processing and review. Failure to provide such indication will not create liability for violation of the federal securities laws. The space should be checked only if there is no disclosure in this Form of reporting person delinquencies in response to Item 405 and the registrant, at the time of filing the Form 10-K, has reviewed the information necessary to ascertain, and has determined that, Item 405 disclosure is not expected to be contained in Part III of the Form 10-K or incorporated by reference.

## **Item 11. Executive Compensation.**

Furnish the information required by Item 402 of Regulation S-K (§ 229.402 of this chapter) and paragraph (c)(4) and (c)(5) of Item 407 of Regulation S-K (§ 229.407(c)(4) and (c)(5) of this chapter).

## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Furnish the information required by Item 201(d) of Regulation S-K (§ 229.201(d) of this chapter) and Item 403 of Regulation S-K (§ 229.403 of this chapter).

## **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Furnish the information required by Item 404 of Regulation S-K (§ 229.404 of this chapter) and Item 407(a) of Regulation S-K (§ 229.407(a) of this chapter).

## **Item 14. Principal Accounting Fees and Services.**

Furnish the information required by Item 9(c) of Schedule 14A (§240.14a-101 of this chapter).

- (1) Disclose, under the caption Audit Fees, the aggregate fees billed for each of the last two fiscal years for professional services rendered by the principal accountant for the audit of the registrant's annual financial statements and review of financial statements included in the registrant's Form 10-Q (17 CFR 249.308a) or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.
- (2) Disclose, under the caption Audit-Related Fees, the aggregate fees billed in each of the last two fiscal years for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the registrant's financial statements and are not reported under Item 9(e)(1) of Schedule 14A. Registrants shall describe the nature of the services comprising the fees disclosed under this category.
- (3) Disclose, under the caption Tax Fees, the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. Registrants shall describe the nature of the services comprising the fees disclosed under this category.
- (4) Disclose, under the caption All Other Fees, the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant, other than the services reported in Items 9(c)(1) through 9(c)

- (3) of Schedule 14A. Registrants shall describe the nature of the services comprising the fees disclosed under this category.
- (5) (i) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X.
- (ii) Disclose the percentage of services described in each of Items 9(e)(2) through 9(e)(4) of Schedule 14A that were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.
- (6) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

- (a) List the following documents filed as a part of the report:
- (1) All financial statements;
  - (2) Those financial statement schedules required to be filed by Item 8 of this form, and by paragraph (b) below.
  - (3) Those exhibits required by Item 601 of Regulation S-K (§ 229.601 of this chapter) and by paragraph (b) below. Identify in the list each management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 15(b) of this report.
- (b) Registrants shall file, as exhibits to this form, the exhibits required by Item 601 of Regulation S-K (§ 229.601 of this chapter).
- (c) Registrants shall file, as financial statement schedules to this form, the financial statements required by Regulation S-X (17 CFR 210) which are excluded from the annual report to shareholders by Rule 14a-3(b) including
- (1) separate financial statements of subsidiaries not consolidated and fifty percent or less owned persons;
  - (2) separate financial statements of affiliates whose securities are pledged as collateral; and
  - (3) schedules.

### Item 16. Form 10-K Summary.

Registrants may, at their option, include a summary of information required by this form, but only if each item in the summary is presented fairly and accurately and includes a hyperlink to the material contained in this form to which such item relates, including to materials contained in any exhibits filed with the form.

*Instruction:* The summary shall refer only to Form 10-K disclosure that is included in the form at the time it is filed. A registrant need not update the summary to reflect information required by Part III of Form 10-K that the registrant incorporates by reference from a proxy or information statement filed after the Form 10-K, but must state in the summary that the summary does not include Part III information because that information will be incorporated by reference from a later filed proxy or information statement involving the election of directors.

**SIGNATURES**

[See General Instruction D]

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

(Registrant) \_\_\_\_\_

By (Signature and Title)\* \_\_\_\_\_

Date \_\_\_\_\_

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

By (Signature and Title)\* \_\_\_\_\_

Date \_\_\_\_\_

By (Signature and Title)\* \_\_\_\_\_

Date \_\_\_\_\_

**Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act**

- (a) Except to the extent that the materials enumerated in (1) and/or (2) below are specifically incorporated into this Form by reference (in which case *see* Rule 12b-23(d)), every registrant which files an annual report on this Form pursuant to Section 15(d) of the Act shall furnish to the Commission for its information, at the time of filing its report on this Form, four copies of the following:
  - (1) Any annual report to security holders covering the registrant's last fiscal year; and
  - (2) Every proxy statement, form of proxy or other proxy soliciting material sent to more than ten of the registrant's security holders with respect to any annual or other meeting of security holders.
- (b) The foregoing material shall not be deemed to be "filed" with the Commission or otherwise subject to the liabilities of Section 18 of the Act, except to the extent that the registrant specifically incorporates it in its annual report on this Form by reference.
- (c) If no such annual report or proxy material has been sent to security holders, a statement to that effect shall be included under this caption. If such report or proxy material is to be furnished to security holders subsequent to the filing of the annual report of this Form, the registrant shall so state under this caption and shall furnish copies of such material to the Commission when it is sent to security holders.

# **EXHIBIT 6**

10-Q 1 f10q0915\_globaldigital.htm QUARTERLY REPORT

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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

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

Commission File Number: 000-26361

**Global Digital Solutions, Inc.**

(Exact name of registrant as specified in its charter)

**New Jersey**

(State or other jurisdiction of incorporation  
or organization)

**22-3392051**

(I.R.S. Employer  
Identification No.)

**777 South Flagler Drive, Suite 800 West  
West Palm Beach, FL 33401**

(Address of principal executive offices,  
including zip code)

**(561) 515-6163**

(Registrant's telephone number,  
including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on November 4, 2015 is as follows:

Class	Number of Shares
Common Stock: \$0.001 Par Value	489,476,766



## GLOBAL DIGITAL SOLUTIONS, INC.

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**PART I - FINANCIAL INFORMATION**  
**ITEM 1 - FINANCIAL STATEMENTS**

**GLOBAL DIGITAL SOLUTIONS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	September 30, 2015 <u>(unaudited)</u>	December 31, 2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 115,662	\$ 160,102
Accounts receivable, net	306,439	302,400
Inventory	--	226,897
Prepaid expenses	147,174	81,498
Debt issuances fees, net	940	--
<b>Total current assets</b>	<u>570,215</u>	<u>770,897</u>
Property and equipment, net	6,359	9,040
Intangible asset	--	596,471
Deposits	2,415	2,882
<b>Total assets</b>	<u>\$ 578,989</u>	<u>\$ 1,379,290</u>
<b>Liabilities and Stockholders' (Deficit) Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 141,598	\$ 281,726
Accrued expenses	171,107	197,578
Convertible notes payable	312,071	--
Accrued interest on convertible notes	76,473	--
Derivative liability	600,327	--
Notes payable	101,363	58,258
Convertible notes payable to related parties, net of discount	--	40,707
<b>Total current liabilities</b>	<u>1,402,939</u>	<u>578,269</u>
Contingent consideration payable	555,653	648,615
<b>Total liabilities</b>	<u>1,958,592</u>	<u>1,226,884</u>
<b>Commitments and Contingencies</b>		
<b>Stockholders' (deficit) equity</b>		
Preferred stock, \$0.001 par value, 35,000,000 shares authorized, none issued and outstanding	--	--
Common stock, \$0.001 par value, 650,000,000 shares authorized, 286,852,244 and 108,291,855 shares issued and outstanding	286,852	108,292
Additional paid-in capital	29,844,051	28,559,677
Accumulated deficit	(31,510,506)	(28,515,563)
<b>Total stockholders' (deficit) equity</b>	<u>(1,379,603)</u>	<u>152,406</u>
<b>Total liabilities and stockholders' (deficit) equity</b>	<u>\$ 578,989</u>	<u>\$ 1,379,290</u>

The accompanying notes are an integral part of these consolidated financial statements.



**GLOBAL DIGITAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Revenue</b>	\$ 254,587	\$ 94,387	\$ 633,810	\$ 205,792
<b>Cost of revenue</b>	278,676	180,066	535,517	249,412
<b>Gross profit (loss)</b>	<u>(24,089)</u>	<u>(85,679)</u>	<u>98,293</u>	<u>(43,620)</u>
<b>Operating expenses</b>				
Selling, general and administrative expenses	526,369	2,771,835	2,445,294	9,462,511
<b>Other (income)/expense</b>				
<b>Change in fair value of derivatives</b>	(230,099)	--	(686,980)	--
Loss on conversions of notes payable and accrued interest	406,617	--	406,617	--
(Gain) loss on extinguishment of debt	--	--	22,170	(387,642)
Reduction of contingent consideration for purchase price	--	--	(280,461)	--
Other income	(600)	--	(190,840)	--
Interest income	--	--	--	(43,182)
Interest expense	208,636	3,811	1,377,436	12,992
<b>Total (income) and expenses</b>	<u>384,554</u>	<u>3,811</u>	<u>647,942</u>	<u>(417,832)</u>
<b>Loss from continuing operations before provision for income taxes</b>	(935,012)	(2,861,325)	(2,994,943)	(9,088,299)
<b>Provision for income taxes</b>	--	--	--	--
<b>Loss from continuing operations</b>	<u>(935,012)</u>	<u>(2,861,325)</u>	<u>(2,994,943)</u>	<u>(9,088,299)</u>
<b>Loss from discontinued operations</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(2,832)</u>
<b>Net loss</b>	<u>\$ (935,012)</u>	<u>\$ (2,861,325)</u>	<u>\$ (2,994,943)</u>	<u>\$ (9,091,131)</u>
<b>Loss per common share – basic and diluted:</b>				
Loss from continuing operations	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.09)
Loss from discontinued operations	--	--	--	(0.00)
<b>Net loss</b>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>
<b>Shares used in computing net loss per share:</b>				
<b>Basic and diluted</b>	<u>140,365,540</u>	<u>101,707,322</u>	<u>119,425,067</u>	<u>100,468,189</u>

The accompanying notes are an integral part of these consolidated financial statements.

**GLOBAL DIGITAL SOLUTIONS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Nine Months Ended September 30,	
	2015	2014
<b>Operating Activities</b>		
Net loss	\$ (2,994,943)	\$ (9,091,131)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	38,018	89,032
Stock- based compensation expense	602,764	6,659,855
Common stock & warrants issued in payment of services	104,056	971,668
Change in fair-value of embedded derivative liabilities of convertible notes	(686,980)	--
Loss on conversions of notes payable and accrued interest	406,617	--
Non-cash amortization of debt issue costs	123,180	--
Loss (gain) on extinguishment of debt	22,170	(387,642)
Non-cash interest expense	1,290,166	8,333
Beneficial conversion feature of debt	4,582	--
Intangible asset impairment	563,024	--
Acquisition expenses settled with common stock	--	664,000
Reduction of contingent consideration for purchase price	(280,461)	--
Non cash acquisition expense	--	65,572
Changes in operating assets and liabilities:		
Accounts receivable	(4,040)	106,393
Inventory	226,897	(184,582)
Costs in excess of billings	--	557,425
Prepaid expenses and other assets	(65,208)	25,433
Accounts payable	(140,128)	(58,303)
Accrued expenses	50,002	67,559
Contingent consideration payable	187,499	--
Billings in excess of costs	--	13,631
<b>Net cash used in operating activities</b>	<b>(552,785)</b>	<b>(492,757)</b>
<b>Investing Activities</b>		
Repayment of loans to Airtronic	--	1,465,874
Capital expenditures	(1,890)	--
Deposits	--	(2,180)
Payment for NACSV, net of cash acquired	--	864,575
<b>Net cash (used in) provided by investing activities</b>	<b>(1,890)</b>	<b>599,119</b>
<b>Financing Activities</b>		
Proceeds from convertible notes payable	660,250	--
Proceeds from notes payable	135,393	96,241
Proceeds from exercise of warrants	--	125,000
Debt issuance fees	(124,120)	--
Payments on notes payable	(92,288)	(342,747)
Payment on convertible notes payable	(69,000)	(150,000)
<b>Net cash provided by (used in) financing activities</b>	<b>510,235</b>	<b>(271,506)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(44,440)</b>	<b>(165,144)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>160,102</b>	<b>509,224</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 115,662</b>	<b>\$ 344,080</b>
<b>Taxes paid</b>	<b>\$ --</b>	<b>\$ --</b>
<b>Interest paid</b>	<b>\$ 4,518</b>	<b>\$ 429</b>
<b>Supplementary disclosure of non-cash investing and financing activities:</b>		
Purchase of NACSV with common shares	\$ --	\$ 200,000
Issuances of common stock for conversions of notes payable and accrued interest	\$ 349,497	\$ --

The accompanying notes are an integral part of these consolidated financial statements.

**GLOBAL DIGITAL SOLUTIONS, INC.**  
**Notes to Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2015 and 2014**

**Note 1 – Organization and Summary of Significant Accounting Policies**

We were incorporated in New Jersey as Creative Beauty Supply, Inc. (“Creative”) in August 1995. In March 2004, Creative acquired Global Digital Solutions, Inc., a Delaware corporation (“Global”). The merger was treated as a recapitalization of Global, and Creative changed its name to Global Digital Solutions, Inc. Our current efforts are focused in the area of cyber arms technology and complementary security and technology solutions. From August 2012 through November 2013 we were actively involved in managing Airtronic USA, Inc. (“Airtronic”). Effective as of June 16, 2014 we acquired North American Custom Specialty Vehicles (“NACSV”).

**Summary of Significant Accounting Policies**

***Principles of Consolidation***

The accompanying unaudited consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries, NACSV, GDSI Florida, LLC and Global Digital Solutions, LLC, dba GDSI International. All intercompany accounts and transactions have been eliminated in consolidation. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These consolidated financial statements and accompanying notes should be read in conjunction with the Company’s annual consolidated financial statements and the notes thereto for the year ended December 31, 2014, included in our Annual Report on Form 10-K (the “2014 Form 10-K”). The unaudited consolidated statements of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the entire year.

***Use of Estimates***

The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to allowance for doubtful accounts receivable, provision for excess and obsolete inventory, valuation of intangible and long-lived assets, fair value of convertible debt and derivative liabilities, contingent liabilities, income taxes and share-based compensation expense, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. In the opinion of the Company’s management, all adjustments (including normal recurring adjustments) considered necessary to present fairly the unaudited consolidated financial statements have been made.

***Financial Condition and Liquidity***

The accompanying financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. We have sustained losses and experienced negative cash flows from operations since inception, and at September 30, 2015 had an accumulated deficit of \$31,510,506, cash and cash equivalents of \$115,662, a working capital deficit of \$832,724 and stockholders’ deficit of \$1,379,603. We have funded our activities to date primarily from equity and convertible debt financings. These factors raise substantial doubt about our ability to continue as a going concern.

We will continue to require substantial funds to continue development of our core business. Management’s plans in order to meet our operating cash flow requirements include (i) financing activities such as private placements of common stock, and issuances of debt and convertible debt instruments, (ii) the establishment of strategic relationships which we expect will lead to the generation of additional revenue or acquisition opportunities and (iii) the acquisition of additional businesses that provide complementary security and technology solutions.

While we believe that we will be successful in obtaining the necessary financing to fund our operations, there are no assurances that such additional funding will be achieved or that we will succeed in our future operations. We expect to raise additional funds through additional convertible debt offerings in the future.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern as a result of our history of net losses and negative cash flows from operations. Our ability to achieve and maintain profitability and positive cash flow is dependent upon our ability to successfully execute the plans to pursue acquisitions and raise the funds necessary to complete such acquisitions as more fully described in our 2014 Form 10-K. We will need to secure additional funds to finance our operations during the next twelve months, but there are no assurances that such additional funding will be achieved or that we will succeed in our future operations.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

#### ***Revenue and Cost Recognition***

In accordance with GAAP, revenue under fixed-price contracts is accounted for on the percentage-of-completion method. This methodology recognizes revenue and earnings as work progresses on the contract and is based on an estimate of the revenue and earnings earned to date, less amounts recognized in prior periods. We base our estimate of the degree of completion of the contract by reviewing the relationship of costs incurred to date to the expected total costs that will be incurred on the project. Estimated contract earnings are reviewed and revised periodically as the work progresses, and the cumulative effect of any change in estimate is recognized in the period in which the change is identified. Estimated losses are charged against earnings in the period such losses are identified. We recognize revenue arising from contract claims either as income or as an offset against a potential loss only when the amount of the claim can be estimated reliably and realization is probable and there is a legal basis of the claim. Because of inherent uncertainties in estimating costs, it is possible that the estimates used will change within the near-term.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as payroll taxes and worker's compensation insurance premiums. Operating expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, estimated profitability, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Revenue for service and refurbishment work is recognized when the job is complete.

#### ***Concentrations of Credit Risk***

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and accounts receivable.

#### ***Allowance for doubtful accounts***

We record accounts receivable at the invoiced amount and we do not charge interest. We maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. We review the accounts receivable by customers which are past due to identify specific customers with known disputes or collectability issues. In determining the amount of the reserve, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Allowance for doubtful accounts was \$0 and \$104,085 at September 30, 2015 and December 31, 2014, respectively.

#### ***Inventory***

Inventory at December 31, 2014 consisted of the in progress mobile command unit and is stated at the lower of cost (first-in, first-out) or market.

#### ***Property and equipment***

Property and equipment are carried at cost. Expenditures which materially increase values or extend useful lives are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred. The net gain or loss on items retired or otherwise disposed of is credited or charged to operations and the cost and accumulated depreciation are removed from the accounts.

A provision for depreciation of property and equipment is made on a basis considered adequate to amortize the related costs (net of salvage value) over their estimated useful lives using the straight-line method. Estimated useful lives are principally as follows: vehicles, 5 years; furniture and fixtures and office equipment, 5-10 years; leasehold improvements, term of lease or 15 years, whichever is less; machinery and equipment 5-10 years.



***Intangible Asset***

Our intangible asset at December 31, 2014, consisted of customer relationships, which arose from the acquisition of NACSV in June 2014, and were being amortized over its expected economic life of five years. The life was determined based upon the expected use of the asset, and other contractual provisions associated with the asset, the estimated average life of NACSV's products, the stability of the industry, and other factors deemed appropriate. We continually evaluated whether events or circumstances occurred that indicated the remaining estimated useful life of our customer relationships asset may warrant revision or that the remaining balance of such asset may not be recoverable. We used an estimate of the related discounted cash flows over the remaining life of the asset in measuring whether the asset is recoverable. Based on our current valuation, we determined that the value of the customer relationships was fully impaired during the nine months ended September 30, 2015, as more fully discussed in Note 5 – *Intangible Asset*.

***Fair Value Measurements***

The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term debt approximate fair value due to their relatively short maturities.

***Convertible Notes Payable With Fixed Conversion Options***

We had entered into convertible notes payable with related parties that contained conversion options, whereby the outstanding principal and accrued interest could be converted, by the holder, into shares of our common stock. In the case of the convertible notes payable with related parties, the conversion price was a fixed price, which represented a 30% discount to the price of our common stock at the time of issuance. We measured the fair value of the notes payable at the time of issuance, which is the result of the share price conversion discount, and recorded the discount (beneficial conversion feature) as a reduction of debt. We then accreted the discount as interest expense utilizing the effective interest rate method over the life of the debt. The debt was repaid during the nine months ended September 30, 2015.

***Derivative Financial Instruments***

During the nine months ended September 30, 2015, we have issued convertible notes payable to third parties, which contain variable conversion options allowing the holders to convert the notes payable into shares of our common stock at discounts ranging from 39% to 40%. Each of these notes is more fully described in Note 6, *Notes Payable*.

We account for these conversion options embedded in the convertible notes payable to third parties in accordance with ASC 815, "*Derivatives and Hedging*". Subtopic ASC 815-15, *Embedded Derivatives* generally requires companies to bifurcate conversion options embedded in the convertible notes from their host instruments and to account for them as free standing derivative financial instruments. Derivative liabilities are recognized in the consolidated balance sheet at fair value as *Derivative Liabilities* and based on the criteria specified in FASB ASC 815-40, *Derivatives and Hedging – Contracts in Entity's own Equity*. The estimated fair value of the derivative liabilities is calculated using the Black-Scholes-Merton pricing model and such estimates are revalued at each balance sheet date, with changes recorded to other income or expense as *Change in Fair Value – Derivatives* in the consolidated statement of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or equity, is evaluated at the instrument origination date and reviewed at the end of each event date (i.e. conversions, payments, etc.) and the measurement period end date for financial reporting, as applicable. Derivative instrument liabilities are classified on the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument would be required within twelve months of the balance sheet date. As a result of the conversions of portions of these notes payable and accrued interest during the three months ended September 30, 2015, we have recorded a loss on conversion of \$406,617 and a corresponding increase in additional-paid-in capital.

***Convertible Securities***

Based upon ASC 815-15, we have adopted a sequencing approach regarding the application of ASC 815-40 to convertible securities issued subsequent to December 31, 2014. We will evaluate our contracts based upon the earliest issuance date. In the event partial reclassification of contracts subject to ASC 815-40-25 is necessary, due to our inability to demonstrate we have sufficient shares authorized and unissued, shares will be allocated on the basis of issuance date, with the earliest issuance date receiving first allocation of shares. If a reclassification of an instrument were required, it would result in the instrument issued latest being reclassified first.

***Provision for Income Taxes***

Income taxes are calculated based upon the asset and liability method of accounting. Deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard to allow for recognition of such an asset. In addition,

realization of an uncertain income tax position must be estimated as “more likely than not” (i.e., greater than 50% likelihood of receiving a benefit) before it can be recognized in the financial statements. Further, the recognition of tax benefits recorded in the financial statements, if any, is based on the amount most likely to be realized assuming a review by tax authorities having all relevant information.



***Stock Based Compensation***

We adopted the fair value recognition provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 718, “Compensation – Stock Compensation”. Under the fair value recognition provisions, we are required to measure the cost of employee services received in exchange for share-based compensation measured at the grant date fair value of the award.

The Company’s accounting policy for equity instruments issued to advisors, consultants and vendors in exchange for goods and services follows the provisions of ASC 505-50. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the advisor, consultant or vendor is reached or (ii) the date at which the advisor, consultant or vendor’s performance is complete. In the case of equity instruments issued to advisors and consultants, the fair value of the equity instrument is recognized over the term of the advisor or consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable.

***Advertising***

All advertising costs are expensed as incurred.

***Basic and Fully Diluted Loss Per Share***

Basic loss per common share is computed by dividing the loss by the weighted-average number of common shares outstanding for the period. Diluted loss per common share gives effect to all potentially dilutive common shares that were outstanding during the period. Diluted common shares consist of incremental shares issuable upon the conversion of convertible notes payable and accrued interest, restricted stock, unvested stock issuable for services and the exercise of outstanding stock options and warrants to the extent that such incremental shares are dilutive.

***Contingent consideration for business acquisitions***

Acquisitions may include contingent consideration payments based on future financial measures of an acquired company. Contingent consideration is required to be recognized at fair value as of the acquisition date. We estimate the fair value of these liabilities based on financial projections of the acquired companies and estimated probabilities of achievement. At each reporting date, the contingent consideration obligation is revalued to its estimated fair value and changes in fair value subsequent to the acquisition are reflected in income or expense in the consolidated statements of operations, and could cause a material impact to our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

***Deferred financing fees***

We amortize the cost incurred to obtain debt financing using the straight-line method over the expected term of the underlying obligations. The amortization of deferred financing costs is included in selling, general and administrative expense. We recognized \$28,693 and \$0 of expense related to the amortization of deferred financing costs during the three months ended September 30, 2015 and 2014, respectively, and \$142,538 and \$100,000 during the nine months ended September 30, 2015 and 2014, respectively.

***Subsequent Events***

We evaluate events that occur subsequent to the balance sheet date of periodic reports, but before financial statements are issued for periods ending on such balance sheet dates, for possible adjustment to such financial statements or other disclosure.

***New Accounting Standards Issued But Not Yet Adopted***

From time to time, new accounting pronouncements are issued by the FASB, which are adopted by the Company as of the specified date. Unless otherwise discussed, management believes the impact of recently issued standards, which are not yet effective, will not have a material impact on its consolidated financial statements upon adoption.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis* (“ASU 2015-02”). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 is effective for us on January 1, 2016, with early adoption permitted. We do not believe that this pronouncement will have an impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). The amendments in ASU 2015-03 require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that

debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in ASU 2015-03. ASU 2015-03 is effective for us on January 1, 2016, with early adoption permitted. We are currently evaluating the potential changes from this ASU to our future financial reporting and disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). This ASU requires inventories measured under any methods other than last-in, first-out ("LIFO") or the retail inventory method to be subsequently measured at the lower of cost or net realizable value, rather than at the lower of cost or market. Subsequent measurement of inventory using LIFO or the retail inventory method is unchanged by this ASU. ASU 2015-11 is effective for public companies for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact that this standard will have on the consolidated financial statements and does not anticipate a significant impact to the Company's financial position as a result of this change.

In September 2015, the FASB issued its final standard on simplifying the accounting for measurement-period adjustments for business combinations. This standard, issued as ASU 2015-16, requires that an entity that is the acquirer in a business combination that identifies adjustments to provisional amounts during the measurement period to recognize those adjustments in the reporting period in which the amounts are determined. This update further requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The update is effective for financial statement periods beginning after December 15, 2015, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update, with early adoption permitted. The Company has determined that this update has no impact on the Company's historical financial statements and disclosures. When adjustments to provisional amounts occur in the future, the Company will make the adjustments in the appropriate period and include the required disclosures.

#### **Note 2 – Acquisition of North American Custom Specialty Vehicles, LLC ("NACSV")**

On June 16, 2014, we acquired all of the outstanding membership interest of NACSV in a transaction accounted for using the purchase method of accounting (the "Acquisition"). NACSV specializes in building mobile emergency operations centers ("MEOC's") and specialty vehicles for emergency management, first responders, national security and law enforcement operations.

As consideration for the consummation of the Acquisition, at the closing of the Acquisition, the Company paid \$1,000,000 in cash to the selling members, and issued them 645,161 shares of the Company's common stock valued at \$200,000 (the "Stock Consideration"). In connection with the Acquisition, the Company is required to make a true-up payment of the excess of total assets over \$1.2 million, valued at \$816,373, payable in shares of the Company's common stock (the "True-Up Payment"), and additional consideration as certain events or transactions occur in the future, up to a maximum of \$2.4 million, payable in shares of the Company's common stock or in cash at the seller's option (the "Contingent Consideration"). Additionally, the Company issued 1.8 million shares of common stock for acquisition services rendered in conjunction with the Acquisition valued at \$664,000. The Company recorded nonrecurring charges of \$843,488 during the year ended December 31, 2014 related to the direct costs of the Acquisition, consisting of the \$664,000 value of the shares of common stock issued for acquisition services and \$179,488 of cash costs for legal, accounting fees and due diligence fees.

The purchase price of the Acquisition totaled \$2,713,079, comprised of \$1,000,000 in cash, the Stock Consideration of \$200,000, the True-Up Payment of \$816,373, and the fair value of the Contingent Consideration of \$696,706. The fair value of the Contingent Consideration was estimated based upon the present value of the expected future payouts. On October 17, 2014, we issued 2,635,074 shares of our common stock valued at \$0.31 as settlement for the True-Up Payment.

Under the purchase method of accounting, the purchase price of the Acquisition was allocated to NACSV's net tangible and identifiable intangible assets and liabilities assumed based on their estimated fair values as of the date of the completion of the Acquisition, as follows:

#### **Assets Acquired:**

Cash and cash equivalents	\$ 135,425
Accounts receivable, net	370,481
Inventory	73,140
Prepaid expenses	26,004
Costs in excess of billings	570,787
Property and equipment, net	68,157
Customer relationships	668,940
Goodwill	1,156,192
	<u>3,069,126</u>

#### **Liabilities assumed:**

Accounts payable	35,724
Accrued expenses	2,087
Notes payable	304,605
Billings in excess of costs	<u>13,631</u>
	<u>356,047</u>
<b>Total purchase price</b>	<b><u><u>\$ 2,713,079</u></u></b>

The fair values of certain assets and liabilities have been determined by management. No portion of the intangible assets, including goodwill, is expected to be deductible for tax purposes. During the fourth quarter of 2014, based on the annual testing for impairment, the implied value of the goodwill acquired in the Acquisition was nil and, accordingly, we recorded a goodwill impairment charge for the full amount of the goodwill of \$1,156,192 as of December 31, 2014.

The results of operations of NACSV are included in the Company's consolidated statements of operations from the date of the acquisition of June 16, 2014. The following supplemental pro forma information assumes that the Acquisition had occurred as of January 1, 2014:

	<b>Nine Months Ended September 30, 2014</b>
Revenue	\$ 2,169,568
Net Loss	<u>\$ (8,689,001)</u>
Loss per common share - basic and diluted	<u>\$ (0.08)</u>

The pro forma financial information presented above is not necessarily indicative of the results that would have occurred if the Acquisition had occurred on the dates indicated or that may result in the future.

### Note 3 – Financial Instruments

#### *Cash and Cash Equivalents*

Our cash and cash equivalents at September 30, 2015 and December 31, 2014 consisted of the following:

	<b>2015</b>	<b>2014</b>
Cash in bank	\$ 115,662	\$ 160,102
Cash and cash equivalents	<u>\$ 115,662</u>	<u>\$ 160,102</u>

We classify highly liquid temporary investments with an original maturity of three months or less when purchased as cash equivalents. We maintain cash balances at various financial institutions. Balances at US banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. We have not experienced any losses in such accounts and believe we have not been exposed to any significant risk for cash on deposit. While as of September 30, 2015 and December 31, 2014, we did not have uninsured cash amounts, in the past we have had deposits in excess of the insurance limit. We maintain our balances with high quality financial institutions, which we believe reduces any risk.

### Note 4 – Inventory

Inventory consists of the following at September 30, 2015 and December 31, 2014:

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets:</b>		
Trailer inventory	\$ --	\$ 187,881
Work in process	--	226,897
		414,778
Less: Reserve for inventory loss	--	(187,881)
Total	<u>\$ --</u>	<u>\$ 226,897</u>

We had established a reserve for inventory loss for \$187,881 of trailer inventory on hand at NACSV at December 31, 2014. Pursuant to the terms of the Equity Purchase Agreement between the Company and the NACSV sellers, all of the proceeds from the sale of this inventory were to be paid to the NACSV sellers and thus the Company's net realizable value on this

inventory, which was sold during the nine months ended September 30, 2015, was zero. The Company orders inventory/components when it receives a signed purchase order from its customer.

## Note 5 – Intangible Asset

At December 31, 2014, we had an intangible asset of \$596,471, which was comprised of customer relationships. During the three and nine months ended September 30, 2015, amortization of the intangible asset charged against income amounted to \$0 and \$33,447, respectively, and during the three and nine months ended September 30, 2014, amortization of the intangible asset charged against income amount to \$73,933 and \$86,255, respectively. The customer relationships arose from the Acquisition as more fully discussed in Note 2, *Acquisition of North American Custom Specialty Vehicles, LLC* (“NACSV”). In accordance with ASC 360-10, we continually evaluated whether events or circumstances have occurred that indicate the remaining estimated useful life of our customer relationships asset may warrant revision or that the remaining balance of such asset may not be recoverable. Based on valuation for the first quarter of 2015, we determined that the remaining value of the customer relationships of \$563,024 was impaired as of March 31, 2015. Therefore, we recorded an intangible asset impairment loss of \$563,024 as a component of our selling, general and administrative expenses in our unaudited consolidated statement of operations for the nine months ended September 30, 2015. This was due in part to the lack of revenue from sales of NACSV’s products during the three-months ended March 31, 2015, as well as to our expectations regarding future estimated discounted cash flows attributable to such asset. We have filed legal proceedings against the sellers of NACSV as more fully discussed in Note 8 – *Commitments and Contingencies*. We believe that certain misrepresentations were made to us regarding the business prospects of NACSV. In addition to the legal issue discussed in Note 8, we intend to pursue additional legal remedies related to NACSV’s business prospects.

## Note 6 – Notes Payable

### *Convertible Notes Payable with Embedded Derivative Liabilities (Conversion Options)*

During the nine months ended September 30, 2015, we entered into convertible notes payable with embedded derivative liabilities (conversion options). At September 30, 2015, these notes consist of the following:

	<u>September 30, 2015</u>
Convertible note payable for \$78,750 to LG Capital Funding, LLC (“LG Capital”) dated January 16, 2015, due January 16, 2016, of which \$28,750 was repaid by conversion as of September 30, 2015, bearing interest at the rate of 8% per annum. Note may be converted by LG Capital into shares of our common stock at a conversion price equal to a 40% discount of the lowest closing bid price for 20 prior trading days including the notice of conversion date. (1)(2)	\$ 50,000
Convertible note payable for \$66,000 to JSJ Investments Inc. (“JSJ”) dated January 26, 2015, due January 26, 2016, of which \$57,495 was repaid by conversion as of September 30, 2015. The note was issued with an original issue discount of \$6,000 and bears interest at 10% per annum. The note may be converted by JSJ into shares of our common stock at a conversion price equal to the lower of (i) a 40% discount of the lowest trading price during the previous twenty (20) trading days prior to the date of conversion; or (ii) a 40% discount to the lowest trading price during the previous twenty (20) trading days before the date that the note was executed. (1)(2)	8,505
Convertible note payable for \$35,000 to Adar Bays, LLC (“Adar Bays”) dated January 26, 2015, due January 26, 2016, of which \$22,250 was repaid by conversion as of September 30, 2015, bearing interest at the rate of 8% per annum. The note may be converted by Adar Bays into shares of our common stock at a conversion price equal to a 40% discount of the lowest closing bid price for 20 prior trading days including the notice of conversion date. (1)(2)	12,750
Convertible note payable for \$250,000 to JMJ Financial (“JMJ”) of which \$82,500 was deemed funded on January 28, 2015 and \$27,500 was deemed funded on April 20, 2015, of which \$40,930 was repaid by conversion as of September 30, 2015. The note was issued with an original issue discount of 10% of amounts funded. The principal amount matures 24 months from the date of each funding, has a one-time 12% interest charge as it was not repaid within 90 days of the effective date, and is convertible at any time at the option of JMJ into shares of our common stock at the lesser of \$0.075 per share or 60% of the average of the trade price in the 25 trading days prior to conversion. JMJ has the option to finance additional amounts up to the balance of the \$250,000 during the term of the note. (1)(2)(3)	69,070
Convertible note payable for \$250,000 to Vista Capital Investments, LLC (“Vista”) of which \$55,000 was deemed funded on February 9, 2015 and including an additional \$10,000, which became due in the three-months ended September 30, 2015 as a result of the conversion price dropping below \$0.01, and of which \$35,265 was repaid by conversion as of September 30, 2015. The note was issued with an original issue discount of \$5,000. The note matures 24 months from the date funded, has a one-time 12% interest charge as it was not repaid within 90 days following the issuance date and may be convertible at the option of Vista at any time after the issuance date into shares of our common stock at the lesser of \$0.10 per share or 60% of the lowest trade occurring during the twenty five (25) consecutive trading days immediately preceding the applicable conversion date on which the holder elects to convert all or part of the note, subject to adjustment. Vista has the option to finance additional amounts, up to the balance of the \$250,000, during the term of the note. (1)(2)(3)	29,735
Convertible note payable for \$115,000 to KBM Worldwide, Inc. (“KBM”) dated February 17, 2015, due February 17, 2016, of which \$105,670 was repaid by conversion as of September 30, 2015. The note was issued with an original issue discount of \$11,000 and bears interest at 8% per annum. The note is convertible at a price per share equal to 61% of the average of the lowest three trading prices of our common stock during the 10 trading days prior to conversion. If, at any time the note is outstanding, we issue or sell, or are deemed to have issued or sold, any shares of our common stock in connection with a subsequent placement for no consideration or for a consideration per share based on a variable price formula that is less than the conversion price in effect on the date of such issuance of shares of our common stock, then the conversion price will be reduced to the amount of the consideration per share received for such issuance.(1) (2) (4)	9,330

Convertible note payable for \$68,000 to EMA Financial, LLC ("EMA") dated February 19, 2015, due February 19, 2016, of which \$22,819 was repaid by conversion as of September 30, 2015. The note was issued with an original issue discount of \$6,800 and bears interest at 10% per annum. The note is convertible into shares of our common stock at a price per share equal to the lower of either (i) the closing sale price of our common stock on the day prior to the closing date, and (ii) 60% of the lowest trade price of our common stock during the twenty five (25) consecutive trading days prior to conversion.(1)(2)	45,181
Convertible note payable for \$220,000 to Tangiers Investment Group, LLC ("Tangiers") of which \$82,500 was deemed funded on March 10, 2015, due March 8, 2016, of which \$45,000 was repaid by conversion as of September 30, 2015. The note was issued an original issue discount of 10% of amounts funded and bears interest at the rate of 10% per annum. The note is convertible at any time into our common stock, at Tangiers's option, at a conversion price equal to the lower of \$0.04 or 60% of the lowest trading price of our common stock during the twenty consecutive trading days prior to the date on which Tangiers elects conversion. Tangiers has the option to finance additional amounts, up to the balance of the \$220,000, during the term of the note. (1) (2)	37,500
Convertible note payable for \$50,000 to Vis Vires Group Inc. ("Vis Vires") dated April 3, 2016 bearing interest at 8% per annum, due April 2, 2016. The note is convertible at a price per share equal to 60% of the average of the lowest trading price of our common stock during the 20 trading days prior to conversion.(1) (2) (4)	50,000
Total convertible notes payable with embedded derivative liability	<u>\$ 312,071</u>



- (1) Note contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rate under the note in the event of such defaults.
- (2) The embedded derivative liability associated with the conversion option of the note was bifurcated from the note and recorded at its fair value on the date of issuance and at each reporting date.
- (3) We have classified this note as current due to our expectation to convert the note on a current basis.
- (4) Note was fully repaid in cash on October 1, 2015 in connection with a factoring agreement as more fully discussed in Note 16 – *Subsequent Events*.

As a result of recent declines in the fair value of the Company's common stock, the Company does not currently have sufficient authorized shares to satisfy in full its obligations under several of these convertible notes payable. Accordingly, certain of the note holders have the right to accelerate the payment due under the terms of their note. In addition, they have the right to require that additional shares and/or monies be paid in connection with this technical default. At September 30, 2015, the Company has accrued \$31,346 of penalty interest associated with one of these notes. The Company intends to request shareholder approval to increase the number of authorized shares of common stock in the near future in order to satisfy its obligations under these notes.

The total estimated fair value of the embedded derivative liability associated with the conversion options of these convertible notes payable at inception was \$1,287,307 of which \$613,950 was discounted against the notes and was accreted as interest expense over the period from inception to September 30, 2015 and \$673,357 was recorded as interest expense upon issuance. See Note 7, *Fair Value Measurements*, for a discussion of the changes in the fair value of the embedded derivative liability during the nine months ended September 30, 2015.

#### *Convertible Notes Payable to Related Parties*

Convertible notes payable to related parties at December 31, 2014 consist of the following:

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Convertible note payable to an entity controlled by our Chairman and Chief Executive Officer ("CEO"), bore interest at 8% per annum, due December 8, 2016. After June 6, 2015, at the option of the holder, principal plus accrued interest was convertible into shares of our common stock at \$0.09 per share. The note was fully repaid in cash during the nine months ended September 30, 2015	\$ --	\$ 37,500
Convertible note payable to our former Chief Financial Officer ("CFO"), bore interest at 8% per annum, due December 8, 2016. After June 6, 2015, at the option of the holder, principal plus accrued interest was convertible into shares of our common stock at \$0.09 per share. The note was fully repaid in cash during the nine months ended September 30, 2015.(1)	--	31,500
	--	69,000
Add: Accrued interest	--	363
Less: Unamortized debt discount	--	(28,656)
Convertible notes payable to related parties	<u>\$ --</u>	<u>\$ 40,707</u>

The 8% convertible notes payable to related parties was convertible into common stock at the rate of \$0.09 per share. The Company determined that the conversion feature was considered a beneficial conversion feature and determined its value to be \$30,667 as of December 8, 2014, which the Company recorded as a debt discount to the notes. As a result of the repayment of the notes in nine months ended September 30, 2015, \$22,170 of the unamortized debt discount was recorded as a loss on extinguishment of debt in the nine months ended September 30, 2015.

- (1) Our former CFO retired effective April 10, 2015.

#### *Other Note Payable*

In September 2014 we entered into a premium finance agreement bearing interest at 5.35% with 10 equal monthly payments of principal and interest of \$9,862; no payments remain owing on the note as of September 30, 2015. In January 2015, we entered into a second premium finance agreement bearing interest at 9.25% with 10 equal monthly payments of principal and interest of \$3,414, of which three payments remain owing as of September 30, 2015. In August 2015, we entered into an additional insurance premium finance agreement bearing interest at 5.1% with 10 equal monthly payments of principal and interest of \$10,507, of which nine payments remain owing as of September 30, 2015.

*Interest Expense*

We recorded interest expense of \$208,636 and \$3,811 during the three months ended September 30, 2015 and 2014, respectively, including \$165,011 and \$nil of non-cash interest expense, respectively. We recorded interest expense of \$1,377,436 and \$12,992 during the nine months ended September 30, 2015 and 2014, respectively, including \$1,290,166 and \$8,333 of non-cash interest expense, respectively. Given the significant amount of non-cash interest expense associated with the amortization of debt discount and the embedded derivative conversion option fair value of the convertible notes payable, the weighted average effective interest rate for the three and nine months ended September 30, 2015 was not a meaningful number.

**Note 7 – Fair Value Measurements**

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable directly or indirectly.

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

We had no Level 1, Level 2 or Level 3 assets at September 30, 2015 and December 31, 2014 and no Level 1 or Level 2 liabilities at September 30, 2015 and December 31, 2014. The following table sets forth our Level 3 liabilities measured at fair value, whether recurring or non-recurring, at September 30, 2015 and December 31, 2014.

	September 30, 2015	December 31, 2014
<b>Liabilities:</b>		
Recurring: Embedded derivative liabilities of convertible notes	\$ 600,327	\$ --
Recurring: Contingent Consideration	\$ 555,653	\$ 648,615

The following is a summary of activity of Level 3 liabilities for the nine months ended September 30, 2015:

	Embedded Derivative Liabilities of Convertible Notes	Contingent Consideration
Balance at December 31, 2014	\$ —	\$ 648,615
Initial fair value of embedded derivative liabilities of convertible notes payable issued during the six month	1,287,307	—
Change in fair value during the nine months	(686,980)	(92,962)
Balance at September 30, 2015	<u>\$ 600,327</u>	<u>\$ 555,653</u>

#### *Embedded Derivative Liabilities of Convertible Notes*

The initial fair value of the bifurcated embedded derivative liabilities of convertible notes was estimated using the Black Scholes Merton (“BSM”) pricing model with the following weighted-average inputs: risk free interest rate – 0.08%; expected life -.49 years; volatility - 339%; dividend rate – 0%. At September 30, 2015, the fair value of the bifurcated embedded derivative liabilities of convertible notes was estimated using the BSM pricing model with the following weighted-average inputs: risk free interest rate – 0.01%; term - .25 years; volatility - 201%; dividend rate – 0%.

#### *Contingent Consideration*

ASC Topic 805 requires that contingent consideration be recognized at fair value on the acquisition date and be re-measured each reporting period with subsequent adjustments recognized in the consolidated statement of operations. We estimate the fair value of contingent consideration liabilities based on financial projections of the acquired companies and estimated probabilities of achievement and discount the liabilities to present value using a weighted-average cost of capital. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. We believe our estimates and assumptions are reasonable, however, there is significant judgment involved. At each reporting date, the contingent consideration obligation is revalued to its estimated fair value, and changes in fair value subsequent to the acquisitions are reflected in income or expense in the consolidated statements of operations, and could cause a material impact to, and volatility in, our operating results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods, changes in the timing and amount of revenue and/or earnings estimates and changes in probability assumptions with respect to the likelihood of achieving the various earn-out criteria.

As of September 30, 2015 and December 31, 2014, contingent consideration included in liabilities on the consolidated balance sheet totaled \$555,653 and \$648,615, respectively. The reduction in the value of contingent consideration of \$92,262 during the nine month ended September 30, 2015 was due in part to the lack of revenue from sales of NACSV’s products during the first quarter of 2015, our current expectations regarding future revenue and earnings estimates associated with NACSV as well

as the reversal of a liability to NACSV of \$190,240 related to equipment held by NACSV and that we believe we no longer owe. We have filed legal proceedings against the sellers of NACSV as more fully discussed in Note 8 – *Commitments and Contingencies*.

***Carrying Value of Other Current Assets and Other Current Liabilities***

The Company's management considers the carrying values of other current assets and other current liabilities to approximate fair values primarily due to their short-term nature.

**Note 8 – Commitments and Contingencies*****Legal Proceedings******Dekle, et. al. v. Global Digital Solutions, Inc. et. al.***

Brian A. Dekle and John Ramsay filed suit against the Company and its wholly owned subsidiary, North American Custom Specialty Vehicles, Inc. (“NACSV”), in the Circuit Court of Baldwin Alabama, on January 14, 2015, case no. 05-CV-2015-9000050.00, relating to our acquisition of NACSV (the “Dekle Action”). Prior to instituting the Dekle Action, in June 2014, the Company had entered into an equity purchase agreement with Dekle and Ramsay to purchase their membership interest in North American Custom Specialty Vehicles, LLC. The Dekle Action originally sought payment for \$300,000 in post-closing consideration Dekle and Ramsay allege they are owed pursuant to the equity purchase agreement.

On February 9, 2015, the Company and NACSV removed the Dekle Action to federal court in the United States District Court in and for the Southern District of Alabama, case no. 1:15-CV-00069. The Company and NACSV subsequently moved to dismiss the complaint for (1) failing to state a cause of action, and (2) lack of personal jurisdiction. Alternatively, the Company and NACSV sought a transfer of the case to the United States District Court in and for Middle District of Florida.

In response to the Company’s and NACSV’s motion to dismiss, Dekle and Ramsay filed an amended complaint on March 2, 2015 seeking specific performance and alleging breach of contract, violations of Security and Exchange Commission (“SEC”) Rule 10b-5, and violations of the Alabama Securities Act. The amended complaint also names the Company’s Chairman, President, and CEO, Richard J. Sullivan (“Sullivan”), as a defendant. On March 17, 2015, the Company, NACSV and Sullivan filed a motion to dismiss the amended complaint seeking dismissal for failure to state valid causes of action, for lack of personal jurisdiction, or alternatively to transfer the case to the United States District Court in and for Middle District of Florida. Dekle and Ramsay’s responded on March 31, 2015, and the Company filed its response thereto on April 7, 2015.

On June 2, 2015, Dekle passed away. On June 5, 2015, the Court denied the Company’s motion to transfer the case to Florida. On June 10, 2015, the Company filed a motion to reconsider the Court’s denial of its motion to transfer the case to Florida. On September 30, 2015, the Court granted the Company’s Renewed Motion to Transfer Venue. The case was transferred to the Middle District of Florida, where it is currently pending.

On June 15, 2015, Ramsay filed a second amended complaint. On June 25, 2015, the Company filed a motion to dismiss the second amended complaint. The Company’s Motion to Dismiss was denied.

***Global Digital Solutions, Inc. et. al. v. Communications Laboratories, Inc., et. al.***

On January 19, 2015 the Company and NACSV filed suit against Communications Laboratories, Inc., ComLabs Global, LLC, Roland Lussier, Brian Dekle, John Ramsay and Wallace Bailey for conversion and breach of contract in a dispute over the payment of a \$300,000 account receivable that ComLabs owed to NACSV but sent payment directly to Brian Dekle. The case was filed in the Eighteenth Judicial Circuit in and for Brevard County Florida, case no. 05-2015-CA-012250-XXXX. On February 18, 2015 (i) defendants Communications Laboratories, Inc., ComLabs Global, LLC and Roland Lussier and (ii) defendant Wallace Bailey filed their respective motions to dismiss seeking, among other things, dismissal for failure to state valid causes of action, lumping and failure to post a non-resident bond. On February 26, 2015, defendants Dekle and Ramsay filed their motion to dismiss, or stay action, based on already existing litigation between the parties. NACSV filed its required bond on March 2, 2015.

**Note 9 – Stockholders’ Equity and Stock Based Compensation*****Preferred Stock***

We are authorized to issue 35,000,000 shares of preferred stock, \$0.001 par value per share, at September 30, 2015. At September 30, 2015 and December 31, 2014, no shares of preferred stock were outstanding.

***Common Stock***

Effective May 18, 2015, we increased the number of authorized shares of our common stock from 450,000,000 to 650,000,000 shares. At September 30, 2015, of the 650,000,000 authorized shares of our common stock, 286,852,244 were issued and outstanding.

*OTCQB Compliance*

Pursuant to a letter dated September 28, 2015 from the OTC Markets, the Company was advised that its bid price had closed below \$0.01 for more than 30 consecutive calendar days and, therefore, no longer meets the Standards for Continued Eligibility for the OTCQB marketplace as per the OTCQB Standards, section 2.3(2). Pursuant to these OTCQB Standards, the company has been granted a period of 180 calendar days in which to regain compliance with Section 2.3(2). This grace period expires March 26, 2016 and at that time if the Company's bid price has not closed at or above \$0.01 for any ten consecutive trading days then the Company's common stock will be removed from the OTCQB.

*Common Stock Issued for Services*

During the nine-month period ended September 30, 2015, we granted 1,500,000 restricted shares of our common stock valued at \$60,000 to two advisors. These restricted shares vested over an 85 day period and were fully vested at September 30, 2015. During the nine months ended September 30, 2015, 812,500 shares of restricted common stock granted during the year ended December 31, 2014, vested and the Company recorded \$302,288 for advisory services, representing the value of the shares vested. During the nine months ended September 30, 2015, we recorded \$38,808 of advisory services expense related to 1 million restricted stock units granted during the year ended December 31, 2014, and vesting over a three-year period commencing on January 1, 2015. In addition, 250,000 restricted common shares granted during the year ended December 31, 2014, vested and the Company recorded \$75,000 as investor relations fees. During the nine months ended September 30, 2015, the Company issued 362,926 shares of restricted common stock for services related to debt financing and recorded \$21,558 as debt issue fees and the Company vested 75,000 shares of restricted common stock for legal fees valued at \$7,498.

*Common Stock Issued for Debt Conversions*

During the nine-month period ended September 30, 2015, the Company issued 175,559,966 shares of its common stock upon conversion of \$349,497 of principal and accrued interest under the terms of convertible notes payable. At September 30, 2015, the shares issuable under the remaining principal and accrued interest associated with these notes payable, if they had been fully converted on that date (excluding two of the notes payable, which were repaid in cash on October 1, 2015 as more fully discussed in Note 16 - *Subsequent Events*), would have resulted in the issuance of approximately 424,336,540 additional shares of the Company's common stock. Because the conversion prices vary with changes in the value of the Company's common stock, the number of shares into which the notes and accrued interest are convertible will continue to vary. As a result of recent declines in the fair value of the Company's common stock, the Company does not currently have sufficient authorized shares to satisfy in full its obligations under several of the notes payable as more fully discussed in Note 6 - *Notes Payable*.

*Common Stock Warrants*

We have issued warrants, which are fully vested and available for exercise, as follows:

<u>Class of Warrant</u>	<u>Issued in connection with or for</u>	<u>Number Outstanding</u>	<u>Exercise Price</u>	<u>Date of Issue</u>	<u>Date Vest</u>	<u>Date of Expiration</u>
				December		December
A-1	Debt	1,750,000	\$ 0.10	2012	December 2013	2015
A-2	Services	1,000,000	\$ 0.15	May 2013	May 2014	May 2018
A-3	Services	500,000	\$ 0.50	June 2013	June 2014	June 2018
A-4	Services	1,000,000	\$ 1.00	October 2013	October 2013	October 2016
Total		<u>4,250,000</u>				

As of December 31, 2014 the fair value of warrants had been fully amortized. All such warrants are exercisable at any time through the date of expiration. All related agreements provide for the number of shares to be adjusted in the event of a stock split, a reverse stock split, a share exchange or other conversion or exchange event in which case the number of warrants and the exercise price of the warrants shall be adjusted on a proportional basis.

The intrinsic value of warrants outstanding at September 30, 2015 was \$0. Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the exercise price of the warrant multiplied by the number of warrants outstanding or exercisable.

We determined the value of warrants issued using the BSM valuation model as follows:

<u>Warrant</u>	<u>Fair Value</u>	<u>Dividend Yield</u>	<u>Volatility</u>	<u>Contractual Lives (Yrs.)</u>	<u>Risk-Free Rate</u>
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A-1	\$	210,000	0.00%	593.00%	2.0	1.58%
A-2	\$	300,000	0.00%	593.00%	5.0	0.84%
A-3	\$	250,000	0.00%	598.12%	5.0	1.20%
A-4	\$	800,000	0.00%	647.97%	3.0	0.64%

The expected life represents an estimate of the weighted average period of time that options are expected to remain outstanding given consideration to vesting schedules and the Company's historical exercise patterns. Expected volatility is estimated based on the historical volatility of the Company's common stock. The risk free interest rate is estimated based on the U.S. Federal Reserve's historical data for the maturity of nominal treasury instruments that corresponds to the expected term of the option. The expected dividend yield is 0% based on the fact that we have never paid dividends and have no present intention to pay dividends.

### *Stock Incentive Plans*

#### *2014 Global Digital Solutions Equity Incentive Plan*

On May 9, 2014 our shareholders approved the 2014 Global Digital Solutions Equity Incentive Plan ("Plan") and reserved 20,000,000 shares of our common stock for issuance pursuant to awards thereunder, including options, stock appreciation right, restricted stock, restricted stock units, performance awards, dividend equivalents, or other stock-based awards. The Plan is intended as an incentive to retain in the employ of the Company our directors, officers, employees, consultants and advisors, and to attract new officers, employees, directors, consultants and advisors whose services are considered valuable, to encourage the sense of proprietorship and to stimulate the active interest of such persons in the development and financial success of the Company and its subsidiaries.

In accordance with the ACS 718, *Compensation – Stock Compensation*, awards granted are valued at fair value at the grant date. The Company recognizes compensation expense on a pro rata straight-line basis over the requisite service period for stock-based compensation awards with both graded and cliff vesting terms. The Company recognizes the cumulative effect of a change in the number of awards expected to vest in compensation expense in the period of change. The Company has not capitalized any portion of its stock-based compensation.

Stock-based compensation expense for the three and nine months ended September 30, 2015 and 2014 is comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Fair value expense of stock option grants	\$ 101,445	\$ 1,068,575	\$ 201,668	\$ 3,521,905
Fair value expense of restricted stock unit grants	12,936	549,999	38,808	549,999
Fair value expense of restricted stock grants	57,501	519,372	362,288	2,587,951
	<u>\$ 171,882</u>	<u>\$ 2,137,946</u>	<u>\$ 602,764</u>	<u>\$ 6,659,855</u>

### *Awards Issued Under Stock Incentive Plans*

#### *Stock Option Activity*

As of September 30, 2015, we have outstanding 4,000,000 fully-vested stock options that were granted to a director and officer. These options were fully vested as of December 31, 2014. In addition, we have unvested stock options that were granted to directors, employees and constants during the nine month ended September 30, 2015. The outstanding stock options are exercisable at prices ranging from \$0.08 to \$0.64 and expire between February 2024 and May 2025.

#### *Issuances of Stock Options*

Effective as of April 10, 2015, David A. Loppert retired as CFO and as an officer of the Company and the Company appointed Jerome J. Gomolski as its CFO. In connection with his appointment as our CFO, on April 1, 2015, Mr. Gomolski was granted stock options to acquire 500,000 shares of the Company's common stock pursuant to the Plan. The options have an exercise price of \$0.10 per share, vest one-third on each of October 1, 2015, April 1, 2016 and October 1, 2016 and expire on March 31, 2025.

In addition to the stock options granted to Mr. Gomolski, our CFO, discussed above, subsequent to March 31, 2015, we have granted stock options under the Plan to consultants, members of our board of directors and employees. On April 1, 2015, we granted stock options to acquire 300,000 shares of our common stock to each of two consultants. The options have an exercise price of \$0.10 per share, vest one-third on each of October 1, 2015, April 1, 2016 and October 1, 2016 and expire on March 31, 2025. On April 20, 2015, we granted stock options to acquire 500,000 shares of our common stock to each of three board members. The options have an exercise price of \$0.14 per share, vest one-third on each of October 1, 2015, April 1, 2016 and



October 1, 2016 and expire on March 31, 2025. Additionally, on May 8, 2015, we granted stock options to acquire an aggregate of 300,000 shares of our common stock to four employees. The options have an exercise price of \$0.08 per share, vested ratably over a three-year period and expire ten years from the date of grant.

A summary of the stock option activity for our stock options plans for nine months ended September 30, 2015 is as follows:

	Weighted Number of Options	Weighted Average Exercise Price Per Share	Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2014	5,840,000	\$ 0.61	9.3	--
Options granted	2,900,000	0.12	9.8	\$ --
Options exercised	-	--	--	--
Options forfeited	(1,840,000)	(0.54)	--	--
Outstanding at September 30, 2015	<u>6,900,000</u>	<u>\$ 0.42</u>	<u>9.1</u>	<u>\$ --</u>
Exercisable at September 30, 2015	<u>4,000,000</u>	<u>\$ 0.64</u>	<u>8.7</u>	<u>\$ --</u>

We account for our stock-based compensation plans in accordance with ASC 718-10. Under the provisions of ASC 718-10, the fair value of each stock option is estimated on the date of grant using a BSM option-pricing formula, and amortizing that value to expense over the expected performance or service periods using the straight-line attribution method. The fair value of the stock options issued during the nine months ended September 30, 2015 was estimated using the BSM pricing model with the following weighted-average inputs: risk free interest rate – 1.3%; expected life -5.17 years; volatility – 446.6%; dividend rate – 0%.

During the three months ended September 30, 2015 and 2014, we recorded stock-based compensation cost related to outstanding stock options of \$101,445 and \$1,068,575, respectively, and during the nine months ended September 30, 2015 and 2014, we recorded stock-based compensation cost related to the outstanding stock options of \$201,668 and \$3,521,905, respectively. At September 30, 2015, the unamortized value of the outstanding stock options was \$142,331. The intrinsic value of options outstanding at September 30, 2015 was \$0. Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the exercise price of the option multiplied by the number of options outstanding.

During the nine months ended September 30, 2015, 340,000 stock options that had not yet vested were forfeited and 1,500,000 vested stock options granted to Mr. Loppert, our former CFO, were forfeited by their terms.

#### *Restricted Stock Units*

In August 2014 we granted Stephen L. Norris, then Chairman and CEO of our wholly owned subsidiary, GDSI International, restricted stock units ("RSU's") convertible into 12 million shares of the Company's common stock, with a grant date fair market value of \$3,600,000 as of July 1, 2014, the effective grant date. The grant was made under our 2014 Equity Incentive Plan. 4,000,000 RSU's would vest in respect of each fiscal year of GDSI International from 2015 through 2017 if the company has achieved certain revenue targets set forth in the agreement. Effective January 9, 2015, Mr. Norris resigned and forfeited all rights in and to his RSU's.

On October 10, 2014 we granted an employee RSU's convertible into 1 million shares of the Company's common stock, with a grant date fair market value of \$100,000. The grant was made under our 2014 Equity Incentive Plan. 333,333 RSU's will vest in respect of each calendar year (commencing January 1 and ending December 31) of the Company from 2015 through 2017 if the company has achieved at least 90% of the total revenue and EBITDA midpoint targets set forth in the agreement. If less than 90% of the target is achieved in respect of any such fiscal year, then the number of RSU's vesting for that fiscal year shall be 333,333 times the applicable percentage set forth in the agreement; *provided that*, if the company shall exceed 100% of the revenue and EBITDA midpoint target for the 2016 or 2017 calendar year, and shall have failed to reach 90% of the target for a prior calendar year, the excess over 100% shall be applied to reduce the deficiency in the prior year(s), and an additional number of RSU's shall vest to reflect the increased revenue for such prior calendar year. Any such excess shall be applied first to reduce any deficiency for the 2015 calendar year and then for the 2016 calendar year. The vesting of the RSU's shall be effective upon the issuance of the audited financial statements of the Company for the applicable calendar year, and shall be based upon the total revenue and EBITDA of the acquired companies as reflected in such financial statements.

A summary of RSU's outstanding as of September 30, 2015 and changes during the nine months then ended is presented below:

	<u>Number</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value</u>
Nonvested at December 31, 2014	-	-	-
Issued	13,000,000	\$ 0.28	\$ 0.00
Vested	-	-	-
Forfeited	(12,000,000)	-	-
Nonvested at September 30, 2015	<u>1,000,000</u>	<u>\$ 0.28</u>	<u>\$ 0.00</u>

On January 9, 2015, as noted above, the recipient of 12 million RSU's resigned from the Board of Directors and as an officer of the Company, and consequently forfeited his 12 million RSU's. As of December 31, 2014, after taking into account the forfeited 12 million RSU's, there was \$56,073 of total unrecognized stock-based compensation expense related to 1 million unvested RSU's that will be recognized on a straight-line basis over the performance periods of the award through December 2017, of which \$12,936 and \$38,808 was recognized as expense during the three and nine months ended September 30, 2015, respectively. The aggregate intrinsic value of non-vested RSU's was nil at September 30, 2015.

#### *Awards Not Issued Under Stock Incentive Plans*

##### *Restricted Stock Grants Awarded to Advisors*

In order to align our senior advisors with the interest of the stakeholders of the Company, the Board of Directors of the Company has granted the advisors restricted stock awards valued at \$0.04 to \$0.64 per share which vest over a period of 12 – 24 months, subject to remaining an advisor for a minimum of twelve months, and which are forfeited if the advisor is terminated or is no longer an advisor on the anniversary of the advisory award. Restricted stock awards granted or vested during the nine months ended September 30, 2015 are as follows:

<u>Name</u>	<u>Date of Grant</u>	<u>Number of Shares</u>	<u>Vest from</u>	<u>Vest To</u>	<u>September 30, 2015</u>		
					<u>Vested</u>	<u>Unvested</u>	<u>Forfeited</u>
Edwin J. Wang	4/17/13	104,166	2/28/14	1/31/15	104,166	--	--
	2/4/14	125,000	2/4/14	1/31/15	125,000	--	--
Jennifer S. Carroll	4/17/13	104,167	2/28/14	1/31/15	104,167	--	--
Mathew Kelley	4/17/13	104,167	2/28/14	1/31/15	104,167	--	--
Richard J. Feldman	4/30/14	125,000	4/30/14	3/30/15	125,000	--	--
		500,000	4/1/15	3/31/16	250,000	250,000	--
Gary Gray	3/7/15	1,000,000	3/7/15	5/30/15	1,000,000	--	--
Ross Trevino	3/7/15	500,000	3/7/15	5/30/15	500,000	--	--
		<u>2,562,500</u>			<u>2,312,500</u>	<u>250,000</u>	

A summary of restricted stock grants outstanding as of September 30, 2015, and the changes during the nine months then ended is presented below:

	<u>Number</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Aggregate Intrinsic Value</u>
--	---------------	-----------------------------------------------------------	------------------------------------------

Non-vested at December 31, 2014	1,062,500	\$	0.31	\$	0
Granted	1,500,000	\$	0.04	\$	15,000
Vested	(2,312,500)	\$	0.16	\$	15,000
Forfeited	--		--		--
Non-vested at September 30, 2015	<u>250,000</u>	<u>\$</u>	<u>0.46</u>	<u>\$</u>	<u>0</u>

We recorded stock-based compensation expense related to restricted stock grants of \$57,501 and \$519,372 for the three months ended September 30, 2015 and 2014, respectively, and \$362,288 and \$2,587,951 for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015 there was \$114,998 of total unrecognized stock-based compensation expense related to the unvested restricted stock grants that will be recognized through March 2016. The aggregate intrinsic value of non-vested restricted stock grants was nil at September 30, 2015.

#### Note 10 – Income Taxes

We have incurred losses since inception, which have generated net operating loss carryforwards. At September 30, 2015, we had a federal net operating loss carryforwards of approximately \$3,400,000 that expire beginning in 2025. Current or future ownership changes may limit the future realization of these net operating losses. While the Company does not believe that the shares issued upon conversions of notes payable during the three months ended September 30, 2015 resulted in a change of control under Section 382 of the Internal Revenue Code, the Company has entered into an acquisition agreement as more fully discussed in Note 16 – *Subsequent Events*, which upon closing will result in a limitation on the realization of these net operating losses.

Our policy is to record interest and penalties associated with unrecognized tax benefits as additional income taxes in the consolidated statements of operations. As of January 1, 2014, we had no unrecognized tax benefits, or any tax related interest or penalties. There were no changes in our unrecognized tax benefits during the nine months ended September 30, 2015 and 2014 and we did not recognize any interest or penalties during these periods related to unrecognized tax benefits.

Section 382 of the Internal Revenue Code generally imposes an annual limitation on the amount of net operating loss carryforwards that may be used to offset taxable income when a corporation has undergone significant changes in its stock ownership. There can be no assurance that we will be able to utilize any net operating loss carryforwards in the future.

We recognize deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax loss carryforwards. We have established a valuation allowance to reflect the likelihood of realization of deferred tax assets. There is no income tax benefit for the losses for the three and nine months ended September 30, 2015 and 2014, since management has determined that the realization of the net deferred tax asset is not more likely than not to be realized and has created a valuation allowance for the entire amount of such benefit.

#### Note 11 – Loss Per Common Share

Basic and diluted loss per common share for the three and nine months ended September 30, 2015 and 2014 is calculated based on the weighted average common shares outstanding for the period. The following table sets forth the computation of basic and diluted income (loss) per common share:

Basic and diluted:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Loss from continuing operations	\$ (935,012)	\$ (2,861,325)	\$ (2,994,943)	\$ (9,088,299)
Loss from discontinued operations	--	--	--	(2,832)
Net loss – basic and diluted	<u>\$ (935,012)</u>	<u>\$ (2,861,325)</u>	<u>\$ (2,994,943)</u>	<u>\$ (9,091,131)</u>
Denominator:				
Weighted-average common shares – basic and diluted (1)	<u>140,365,540</u>	<u>101,707,322</u>	<u>119,425,067</u>	<u>100,468,189</u>
Loss per common share – basic and diluted				
Continuing operations	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.09)
Discontinued operations	--	--	--	(0.00)
Total – basic and diluted	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>



(1) The following common stock equivalents outstanding as of September 30, 2015 and 2014 were not included in the computation of diluted loss per share because the net effect would have been anti-dilutive:

	<u>2015</u>	<u>2014</u>
Warrants	4,250,000	4,250,000
Issued but unvested shares issued for services	--	375,000
Shares issuable upon conversion of notes payable and accrued interest	424,336,540	--
Restricted stock and restricted stock units	1,500,000	--
Options	6,900,000	5,840,000
Total common stock equivalents	<u>436,986,540</u>	<u>10,465,000</u>

#### Note 12 – Discontinued Operations

In January 2012, we acquired 51% of Bronco Communications LLC. We subsequently discontinued the operations of Bronco and disposed of its remaining assets in January 2013 although we were responsible for contract oversight, which was concluded in June 2014. In accordance with ASC Topic 205, *Presentation of Financial Statements - Discontinued Operation*, we have presented the loss from discontinued operations in the consolidated statement of operations, which loss consisted of general and administrative expenses of \$2,832 for the nine months ended September 30, 2014.

#### Note 13 – Acquisition of Airtronic and Notes Receivable from Airtronic

On October 22, 2012, we entered into an Agreement of Merger and Plan of Reorganization (“Merger Agreement”) to acquire 70% of Airtronic, a then debtor in possession under chapter 11 of the Bankruptcy Code once Airtronic successfully reorganized and emerged from bankruptcy (the “Merger”). During the period from October 2012 through November 2013, we were actively involved in the day to day management of Airtronic pending the completion of the Merger.

Contemporaneously, on October 22, 2012, we entered into a Debtor In Possession Note Purchase Agreement (“Bridge Loan”) with Airtronic. We agreed to lend Airtronic a maximum of \$2,000,000, with an initial advance of \$750,000 evidenced by an 8¼% Secured Promissory Note made by Airtronic in favor of the Company (the “Original Note”) and a Security Agreement pledging all of Airtronic’s assets. In March 2013, the Company and Airtronic amended the Bridge Loan to provide for a maximum advance of up to \$700,000 in accordance with draws submitted by Airtronic and approved by the Company in accordance with the budget set forth in the amendment. On June 26, 2013, we agreed to a second modification of the Bridge Loan agreement with Airtronic, and agreed to loan Airtronic up to an additional \$550,000 under the Bridge Loan. On August 5, 2013, we entered into the Second Bridge Loan Modification and Ratification Agreement, received a new 8¼% secured promissory note in principal amount of \$550,000 (the “Second Note”), On October 10, 2013, we entered into the Third Bridge Loan Modification and Ratification Agreement, and received a new 8¼% secured promissory note for \$200,000 (the “Third Note”).

On October 2, 2013, Airtronic’s amended plan of reorganization (the “Plan”) was confirmed by the Court, but the Plan was never substantially consummated and was terminated. Under the terms of the Plan, Airtronic needed to close the Merger with the Company within 60 days following the confirmation date, i.e., on or before December 2, 2013, to obtain the funds necessary to pay its creditors in accordance with the Plan. Nevertheless, Airtronic refused to close the Merger with the Company on or before December 2, 2013, and as a result the Plan terminated and the reorganized Airtronic re-vested in the bankruptcy estate of Airtronic as debtor in possession.

On March 31, 2014, Airtronic filed a First Amended Modified Plan of Reorganization (“First Modified Plan”) which was confirmed on April 28, 2014. On May 14, 2014 Airtronic repaid us the Original Note, the Second Note and the Third Note together with all accrued interest thereon in the total amount of \$1,509,056. On August 12, 2014, we received \$414,760.83 that we were awarded for legal fees and expenses incurred. Our involvement with Airtronic and its bankruptcy proceedings were then concluded.

#### Note 14 – Related Party Transactions

##### *Convertible Notes Payable to Related Parties*

During the year ended December 31, 2014, we issued convertible notes payable to an affiliate of our Chairman and CEO, and to our CFO. These notes are further discussed in Note 6 - *Notes Payable – Convertible Notes Payable to Related Parties*.

#### Note 15 – Customer concentrations

Accounts receivable, net of allowance, was \$306,439 and \$302,400, as of September 30, 2015 and December 31, 2014, respectively. Two customers accounted for 100% at September 30, 2015 and one 99.2% of the amount at December 31, 2014. The Company expects to continue to have customers with revenues or accounts receivable balances of 10% or more of total revenue or total accounts receivable in the foreseeable future.



**Note 16 – Subsequent Events***Revenue Based Factoring Agreement Dated October 1, 2015*

On October 1, 2015, NACSV entered into a Revenue Based Factoring Agreement (the “Factoring Agreement”) with Power Up Lending Group, Ltd. (“Power Up”). The Factoring Agreement was guaranteed by the Company under the terms of a Security Agreement and Guaranty.

Under the terms of the Factoring Agreement, NACSV, as Merchant, agreed to transfer to Power Up in consideration of the purchase price of \$59,000, all of the Merchant’s future receipts, accounts, contract rights and other obligations arising from or relating to the payment of monies from Merchant’s customers and/or other third party payors (collectively the receipts) at the specified percentage of 24% until such time as a total of \$76,700 is repaid. A specified daily repayment amount of \$457 is required to be made to Power Up as a base payment to be credited against the specified percentage due. The Factoring Agreement shall have an indefinite term that shall last until all of the Merchant’s obligations to Power Up are fully satisfied. The Company used the purchase price proceeds to satisfy in full the obligations under the notes payable to KBM and Vis Vires, which are more fully described in Note 6 – Notes Payable.

The Factoring Agreement contains certain protections against default, including prohibiting NACSV from changing its arrangement with its bank in any way that is adverse to Power Up and NACSV interrupting the operation of its business, among others. Events of default include: (i) the violation of any term or covenant under the agreement, (ii) the failure of NACSV to pay its debts when due and (iii) the transfer or sale of all or substantially all of NACSV’s asset, amount others.

*Share Purchase and Sale Agreement to Acquire Grupo Rontan Electro Metalurgica. S. A.*

Effective October 13, 2015, the Company (as “Purchaser”) entered into a Share Purchase and Sale Agreement (the “SPSA”) dated October 8, 2015 with Joao Alberto Bolzan and Jose Carlos Bolzan, both Brazilian residents (collectively, the “Sellers”) and Grupo Rontan Electro Metalurgica, S.A., a limited liability company duly organized and existing under the laws of Federative Republic of Brazil (“Rontan”) (collectively, the “Parties”), pursuant to which the Sellers agreed to sell 100% of the issued and outstanding shares of Rontan to the Purchaser on the closing date.

Rontan is engaged in the manufacture and distribution of specialty vehicles and acoustic/visual signaling equipment for the industrial and automotive markets.

The purchase price shall consist of a cash amount, a stock amount and an earn-out amount as follows: (i) Brazilian Real (“R”) \$100 million (approximately US\$26 million) to be paid by the Purchaser in equal monthly installments over a period of forty eight (48) months following the closing date; (ii) an aggregate of R\$100 million (approximately US\$26 million) in shares of the Purchaser’s common stock, valued at US\$1.00 per share; and (iii) an earn-out payable within ten business days following receipt by the Purchaser of Rontan’s audited financial statements for the 12-months ended December 31, 2017, 2018 and 2019. The earn-out shall be equal to the product of (i) Rontan’s earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the last 12 months, and (ii) twenty percent and is contingent upon Rontan’s EBITDA results for any earn-out period being at least 125% of Rontan’s EBITDA for the 12-months ended December 31, 2015. It is the intention of the parties that the stock amount will be used by Rontan to repay institutional debt outstanding as of the closing date.

Specific Conditions to Closing

Specific conditions to closing consist of:

- a.) Purchaser’s receipt of written limited assurance of an unqualified opinion with respect to Rontan’s audited financial statements for the years ended December 31, 2013 and 2014 (the “Opinion”);
- b.) The commitment of sufficient investment by General American Capital Partners LLC (the “Institutional Investor”), in the Purchaser following receipt of the Opinion;
- c.) The accuracy of each Parties’ representations and warranties contained in the SPSA;
- d.) The continued operation of Rontan’s business in the ordinary course;

- e.) The maintenance of all of Rontan's bank credit lines in the maximum amount of R\$200 million (approximately US\$52 million) under the same terms and conditions originally agreed with any such financial institutions, and the maintenance of all other types of funding arrangements. As of the date of the SPSA, Rontan's financial institution debt consists of not more than R\$200 million (approximately US\$52 million), trade debt of not more than R\$50 million (approximately US\$13 million) and other fiscal contingencies of not more than R\$95 million (approximately US\$24.7 million);
- f.) Rontan shall enter into employment or consulting service agreements with key employees and advisors identified by the Purchaser, including Rontan's Chief Executive Officer; and
- g.) The Sellers continued guarantee of Rontan's bank debt for a period of 90 days following issuance of the Opinion, among other items.

The Institutional Investor has committed to invest sufficient capital to facilitate the transaction, subject to receipt of the Opinion, among other conditions.

Subject to satisfaction or waiver of the conditions precedent provided for in the SPSA, the closing date of the transaction shall take place within 10 business days from the date of issuance of the Opinion.

*Revenue Based Factoring Agreement Dated October 23, 2015*

On October 23, 2015, NACSV entered into a Revenue Based Factoring Agreement (the "Second Factoring Agreement") with Power Up Lending Group, Ltd. ("Power Up"). The Second Factoring Agreement was guaranteed by the Company under the terms of a Security Agreement and Guaranty.

Under the terms of the Second Factoring Agreement, NACSV, as Merchant, agreed to transfer to Power Up in consideration of the purchase price of \$50,000, all of the Merchant's future receipts, accounts, contract rights and other obligations arising from or relating to the payment of monies from Merchant's customers and/or other third party payors (collectively the receipts) at the specified percentage of 24% until such time as a total of \$69,000 is repaid. A specified daily repayment amount of \$548 is required to be made to Power Up as a base payment to be credited against the specified percentage due. The Second Factoring Agreement shall have an indefinite term that shall last until all of the Merchant's obligations to Power Up are fully satisfied. The Company used the purchase price proceeds to fund operations.

The Second Factoring Agreement contains certain protections against default, including prohibiting NACSV from changing its arrangement with its bank in any way that is adverse to Power Up and NACSV interrupting the operation of its business, among others. Events of default include: (i) the violation of any term or covenant under the agreement, (ii) the failure of NACSV to pay its debts when due and (iii) the transfer or sale of all or substantially all of NACSV's asset, amount others.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations***Share Purchase and Sale Agreement to Acquire Grupo Rontan Electro Metalurgica, S. A.*

As more fully discussed in Note 16 to the accompanying unaudited consolidated financial statements, we have entered into a Security Purchase and Sale Agreement effective October 13, 2015 the "SPSA"), under which we have agreed to acquire Grupo Rontan Electro Metalurgica, S.A., a limited liability company duly organized and existing under the laws of Federative Republic of Brazil ("Rontan"). There are specific conditions to closing, which are more fully discussed in Note 16, including the commitment of sufficient investment by General American Capital Partners LLC, the institutional investor, in the Company. We anticipate closing the transaction during the fourth quarter of 2015.

This quarterly report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. These statements concern expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts.

This quarterly report contains forward-looking that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities, including the purchase of Rontan. Forward-looking statements include, without limitation, statements about our market opportunities, our business and growth strategies, our projected revenue and expense levels, possible future consolidated results of operations, the adequacy of our available cash resources, our financing plans, our ability to pay dividends, our competitive position and the effects of competition and the projected growth of the industries in which we intend to operate. Forward-looking statements are only predictions based on our current expectations and projections about future events and involve risks and uncertainties.

Although we believe that the expectations reflected in the forward-looking statements contained in this quarterly report are based upon reasonable assumptions, no assurance can be given that such expectations will be attained or that any deviations will not be material. In light of these risks, uncertainties and assumptions, the forward-looking statements, events and circumstances discussed in this quarterly report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Important factors that could cause our actual results, level of performance or achievements to differ materially from those expressed or forecasted in, or implied by, the forward-looking statements we make in this quarterly report and those discussed in the 2014 Form 10-K include:

- our ability to fund our operations and continue as a going concern;
- our ability to have excess cash available for future actions;
- our ability or inability to implement our business plan, including the completion of acquisitions of companies under letters of intent and the SPSA in connection with the acquisition of Rontan;
- anticipated trends in our business and demographics;
- relationships with and dependence on technological partners;
- our future profitability and liquidity and the impact of potential future acquisitions on our financial condition, results of operations and cash flows;
- our ability to preserve our intellectual property and trade secrets and operate without infringing on the proprietary rights of third parties;

- regulatory, competitive or other economic influences;
- our operational strategies including, without limitation, our ability to develop or diversify into new businesses;
- our expectation that we will not suffer costly or material product liability claims and claims that our products infringe the intellectual property rights of others;
- our ability to comply with current the terms of existing convertible notes payable;
- our ability to comply with current and future regulations relating to our businesses;
- the impact of new accounting pronouncements;
- our ability to establish and maintain proper and effective internal accounting and financial controls; and
- the potential of further dilution to our common stock based on transactions, including convertible debt, effected involving issuance of shares.

Our actual results may differ materially from those reflected in forward-looking statements as a result of (i) the risk factors described under the heading “Risk Factors” set forth in Item 1A of the 2014 Form 10-K, (ii) general economic, market or business conditions, (iii) the opportunities (or lack thereof) that may be presented to and pursued by us, (iv) competitive actions by other companies, (v) changes in laws, and (vi) other factors, many of which are beyond our control.

In some cases, you can identify forward-looking statements by terms such as “may,” “should,” “could,” “would,” “anticipates,” “expects,” “attempt,” “intends,” “plans,” “hopes,” “believes,” “seeks,” “estimates” and similar expressions intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from estimates or forecasts contained in the forward-looking statements. Some of these risks and uncertainties are beyond our control. Also, these forward-looking statements represent our estimates and assumptions only as of the date the statement was made.

The information in this quarterly report is as of September 30, 2015, or, where clearly indicated, as of the date of this filing. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. We also may make additional disclosures in our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that we may file from time to time with the SEC.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes included in Item I of this quarterly report as well as our annual financial statements for the year ended December 31, 2014 included in the 2014 Form 10-K.

### **Results of Continuing Operations**

On June 16, 2014, we acquired all of the outstanding membership interest of North American Custom Specialty Vehicles (“NACSV”). NACSV specializes in building mobile command/communications and specialty vehicles for emergency management, first responders, national security and law enforcement operations. During the period from October 2012 through November 2013, we were actively involved in the day to day management of Airtronic USA, Inc. (“Airtronic”) pending the completion of an anticipated merger. The merger did not occur and we ceased involvement with the Airtronic during 2014.

#### ***Three Months Ended September 30, 2015 and 2014***

Revenue from continuing operations in the three months ended September 30, 2015 and 2014 was \$254,587 and \$94,387, respectively. Cost of revenue in the three months ended September 30, 2015 and 2014 was \$278,676 and \$180,066, respectively.

Revenue was from fixed-price and modified fixed-price construction contracts and is recognized using the percentage-of-completion method of revenue recognition. Cost of revenue includes all direct material and labor costs and indirect costs related to contract performance.



Selling, general and administrative expenses (“S, G & A”) were \$526,369 and \$2,771,835 in three-month periods ended September 30, 2015 and 2014, respectively. S, G & A was comprised of:

	Three Months Ended		Increase/ (decrease)	%
	September 30,			
	2015	2014		Change
Compensation and benefits	\$ 222,741	\$ 2,347,881	\$ (2,125,140)	(90.5)%
Advertising	2,722	49,801	(47,079)	(94.5)%
Debt issuance costs	28,693	--	28,693	100.0%
Depreciation and amortization	321	76,202	(75,881)	(99.6)%
Facility expense	35,115	26,487	8,628	32.6%
Investor relations and marketing	37,998	372,644	(334,646)	(89.8)%
Office support and supply	30,126	100,770	(70,644)	(70.1)%
Professional fees	162,511	(226,529)	389,040	171.7%
Travel and entertainment	4,691	21,800	(17,109)	(78.5)%
Other	1,451	2,779	(1,328)	(47.8)%
<b>Total S, G &amp; A</b>	<b>\$ 526,369</b>	<b>\$ 2,771,835</b>	<b>\$ (2,245,466)</b>	<b>(81.0)%</b>

Compensation and benefits decreased by \$2,125,140, or 90.5%, to \$222,741 in the three months ended September 30, 2015 compared to \$2,347,881 in the 2014 period. In the three months ended September 30, 2015, compensation and benefits was comprised of \$171,882 of non-cash stock-based compensation to our CEO and CFO, board of directors, vice presidents, consultants and advisors and \$50,859 of cash compensation to our CEO and CFO, vice presidents and staff. In the three months ended September 30, 2014, compensation and benefits was comprised of \$2,137,946 of non-cash stock-based compensation to our CEO, CFO, vice presidents and advisors and \$209,935 of cash compensation to our CEO and CFO and staff.

Debt issuance costs was \$28,693 in three months ended September 30, 2015. The costs incurred were related to the issuances of convertible notes payable during 2015. We did not incur debt issuance costs in three-months ended September 30, 2014.

Depreciation and amortization decreased \$75,881, or 99.6%, from \$76,202 in the three months ended September 30, 2014 to \$321 for the three months ended September 30, 2015. In the 2015 period the depreciation related to fixed assets. In the 2014 period, the depreciation and amortization relates to depreciation of fixed assets totaling \$2,269 and the amortization of customer relationships totaling \$73,933. The depreciation and amortization related to assets that were acquired in connection with the acquisition of NACSV effective June 16, 2014. At March 31, 2015, we determined that the full value of the customer relationships was impaired, as more fully discussed in Note 5 to the accompanying unaudited consolidated financial statements.

Facility expense increased by \$8,628, or 32.6%, to \$35,115 for the three months ended September 30, 2015 compared to \$26,487 in the 2014 period. Facility expense relates primarily to the operations of NACSV, which we acquired effective June 16, 2014.

Investor relations and marketing expense decreased by \$334,646, or 89.8%, to \$37,998 in the three months ended September 30, 2015 compared to \$372,644 in the 2014 period. The fees were primarily for services rendered and paid in shares of our common stock or compensation through the issuance of a warrant, which are being amortized over the terms of the consulting agreements.

Office supply and support expenses decreased by \$70,644, or 70.1%, to \$30,126 in the three months ended September 30, 2015 compared to \$100,770 in the 2014 period. In the three months ended September 30, 2015, the expense included \$26,716 of directors and officers liability insurance. In the three months ended September 30, 2014, the expense included \$26,462 of reimbursable expenses to an officer and advisor, \$28,197 for directors and officer’s liability insurance and \$7,249 of key man life insurance and \$30,610 attributable to NACSV, including \$22,620 for insurance.

Professional fees increased by \$389,040, or 171.7%, to \$162,511 in the three months ended September 30, 2015 compared to \$(226,529) in the 2014 period. In the three-month periods ended September 30, 2015 and 2014, such fees consisted of:

	<u>2015</u>	<u>2014</u>
Accounting and & auditing fees	\$ 22,800	\$ 86,834
Consulting fees	16,415	21,110
Legal fees	119,255	(352,751)
Public company/SEC related fees and expenses and transfer agent fees	3,472	278
Other	569	18,000
	<u>\$ 162,511</u>	<u>\$ (226,529)</u>

In 2014, we recovered \$414,761 of legal fees related to Airtronic's bankruptcy, reduced by \$62,010 of legal fees incurred for services.

Change in fair value of embedded derivative liabilities of convertible notes payable resulted in other income of \$230,099 in the three months ended September 30, 2015. We did not incur a change in fair value of embedded derivative liabilities of convertible notes during the 2014 period. The liability resulted from convertible notes with variable conversion options that we issued during 2015. The value of the conversion options are required to be bifurcated from the notes and recorded at fair value at each reporting period with changes in the fair value reported as income or expense in the statement of operations.

Loss on conversion of convertible notes payable and accrued interest was \$406,617 for the three months ended September 30, 2015. The loss represents the difference between the fair value of the shares of the Company's common stock issued upon conversion of the notes and related accrued interest as compared to the conversion prices per the terms of notes. Future conversions of the convertible notes payable and accrued interest outstanding as of September 30, 2015 would result in additional losses on conversion. We did not have convertible notes with variable conversion prices during the 2014 period.

Interest expense was \$208,636 in the three months ended September 30, 2015 as compared to \$3,811 in the 2014 period. The increase in interest expense was due primarily to the amortization of debt discount resulting primarily from the initial fair value of the embedded derivative liabilities of convertible notes issued during 2015.

There is no income tax benefit for the losses for the three-month periods ended September 30, 2015 and 2014 since we determined that the realization of the net deferred tax asset is not more likely than not to be realized and we created a valuation allowance for the entire amount of such benefit.

Our results of operations for the three months ended September 30, 2015 and 2014 did not contain any unusual gains or losses from transactions not in our ordinary course of business.

#### *Nine Months Ended September 30, 2015 and 2014*

Revenue from continuing operations in the nine months ended September 30, 2015 and 2014 was \$633,810 and \$205,792, respectively. Cost of revenue in the nine months ended September 30, 2015 and 2014 was \$535,517 and \$249,412, respectively.

Revenue was from fixed-price and modified fixed-price construction contracts and is recognized using the percentage-of-completion method of revenue recognition. Cost of revenue includes all direct material and labor costs and indirect costs related to contract performance.

Selling, general and administrative expenses ("S, G & A") were \$2,445,294 and \$9,462,511 in nine-month periods ended September 30, 2015 and 2014, respectively. S, G & A was comprised of:

	<u>Nine Months Ended</u>		<u>Increase/ (decrease)</u>	<u>% Change</u>
	<u>2015</u>	<u>2014</u>		
Compensation and benefits	\$ 872,590	\$ 7,067,946	\$(6,195,356)	(87.7)%
Advertising	2,722	51,301	(48,579)	(94.7)%
Debt issuance costs and amortization of warrant	142,538	100,000	42,538	42.5%
Depreciation and amortization	38,018	89,032	(51,014)	(57.3)%

Acquisition costs	--	754,572	(754,572)	(100.0)%
Facility expense	125,444	29,370	96,074	327.1%
Investment banking fees	--	412,498	(412,498)	(100.0)%
Investor relations and marketing	126,498	558,807	(432,309)	(77.4)%
Office support and supply	110,024	172,641	(62,617)	(36.3)%
Professional fees	431,196	189,494	241,702	127.6%
Intangible asset impairment loss	563,024	--	563,024	100.0%
Travel and entertainment	29,484	34,473	(4,989)	(14.5)%
Other	3,756	2,377	1,379	58.0%
Total S, G & A	<u>\$ 2,445,294</u>	<u>\$ 9,462,511</u>	<u>\$ (7,017,217)</u>	<u>(74.2)%</u>



Compensation and benefits decreased by \$6,195,356, or 87.7%, to \$872,590 in the nine months ended September 30, 2015 compared to \$7,067,946 in the 2014 period. In the nine months ended September 30, 2015, compensation and benefits were comprised of \$602,764 of non-cash stock-based compensation to our CEO and CFO, directors, vice presidents, consultants and advisors and \$269,826 of cash compensation to our CEO and CFO, vice presidents and staff. In the nine months ended September 30, 2014, compensation and benefits were comprised of \$6,659,855 of non-cash stock-based compensation to our CEO, CFO, vice presidents and advisors and \$408,091 of cash compensation to our CEO and CFO and staff.

Debt issuance costs and amortization of warrant increased by \$42,538, or 42.5%, from \$100,000 in the nine months ended September 30, 2014 to \$142,538 in nine months ended September 30, 2015. The fees incurred in the nine months ended September 30, 2015 were related primarily to the issuances of convertible notes payable during 2015. In nine months ended September 30, 2014 we expensed \$100,000 for amortization of a warrant issued in connection with a financing.

Depreciation and amortization decreased by \$51,014, or 57.3%, from \$89,032 in the nine months ended September 30, 2014 to \$38,018 for the nine months ended September 30, 2015. In the 2015 period, we incurred \$4,571 of depreciation related to fixed assets and \$33,447 for the amortization of customer relationships. In the 2014 period, the depreciation and amortization relates to depreciation of fixed assets totaling \$2,777 and the amortization of customer relationships totaling \$86,255. The depreciation and amortization related primarily to assets that were acquired in connection with the acquisition of NACSV effective June 16, 2014. At March 31, 2015, we determined that the full value of the customer relationships was impaired, as more fully discussed in Note 5 to the accompanying unaudited consolidated financial statements.

Acquisition costs of \$754,572 in the nine months ended September 30, 2014 were related to the NACSV acquisition in 2014 and comprised non-cash compensation of (i) \$664,000 of costs to advisors paid in shares of our common stock, and (ii) \$65,572 in stock discount expense for payments to the sellers of NACSV in our common stock at a price which resulted in a \$0.02 discount per share to fair value, as well as \$25,000 paid in cash for due diligence services. We did not incur acquisition costs in the 2015 period.

Facility expense increased by \$96,074, or 327.1%, from \$29,370 for the nine months ended September 30, 2014 compared to \$125,444 for the nine months ended September 30, 2015. Facility expense relates primarily to the operations of NACSV, which we acquired effective June 16, 2014.

Investment banking fees were \$412,498 in the nine month ended September 30, 2014. We did not incur investment banking fees in the 2015 period. Investment banking fees in the 2014 period represented the amortization of a cash fee and the fair value of a warrant granted to an investment banking company.

Investor relations and marketing expense decreased by \$432,309, or 77.4%, from \$558,807 in the nine months ended September 30, 2014 compared to \$126,498 in the nine months ended September 30, 2015. The fees were primarily for services rendered and paid in shares of our common stock or compensation through the issuance of a warrant, which are being amortized over the terms of the consulting agreements.

Office supply and support expenses decreased by \$62,617, or 36.3%, from \$172,641 in the nine months ended September 30, 2014 compared to \$110,024 in the nine months ended September 30, 2015. In the nine months ended September 30, 2015, the expense included \$90,820 of directors and officers liability insurance. In the nine months ended September 30, 2014, the expense included \$56,966 of reimbursable expenses to an officer and advisors, \$55,413 for directors and officers liability insurance, \$21,747 for key man life insurance, and \$38,340 attributable to NACSV, including \$23,485 for insurance.

Professional fees increased \$241,702, or 127.6%, to \$431,196 in the nine months ended September 30, 2015 compared to \$189,494 in the 2014 period. In the nine-month periods ended September 30, 2015 and 2014, such fees consisted of:

	<u>2015</u>	<u>2014</u>
Accounting and & auditing fees	\$ 66,200	\$ 129,729
Consulting fees	30,264	41,557
Legal fees	316,949	(18,099)
Public company/SEC related fees and expenses and transfer agent fees	15,876	18,307
Other	1,907	18,000
	<u>\$ 431,196</u>	<u>\$ 189,494</u>

In 2014 we recovered \$414,761 of legal fees related to Airtronic's bankruptcy, reduced by \$396,662 of legal fees incurred.

Intangible asset impairment loss was \$563,024 in the nine months ended September 30, 2015. Based on our revaluation, we determined that the value of the customer relationships was impaired as of March 31, 2015. This was due in part to the lack of revenue from sales of NACSV's products during the three-months ended March 31, 2015, as well as to our current expectations regarding future estimated discounted cash flows attributable to such asset. We did not incur an intangible asset impairment loss in the 2014 period.

Change in fair value of embedded derivative liabilities of convertible notes resulted in other income of \$686,980 in the nine months ended September 30, 2015. We did not incur a change in fair value of embedded derivative liabilities of convertible notes during the 2014 period. The liability resulted from convertible notes with variable conversion options that we issued during the 2015 period. The value of the conversion options are required to be bifurcated from the notes and recorded at fair value at each reporting period with changes in the fair value reported as income or expense in the statement of operations.

Loss on conversion of convertible notes payable and accrued interest was \$406,617 for the nine months ended September 30, 2015. The loss represents the difference between the fair value of the shares of the Company's common stock issued upon conversion of the notes and related accrued interest as compared to the conversion prices per the terms of notes. Future conversions of the notes payable outstanding as of September 30, 2015 would result in additional losses on conversion. We did not have convertible notes with variable conversion prices during the 2014 period.

Loss (gain) on extinguishment of debt was a loss of \$22,170 in the nine months ended September 30, 2015 compared to a gain of \$387,642 in the nine months ended September 30, 2014. The loss in the 2015 period resulted from the write off of debt discount for notes payable to related parties that were fully repaid during the 2015 period. The gain in the 2014 period consists of \$350,000 for forgiveness on the payoff of a convertible note and the recapture of \$37,642 of interest not paid.

The reduction in contingent consideration for purchase price was \$280,461 in the nine months ended September 30, 2015 and was due in part to the lack of revenue from sales of NACSV's products during the first quarter of 2015, as well as to our current expectations regarding future revenue and earnings estimates associated with NACSV. We did not incur a change in contingent consideration for purchase price in the 2014 period.

We realized other income of \$190,240 in the nine months ended September 30, 2015 due to the reversal of a liability to NACSV related to equipment held by NACSV and that we believe we no longer owe. We have filed legal proceedings against the sellers of NACSV as more fully discussed in Note 8 to the accompanying unaudited consolidated financial statements. We did not have other income in the 2014 period.

Interest income was \$43,182 in the nine months ended September 30, 2014 and was related to loans outstanding during the 2014 period. We did not earn interest income in the nine months ended September 30, 2015.

Interest expense was \$1,377,436 in the nine months ended September 30, 2015 as compared to \$12,992 in the 2014 period. The significant increase in interest expense was due primarily to the initial fair value of the embedded derivative liabilities of convertible notes issued during the nine months ended September 30, 2015.

There is no income tax benefit for the losses for the nine-month periods ended September 30, 2015 and 2014 since we determined that the realization of the net deferred tax asset is not more likely than not to be realized and we created a valuation allowance for the entire amount of such benefit.

Loss from discontinued operations in the nine-month period ended September 30, 2014 was \$2,832 and represented costs

related to the wind down of a telecommunications business.

Our results of operations for the nine months ended September 30, 2015 and 2014 did not contain any unusual gains or losses from transactions not in our ordinary course of business.

## Liquidity and Capital Resources

As of September 30, 2015, we had cash and cash equivalents totaling \$115,662 and working capital deficit of \$832,724. For the nine months ended September 30, 2015, we incurred a net loss of \$2,994,943 and at September 30, 2015, we had an accumulated deficit of \$31,510,506 and total stockholders' deficit of \$1,379,603. We expect to incur losses during the remainder of fiscal 2015. There is no guarantee that we will ultimately be able to generate sufficient revenue or reduce our costs in the anticipated time frame to achieve and maintain profitability and have sustainable cash flows.

As of September 30, 2015, we did not have any material commitments for capital expenditures during the next twelve months. Any required expenditure will be completed through internally generated funding or from proceeds from the sale of common or preferred stock, or borrowings.

As more fully discussed in Note 16 to the accompanying unaudited consolidated financial statements, we have entered into the SPSA under which we have agreed to acquire Rontan. There are specific conditions to closing, which are more fully discussed in Note 16, including the commitment of sufficient investment by General American Capital Partners LLC, the institutional investor, in the Company. We have not yet determined the impact on our liquidity and capital resources, including any material commitments for capital expenditures, as a result of this pending transaction.

## Cash Flows

### *Cash used in operating activities*

Net cash used in operating activities totaled \$552,785 for the nine months ended September 30, 2015 compared to \$492,757 for the nine months ended September 30, 2014.

In the nine months ended September 30, 2015, cash was used primarily to fund \$807,807 of the net loss of \$2,994,943. Non-cash items affecting the net loss were: (i) a reduction in contingent consideration for purchase price of \$280,461; (ii) depreciation and amortization of \$38,018; (iii) loss on extinguishment of debt of \$22,170; (iv) non-cash stock-based compensation of \$602,764; (v) reduction in value of embedded derivative liabilities of convertible notes of \$686,980; (vi) intangible asset impairment loss of \$563,024; (vii) non-cash interest expense of \$1,290,166; (viii) common stock issued for services of \$104,056; (ix) non-cash amortization of debt issuance costs of \$123,180; (x) loss on conversion of notes payable and accrued expenses of \$406,617; and (xi) a beneficial conversion feature of \$4,582. Offsetting a portion of the use of cash were net changes in operating assets and liabilities totaling \$255,022.

In the nine months ended September 30, 2014, cash was used to fund \$1,020,313 of the net loss of \$9,091,131. Non-cash items affecting the net loss were: (i) a gain on extinguishment of debt of \$387,642; (ii) depreciation and amortization of \$89,032; (iii) non-cash stock-based compensation of \$6,659,855; (iv) common stock and warrants issued for services of \$971,668; (v) non-cash interest expense of \$8,333; (vi) common stock issued for acquisition services of \$664,000; (vii) and other non-cash acquisition expenses of \$65,572. Offsetting a portion of the use of cash were net changes in operating assets and liabilities of \$527,556.

### *Cash used in investing activities*

Cash of \$1,890 was used in investing activities during the nine months ended September 30, 2015 to purchase fixed asset. Net cash provided by investing activities totaled \$599,119 for the nine-month period ended September 30, 2014. During the 2014 period, we received cash of \$1,465,874 from Airtronic for the repayment of bridge loans and \$135,425 of cash in connection with the NACSV acquisition, reduced by \$1,000,000 paid for the acquisition of NACSV and cash of \$2,180 used for deposits.

### *Cash from financing activities*

Net cash provided by financing activities totaled \$510,235 for the nine months ended September 30, 2015, compared to \$271,506 of cash used by financing activities for the nine months ended September 30, 2014. In the nine months ended September 30, 2015, we received proceeds from the issuance of notes payable and convertible debt of \$795,643. These receipts were partially offset by debt issuance fees of \$124,120 and payments on convertible and other notes payable of \$161,288. In the nine months ended September 30, 2014, we received \$125,000 from the exercise of warrants and \$96,241 from notes payable offset by \$492,747 paid against notes payable and convertible debt.



### **Financial condition**

As of September 30, 2015, we had cash and cash equivalents totaling \$115,662, a working capital deficit of \$832,724 and stockholders' deficit of \$1,379,603. We do not have a line of credit facility and have relied on short-term borrowings, convertible debt and the sale of common stock to provide cash to finance our operations. We will need to raise additional capital during the next twelve months to sustain our operations and fund future acquisitions. We plan to seek additional equity and debt financing to provide funding for operations and future acquisitions.

As a result of recent declines in the fair value of the Company's common stock, the Company does not currently have sufficient authorized shares to satisfy in full its obligations under several existing convertible notes payable. Accordingly, certain of the note holders have the right to accelerate the payment due under the terms of their note. In addition, they have the right to require that additional shares and/or monies be paid in connection with this technical default. At September 30, 2015, the Company has accrued \$31,346 of penalty interest associated with one of these notes. The Company intends to request shareholder approval to increase the number of authorized shares of common stock in the near future in order to satisfy its obligations under these notes.

At December 31, 2014 our registered independent public accounting firm expressed substantial doubt as to our ability to continue as a going concern because we have incurred substantial losses and negative cash flows from operations. Management's plans in order to meet our operating cash flow requirements include (i) financing activities such as private placements of common stock, and issuances of debt and convertible debt instruments, (ii) the establishment of strategic relationships which we expect will lead to the generation of additional revenue or acquisition opportunities and (iii) the acquisition of complementary businesses, including Rontan.

We will need to secure additional funds to finance our operations during the next twelve months, but there are no assurances that such additional funding will be achieved or that we will succeed in our future operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

### **Inflation**

We do not believe that inflation has had a material effect on our results of operations.

### **Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements during the three and nine months ended September 30, 2015 and 2014.

### **Critical Accounting Policies**

Our 2014 Form 10-K contains further information regarding our critical accounting policies.

### **Impact of Recently Issued Accounting Standards**

For information regarding recent accounting pronouncements and their expected impact on our future consolidated results of operations or financial condition, see Note 1 to our accompanying unaudited consolidated financial statements

### **Tabular Disclosure of Contractual Obligations**

As a small reporting company, we are not required to provide this information and have elected not to provide it.

### **Item 3. Quantitative And Qualitative Disclosures About Market Risk.**

As a "Smaller Reporting Company," we are not required to provide the information required by this item.

### **Item 4. Controls and Procedures.**

#### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and our Chief Financial and Accounting Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e)

under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial and Accounting Officer have concluded that, as of the end of such period, these controls and procedures are not effective to ensure that information required to be disclosed by us in the reports we file or submit 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. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit is accumulated and communicated to our management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

*Identified Material Weaknesses*

A material weakness in our internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement or the financial statements will not be prevented or detected.

Management identified the following material weaknesses during its assessment of internal controls over financial reporting as of December 31, 2014 which have not been rectified as of September 30, 2015:

- *Resources:* One staff accountant performed the majority of our corporate accounting functions. As a result, there was a lack of proper segregation of duties.
- *Audit Committee:* We do not have, and are not required to have, an audit committee. An audit committee would improve oversight in the establishment and monitoring of required internal controls and procedures.

**Management's Remediation Initiatives**

As we expand, we plan to hire additional accounting staff and implement systems where we have adequate segregation of duties. We also plan to add an audit committee financial expert to our board and create an audit committee made up of one or more of our independent directors.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION****Item 1. Legal Proceedings.**

From time to time, we may become involved in litigation relating to our business as either plaintiff or defendant.

The Company is plaintiff in two actions: The Company is plaintiff or defendant in two actions:

*Dekle, et. al. v. Global Digital Solutions, Inc. et. al.*

Brian A. Dekle and John Ramsay filed suit against the Company and its wholly owned subsidiary, North American Custom Specialty Vehicles, Inc. ("NACSV"), in the Circuit Court of Baldwin Alabama, on January 14, 2015, case no. 05-CV-2015-900050.00, relating to our acquisition of NACSV (the "Dekle Action"). Prior to instituting the Dekle Action, in June 2014, the Company had entered into an equity purchase agreement with Dekle and Ramsay to purchase their membership interest in North American Custom Specialty Vehicles, LLC. The Dekle Action originally sought payment for \$300,000 in post-closing consideration Dekle and Ramsay allege they are owed pursuant to the equity purchase agreement.

On February 9, 2015, the Company and NACSV removed the Dekle Action to federal court in the United States District Court in and for the Southern District of Alabama, case no. 1:15-CV-00069. The Company and NACSV subsequently moved to dismiss the complaint for (1) failing to state a cause of action, and (2) lack of personal jurisdiction. Alternatively, the Company and NACSV sought a transfer of the case to the United States District Court in and for Middle District of Florida.

In response to the Company's and NACSV's motion to dismiss, Dekle and Ramsay filed an amended complaint on March 2, 2015 seeking specific performance and alleging breach of contract, violations of Security and Exchange Commission ("SEC") Rule 10b-5, and violations of the Alabama Securities Act. The amended complaint also names the Company's Chairman, President, and CEO, Richard J. Sullivan ("Sullivan"), as a defendant. On March 17, 2015, the Company, NACSV and Sullivan filed a motion to dismiss the amended complaint seeking dismissal for failure to state valid causes of action, for lack of personal jurisdiction, or alternatively to transfer the case to the United States District Court in and for Middle District of Florida. Dekle and Ramsay's responded on March 31, 2015, and the Company filed its response thereto on April 7, 2015.

On June 2, 2015, Dekle passed away. On June 5, 2015, the Court denied the Company's motion to transfer the case to Florida. On June 10, 2015, the Company filed a motion to reconsider the Court's denial of its motion to transfer the case to Florida. On September 30, 2015, the Court granted the Company's Renewed Motion to Transfer Venue. The case was transferred to the Middle District of Florida, where it is currently pending.





On June 15, 2015, Ramsay filed a second amended complaint. On June 25, 2015, the Company filed a motion to dismiss the second amended complaint. The Company's Motion to Dismiss was denied.

*Global Digital Solutions, Inc. et. al. v. Communications Laboratories, Inc., et. al.*

On January 19, 2015 the Company and NACSV filed suit against Communications Laboratories, Inc., ComLabs Global, LLC, Roland Lussier, Brian Dekle, John Ramsay and Wallace Bailey for conversion and breach of contract in a dispute over the payment of a \$300,000 account receivable that ComLabs owed to NACSV but sent payment directly to Brian Dekle. The case was filed in the Eighteenth Judicial Circuit in and for Brevard County Florida, case no. 05-2015-CA-012250-XXXX. On February 18, 2015 (i) defendants Communications Laboratories, Inc., ComLabs Global, LLC and Roland Lussier and (ii) defendant Wallace Bailey filed their respective motions to dismiss seeking, among other things, dismissal for failure to state valid causes of action, lumping and failure to post a non-resident bond. On February 26, 2015, defendants Dekle and Ramsay filed their motion to dismiss, or stay action, based on already existing litigation between the parties. NACSV filed its required bond on March 2, 2015.

To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business, financial condition and operating results.

**Item 1A. Risk Factors.**

As a "Smaller Reporting Company," we are not required to provide the information required by this item.

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

None.

**Item 3. Defaults Upon Senior Securities.**

As a result of recent declines in the fair value of the Company's common stock, the Company does not currently have sufficient authorized shares to satisfy in full its obligations under several existing convertible notes payable. Accordingly, certain of the note holders have the right to accelerate the payment due under the terms of their note. In addition, they have the right to require that additional shares and/or monies be paid in connection with this technical default. At September 30, 2015, the Company has accrued \$31,346 of penalty interest associated with one of these notes. The Company intends to request shareholder approval to increase the number of authorized shares of common stock in the near future in order to satisfy its obligations under these notes.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

See the discussion under Item 3. Defaults Upon Senior Securities.

*OTCQB Compliance*

Pursuant to a letter dated September 28, 2015 from the OTC Markets, the Company was advised that its bid price had closed below \$0.01 for more than 30 consecutive calendar days and, therefore, no longer meets the Standards for Continued Eligibility for the OTCQB marketplace as per the OTCQB Standards, section 2.3(2).

To remain eligible for trading on the OTCQB marketplace, the Company must have proprietary priced quotations published by a Market Maker in OTC Link with a minimum closing bid price of \$0.01 per share on at least one of the prior thirty consecutive calendar days. In the event that the minimum closing bid price for the Company's common stock falls below \$0.01 per share, a grace period of 180 calendar days to regain compliance shall begin, during which the minimum closing bid price for the Company's common stock must be \$0.01 or greater for ten consecutive trading days.

Pursuant to these OTCQB Standards, the company has been granted a period of 180 calendar days in which to regain compliance with Section 2.3(2). This grace period expires March 26, 2016 and at that time if the Company's bid price has not closed at or above \$0.01 for any ten consecutive trading days then the Company's common stock will be removed from the OTCQB.

**Item 6. Exhibits.**

We have listed the exhibits by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K on the Exhibit list attached to this report.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Global Digital Solutions, Inc.  
(Registrant)

Date: November 6, 2015

By: /s/ JEROME J. GOMOLSKI  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

## EXHIBIT INDEX

Exhibit No.	Description	Incorporated by Reference		
		Form	Filing Date/ Period End	Exhibit Number
3.1	Certificate of Incorporation	10	8/9/13	3.1
3.2	Articles of Merger	10	8/9/13	3.2
3.3	Certificate of Amendment to Certificate of Incorporation	10	8/9/13	3.3
3.4	Bylaws	10	8/9/13	3.4
3.5	Certificate of Amendment to Certificate of Incorporation filed July 7, 2014	8-K	7/30/14	3.1
3.6	Certificate of Amendment to Certificate of Incorporation filed May 18, 2015	8-K	5/20/15	3.1
2.1	Share Purchase and Sale Agreement dated October 8, 2015 and effective October 13, 2015	8-K	10/19/15	2.1
10.1	Revenue Based Factoring Agreement dated October 1, 2015	8-K	10/5/15	10.1
10.2	Security Agreement and Guarantee dated October 1, 2015	8-K	10/5/15	10.2
10.3	Revenue Based Factoring Agreement dated October 23, 2015	8-K	11/5/15	10.1
10.4	Security Agreement and Guarantee dated October 23, 2015	8-K	11/5/15	10.2
31.1**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer			
31.2**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer			
32.1***	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer			
101. INS**	XBRL Instance			
101. SCH **	XBRL Taxonomy Extension Scheme			
101. CAL **	XBRL Taxonomy Extension Calculation			
101. DEF **	XBRL Taxonomy Extension Definition			
101. LAB **	XBRL Taxonomy Extension Labels			
101. PRE **	XBRL Taxonomy Extension Presentation			

\* Management contract or compensatory plan or arrangement.

\*\* Filed herewith.

\*\*\* Furnished herewith.

# **EXHIBIT 7**

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

OMB APPROVAL	
OMB Number:	3235-0070
Expires:	September 30, 2018
Estimated average burden hours per response . . . . .	187.43

FORM 10-Q

GENERAL INSTRUCTIONS

A. Rule as to Use of Form 10-Q.

1. Form 10-Q shall be used for quarterly reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), filed pursuant to Rule 13a-13 (17 CFR 240.13a-13) or Rule 15d-13 (17 CFR 240.15d-13). A quarterly report on this form pursuant to Rule 13a-13 or Rule 15d-13 shall be filed within the following period after the end of each of the first three fiscal quarters of each fiscal year, but no report need be filed for the fourth quarter of any fiscal year:
  - a. 40 days after the end of the fiscal quarter for large accelerated filers and accelerated filers (as defined in 17 CFR § 240.12b-2); and
  - b. 45 days after the end of the fiscal quarter for all other registrants.

B. Application of General Rules and Regulations.

1. The General Rules and Regulations under the Act contain certain general requirements which are applicable to reports on any form. These general requirements should be carefully read and observed in the preparation and filing of reports on this form.
2. Particular attention is directed to Regulation 12B which contains general requirements regarding matters such as the kind and size of paper to be used, the legibility of the report, the information to be given whenever the title of securities is required to be stated, and the filing of the report. The definitions contained in Rule 12b-2 (17 CFR 240.12b-2) should be especially noted. See also Regulations 13A and 15D.

C. Preparation of Report.

1. This is not a blank form to be filled in. It is a guide copy to be used in preparing the report in accordance with Rules 12b-11 (17 CFR 240.12b-11) and 12b-12 (17 CFR 240.12b-12). The Commission does not furnish blank copies of this form to be filled in for filing.
2. These general instructions are not to be filed with the report. The instructions to the various captions of the form are also to be omitted from the report as filed.

SEC 1296 (01-12) Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

D. Incorporation by Reference.

1. If the registrant makes available to its stockholders or otherwise publishes, within the period prescribed for filing the report, a document or statement containing information meeting some or all of the requirements of Part I of this form, the information called for may be incorporated by reference from such published document or statement, in answer or partial answer to any item or items of Part I of this form, provided copies thereof are filed as an exhibit to Part I of the report on this form.
2. Other information may be incorporated by reference in answer or partial answer to any item or items of Part II of this form in accordance with the provisions of Rule 12b-23 (17 CFR 240.12b-23).
3. If any information required by Part I or Part II is incorporated by reference into an electronic format document from the quarterly report to security holders as provided in General Instruction D, any portion of the quarterly report to security holders incorporated by reference shall be filed as an exhibit in electronic format, as required by Item 601(b)(13) of Regulation S-K.

E. Integrated Reports to Security Holders.

Quarterly reports to security holders may be combined with the required information of Form 10-Q and will be suitable for filing with the Commission if the following conditions are satisfied:

1. The combined report contains full and complete answers to all items required by Part I of this form. When responses to a certain item of required disclosure are separated within the combined report, an appropriate cross-reference should be made.
2. If not included in the combined report, the cover page, appropriate responses to Part II, and the required signatures shall be included in the Form 10-Q. Additionally, as appropriate, a cross-reference sheet should be filed indicating the location of information required by the items of the form.
3. If an electronic filer files any portion of a quarterly report to security holders in combination with the required information of Form 10-Q, as provided in this instruction, only such portions filed in satisfaction of the Form 10-Q requirements shall be filed in electronic format.

F. Filed Status of Information Presented.

1. Pursuant to Rule 13a-13(d) and Rule 15d-13(d), the information presented in satisfaction of the requirements of Items 1, 2 and 3 of Part I of this form, whether included directly in a report on this form, incorporated therein by reference from a report, document or statement filed as an exhibit to Part I of this form pursuant to Instruction D(1) above, included in an integrated report pursuant to Instruction E above, or contained in a statement regarding computation of per share earnings or a letter regarding a change in accounting principles filed as an exhibit to Part I pursuant to Item 601 of Regulation S-K (§ 229.601 of this chapter), except as provided by Instruction F(2) below, shall not be deemed filed for the purpose of Section 18 of the Act or otherwise subject to the liabilities of that section of the Act but shall be subject to the other provisions of the Act.
2. Information presented in satisfaction of the requirements of this form other than those of Items 1, 2 and 3 of Part I shall be deemed filed for the purpose of Section 18 of the Act; except that, where information presented in response to Item 1 or 2 of Part I (or as an exhibit thereto) is also used to satisfy Part II requirements through incorporation by reference, only that portion of Part I (or exhibit thereto) consisting of the information required by Part II shall be deemed so filed.



#### G. Signature and Filing of Report.

If the report is filed in paper pursuant to a hardship exemption from electronic filing (see Item 201 et seq. of Regulation S-T (17 CFR 232.201 et seq.), three complete copies of the report, including any financial statements, exhibits or other papers or documents filed as a part thereof, and five additional copies which need not include exhibits must be filed with the Commission. At least one complete copy of the report, including any financial statements, exhibits or other papers or documents filed as a part thereof, must be filed with each exchange on which any class of securities of the registrant is registered. At least one complete copy of the report filed with the Commission and one such copy filed with each exchange must be manually signed on the registrant's behalf by a duly authorized officer of the registrant and by the principal financial or chief accounting officer of the registrant. (See Rule 12b-11(d) (17 CFR 240.12b-11(d).) Copies not manually signed must bear typed or printed signatures. In the case where the principal executive officer, principal financial officer or chief accounting officer is also duly authorized to sign on behalf of the registrant, one signature is acceptable provided that the registrant clearly indicates the dual responsibilities of the signatory.

#### H. Omission of Information by Certain Wholly-Owned Subsidiaries.

If on the date of the filing of its report on Form 10-Q, the registrant meets the conditions specified in paragraph (1) below, then such registrant may omit the information called for in the items specified in paragraph (2) below.

1. Conditions for availability of the relief specified in paragraph (2) below:
  - a. All of the registrant's equity securities are owned, either directly or indirectly, by a single person which is a reporting company under the Act and which has filed all the material required to be filed pursuant to Section 13, 14 or 15(d) thereof, as applicable;
  - b. During the preceding thirty-six calendar months and any subsequent period of days, there has not been any material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within thirty days, with respect to any indebtedness of the registrant or its subsidiaries, and there has not been any material default in the payment of rentals under material long-term leases; and
  - c. There is prominently set forth, on the cover page of the Form 10-Q, a statement that the registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format.
2. Registrants meeting the conditions specified in paragraph (1) above are entitled to the following relief:
  - a. Such registrants may omit the information called for by Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, provided that the registrant includes in the Form 10-Q a management's narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items between the most recent fiscal year-to-date period presented and the corresponding year-to-date period in the preceding fiscal year. Explanations of material changes should include, but not be limited to, changes in the various elements which determine revenue and expense levels such as unit sales volume, prices charged and paid, production levels, production cost variances, labor costs and discretionary spending programs. In addition, the analysis should include an explanation of the effect of any changes in accounting principles and practices or method of application that have a material effect on net income as reported.
  - b. Such registrants may omit the information called for in the following Part II Items: Item 2, Changes in Securities; Item 3, Defaults Upon Senior Securities.
  - c. Such registrants may omit the information called for by Item 3 of Part I, Quantitative and Qualitative Disclosures About Market Risk.

OMB APPROVAL	
OMB Number:	3235-0070
Expires:	September 30, 2018
Estimated average burden hours per response . . . . .	187.43

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended \_\_\_\_\_  
or

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

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

Commission File Number: \_\_\_\_\_

\_\_\_\_\_  
(Exact name of registrant as specified in its charter)

\_\_\_\_\_  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

\_\_\_\_\_  
(Address of principal executive offices) (Zip Code)

\_\_\_\_\_  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

**SEC 1296 (01-12) Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Provide the information required by Rule 10-01 of Regulation S-X (17 CFR Part 210). A smaller reporting company, defined in Rule 12b-2 (§ 240.12b-2 of this chapter) may provide the information required by Article 8-03 of Regulation S-X (§ 210.8-03 of this chapter).

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

Furnish the information required by Item 303 of Regulation S-K (§ 229.303 of this chapter).

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Furnish the information required by Item 305 of Regulation S-K (§ 229.305 of this chapter).

Item 4. Controls and Procedures.

Furnish the information required by Item 307 of Regulation S-K (§ 229.307 of this chapter) and Item 308(c) of Regulation S-K (§229.308(c) of this chapter).

PART II—OTHER INFORMATION

**Instruction.** The report shall contain the item numbers and captions of all applicable items of Part II, but the text of such items may be omitted provided the responses clearly indicate the coverage of the item. Any item which is inapplicable or to which the answer is negative may be omitted and no reference thereto need be made in the report. If substantially the same information has been previously reported by the registrant, an additional report of the information on this form need not be made. The term "previously reported" is defined in Rule 12b-2 (17 CFR 240.12b-2). A separate response need not be presented in Part II where information called for is already disclosed in the financial information provided in Part I and is incorporated by reference into Part II of the report by means of a statement to that effect in Part II which specifically identifies the incorporated information.

Item 1. Legal Proceedings.

Furnish the information required by Item 103 of Regulation S-K (§ 229.103 of this chapter). As to such proceedings which have been terminated during the period covered by the report, provide similar information, including the date of termination and a description of the disposition thereof with respect to the registrant and its subsidiaries.

**Instruction.** A legal proceeding need only be reported in the 10-Q filed for the quarter in which it first became a reportable event and in subsequent quarters in which there have been material developments. Subsequent Form 10-Q filings in the same fiscal year in which a legal proceeding or a material development is reported should reference any previous reports in that year.

#### Item 1A. Risk Factors.

Set forth any material changes from risk factors as previously disclosed in the registrant's Form 10-K (§249.310) in response to Item 1A. to Part 1 of Form 10-K. Smaller reporting companies are not required to provide the information required by this item.

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

- (a) Furnish the information required by Item 701 of Regulation S-K (17 CFR 229.701) as to all equity securities of the registrant sold by the registrant during the period covered by the report that were not registered under the Securities Act. If the Item 701 information previously has been included in a Current Report on Form 8-K (17 CFR 249.308), however, it need not be furnished.
- (b) If required pursuant to Rule 463 (17 CFR 230.463) of the Securities Act of 1933, furnish the information required by Item 701(f) of Regulation S-K (§ 229.701(f) of this chapter).
- (c) Furnish the information required by Item 703 of Regulation S-K (§ 229.703 of this chapter) for any purchase made in the quarter covered by the report. Provide disclosures covering repurchases made on a monthly basis. For example, if the quarter began on January 16 and ended on April 15, the chart would show repurchases for the months from January 16 through February 15, February 16 through March 15, and March 16 through April 15.

Instruction. Working capital restrictions and other limitations upon the payment of dividends are to be reported hereunder.

#### Item 3. Defaults Upon Senior Securities.

- (a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within 30 days, with respect to any indebtedness of the registrant or any of its significant subsidiaries exceeding 5 percent of the total assets of the registrant and its consolidated subsidiaries, identify the indebtedness and state the nature of the default. In the case of such a default in the payment of principal, interest, or a sinking or purchase fund installment, state the amount of the default and the total arrearage on the date of filing this report.

Instruction. This paragraph refers only to events which have become defaults under the governing instruments, i.e., after the expiration of any period of grace and compliance with any notice requirements.

- (b) If any material arrearage in the payment of dividends has occurred or if there has been any other material delinquency not cured within 30 days, with respect to any class of preferred stock of the registrant which is registered or which ranks prior to any class of registered securities, or with respect to any class of preferred stock of any significant subsidiary of the registrant, give the title of the class and state the nature of the arrearage or delinquency. In the case of an arrearage in the payment of dividends, state the amount and the total arrearage on the date of filing this report.

##### Instructions to Item 3.

1. Item 3 need not be answered as to any default or arrearage with respect to any class of securities all of which is held by, or for the account of, the registrant or its totally held subsidiaries.

2. The information required by Item 3 need not be made if previously disclosed on a report on Form 8-K (17 CFR 249.308).

#### Item 4. Mine Safety Disclosures

If applicable, provide a statement that the information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in exhibit 95 to the quarterly report.

Item 5. Other Information.

(a) The registrant must disclose under this item any information required to be disclosed in a report on Form 8-K during the period covered by this Form 10-Q, but not reported, whether or not otherwise required by this Form 10-Q. If disclosure of such information is made under this item, it need not be repeated in a report on Form 8-K which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 10-Q; and

(b) Furnish the information required by Item 407(c)(3) of Regulation S-K (§229.407 of this chapter).

Item 6. Exhibits.

Furnish the exhibits required by Item 601 of Regulation S-K (§ 229.601 of this chapter).

SIGNATURES\*

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	_____
(Registrant)	
_____	_____
Date	(Signature)**
_____	_____
Date	(Signature)**

\*\* Print name and title of the signing officer under his signature.

# **EXHIBIT 8**

NT 10-K 1 extf10k2015\_globaldigital.htm NOTIFICATION OF LATE FILING

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 12b-25

NOTIFICATION OF LATE FILING

(Check one):  Form 10-K    Form 20-F    Form 11-K    Form 10-Q    Form N-SAR    Form N-CSR

For Period Ended: December 31, 2015

- Transition Report on Form 10-K  
 Transition Report on Form 20-F  
 Transition Report on Form 11-K  
 Transition Report on Form 10-Q  
 Transition Report on Form N-SAR

For the Transition Period Ended: \_\_\_\_\_

Nothing in this form shall be construed to imply that the Commission has verified any information contained herein.

If the notification relates to a portion of the filing checked above, identify the item(s) to which the notification relates: N/A

**PART I -- REGISTRANT INFORMATION**

**Global Digital Solutions, Inc.**

Full Name of Registrant

N/A

Former Name if Applicable

**777 South Flagler Drive, Suite 800**

Address of Principal Executive Office (Street and Number)

**West, West Palm Beach, Florida 33401**

City, State and Zip Code

**PART II -- RULES 12b-25(b) AND (c)**

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate)

- (a) The reasons described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense;
- (b) The subject annual report, semi-annual report, transition report on Form 10-K, Form 20-F, Form 11-K, Form N-SAR or Form N-CSR, or portion thereof, will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report or transition report on Form 10-Q, or portion thereof, will be filed on or before the fifth calendar day following the prescribed due date; and
- (c) The accountant's statement or other exhibit required by Rule 12b-25(c) has been attached if applicable.

**PART III -- NARRATIVE**

State below in reasonable detail why Forms 10-K, 20-F, 11-K, 10-Q, N-SAR, N-CSR, or the transition report or portion thereof, could not be filed within the prescribed time period.

Global Digital Solutions, Inc. (the "Registrant") is unable, without unreasonable effort or expense, to file its annual Report on Form 10-K for the year ended December 31, 2015 (the "Annual Report") by the March 30, 2016 filing date due as its independent auditor's have not been able to complete the audit of the financial statements included in the Annual Report. The Registrant hopes to be able to file the Annual Report by April 14, 2016.

**PART IV -- OTHER INFORMATION**

Name and telephone number of person to contact in regard to this notification

<b>Jerome J. Gomolski</b>	<b>(561)</b>	<b>515-6163</b>
(Name)	(Area Code)	(Telephone Number)

(2) Have all other periodic reports required under Section 13 or 15(d) of the Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of 1940 during the preceding 12 months or for such shorter period that the registrant was required to file such report(s) been filed? If answer is no, identify report(s). Yes  No

(3) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof? Yes  No

If so, attach an explanation of the anticipated change, both narratively and quantitatively, and, if appropriate, state the reasons why a reasonable estimate of the results cannot be made.

The Registrant expects to report a net loss for the year ended December 31, 2015 of approximately \$3.7 million compared to a net loss of \$11.7 million for the year ended December 31, 2014. The decrease in the net loss is primarily due to lower selling, general and administrative expenses in 2015, including less non-cash compensation charges and less acquisition costs that were incurred in connection with an acquisition in 2014. The decrease in selling, general and administrative expenses in 2015 is partially offset by an increase in other income/expense in 2015 as compared to 2014. The Company's estimated net loss for the year ended December 31, 2015 as presented herein is preliminary and subject to change and should not be relied on.



**Global Digital Solutions, Inc.**  
(Name of Registrant as Specified in Charter)

has caused this notification to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 30, 2016

By: /s/ Jerome J. Gomolski

Name: Jerome J. Gomolski

Title: Chief Financial Officer

---

# **EXHIBIT 9**



UNITED STATES OF AMERICA  
SECURITIES AND EXCHANGE COMMISSION

ATTESTATION

I HEREBY ATTEST

that:

*A diligent search has this day been made of the records and files of this Commission and the records and files do not disclose that any Form 10-Q or Form 10-K reports have been received in this Commission under the name of Global Digital Solutions, Inc., since the filing of a Form 10-Q on November 6, 2015, for the quarter ended September 30, 2015. Required Form 10-Q and Form 10-K reports were not filed for the periods ended December 31, 2015; March 31, 2016; June 30, 2016; September 30, 2016; December 31, 2016; March 31, 2017, June 30, 2017, and; September 30, 2017, pursuant to the provisions of any of the Acts administered by the Commission.*

on file in this Commission

02/08/2018

Date

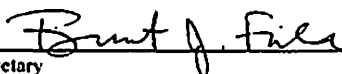
**ALICIA  
HOEFKE**

Digitally signed by  
ALICIA HOEFKE  
Date: 2018.02.08  
15:55:18 -05'00'

Alicia Hoefke, Records & Information Mgmt Specialist

It is hereby certified that the Secretary of the U.S. Securities and Exchange Commission, Washington, DC, Commission was created by the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is the official custodian of the records and files of said Commission and was such official custodian at the time of executing the above attestation, and that he/she, and persons holding the positions of Deputy Secretary, Assistant Director, Records Officer, Branch Chief of Records Management, Records and Information Management Specialist, and the Program Analyst for the Records Officer, or any one of them, is authorized to execute the above attestation.

For the Commission

  
Secretary

# **EXHIBIT 10**



## Brinen & Associates, LLC

Joshua D. Brinen  
Attorney at Law  
New York Office  
jbrinen@brinenlaw.com

Member New York, New Jersey, Florida, California, Texas & Nevada Bar  
LL.M. in Taxation

November 22, 2016

### VIA FACSIMILE & REGULAR MAIL

Marva D. Simpson, Esq.  
Special Counsel  
Office of Enforcement Liaison  
Securities and Exchange Commission  
Division of Corporate Finance

Facsimile: (202) 772-9207

Re: Global Digital Solutions, Inc.  
Securities and Exchange Commission File No. 000-26361  
Our File No.: GDSI.11

Dear Ms. Simpson:

On behalf of Global Digital Solutions, Inc. (the "Company"), I am following up on my voicemail message to you today, Tuesday, November 22, 2016.

My client has only advised me of the correspondence dated October 28, 2016. The correspondence was received at his Florida office, which, during the changeover from the prior officers was not being properly monitored.

In future, please correspond with me on these matters so that we can resolve them in a more expedient manner.

As the issuer is preparing to file the prior year's Form 10K and will be filing the remaining several Forms 10Q and expects to file its Form 10K in a timely manner. The issuer respectfully requests an extension of time to properly make these filings.

7 Day Street, Suite 1503  
New York, New York 10007  
Telephone: (212) 390-8151  
Facsimile: (212) 227-0201

1700 Post Oak Boulevard  
2 Boulevard Plaza, Suite 800  
Houston, Texas 77056  
Telephone: (281) 815-4368  
Facsimile: (281) 241-4444

## Brinen & Associates, LLC

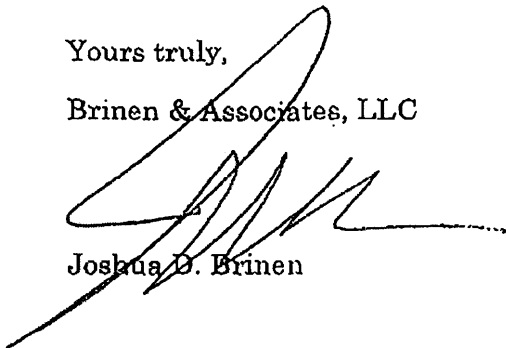
November 22, 2016

Page 2

Should you have any questions, please do not hesitate to contact me at the New York office or via electronic mail at [jbrinen@brinenlaw.com](mailto:jbrinen@brinenlaw.com).

Yours truly,

Brinen & Associates, LLC

A handwritten signature in black ink, appearing to read 'Joshua D. Brinen', is written over the typed name. The signature is stylized and cursive.

Joshua D. Brinen

cc: Client

JDB:jdb

DIVISION OF  
CORPORATION FINANCEUNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

October 28, 2016

CERTIFIED MAIL  
TRACKING # 7013 2630 0002 2660 0208  
RETURN RECEIPT REQUESTEDWilliam J. Delgado, Officer  
GLOBAL DIGITAL SOLUTIONS INC  
777 South Flagler Drive, Suite 800 West  
West Palm Beach, FL 33401Re: GLOBAL DIGITAL SOLUTIONS INC  
File No. 0-26361

Dear Mr. Delgado:

We are writing to address the reporting responsibilities under the Securities Exchange Act of 1934 of the referenced company. For ease of discussion in this letter, we will refer to the referenced company as the "Registrant."

It appears that the Registrant is not in compliance with its reporting requirements under Section 13(a) of the Securities Exchange Act of 1934. If the Registrant is in compliance with its reporting requirements, please contact us (through the contact person specified below) within fifteen days from the date of this letter so we can discuss the reasons why our records do not indicate that compliance. If the Registrant is not in compliance with its reporting requirements, it should file all required reports within fifteen days from the date of this letter.

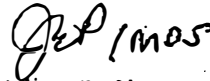
If the Registrant has not filed all required reports within fifteen days from the date of this letter, please be aware that the Registrant may be subject, without further notice, to an administrative proceeding to revoke its registration under the Securities Exchange Act of 1934. This administrative proceeding would be brought by the Commission's Division of Enforcement pursuant to Section 12(j) of the Securities Exchange Act of 1934. If the Registrant's stock is trading, it also may be subject to a trading suspension by the Commission pursuant to Section 12(k) of the Securities Exchange Act of 1934.

Page 2

Finally, please consider whether the Registrant is eligible to terminate its registration under the Securities Exchange Act of 1934. If the Registrant is eligible to terminate its registration, it would do so by filing a Form 15 with the Commission. While the filing of a Form 15 may cease the Registrant's on-going requirement to file periodic and current reports, it would not remove the Registrant's obligation to file all reports required under Section 13(a) of the Securities Exchange Act of 1934 that were due on or before the date the Registrant filed its Form 15. Again, if the Registrant is eligible to terminate its registration under the Securities Exchange Act of 1934, please note that the filing of a Form 15 would not remove the Registrant's requirement to file delinquent Securities Exchange Act of 1934 reports - the Registrant would still be required to file with the Commission all periodic reports due on or before the date on which the Registrant filed a Form 15.

If you should have a particular question in regard to this letter, please contact the undersigned at (202) 551-3245 or by fax at (202) 772-9207.

Sincerely,



Marva D. Simpson  
Special Counsel  
Office of Enforcement Liaison  
Division of Corporation Finance



## BRINEN &amp; ASSOCIATES, LLC

TELEPHONE: (212) 330-8151

FACSIMILE: (212) 227-0201

## FACSIMILE TRANSMITTAL SHEET

TO:	FROM:
Marva D. Simpson, Esq.	Joshua D. Brinen
COMPANY:	DATE:
Securities and Exchange Commission	Tuesday, November 22, 2016
FACSIMILE NUMBER:	TOTAL NUMBER OF PAGES INCLUDING COVER:
(202) 772-9207	5
SUBJECT:	SENDER'S REFERENCE NUMBER:
Global Digital Solutions, Inc. Securities and Exchange Commission File No. 000-26361	GDSI.11

URGENT     FOR REVIEW     PLEASE COMMENT     PLEASE REPLY     PLEASE RECYCLE

NOTES/COMMENTS:

TO COMPLY WITH CERTAIN U.S. TREASURY REGULATIONS, WE INFORM YOU THAT, UNLESS EXPRESSLY STATED OTHERWISE, ANY U.S. FEDERAL TAX ADVICE CONTAINED IN THIS E-MAIL, INCLUDING ATTACHMENTS, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED BY THE INTERNAL REVENUE SERVICE.

THIS TRANSMISSION IS INTENDED SOLELY TO BE USED BY THE INDIVIDUAL OR ENTITY TO WHICH IT IS ADDRESSED. IT MAY CONTAIN INFORMATION WHICH IS PRIVILEGED, CONFIDENTIAL, OR OTHERWISE EXEMPT BY LAW FROM DISCLOSURE. IF THE READER OF THIS TRANSMISSION IS NOT THE INTENDED RECIPIENT, OR ANY EMPLOYEE OR AGENT RESPONSIBLE FOR DELIVERING THIS TRANSMISSION TO THE INTENDED RECIPIENT, YOU ARE HEREBY NOTIFIED THAT ANY DISSEMINATION, DISTRIBUTION, OR COPYING OF THIS COMMUNICATION IS STRICTLY PROHIBITED. IF YOU HAVE RECEIVED THIS COMMUNICATION IN ERROR, PLEASE NOTIFY US BY TELEPHONE IMMEDIATELY AND RETURN THIS COMMUNICATION TO US AT THE ADDRESS BELOW VIA THE UNITED STATES POSTAL SERVICE. THANK YOU.

7 Dey Street, Suite 1503  
New York, New York 10007  
Telephone: (212) 330-8151  
Facsimile: (212) 227-0201

1700 Post Oak Boulevard  
2 Boulevard Place, Suite 600  
Houston, Texas 77056  
Telephone: (281) 815-4368  
Facsimile: (281) 241-4444