

Global Defense & National Security Systems, Inc.  
Form 10-Q  
November 13, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**x 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: 001-36149

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**46-3134302**

(I.R.S. Employer Identification Number)

**11921 Freedom Drive, Suite 550**

**Two Fountain Square**

**20190**

**Reston, Virginia**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(202) 800-4333**

**Not Applicable**

(Former name or former address, 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 x No "

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

Large accelerated filer "

Accelerated filer "

Non-accelerated filer "

Smaller reporting company x

(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 x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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). x

As of November 13, 2015, there were 5,539,530 shares of Company's common stock issued and outstanding.



GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.

TABLE OF CONTENTS

**PART I. FINANCIAL INFORMATION**

ITEM 1. FINANCIAL STATEMENTS

<u>Condensed Balance Sheets</u>	3
<u>Condensed Statements of Operations</u>	4
<u>Condensed Statement of Changes in Stockholders' Equity</u>	5-6
<u>Condensed Statements of Cash Flows</u>	7
<u>Notes to Condensed Interim Financial Statements</u>	8

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** 18

<u>Overview</u>	18
<u>Results of Operations</u>	19
<u>Liquidity and Capital Resources</u>	19
<u>Critical Accounting Policies</u>	20

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** 21

**ITEM 4. CONTROLS AND PROCEDURES** 21

**PART II. OTHER INFORMATION** 21

**ITEM 1. LEGAL PROCEEDINGS** 21

**ITEM 1A. RISK FACTORS** 22

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS** 22

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES** 23

**ITEM 4. MINE SAFETY DISCLOSURE** 23

**ITEM 5. OTHER INFORMATION** 23

**ITEM 6. EXHIBITS** 23

- Ex-10.5
- Ex-10.6
- Ex-10.7
- Ex-10.8

Ex-10.9  
Ex-10.10  
Ex-31.1  
Ex-31.2  
Ex-32.1  
Ex-32.2

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****CONDENSED BALANCE SHEETS**

	September 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$226,141	\$410,261
Prepaid insurance	20,000	44,884
Total current assets	246,141	455,145
Cash and investments held in Trust Account	63,913,876	72,833,815
Total assets	\$64,160,017	\$73,288,960
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$2,345,862	\$257,575
Convertible promissory note to affiliate	2,607,053	1,263,263
Due to affiliate	1,464,876	248,536
Total current liabilities	6,417,791	1,769,374
Deferred underwriters' fees	1,897,500	1,897,500
Total liabilities	8,315,291	3,666,874
Common stock subject to possible redemption: 4,792,150 shares (at redemption value) at September 30, 2015 (6,125,315 shares at December 31, 2014)	50,844,725	64,622,085
Stockholders' equity		
Common stock, \$.0001 par value, 100,000,000 shares authorized; 3,956,503 and 3,499,410 shares issued and outstanding (excluding 4,792,150 and 6,125,315 shares subject to possible redemption) at September 30, 2015 and December 31, 2014, respectively	396	350
Additional paid-in capital	11,742,179	7,207,424
Accumulated deficit	(6,742,574 )	(2,207,773 )
Total stockholders' equity	5,000,001	5,000,001
Total liabilities and stockholders' equity	\$64,160,017	\$73,288,960

See accompanying notes to condensed interim financial statements.

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

	<b>Three Months ended, September 30, 2015</b>	<b>Three Months ended, September 30, 2014</b>	<b>Nine Months ended, September 30, 2015</b>	<b>Nine Months ended, September 30, 2014</b>
Revenue				
General and administrative expenses	\$1,736,996	\$364,069	\$4,536,207	\$1,727,124
Loss from operations	(1,736,996)	(364,069 )	(4,536,207)	(1,727,124)
Interest income	-	112	1,406	23,492
Loss before provision for income taxes	(1,736,996)	(363,957 )	(4,534,801)	(1,703,632)
Provision for income taxes	-	-	-	-
Net loss attributable to common stock not subject to possible redemption	\$(1,736,996)	\$(363,957 )	\$(4,534,801)	\$(1,703,632)
Weighted average number of common shares, excluding shares subject to possible redemption - basic and diluted	3,806,603	3,445,303	3,601,641	3,378,610
Net loss per common share, excluding shares subject to possible redemption - basic and diluted	\$(0.46 )	\$(0.11 )	\$(1.26 )	\$(0.50 )

See accompanying notes to condensed interim financial statements.



**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****For the nine months ended September 30, 2015****(Unaudited)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>		<b>Equity</b>
Balances at January 1, 2015	3,499,410	350	7,207,424	(2,207,773	) 5,000,001
Decrease in carrying amount of redeemable shares to 4,792,150 shares subject to possible redemption at September 30, 2015	457,093	\$46	4,534,755	-	4,534,801
Net loss attributable to common stock not subject to possible redemption				(4,534,801	) (4,534,801 )
Balances at September 30, 2015	3,956,503	396	11,742,179	(6,742,574	) 5,000,001

See accompanying notes to condensed interim financial statements.

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****For the nine months ended September 30, 2014****(Unaudited)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Stockholders'</b>
			<b>Capital</b>		<b>Equity</b>
Balances at January 1, 2014	3,298,212	329	5,084,805	(85,133	) 5,000,001
Decrease in carrying amount of redeemable shares to 6,199,529 shares subject to possible redemption at September 30, 2014	161,482	\$17	1,703,615	-	1,703,632
Net loss attributable to common stock not subject to possible redemption				(1,703,632	) (1,703,632 )
Balances at September 30, 2014	3,459,694	346	6,788,420	(1,788,765	) 5,000,001

See accompanying notes to condensed interim financial statements

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Nine Months ended,  September 30, 2015</b>	<b>Nine Months ended,  September 30, 2014</b>
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$(4,534,801)	\$(1,703,632)
Adjustments to reconcile net loss to net cash used in operating activities:		
Interest on Trust Account	(1,406 )	(23,492 )
Change in operating assets and liabilities:		
Prepaid insurance	24,884	114,491
Accounts payable and accrued expenses	2,088,288	185,248
Due to affiliate	1,216,340	63,268
Net cash used in operating activities	(1,206,695)	(1,364,117)
<b>Cash Flows from Investing Activities:</b>		
Cash released from Trust Account for redemptions	9,242,560	-
Increase in cash and investments held in Trust Account	(361,436 )	-
Interest released from Trust to pay Franchise taxes	40,221	-
Net cash provided by investing activities	8,921,345	-
<b>Cash Flows from Financing Activities:</b>		
Redemptions paid	(9,242,560)	
Proceeds from convertible promissory note to affiliate	1,343,790	1,263,263
Net cash used in/provided by financing activities	(7,898,770)	1,263,263
Decrease in cash	(184,120 )	(100,854 )
Cash at beginning of period	410,261	827,541
Cash at end of period	\$226,141	\$726,687
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for Franchise taxes	\$109,080	\$55,182

See accompanying notes to condensed interim financial statements

## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

### **1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS**

Global Defense & National Security Systems, Inc. (the “Company”) is an organized blank check company incorporated in Delaware on July 3, 2013. The Company was formed for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, exchangeable share transaction or other similar business transaction, one or more operating businesses or assets (“Business combination”).

At September 30, 2015, the Company had not commenced any operations. All activity through September 30, 2015, relates to the Company’s formation, the initial public offering (“Public Offering”) described below in Note 3, activities relating to identifying and evaluating prospective Business Combination candidates and activities relating to general corporate matters.

The registration statement for the Public Offering was declared effective on October 24, 2013. The Company consummated the Public Offering on October 29, 2013 and received net proceeds of approximately \$73,545,000 which includes \$7,215,000 received from the private placement of 721,500 ( the “private placement”) shares to Global Defense & National Security Holdings LLC, a Delaware limited liability Company (the “sponsor”) (as described in Note 3).

The underwriters also exercised their over-allotment option on consummation of the Public Offering on October 29, 2013. The above net proceeds include \$9,495,000 as a result of the over-allotment, which includes \$765,000 additional private placement.

The Company’s management has broad discretion with respect to the specific application of the net proceeds of its Public Offering (as defined in Note 3 below), although substantially all of the net proceeds of the Public Offering are intended to be generally applied toward consummating a Business Combination. Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination.

As of September 30, 2015, net proceeds of \$63,913,876 (less redemptions) from the Public Offering and simultaneous private placements of the placement shares (as described below in Note 3) are held in a trust account (“Trust Account”) in the United States maintained by American Stock Transfer & Trust Company, acting as trustee.

On May 20, 2015, the Company received written notice from the Staff of the Listing Qualifications Department (the “Staff”) of NASDAQ that based on the Company’s continued non-compliance with the minimum round lot shareholder requirement set forth in NASDAQ Listing Rule 5550(a)(3), the Staff determined to delist the Company’s securities. Following a hearing on June 18, 2015, the NASDAQ Listing Qualifications Panel granted the Company an extension until November 16, 2015 to meet the minimum round lot share requirement.

On July 17, 2015, the Company held a special meeting of stockholders (the “July Extension Meeting”). At the July Extension Meeting, the stockholders approved amendments to the Company’s amended and restated certificate of incorporation to extend the date by which the Company must consummate its initial business combination from July 24, 2015 to October 24, 2015. In accordance with our amended and restated certificate of incorporation, in connection with the July Extension Meeting and the approval of the amendments to the Company’s amended and restated certificate of incorporation, our public stockholders were entitled to redeem their Common Stock for cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account, including any amounts representing interest earned on the Trust Account, less any interest released to the Company to pay franchise or income taxes. Our stockholders redeemed 876,072 shares of our Common Stock at a price of \$10.55 per share, for a total redemption of approximately \$9,242,560 that was effected on July 24, 2015. In addition, in connection with the July Extension Meeting, on July 21, 2015, the Company issued a non-interest bearing promissory note to the Sponsor for an aggregate of approximately \$361,436. The Company used the proceeds from the note to deposit \$0.06 per share that was not redeemed in the Trust Account. The note will be repaid on the earlier of (1) November 24, 2015 (or, if the proposal to amend and restate our amended and restated certificate of incorporation to extend the amount of time we have to complete our business combination, which will be considered at a special meeting of our stockholders to be held on November 23, 2015 (the “Extension Proposal”), is approved, December 24, 2015), or (2) immediately following consummation of the Company’s initial Business Combination. After giving effect to the redemptions and the additional deposit, there was approximately \$63,913,876 in the Trust Account as of September 30, 2015, or approximately \$10.61 per public share.

On October 23, 2015, the Company held an additional special meeting of stockholders (the “October Extension Meeting”). At the October Extension Meeting, the stockholders approved amendments to the Company’s amended and restated certificate of incorporation to extend the date by which the Company must consummate its initial business combination from October 24, 2015 to November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), and our public stockholders were entitled to redeem their Common Stock for cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account, including any amounts representing interest earned on the Trust Account, less any interest released to the Company to pay franchise or income taxes. Our stockholders redeemed 3,209,123 shares of our Common Stock at a price of \$10.61 per share, for a total redemption of approximately \$34,048,795 that was effected on October 27, 2015. In addition, in connection with the October Extension Meeting, on November 5, 2015, the Company issued a non-interest bearing promissory note to the Sponsor for an aggregate of approximately \$56,296. The Company used the proceeds from the note to deposit \$0.02 per share that was not redeemed in the Trust Account. The note will be repaid on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), or (2) immediately following consummation of the Company’s initial Business Combination. After giving effect to the redemptions and the additional deposit, there was approximately \$29,921,377 in the Trust Account as of November 13, 2015, or approximately \$10.63 per public share.

On June 8, 2015, we entered into a Stock Purchase Agreement (the “Business Combination Agreement”) by and among the Company, Global Defense & National Security Holdings LLC (“Sponsor”), STG Group, Inc. (“STG”), the STG stockholders thereto (the “STG Stockholders”), and Simon Lee, as Stockholders’ Representative, pursuant to which, in exchange for the transfer to the Company of 100% of the outstanding shares of capital stock of STG, the STG Stockholders will receive a combination of cash and shares of the Company’s common stock, \$0.0001 par value (the “Common Stock”), consisting of (a) \$75,000,000 in cash and (b) 8,578,199 new shares of the Company’s common stock, valued at a price of \$10.55 per share. In addition, the Company will issue to the STG Stockholders 445,161 shares of the Common Stock held by the Sponsor that are being contributed by the Sponsor to the Company immediately prior to the closing of the transactions contemplated by the Business Combination Agreement (subject to reduction to the extent the Sponsor forfeits any of these shares to the Company). In the event that, immediately following the closing, the share consideration would, in the aggregate, be less than 56.7% of the outstanding shares of Common Stock, the Stockholders’ Representative may elect to exchange a portion of the cash consideration for additional shares of Common Stock at a price of \$10.55 per share, so that the STG Stockholders will own, in the aggregate, 56.7% of the outstanding shares of Common Stock following the closing. In addition, in the event that the transaction otherwise would not qualify for the tax treatment described in the Business Combination Agreement as a result of failure to satisfy the Control Requirement (as defined in the Business Combination Agreement), a portion of the cash consideration may be exchanged for additional shares of Common Stock at a price of \$10.55 per share, so that the STG Stockholders, the Sponsor and any other person who receives shares of Common Stock in connection with an equity financing completed in connection with the closing, collectively own at least 80% of the outstanding shares of Common Stock immediately following the closing.

The Company will proceed with a Business Combination only if a majority of the outstanding shares of Common Stock cast at the meeting to approve the Business Combination are voted for approval of such Business Combination. In connection with such a vote, the Company will provide our stockholders with the opportunity to have their shares of our Common Stock converted to cash upon the consummation of our initial Business Combination at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including any amounts representing interest earned on the Trust Account, less any interest released to us for the payment of taxes, divided by

the number of then outstanding shares of Common Stock that were sold in the Public Offering, subject to the limitations described within the registration statement and any limitations (including but not limited to cash requirements) agreed to in connection with the negotiation of terms of a proposed Business Combination. These shares of Common Stock were recorded at a redemption value and classified as temporary equity prior to the Public Offering being closed, in accordance with ASC 480 “Distinguishing Liabilities from Equity”. However, in no event will the Company redeem its Public Shares in an amount that would cause its net tangible assets to be less than \$5,000,001 upon the initial Business Combination. The initial stockholder, Global Defense & National Security Holdings LLC (the “Sponsor”) has agreed, in the event the Company is required to seek stockholder approval of its Business Combination, to vote its Sponsor’s Shares (as defined in Note 5 below), Private Placement Shares (as defined in Note 3 below) and any Public Shares held, in favor of approving a Business Combination.

The Company entered into an Amended and Restated Backstop Purchase Agreement, dated as of October 17, 2015, (the “Backstop Purchase Agreement”) with the Sponsor. The Backstop Purchase Agreement grants the Sponsor the right to purchase shares of Common Stock, at a price of \$10.61 per share (the “Backstop Purchase”). The purchase right can be exercised only in the event, and to the extent, that the Company will not meet the Threshold Cash Amount. The term “Threshold Cash Amount” means \$20,000,000 in cash available to the Company from (1) the Trust Account at the closing of the Business Combination following the payment in full to Public Stockholders who have requested to be redeemed in connection with the closing of the Business Combination, and (2) the payment of any aggregate purchase price for the Backstop Purchase.

The Company has declared a dividend of one share of Common Stock for every 1.06 shares of Common Stock (the “Dividend Shares”) payable to stockholders of record immediately following the consummation of the Business Combination with STG, which is expected to occur on November 13, 2015. The Sponsor, with respect to the shares of Common Stock currently held by the Sponsor and any shares that may be acquired by the Sponsor upon any conversion of the convertible promissory notes currently held by the Sponsor, and STG Stockholders have agreed to forfeit any Dividend Shares they would be entitled to in exchange for no consideration. The Sponsor has not forfeited any right to receive any Dividend Shares in respect of any of the shares it acquires pursuant to the Backstop Purchase. Payment of the Dividend Shares is contingent upon the closing of the Business Combination and will be made as soon as practicable after the closing of the Business Combination.



## **Liquidation and going concern**

On October 23, 2015, the Company held a special meeting of the stockholders at which its stockholders approved proposals to amend and restate the Company's amended and restated certificate of incorporation to extend the time that the Company has to complete its initial Business Combination until November 24, 2015 (the "October Extension Meeting"). If the Company is unable to consummate its initial Business Combination by November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), the Company will (i) cease all operations except for the purposes of winding up of its affairs; (ii) distribute the aggregate amount then on deposit in the Trust Account, including a portion of the interest earned thereon which was not previously used for payment of franchise and income taxes, pro rata to its public stockholders by way of redemption of its Public Shares (which redemption would completely extinguish such holders' rights as stockholders, including the right to receive further liquidation distributions, if any); and (iii) as promptly as possible following such redemption, dissolve and liquidate the balance of its net assets to its remaining stockholders, as part of its plan of dissolution and liquidation. The mandatory liquidation and subsequent dissolution raises substantial doubt about the Company's ability to continue as a going concern.

The Sponsor has agreed to waive its redemption rights with respect to the Sponsor's Shares and Private Placement Shares (i) in connection with the consummation of a Business Combination, (ii) if the Company fails to consummate our initial Business Combination within 25 months from the date of its prospectus (October 24, 2013), (iii) in connection with an expired or unwithdrawn tender offer, and (iv) upon its liquidation prior to the expiration of the 25 month period. However, if its Sponsor should acquire Public Shares in or after the Public Offering, it will be entitled to receive its pro rata share of cash proceeds distributed by the Company with respect to such Public Shares if the Company fails to consummate a Business Combination within the required time period. The underwriters have agreed to waive their rights to their deferred underwriting commission held in the Trust Account in the event the Company does not consummate a Business Combination within 25 months from the date of its prospectus (October 24, 2013) and, in such event, such amounts will be included with the funds held in the Trust Account that will be available to fund the conversion of its Public Shares. In the event of such distribution, it is possible that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be less than the initial Public Offering price per share of Common Stock in the Public Offering.

## **2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

The accompanying financial statements are presented in U.S. dollars in conformity with U.S. generally accepted accounting principles (“GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).

In July 2014, the Company identified and corrected an error related to the accounting for the Company’s changes in amounts subject to possible redemption for the period ended December 31, 2013. The Company determined that its changes in amounts subject to possible redemption should have been accounted for as an adjustment to additional paid-in capital instead of as an adjustment to accumulated deficit. There was no change in previously reported total assets, total liabilities, common stock subject to possible redemption or net loss attributable to common shares for any of the periods. The accompanying financial statements have been revised to reflect a balance in accumulated deficit with a corresponding increase of additional paid-in capital as of December 31, 2013. In accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin Nos. 99 and 108 (“SAB 99” and “SAB 108”), the Company has evaluated these errors and, based on an analysis of quantitative and qualitative factors, has determined that they were not material to each of the prior reporting periods affected and no amendments of previously filed form 10-Q or form 10-K reports with the SEC are required.

### **Recently adopted accounting standard**

The Company complied with the reporting requirements of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 915, “Development Stage Entities.” At December 31, 2014, the Company adopted Accounting Standards Update (ASU) No. 2014-10, which eliminated certain financial reporting requirements of companies previously identified as “Development Stage Entities” (Topic 915). The amendments in this ASU simplify accounting guidance by removing all incremental financial reporting requirements for development stage entities. The amendments also reduce data maintenance and, for those entities subject to audit, audit costs by eliminating the requirement for development stage entities to present inception-to-date information in the statements of income, cash flows, and stockholders’ equity. As of September 30, 2015 and December 31, 2014, the Company’s financial statements have been presented to conform with the reporting and disclosure requirements of ASU No. 2014-10.

### **Net loss per common share**

The Company complies with accounting and disclosure requirements of FASB ASC 260, "Earnings Per Share." Net loss per share of common share is computed by dividing net loss attributable to common stock not subject to possible redemption by the weighted average number of shares of common share outstanding for the period.

Diluted net loss per share of common share is computed by dividing net loss applicable to common stockholders by the weighted average number of common shares outstanding, plus, to the extent dilutive, the incremental number of common shares to settle the convertible advance made by the Sponsor (see Note 5), as calculated using the treasury stock method. However, due to the losses presented for all periods, incremental common shares are not considered as they are antidilutive. As a result, diluted profit/loss per share of common share is the same as basic profit/loss per common share for the period. At September 30, 2015, the Company had an outstanding advance owing to Sponsor convertible into 245,254 common shares.

### **Concentration of credit risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash accounts in a financial institution which, at times may exceed the Federal depository insurance coverage of \$250,000. The Company has not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

### Fair value of financial instruments

The Company complies with ASC 820, “Fair Value Measurement”, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually.

The following tables present information about the Company’s assets that are measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 respectively, and indicate the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability:

Description	September 30, 2015	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Cash held in Trust Account	\$63,913,876	\$63,913,876	\$ -	\$ -

Description	December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Cash held in Trust Account	\$3,563	\$3,563	\$ -	\$ -
Cash equivalents held in Trust Account: U.S. Government Treasury Bills	\$72,830,252	\$72,830,252	\$ -	\$ -

### Recent accounting pronouncement

In August 2014, FASB issued 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”, which requires management to evaluate whether there is a substantial doubt about an entity’s ability to continue as a going concern.

This ASU is effective for the annual reporting period ending after December 15, 2016, and for interim and annual reporting periods thereafter. Early adoption is permitted. The Company is currently evaluating the adoption of this ASU and its impact on the Company's financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting pronouncements, if currently adopted, would have a material effect on the Company's financial statements.

### **Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Income taxes**

The Company complies with the accounting and reporting requirements of FASB ASC, 740, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. At September 30, 2015 and December 31, 2014, the Company has a net deferred tax asset, before valuation allowance, of approximately \$2,619,981 and \$856,000 respectively, related to net operating loss carry forwards (which begin to expire in 2033), organizational costs, and start-up costs. Management has determined that a full valuation allowance of the deferred tax asset is appropriate at this time.

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) (now incorporated into FASB ASC 740, Income Taxes), sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained upon examination by taxing authorities. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized. Based on its analysis, the Company has determined that it has no unrecognized tax benefits as of September 30, 2015. The Company's conclusion may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Company recognizes interest and penalties related to unrecognized tax liabilities in interest expense and other expenses, respectively. No interest expense or penalties have been recognized as of September 30, 2015. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states. The Company may be subject to potential examination by U.S. federal or U.S. states authorities in the areas of income taxes. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with U.S. federal and U.S. state tax laws.

The reconciliation of the U.S. federal statutory income tax rate to the Company's effective tax rate for the three and nine months ended September 30, 2015 was as follows:

U.S. federal statutory income tax rate	35	%
Increase (decrease) in tax rate resulting from:		
State and local income taxes net of federal benefit	3.9	%
Change in Valuation Allowance	(38.9)	%
Effective tax rate	0	%

### **Redeemable Common Stock**

All of the shares of Common Stock sold at the Public Offering contained a redemption feature which allows for the redemption of shares of Common Stock under the Company's liquidation or tender offer/ stockholder approval provisions. In accordance with ASC 480, redemption provisions not solely within the control of the Company require the security to be classified outside of permanent equity. Ordinary liquidation events, which involve the redemption and liquidation of all of the entity's equity instruments, are excluded from the provisions of ASC 480. Although the Company does not specify a maximum redemption threshold, its amended and restated certificate of incorporation

provides that a Business Combination shall not be consummated if the Company has net tangible assets less than \$5,000,001 upon such consummation.

The Company recognizes changes in redemption value immediately as they occur and will adjust the carrying value of the security to equal the redemption value at the end of each reporting period. Increases or decreases in the carrying amount of redeemable Common Stock shall be affected by charges against paid-in capital.

Accordingly, at September 30, 2015, 4,792,150 (December 31, 2014, 6,125,315 of the Public Shares) are classified outside of permanent equity at their redemption value. The redemption value is equal to the pro rata share of the aggregate amount then on deposit in the Trust Account, including interest but less taxes payable and amounts released for working capital (approximately \$10.61 at September 30, 2015 and \$10.55 at December 31, 2014).

### 3. PUBLIC OFFERING

The Public Offering called for the Company to offer for sale 6,000,000 shares of the Company's common stock, \$0.0001 par value (the "Common Stock"), at \$10.00 per share (or 6,900,000 shares of Common Stock after the underwriters' over-allotment option was exercised in full) ("Public Shares"). The Company granted the underwriters a 45 day option to purchase up to 900,000 shares of Common Stock to cover over-allotment. The over-allotment option was exercised by the underwriter upon consummation of the Public Offering on October 29, 2013. The Company's management has broad discretion with respect to the specific application of the net proceeds of this Public Offering and the Sponsor's Shares, although substantially all of the net proceeds are intended to be applied generally toward consummating a Business Combination. Furthermore, there is no assurance that the Company will be able to effect a Business Combination successfully. Upon closing the Public Offering, management agreed the price per Public Share sold in the Public Offering, including the proceeds of the private placement of the Private Placement Shares, be deposited in the Trust Account and invested in United States government treasury bills having a maturity of 180 days or less or in money market funds meeting certain conditions under Rule 2a-7 promulgated under the Investment Company Act of 1940, as amended, that invest solely in U.S. treasuries until the earlier of the consummation of its first Business Combination and the Company's failure to consummate a Business Combination within 25 months from the date of our prospectus (October 24, 2013). Placing funds in the Trust Account may not protect those funds from third party claims against the Company. Although the Company will seek to have all vendors, service providers, prospective target businesses or other entities it engages, execute agreements with the Company waiving any claim of any kind in or to any monies held in the Trust Account, there is no guarantee that such persons will execute such agreements. The Sponsor has agreed that it will be liable under certain circumstances to ensure that the proceeds in the Trust Account are not reduced by the claims of target businesses or vendors or other entities that are owed money by the Company for services rendered, contracted for or products sold to the Company. However, it may not be able to satisfy those obligations should they arise. The remaining net proceeds (held outside the Trust Account) may be used to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses.

The amount of proceeds not deposited in the Trust Account (after Public Offering expenses) was \$1,082,434 at closing of the Public Offering. In addition, interest income on the funds held in the Trust Account may be released to the Company to pay its franchise and income tax obligations.

The Company has its shares listed on the NASDAQ Capital Market ("NASDAQ"). Pursuant to the NASDAQ listing rules, the target business or businesses that the Company acquires must collectively have a fair market value equal to at least 80% of the balance of the funds in the Trust Account at the time of the execution of a definitive agreement for its Business Combination, although the Company may acquire a target business whose fair market value significantly exceeds 80% of the Trust Account balance.

In connection with the Public Offering, the Sponsor purchased shares of Common Stock at a price of \$10.00 per share (the "Private Placement Shares") in a private placement which occurred simultaneously with the consummation of the Public Offering. The purchase price of the Private Placement Shares is added to the proceeds from the Public Offering



held in the Trust Account. If we do not complete a Business Combination within 25 months from the date of our prospectus (October 24, 2013), the proceeds from the sale of the Private Placement Shares held in the Trust Account will be used to fund the redemption of our Public Shares (subject to the requirements of applicable law). There will be no redemption rights or liquidating distributions with respect to the Private Placement Shares, which will expire worthless.

The Private Placement Shares will not be transferable, assignable or saleable until 30 days after the consummation of our initial Business Combination, subject to certain limited exceptions, including (i) to any member of our Sponsor (“Sponsor Member”), (ii) by gift to a member of the Sponsor Member’s immediate family for estate planning purposes or to a trust, the beneficiary of which is our Sponsor or a member of the Sponsor Member’s immediate family, (iii) if the Sponsor Member is not a natural person, by gift to a member of the immediate family of such Sponsor Member’s controlling person for estate planning purposes or to a trust, the beneficiary of which is our Sponsor’s controlling person or a member of the immediate family of such Sponsor Member’s controlling person, (iv) by virtue of the laws of descent and distribution upon death of the Sponsor Member, or (v) pursuant to a qualified domestic relations order; in each case where the transferee agrees to the terms of the private placement agreement governing such Private Placement Shares and the letter agreement signed by our Sponsor transferring such Private Placement Shares and such other documents as we may reasonably require. Until 30 days after the completion of the Business Combination, our Sponsor shall not pledge or grant a security interest in its Private Placement Shares or grant a security interest in our Sponsor’s rights under the private placement agreement governing such Private Placement Shares. The sale of the Private Placement Shares was made pursuant to the exemption from registration contained in Section 4(2) of the Securities Act.

#### **4. OVER-ALLOTMENT OPTION EXERCISED**

The Company announced on October 28, 2013 that the over-allotment option for its initial Public Offering was exercised and consummated to the full extent of 900,000 shares. The 6,900,000 Public Shares sold in the offering, including the 900,000 Public Shares sold pursuant to the over-allotment option, were sold at an offering price of \$10.00 per share, generating gross proceeds of \$69,000,000 to the Company.

#### **5. RELATED PARTY TRANSACTIONS**

In order to finance transaction costs in connection with an intended initial Business Combination, our Sponsor, officers, directors or their affiliates may, but are not obligated to, loan us funds as may be required. If we consummate an initial Business Combination, we would repay such loaned amounts. In the event that the initial Business Combination does not close, we may use a portion of the working capital held outside the Trust Account to repay such loaned amounts, but no proceeds from our Trust Account would be used for such repayment.

On May 15, 2014, the Company issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,263,263, of which proceeds of \$1,000,000 were used as working capital in order to finance transaction costs in connection with our efforts to pursue an initial Business Combination and \$263,263 was used to pay operating costs incurred in the period from inception through December 31, 2014. On May 12, 2015, the Company issued an additional non-interest bearing convertible promissory note to the Sponsor amounting to \$1,343,790.

As of September 30, 2015, the total amount owed to the Sponsor of \$4,071,929, is recorded as convertible promissory notes and due to affiliate in the accompanying balance sheets. The convertible note is due on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), and (2) immediately following the consummation of the initial Business Combination. At the Sponsor's election, following the consummation of a Business Combination, the notes will convert into Common Stock at the greater of (1) \$10.00 per share, and (2) the 30 day trailing average of the closing price per share.

Effective October 8, 2015, the Company issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,250,000. Total amount owed to the Sponsor under the convertible promissory note amounts to \$3,857,053.

In addition, in connection with the July Extension Meeting, on July 21, 2015, the Company issued a non-interest bearing promissory note to the Sponsor for an aggregate of approximately \$361,436. The Company used the proceeds from the note to deposit \$0.06 per share that was not redeemed in the Trust Account. The note will be repaid on the

earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), or (2) immediately following consummation of the Company's initial Business Combination.

In July 2013, the Company issued 2,003,225 shares of Common Stock to the Sponsor (the "Sponsor's Shares") for an aggregate purchase price of \$25,000.

Simultaneously with the closing of the Public Offering, the Company completed the private sale of 721,500 shares of Common Stock (the "Private Placement Shares") at a purchase price of \$10.00 per Private Placement Share (including 76,500 shares from exercising of the over-allotment), to the Company's Sponsor, generating gross proceeds to the Company of \$7,215,000 (including additional \$76,500 as a result of the over-allotment being exercised). The Private Placement Shares are identical to the shares sold in the Public Offering, except that the Sponsor has agreed (1) to vote the Private Placement Shares in favor of any proposed Business Combination, and (2) not to convert any Private Placement Shares in connection with a stockholder vote to approve any proposed initial Business Combination or to sell any Private Placement Shares to the Company pursuant to any tender offer in connection with any proposed initial Business Combination. Additionally, the Sponsor has agreed not to transfer, assign or sell any of the Private Placement Shares (except to certain permitted transferees) until 30 days after the completion of the Company's initial Business Combination.

The Sponsor's Shares are identical to the Public Shares, except that (1) the Sponsor's Shares are subject to certain transfer restrictions, as described in more detail below, and (2) our Sponsor has agreed: (i) to waive its redemption rights with respect to its Sponsor's Shares, Private Placement Shares and Public Shares in connection with the consummation of a Business Combination and (ii) to waive its redemption rights with respect to its Sponsor's Shares and Private Placement Shares if we fail to consummate a Business Combination within 25 months from the date of our prospectus (October 24, 2013). However, our Sponsor will be entitled to redemption rights with respect to any Public Shares it holds if we fail to consummate a Business Combination within such time period. If we submit our initial Business Combination to our public stockholders for a vote, our Sponsor has agreed to vote its Sponsor's Shares, Private Placement Shares and any Public Shares held in favor of our initial Business Combination.

All of the Sponsor's Shares outstanding at the time of the Public Offering were placed in escrow with American Stock Transfer & Trust Company, as escrow agent. Of the total Sponsor's Shares, 50% of such shares will be released from escrow six months after the closing of the Business Combination. The remaining 50% of the Sponsor's Shares will be released from escrow one year after the closing of the Business Combination.

On October 24, 2013, the date that its securities were first listed on the NASDAQ, the Company agreed to pay its Sponsor a total of \$10,000 per month for office space, administrative services and secretarial support. This arrangement was agreed to by its Sponsor for its benefit and is not intended to provide its Sponsor compensation in lieu of salary or other remuneration. The Company believes that such fees are at least as favorable as the Company could have obtained from an unaffiliated person. Upon consummation of its initial Business Combination or our liquidation, the Company will cease paying these monthly fees.

On March 12, 2015, the Company entered into compensation letter agreements with certain directors, contingent upon the consummation of a Business Combination. According to the terms of these compensation letter agreements, subject to the completion of the Company's initial Business Combination, each of the Company's directors who continue to serve in that capacity following the Business Combination will be entitled to receive a one-time cash retainer, in the amount of \$60,000 for the inside directors and between \$33,750-\$86,250 for independent directors. As long as each such director continues to serve on the board of directors, such director will thereafter be eligible for an annual cash retainer of \$60,000, and an additional \$5,000 for each committee of the board of directors on which such director serves. The chairman of the board of directors will be eligible for an adjusted annual cash retainer of \$80,000, which will be inclusive of any committee retainers.

In addition, subject to consummation of the Company's initial Business Combination and approval of a stock incentive plan by the Company's stockholders, the Company's independent directors who continue to serve on the board of directors following the Business Combination will be eligible to receive options to purchase a number of shares of the Company's common stock equal to \$60,000 (\$80,000 for the chairman of the board of directors), at a price per share equal to the Company's stock price on the grant date, which is expected to be two business days following the closing of the Business Combination. The options will be subject to a vesting schedule.

## **6. TRUST ACCOUNT**

A total of \$72,795,000, which includes \$65,580,000 of the net proceeds from the Public Offering and \$7,215,000 from the private placement, was placed in the Trust Account.

After giving effect to the redemptions and the incentive deposit in connection with the July Extension Meeting, as of September 30, 2015, the Company's Trust Account consists of \$63,913,876 (December 31, 2014: \$72,833,815), all of which is held in cash.

## **7. COMMITMENT AND CONTINGENCIES**

The underwriters were entitled to an underwriting discount of three percent (3.0%) which was paid in cash at the closing of the Public Offering, including any amounts raised pursuant to the over-allotment option. In addition, the underwriters will be entitled to a deferred fee of two and three quarter percent (2.75%) of the Public Offering, including any amounts raised pursuant to the over-allotment option, payable in cash upon the closing of a Business Combination.

## **8. STOCKHOLDERS' EQUITY**

Common Stock — The Company is authorized to issue 100,000,000 shares of Common Stock with a par value of \$0.0001 per share. Holders of the Company's Common Stock are entitled to one vote for each share of Common Stock.

## 9. SUBSEQUENT EVENTS

At the October Extension Meeting on October 23, 2015, the stockholders approved amendments to the Company's amended and restated certificate of incorporation to extend the date by which the Company must consummate its initial business combination from October 24, 2015 to November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015). In accordance with our amended and restated certificate of incorporation, in connection with the October Extension Meeting and the approval of the amendments to the Company's amended and restated certificate of incorporation, our public stockholders were entitled to redeem their Common Stock for cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account, including any amounts representing interest earned on the Trust Account, less any interest released to the Company to pay franchise or income taxes. Our stockholders redeemed 3,209,123 shares of our Common Stock at a price of \$10.61 per share, for a total redemption of approximately \$34,048,795 that was effected on October 27, 2015. In addition, in connection with the October Extension Meeting, on October 23, 2015, the Company issued a non-interest bearing promissory note to the Sponsor for an aggregate of approximately \$56,296. The Company used the proceeds from the note to deposit \$0.02 per share that was not redeemed in the Trust Account. The note will be repaid on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), or (2) immediately following consummation of the Company's initial Business Combination. After giving effect to the redemptions and the additional deposit, there was approximately \$29,921,377 in the Trust Account as of October 30, 2015, or approximately \$10.63 per public share.

The Company entered into an Amended and Restated Backstop Purchase Agreement, dated as of October 17, 2015, (the "Backstop Purchase Agreement") with the Sponsor. The Backstop Purchase Agreement grants the Sponsor the right to purchase shares of Common Stock, at a price of \$10.61 per share (the "Backstop Purchase"). The purchase right can be exercised only in the event, and to the extent, that the Company will not meet the Threshold Cash Amount. The term "Threshold Cash Amount" means \$20,000,000 in cash available to the Company from (1) the Trust Account at the closing of the Business Combination following the payment in full to Public Stockholders who have requested to be redeemed in connection with the closing of the Business Combination, and (2) the payment of any aggregate purchase price for the Backstop Purchase.

On October 8, 2015, the Company declared a dividend of one share of Common Stock for every 1.06 shares of Common Stock (the "Dividend Shares") payable to stockholders of record immediately following the consummation of the Business Combination with STG, which is expected to occur on November 13, 2015. The Sponsor, with respect to the shares of Common Stock currently held by the Sponsor and any shares that may be

acquired by the Sponsor upon any conversion of the convertible promissory notes currently held by the Sponsor, and STG Stockholders have agreed to forfeit any Dividend Shares they would be entitled to in exchange for no consideration. The Sponsor has not forfeited any right to receive any Dividend Shares in respect of any of the shares it acquires pursuant to the Backstop Purchase. Payment of the Dividend Shares is contingent upon the closing of the Business Combination and will be made as soon as practicable after the closing of the Business Combination.

On October 8, 2015, we issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,250,000. The convertible note is due on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), and (2) immediately following the consummation of the initial Business Combination. At the Sponsor's election, following the consummation of a Business Combination, the note will convert into Common Stock at the greater of (1) \$10.00 per share, and (2) the 30 day trailing average of the closing price per share.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Throughout this document, unless otherwise specified or if the context otherwise requires, the "Company", "we", "us", and "our" refer to Global Defense & National Security Systems, Inc., a blank check company organized under the laws of the State of Delaware on July 3, 2013.

### **Special Note Regarding Forward-Looking Statements**

The following discussion should be read in conjunction with our financial statements and the notes thereto included elsewhere in this Form 10-Q.

This Form 10-Q contains forward-looking statements regarding the plans and objectives of management for future operations. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and we cannot assure you that these projections included in these forward-looking statements will come to pass. Our actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors.

We have based the forward-looking statements included in this quarterly report on Form 10-Q on the beliefs and assumptions of management and information available to us on the date of this quarterly report on Form 10-Q, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

### **Overview**



We are a blank check company organized under the laws of the State of Delaware on July 3, 2013. We were formed for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, exchangeable share transaction or other similar business transaction, one or more operating businesses or assets (a “Business Combination”). Our activities to date have been focused on identifying and evaluating potential business combinations, including the activity leading up to our entry into a business combination agreement with STG Group, Inc., as described below.

### **Proposed Business Combination with STG Group, Inc.**

On June 8, 2015, we entered into a Stock Purchase Agreement (the “Business Combination Agreement”) by and among the Company, Global Defense & National Security Holdings LLC (“Sponsor”), STG Group, Inc. (“STG”), the STG stockholders thereto (the “STG Stockholders”), and Simon Lee, as Stockholders’ Representative, pursuant to which, in exchange for the transfer to the Company of 100% of the outstanding shares of capital stock of STG, the STG Stockholders will receive a combination of cash and shares of the Company’s common stock, \$0.0001 par value (the “Common Stock”), consisting of (a) \$75,000,000 in cash and (b) 8,578,199 new shares of the Company’s common stock, valued at a price of \$10.55 per share. In addition, the Company will issue to the STG Stockholders 445,161 shares of the Common Stock held by the Sponsor that are being contributed by the Sponsor to the Company immediately prior to the closing of the transactions contemplated by the Business Combination Agreement (subject to reduction to the extent the Sponsor forfeits any of these shares to the Company). In the event that, immediately following the closing, the share consideration would, in the aggregate, be less than 56.7% of the outstanding shares of Common Stock, the Stockholders’ Representative may elect to exchange a portion of the cash consideration for additional shares of Common Stock at a price of \$10.55 per share, so that the STG Stockholders will own, in the aggregate, 56.7% of the outstanding shares of our Common Stock following the closing. In addition, in the event that the transaction otherwise would not qualify for the tax treatment described in the Business Combination Agreement as a result of failure to satisfy the Control Requirement (as defined in the Business Combination Agreement), a portion of the cash consideration may be exchanged for additional shares of our Common Stock at a price of \$10.55 per share, so that the STG Stockholders, the Sponsor and any other person who receives shares of our Common Stock in connection with an equity financing completed in connection with the closing, collectively own at least 80% of the outstanding shares of our Common Stock immediately following the closing.

The consummation of the transactions contemplated by the Business Combination Agreement is subject to a number of conditions set forth in the Business Combination Agreement including, among others, receipt of the requisite approval of the stockholders of the Company.

## **Results of Operations**

For the three and nine month periods ended September 30, 2015, we had a net loss of \$1,736,996 and \$4,534,801, respectively for the three and nine month periods ended September 30, 2014: \$363,957 and \$1,703,632, consisting primarily of interest income offset by general and administrative expenses. The general and administrative expenses incurred consist mainly of legal expenses and financial due diligence expenses incurred in connection with the proposed Business Combination and related filings with Securities and Exchange Commission.

We have neither engaged in any operations nor generated any revenues to date. All activity through September 30, 2015 relates to our formation, our private placements and offering, the identification and evaluation of prospective candidates for an initial Business Combination, and general corporate matters. Since the completion of our offering, we have not generated any operating revenues and will not until after completion of our initial Business Combination, at the earliest. We may generate small amounts of non-operating income in the form of interest income on cash and cash equivalents, but such income is not expected to be significant in view of the current low yields on Treasury securities. We expect to incur increased expenses as a result of being a public company (for legal, financial reporting, accounting and auditing compliance), as well as for due diligence expenses. As of September 30, 2015, \$63,913,876 (December 31, 2014: \$72,833,815) was held in the Trust Account and we had cash outside of trust of \$226,141 (December 31, 2014: \$410,261) and \$2,345,862 (December 31, 2014: \$257,575) in accounts payable and accrued expenses. All interest income earned on the Trust Account may be available to us to pay franchise and income taxes. From inception to September 30, 2015, the Company had not withdrawn any funds from interest earned on the trust proceeds. Other than the deferred underwriting fees, a debt financing fee and advisory fee, no amounts are payable to the underwriters of our initial public offering in the event of a Business Combination.

## **Liquidity and Capital Resources**

As of September 30, 2015, we had cash of \$226,141. On May 15, 2014, we issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,263,263, of which the proceeds of \$1,000,000 were used as working capital in order to finance transaction costs in connection with the Business Combination and \$263,263 was used to pay operating costs incurred in the period from inception through December 31, 2014. On May 12, 2015, we issued an additional non-interest bearing convertible promissory note to the Sponsor amounting to \$1,343,790. As of September 30, 2015, the total amount owed to the Sponsor of \$4,071,929, is recorded as convertible promissory notes and due to affiliate in the accompanying balance sheets. The convertible notes are due on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), and (2) immediately following the consummation of

the initial Business Combination.

In connection with the July Extension Meeting and the October Extension Meeting, the Company issued non-interest bearing promissory notes to the Sponsor for approximately \$361,436 and \$56,296, respectively. The Company used the proceeds from the notes to deposit \$0.06 and \$0.02 per share that was not redeemed in the Trust Account, respectively. The note will be repaid on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), or (2) immediately following consummation of the Company's initial Business Combination. After giving effect to the redemptions and the additional deposit in relation to the October Extension Meeting, there was approximately \$29,921,377 in the Trust Account as of October 30, 2015, or approximately \$10.63 per public share.

In addition, we issued an additional non-interest bearing convertible promissory note to our Sponsor on October 8, 2015 amounting to \$1,250,000 to be used as working capital and to finance transaction costs. The convertible note is due on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), and (2) immediately following the consummation of the initial Business Combination. At the Sponsor's election, following the consummation of a Business Combination, the notes will convert into Common Stock at the greater of (1) \$10.00 per share, and (2) the 30 day trailing average of the closing price per share.

On October 29, 2013, we consummated the Company's Public Offering of 6,900,000 shares of Common Stock at \$10.00 per share, inclusive of 900,000 shares of Common Stock as a result of the underwriters' exercising the over-allotment option in full. Net proceeds of approximately \$73,545,000 which includes \$7,215,000 received from the private placement of 721,500 shares to the Sponsor. The above net proceeds include \$9,495,000 as a result of the over-allotment, which includes \$765,000 additional private placement. The amount of proceeds not deposited in the Trust Account was \$1,082,434 at closing of the Public Offering. In addition, interest income on the funds held in the Trust Account may be released to the Company to pay its franchise and income tax obligations. For a description of the proceeds generated in the Company's Public Offering and a discussion of the use of such proceeds, we refer you to Note 3 of the unaudited condensed interim financial statements included in Part I, Item 1 of this Report.

The cash portion of the purchase price contemplated in the Business Combination Agreement will be funded by net proceeds in the Trust Account following any stockholder redemptions. We expect to fund the remainder of the cash portion of the purchase price through a debt financing that we intend to obtain from third parties.

*Off-balance sheet financing arrangements*

None.

*Contractual obligations*

We do not have any long-term debt, capital lease obligations, operating lease obligations or long-term liabilities other than an administrative agreement to pay our Sponsor a monthly fee of \$10,000 (and not to exceed this amount). This amount covers secretarial and administrative services provided to members of the Company's management team by the Sponsor, members of the Sponsor, and the Company's management team or their affiliates. Upon completion of a Business Combination or the Company's liquidation, the Company will cease paying these monthly fees.

On May 15, 2014, we issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,263,263, of which the proceeds of \$1,000,000 were used as working capital in order to finance transaction costs in connection with the Business Combination and \$263,263 was used to pay operating costs incurred in the period from inception through December 31, 2014. On May 12, 2015, we issued an additional non-interest bearing convertible promissory note to the Sponsor amounting to \$1,343,790. For the three-month period ended September 30, 2015, the Sponsor has paid operating costs amounted to \$247,019 (\$168,431 for the year ended December 31, 2014). As of September 30, 2015, the total amount owed to the Sponsor was \$4,071,929 (\$1,511,799 as of December 31, 2014), recorded as a convertible promissory note and due to affiliate in the accompanying balance sheets. The convertible notes are due on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), or (2) immediately following the consummation of the initial business combination. At the Sponsor's election, following the consummation of a business combination, the notes will convert into our Common Stock at the greater of (1) \$10.00 per share, and (2) the 30 day trailing average of the closing price per share.

In connection with the July Extension Meeting and the October Extension Meeting, the Company issued non-interest bearing promissory notes to the Sponsor for approximately \$361,436 and \$56,296, respectively. The Company used the proceeds from the notes to deposit \$0.06 and \$0.02 per share that was not redeemed in the Trust Account, respectively. The note will be repaid on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), or (2) immediately following consummation of the Company's initial Business Combination. After giving effect to the redemptions and the additional deposit in relation to the October Extension Meeting, there was approximately \$29,921,377 in the Trust Account as of October 30, 2015, or approximately \$10.63 per public share.

In addition, we issued an additional non-interest bearing convertible promissory note to our Sponsor on October 8, 2015 amounting to \$1,250,000 to be used as working capital and to finance transaction costs. The convertible note is due on the earlier of (1) November 24, 2015 (or, if the Extension Proposal is approved, December 24, 2015), and (2) immediately following the consummation of the initial Business Combination. At the Sponsor's election, following the consummation of a Business Combination, the notes will convert into Common Stock at the greater of (1) \$10.00 per share, and (2) the 30 day trailing average of the closing price per share.

## **Summary of Significant Accounting Policies**

### *Use of Estimates*

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and income and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following as our critical accounting policies:

### *Loss per share of Common Stock*

Loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of Common Stock outstanding for the period.

*Income taxes*

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

*Recently adopted accounting standard*

The Company complied with the reporting requirements of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 915, “Development Stage Entities.” At December 31, 2014, the Company adopted Accounting Standards Update (ASU) No. 2014-10, which eliminated certain financial reporting requirements of companies previously identified as “Development Stage Entities” (Topic 915). The amendments in this ASU simplify accounting guidance by removing all incremental financial reporting requirements for development stage entities. The amendments also reduce data maintenance and, for those entities subject to audit, audit costs by eliminating the requirement for development stage entities to present inception-to-date information in the statements of income, cash flows, and stockholders’ equity. As of September 30, 2015 and December 31, 2014, the Company’s financial statements have been presented to conform with the reporting and disclosure requirements of ASU No. 2014-10.

*Recent accounting pronouncement*

In August 2014, FASB issued 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”, which requires management to evaluate whether there is a substantial doubt about an entity’s ability to continue as a going concern. This ASU is effective for the annual reporting period ending after December 15, 2016, and for interim and annual reporting periods thereafter. Early adoption is permitted. The Company is currently evaluating the adoption of this ASU and its impact on the Company’s financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting pronouncements, if currently adopted, would have a material effect on the Company’s financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

To date, our efforts have been limited to organizational activities and activities relating to our initial public offering and the identification of a target business. Other than pursuing a potential Business Combination, we have neither engaged in any operations nor generated any revenues. As the proceeds from our initial public offering held in trust have been invested in short term investments, our only market risk exposure relates to fluctuations in interest rates.

As of September 30, 2015, the Company's Trust Account consists of \$63,913,876 (December 31, 2014: \$72,833,815) (excluding approximately \$1,897,500 of deferred underwriting discounts) all of which is held in cash.

We have not engaged in any hedging activities since our inception on July 3, 2013. We do not expect to engage in any hedging activities with respect to the market risk to which we are exposed.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, we, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based upon this evaluation, our chief executive officer concluded that our disclosure controls and procedures are effective in timely alerting management of any material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.

During the most recently completed fiscal quarter, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. other information**

**ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

In addition to the information in this report, you should carefully consider the risks relating to our business that we identify in “Risk Factors” in our 10-K filed with the SEC on March 14, 2015, the risks described in our prospectus as filed with the SEC on October 25, 2013 (the “prospectus”) and our definitive proxy statement filed with the SEC on October 22, 2015 (the “definitive proxy”). This section supplements and updates that discussion. There have been no material changes to the risk factors set forth in our Form 10-K or the prospectus other than the addition of the following risk factors. Additional risk factors related to our proposed business combination with STG are also included in the preliminary proxy. For a complete understanding of the subject, you should read all risk factors together.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by forward-looking statements contained in this report. However, these are not the only risks we face. In addition to the risks we discuss in our 10-K, the prospectus and the definitive proxy statement, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

*Unregistered Sales*

None.



*Use of Proceeds*

The Company consummated the initial public offering (the "IPO") on October 29, 2013 and received net proceeds of \$73,545,000 which includes \$7,215,000 received from the private placement of 721,500 shares to our Sponsor and \$9,495,000 as a result of the underwriters' exercise of the over-allotment option, which includes \$765,000 additional private placement.

The Company's management has broad discretion with respect to the specific application of the net proceeds of its IPO, although substantially all of the net proceeds of the IPO are intended to be generally applied toward consummating a Business Combination. Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination.

Net proceeds of \$72,795,000 from the IPO and simultaneous private placements of the Private Placement Shares were being held in a trust account (the "Trust Account"). An amount initially equal to 105.5% of the gross proceeds of the IPO was being held in the Trust Account and invested in U.S. "government securities," within the meaning of Section 2(a)(16) of the Investment Company Act of 1940 (the "1940 Act") with a maturity of 180 days or less or in any open ended investment company that holds itself out as a money market fund selected by the Company meeting the conditions of paragraphs (c)(2), (c)(3) and (c)(4) of Rule 2a-7 of the 1940 Act, as determined by the Company, until the earlier of: (i) the consummation of a Business Combination or (ii) the distribution of the Trust Account as described below. As of May 2015, the amount held in the Trust Account was no longer invested in Government Treasury Bills, but held as cash in the Trust Account.

In addition, interest income on the funds held in the Trust Account may be released to the Company to pay its franchise and income tax obligations.

Our Sponsor, officers and directors have agreed that the Company will have only 25 months from the date of the Company's prospectus (October 24, 2013) to consummate our initial Business Combination. If we are unable to consummate our initial Business Combination within 25 months, we will (i) cease all operations except for the purposes of winding up of our affairs; (ii) distribute the aggregate amount then on deposit in the Trust Account, including a portion of the interest earned thereon which was not previously used for payment of franchise and income taxes, pro rata to our public stockholders by way of redemption of our Public Shares (which redemption would completely extinguish such holders' rights as stockholders, including the right to receive further liquidation distributions, if any); and (iii) as promptly as possible following such redemption, dissolve and liquidate the balance of our net assets to our remaining stockholders, as part of our plan of dissolution and liquidation.

As of September 30, 2015, after giving effect to our IPO and our operations subsequent thereto, approximately \$63,913,876 (December 31, 2014: \$72,833,815) was held in the Trust Account and we had approximately \$226,141 (December 31, 2014: \$410,261) of unrestricted cash available to us for our activities in connection with identifying and conducting due diligence of a suitable Business Combination, and for general corporate matters.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. mine safety disclosures**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q.

#### **Exhibit**

#### **Number Description**

2.1	Stock Purchase Agreement, dated as of June 8, 2015, by and among (i) Global Defense & National Security Systems, Inc., (ii) Global Defense & National Security Holdings LLC, (iii) STG Group, Inc. (iv) the stockholders set forth on Annex A thereto and (v) Simon Lee, as Stockholders' Representative, solely for purposes of Sections 1.2, 1.3, 6.3, 6.5, 6.7 and 6.22 and ARTICLES IX and XII (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on June 8, 2015).
-----	---

Edgar Filing: Global Defense & National Security Systems, Inc. - Form 10-Q

- 3.1 Amended and Restated Certificate of Incorporation, effective October 23, 2015 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 3.2 Amended and Restated Bylaws, effective November 5, 2015 (incorporated by reference to exhibit 3.1 on the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on November 5, 2015).
- 10.1 Second Amended and Restated Investment Management Trust Agreement, dated October 23, 2015, by and between Global Defense & National Security Systems, Inc. and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015)..
- 10.2 Second Amendment to Convertible Promissory Note, dated October 23, 2015 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.3 Second Amendment to Convertible Promissory Note, dated October 23, 2015 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.4 Amendment to Promissory Note, dated October 23, 2015 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.5 Amendment to Convertible Promissory Note, dated October 23, 2015 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.6 Amended and Restated Letter Agreement, dated October 23, 2015, between Global Defense & National Security Systems, Inc. and Global Defense & National Security Holdings LLC (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.7\* Amended and Restated Letter Agreement, dated October 23, 2015, between Global Defense & National Security Systems, Inc. and Damian Perl.
- 10.8\* Amended and Restated Letter Agreement, dated October 23, 2015, between Global Defense & National Security Systems, Inc. and the Hon. David C. Gompert.
- 10.9\* Amended and Restated Letter Agreement, dated October 23, 2015, between Global Defense & National Security Systems, Inc. and Dale R. Davis.

- 10.10\* Amended and Restated Letter Agreement, dated October 23, 2015, between Global Defense & National Security Systems, Inc. and Frederic Cassis.
- 10.11\* Amended and Restated Letter Agreement, dated October 23, 2015, between Global Defense & National Security Systems, Inc. and Gavin Long.
- 10.12\* Amended and Restated Letter Agreement, dated October 23, 2015, between Global Defense & National Security Systems, Inc. and Craig Dawson.
- 10.13 Second Amendment to Underwriting Agreement, dated October 23, 2015, by and among Global Defense & National Security Systems, Inc., Cowen & Company, LLC, Maxim Group LLC and I-Bankers Securities Inc. (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.14 Second Amended and Restated Stock Escrow Agreement, dated October 23, 2015, by and among Global Defense & National Security Systems, Inc., Global Defense & National Security Holdings LLC and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.15 Second Amended and Restated Right of First Refusal and Corporate Opportunities Agreement, dated October 24, 2015, by and among Global Defense & National Security Systems, Inc. and Global Integrated Security (USA) Inc. (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.16 Promissory Note, dated October 23, 2015, issued by Global Defense & National Security Systems, Inc. to Global Defense & National Security Holdings LLC (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K (File No. 001-36149) filed with the Securities and Exchange Commission on October 23, 2015).
- 10.17\* Amended and Restated Backstop Purchase Agreement, dated as of October 17, 2015, by and between the Company and the Sponsor.
- 31.1\* Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
- 31.2\* Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
- 32.1\* Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
- 32.2\* Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
- 101.INS\* XBRL Instance Document

101.SCH\* XBRL Taxonomy Extension Schema

101.CAL\* XBRL Taxonomy Extension Calculation Linkbase

101.DEF\* XBRL Taxonomy Extension Definition Linkbase

101.LAB\* XBRL Taxonomy Extension Label Linkbase

101.PRE\* XBRL Taxonomy Extension Presentation Linkbase

\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.**

Date: November 13, 2015

*/s/ Dale R. Davis*

Name: Dale R. Davis

Title: Chief Executive Officer (principal executive officer)

*/s/ Craig Dawson*

Name: Craig Dawson

Title: Chief Financial Officer (principal financial officer)