

(Address of principal executive offices) (Zip Code)

(703) 691-2480

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Introductory Note

Global Defense & National Security Systems Inc. (“GDEF”), a special purpose acquisition company focused on the U.S. defense and national security sector, announced the successful completion on November 23, 2015 (the “Closing Date”) of the previously announced business combination (the “Business Combination”) with STG Group, Inc., a provider of cyber, software and intelligence solutions to the U.S. government. At the closing of the Business Combination, GDEF changed its name to “STG Group, Inc.” The Business Combination was consummated pursuant to the stock purchase agreement (the “Business Combination Agreement”), dated as of June 8, 2015, by and among GDEF, STG Group, Inc., the stockholders of STG Group, Inc., Global Defense & National Security Holdings LLC (the “Sponsor) and Simon S. Lee, as Stockholders’ Representative.

In connection with the closing of the Business Combination, STG Group, Inc. changed its name to “STG Group Holdings, Inc.” (“STG”). Unless the context otherwise requires, the “Company”, “we,” “us,” and “our” refers to GDEF.

Item 1.01. Entry into a Material Definitive Agreement.

Credit Agreement

Overview

On November 23, 2015, GDEF, together with STG, STG, Inc., and Access Systems, Incorporated (“Access Systems”) entered into a Credit Agreement (the “Credit Agreement”) with the lenders party thereto from time to time, MC Admin Co LLC, as administrative agent, PNC Bank, National Association, as collateral agent (the “Collateral Agent”), and MC Admin Co LLC, as lead arranger. GDEF served as the initial borrower of the term loans under the Credit Agreement, and STG, Inc. and Access Systems (collectively, the “Borrowers”) each immediately assumed all obligations of GDEF under the Credit Agreement as if they had originally incurred them as borrowers. GDEF and STG Group Holdings, Inc. have each guaranteed Borrowers’ obligations under the Credit Agreement.

The Credit Agreement provides for (i) a term loan in an aggregate principal amount of \$81,750,000 (the “Term Loan”), (ii) a \$15,000,000 asset-based revolving line of credit at closing (the “New Revolving Loan”) and (iii) an uncommitted accordion facility to be used to fund acquisitions (subject to additional lender commitments) of up to \$90,000,000 (the “Incremental Facility,” and together, with the Term Loan and Revolving Loan, the “Loans”). Substantially concurrently with the consummation of the Business Combination, the full amount of the Term Loan was drawn, and neither the Incremental Facility nor any amount under the Revolving Loan was drawn.

Each of the Revolving Loan and the Term Loan matures on November 23, 2020.

Borrowing Base

Advances under the Revolving Loan are limited by a borrowing base which may not exceed the lesser of (x) the difference between \$15,000,000 and amounts outstanding under letters of credit issued pursuant to the Credit Agreement; and (y) an amount equal to the sum of (i) up to 85% of certain accounts receivable of the Borrowers plus (ii) up to 100% of unrestricted cash on deposit in the Borrowers' accounts with the Collateral Agent, minus (iii) amounts outstanding under letters of credit issued pursuant to the Credit Agreement, minus (iv) reserves established by the Collateral Agent from time to time in its reasonable credit judgment exercised in good faith (the "Borrowing Base Formula Amount").

Interest Rate and Fees

The Borrowers may designate any Loan as a Base Rate Loan or a Eurodollar Loan. The interest rate per annum applicable to Base Rate Loans will be equal to the sum of 6.80% plus the "Base Rate", which is equal to the highest of: (a) the base commercial lending rate of Collateral Agent as publicly announced to be in effect from time to time, as adjusted by the Collateral Agent, (b) the sum of 0.50% per annum and the Federal Funds Rate (as defined in the Credit Agreement), (c) the daily one month LIBOR rate as published each business day in the Wall Street Journal for a one month period divided by a number equal to 1.00 minus the Reserve Percentage (as defined in the Credit Agreement) plus 100 basis points, as of such day and (d) 2.00%.

The interest rate per annum applicable to Eurodollar Loans will be equal to the sum of 7.80% plus the "Eurodollar Rate," which is equal to the highest of (a) the amount calculated by dividing (x) the rate which appears on the Bloomberg Page BBAM1, or the rate which is quoted by another authorized source, two business days prior to the commencement of any interest period as the London interbank offered rate for such an amount by (y) a number equal to 1.00 minus the Reserve Percentage and (b) 1.00%.

Overdue principal and, to the extent permitted by law, overdue interest in respect of each Loan will bear interest at a rate per annum equal to the greater of the then applicable rate plus 2% and the rate then applicable to Base Rate Loans plus 2%.

Prepayments

Borrowers may voluntarily prepay any amount of principal outstanding under the Term Loan at any time following the first anniversary of the closing date as long as Borrowers also pay accrued and unpaid interest, any applicable unpaid fee plus the applicable prepayment premium based on the principal amount prepaid and the time when the prepayment is made as reflected below. The below prepayment premiums would also apply to prepayments in connection with accelerations of the Term Loan or certain mandatory repayments in connection with a default under the Credit Agreement.

Period	Prepayment Premium as a Percentage of Principal Prepaid
Closing Date through last day of the 12 th full month thereafter	10%
First day of the 13 th full month after the Closing Date through the last day of the 24 th full month after the Closing Date	4%
First day of the 25 th full month after the Closing Date through the last day of the 36 th full month after the Closing Date	2.5%
First day of the 37 th full month after the Closing Date through the last day of the 48 th full month after the Closing Date	1%
Thereafter	0%

Mandatory Repayments

If at any time the outstanding principal amount of Revolving Loans plus the amount of outstanding letters of credit exceeds the Borrowing Base Formula Amount, the Borrowers must immediately prepay the difference.

If GDEF or any of its subsidiaries incurs indebtedness other than certain permitted indebtedness or sells assets other than certain permitted sales, then Borrowers must prepay any outstanding Term Loan in an amount equal to 100% of the net cash proceeds from the incurrence of indebtedness or the asset sale as applicable unless, in the case of an asset sale, a Borrower reinvests such proceeds within 360 days after the sale.

To the extent that GDEF and its subsidiaries on a consolidated basis have any Excess Cash Flow (as defined in the Credit Agreement) with respect to any of GDEF's fiscal years commencing with its fiscal year ending December 31, 2016, the Borrowers must prepay any outstanding Term Loan in an amount equal to 100% of such Excess Cash Flow no later than 110 days after the close of GDEF's applicable fiscal year.

If the Borrowers cure a financial covenant default through a contribution of equity capital to a Borrower, then that Borrower must prepay any outstanding Term Loan in an amount equal to 100% of the amount contributed to the capital of that Borrower.

If GDEF or any of its subsidiaries receives any condemnation or insurance proceeds, then the Borrowers must prepay any outstanding Term Loan in an amount equal to 100% of those proceeds.

While the lenders under the Credit Agreement may waive the requirement for Borrowers to make a mandatory prepayment, neither GDEF nor the Borrowers can assure that the Lenders will waive such mandatory prepayment at any time or that, if the Lenders do waive, that the amount of the mandatory prepayment will be waived in full or waived without additional consideration payable.

Amortization of Principal of Term Loan

Principal under the Term Loan amortizes, and Borrowers are required to repay a percentage of the original principal amount of the Term Loan, as set forth below with the remaining balance of the principal falling due in full on November 23, 2020:

<u>Scheduled Repayment Date</u>	<u>Percentage</u>
The last business day of each fiscal quarter of GDEF, beginning on the last business day of the fiscal quarter ending December 31, 2015 through the last Business Day of the fiscal quarter ending September 30, 2016	0.625%
The last business day of each fiscal quarter of GDEF beginning on the last business day of the fiscal quarter ending December 31, 2016 through the last business day of the fiscal quarter ending September 30, 2017	1.250%
The last business day of each fiscal quarter of GDEF, beginning on the last business day of the fiscal quarter ending December 31, 2017 through the last business day of the fiscal quarter ending September 30, 2018	1.750%
The last business day of each fiscal quarter of GDEF, beginning on the last business day of the fiscal quarter ending December 31, 2018 through the last business day of the fiscal quarter ending September 30, 2019	2.500%
Maturity date	75.500%

Certain Covenants and Events of Default

The Credit Agreement contains a number of customary affirmative and negative covenants that, among other things, limit or restrict the ability of GDEF, STG and Borrowers, among other things, to: incur additional indebtedness (including guaranty obligations); incur liens; liquidate or enter into any merger, consolidation or sale of assets except as otherwise permitted; pay dividends and make other payments in respect of capital stock; make acquisitions, investments, loans and advances; engage in certain transactions with affiliates; make capital expenditures that exceed certain limits; modify the Business Combination Agreement, dated as of June 8, 2015, by and among GDEF and the other parties thereto, GDEF's amended and restated certificate of incorporation or any intercompany note; limit the ability of any of their subsidiaries to pay dividends or make loans or other distributions to a parent; or issue preferred equity.

GDEF has also agreed to certain minimums for its fixed charge coverage ratio and consolidated EBITDA and certain maximums for its senior secured leverage ratio.

The Credit Agreement contains customary events of default, including, among other things, nonpayment of principal, interest, fees or other amounts; material inaccuracy of a representation or warranty when made; default in performance of certain covenants; cross-default to indebtedness as long as such indebtedness is at least \$3,000,000; bankruptcy events; creation of a material lien, security or liability due to non-compliance under ERISA; the failure of any material provision of the Security Agreement to be in full force and effect; the failure of any guaranty under the Credit Agreement to be in full force and effect; any judgment against GDEF or its subsidiaries in an amount equal or exceeding \$2,000,000; a change of control; subordination of the indebtedness under the Credit Agreement; loss of a key executive unless such executive has been replaced within 30 days by an individual approved by the

Administrative Agent; or the occurrence of a “reportable compliance event” as defined under the Credit Agreement. If an Event of Default has occurred and is continuing, or if the Borrowers fail to maintain at least \$5,000,000 in Undrawn Availability (as defined in the Credit Agreement) under the Revolving Loan, then the Administrative Agent may sweep cash from the Borrowers’ accounts for the account of the Administrative Agent. Also, in the event that an Event of Default has occurred and is continuing, the Collateral Agent has customary remedies available to it at law and in equity and pursuant to the Security Agreement and the Pledge Agreement.

Security Agreement and Pledge Agreement

In connection with entering into the Credit Agreement, GDEF, STG, and the Borrowers entered into a (1) a Security Agreement with the Collateral Agent, dated as of November 23, 2015 (the "Security Agreement"), and (2) a Pledge Agreement with the Collateral Agent, dated as of November 23, 2015 (the "Pledge Agreement") for the purpose of securing the payment of GDEF and the Borrowers' obligations under the Credit Agreement. A copy of the Security Agreement is attached to this Current Report on Form 8-K as Exhibit 10.2 and is incorporated by reference as though it were fully set forth herein, and a copy of the Pledge Agreement is attached to this Current Report on Form 8-K as Exhibit 10.3 and is incorporated by reference as though it were fully set forth herein.

Pursuant to the Security Agreement, as of the effective date of the Security Agreement and the Pledge Agreement, the Borrowers' and GDEF's obligations under the Credit Agreement are secured by the grant of a security interest in GDEF's and the Borrowers' now existing and hereafter acquired (a) accounts; (b) cash; (c) cash collateral account and monies, securities and instruments deposited in the cash collateral account; (d) chattel paper; (e) commercial tort claims described in an annex to the Security Agreement; (f) computer programs and intellectual property rights and all other proprietary information; (g) contracts and contract rights; (h) copyrights; (i) equipment; (j) deposit accounts; (k) documents; (l) general intangibles; (m) goods; (n) instruments; (o) inventory; (p) investment property, excluding all pledge agreement collateral; (q) promissory notes; (r) letter-of-credit rights; (s) marks; (t) patents; (u) permits; (v) software and software licensing rights; (w) supporting obligations; (x) books and records relating to the foregoing items; and (y) proceeds and products of all of the foregoing.

In addition, pursuant to the Pledge Agreement, the Borrowers' and GDEF's obligations under the Credit Agreement are secured by the pledge of GDEF's and the Borrowers' right, title and interest in collateral accounts, securities, limited liability company interests, partnerships, security entitlements, financial assets and all proceeds held in any of the foregoing from time to time (the "Collateral"). The Collateral does not include any voting stock in excess of 66-2/3% of the total combined voting power of all classes of equity interests of any foreign subsidiary.

Copies of the Credit Agreement, Security Agreement and Pledge Agreement are filed with this Current Report on Form 8-K as Exhibits 10.1, 10.2 and 10.3, respectively, and are incorporated herein by reference, and the foregoing descriptions of the Credit Agreement, Security Agreement and Pledge Agreements are qualified in their entirety by reference thereto.

Registration Rights Agreements

Edgar Filing: STG Group, Inc. - Form 8-K

On the Closing Date, the Company entered into a registration rights agreement (the “Registration Rights Agreement”) with the STG Stockholders, pursuant to which the Company has granted certain registration rights to the STG Stockholders with respect to, among other things, the shares of Company common stock, \$0.0001 par value (the “Common Stock”), issued to the STG Stockholders pursuant to the Purchase Agreement (the “Registrable Securities”).

Under the Registration Rights Agreement, the STG Stockholders have certain customary registration rights, including demand rights and piggyback rights, subject to certain underwriter cutbacks and issuer blackout periods. The Company agreed to pay certain fees and expenses relating to registrations under the Registration Rights Agreement.

In addition, on the Closing Date, the Company entered into an amended and restated registration rights agreement with the Sponsor (the "Sponsor Registration Rights Agreement"), which amends and restates the registration rights agreement entered into by and between the Company and the Sponsor on October 23, 2013 to include the shares that the Sponsor acquired pursuant to that certain Second Amended and Restated Backstop Common Stock Purchase Agreement, dated as of November 23, 2015.

A copy of the Registration Rights Agreement is filed with this Current Report on Form 8-K as Exhibit 10.4 and a copy of the Sponsor Registration Rights Agreement is filed with this Current Report on Form 8-K as Exhibit 10.5, and such agreements are incorporated herein by reference, and the foregoing descriptions are qualified in its entirety by reference thereto.

Voting Agreement

On the Closing Date, (i) the Company, (ii) the Sponsor and (iii) the STG Stockholders (the "Stockholder Group") entered into a voting agreement (the "Voting Agreement"). Pursuant to the Voting Agreement, as long as the Stockholder Group or Sponsor (each, an "Investor Party") beneficially owns at least 5% of the then outstanding Common Stock (the "Minimum Equity Holdings"), such Investor Party may designate one individual for nomination to the Company's Board of Directors. Pursuant to the Voting Agreement, each Investor Party will support the other Investor Party's designee for nomination as director. The Voting Agreement also provides that in the event of the death, resignation, removal or other termination of any designee of an Investor Party, such vacancy shall be filled by a new director designated for nomination by the same Investor Party.

In addition, as long as any Investor Party maintains the Minimum Equity Holdings, each Investor Party will attempt to reach a unanimous decision on actions that require a stockholder vote.

Pursuant to the Voting Agreement, the Investor Parties will take all necessary action so that the number of directors comprising the Board of Directors will initially be fixed at five directors, and that the Board of Directors shall have a classified structure.

In addition, the Investor Parties agree to endorse and vote to approve the nominees for Class I directors proposed by the Board of Directors of the Company (or the nomination and governance committee thereof) at annual meeting of stockholders of the Company in 2016, unless all of the Investor Parties agree in writing in advance of such meeting to propose to the stockholders alternative directors.

The Voting Agreement further provides that for the eighteen (18) months following the date thereof, each Investor Party has agreed not to purchase or otherwise acquire, or offer, seek, propose or agree to purchase or otherwise acquire, ownership of any Common Stock, or any direct or indirect rights or options to acquire, or any securities convertible into, Common Stock, or to form, join or in any way participate in a “group” (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to the securities of the Company (other than as a result of the Voting Agreement).

A copy of the Voting Agreement is filed with this Current Report on Form 8-K as Exhibit 10.6 and is incorporated herein by reference, and the foregoing description of the Voting Agreement is qualified in its entirety by reference thereto.

Escrow Agreement

In connection with the Business Combination Agreement, GDEF and the Stockholders’ Representative will enter into an escrow agreement (the “Escrow Agreement”) with Branch Banking and Trust Company, a North Carolina banking corporation, as escrow agent, to partially secure the STG Stockholders’ indemnification obligations pursuant to the Business Combination Agreement.

Establishment of Escrow

At the Closing, GDEF withheld (a) \$3,310,000 (the “Cash Escrow Deposit”) from the Cash Consideration and (b) 313,744 shares of GDEF Common Stock, with an aggregate value equal to approximately \$3,310,000 (the “Escrow Share Amount”), or \$10.55 per share (the “Escrow Shares” and together with the Cash Escrow Deposit, or the balance thereof remaining from time to time, the “Escrow Amount”), from the stock consideration and deposited such amounts into escrow pursuant to the terms of the Escrow Agreement.

Disbursement of the Escrow Amount

In the event that any indemnified party pursuant to the Business Combination Agreement claims that it is entitled to release from the escrow fund, it must submit a claim notice to the escrow agent and the Stockholders' Representative. The Stockholders' Representative will have the opportunity to contest any such claim. If no written notice of contest is given, the escrow agent will disburse to the indemnified party specified in the applicable claim notice the amounts claimed. If a written notice of contest is given, the parties agree to work out the dispute independently and then resort to legal proceedings in accordance with the Business Combination Agreement. Upon receipt of a written notice of contest, the escrow agent may not disburse the disputed portion of the funds claimed unless and until resolution either by a written mutual agreement between GDEF and the Stockholders' Representative or by a court of competent jurisdiction in accordance with the Business Combination Agreement. Any shares being released shall be valued as of their average closing market price at which such shares traded on Nasdaq over the last ten trading days immediately prior to the date such claim is satisfied.

Claims against the Escrow Amount shall first be paid from the amount of the Cash Escrow Deposit in the Escrow Amount, and second, once the total amount of the Cash Escrow Deposit has been disbursed, be paid as a transfer to the indemnified party of the number of Escrow Shares that is equal to the claim amount (or remaining portion thereof). Notwithstanding the foregoing, if Escrow Shares otherwise would be disbursed to the indemnified party against an indemnification claim pursuant to the Business Combination Agreement, but the Stockholders' Representative notifies GDEF in writing that, in the Stockholders' Representative reasonable opinion, the effect of such disbursement, if made, would cause the Transaction to fail to satisfy the Control Requirement (as defined in the Business Combination Agreement), the Stockholders' Representative may cause all or part of such indemnification claim to be satisfied by a cash payment directly to the indemnified party, and the disbursement request shall instead direct that the number of Escrow Shares (rounded down to the nearest whole share) that is equal to the amount of cash paid directly to the indemnified party be disbursed *pro rata* to the STG Stockholders.

If, on any date that a number of Escrow Shares is to be disbursed, (a) the aggregate value of the Escrow Shares remaining in the Escrow Amount is less than the amount requested in the disbursement request and (b) the aggregate value of the Escrow Shares disbursed as of such date is less the Escrow Share Amount, the STG Stockholders jointly and severally agree to promptly (and in any event within two business days following notice from the escrow agent) provide to the Stockholders' Representative for deposit with the escrow agent (within two business days following receipt from the STG Stockholders) an amount in cash, by wire transfer of immediately available funds, equal to the difference between (x) the Escrow Share Amount and (y) the aggregate value of the Escrow Shares disbursed as of such date (such difference, the "Additional Cash Escrow"). The Additional Cash Escrow shall be added to the Escrow Amount, and the escrow agent shall then transfer to the indemnified party the Escrow Shares remaining in the Escrow Amount, plus a portion of the Additional Cash Escrow necessary to satisfy the disbursement request. Thereafter, any subsequent disbursement request shall be satisfied from the Additional Cash Escrow. In no event shall the aggregate value disbursed from the Escrow Amount exceed the sum of the Cash Escrow Deposit and the Escrow Share Amount. Once an amount equal to the sum of the Cash Escrow Deposit and the Escrow Share Amount has been disbursed from the Escrow Amount, any remaining Escrow Shares shall be distributed *pro rata* to the STG Stockholders.

Release of the Escrow Amount

The date that is 18 months after the Closing Date is the “Release Date.” If there are no pending claim notices on the Release Date, GDEF and the Stockholders’ Representative shall jointly provide the escrow agent with an executed disbursement request instructing the escrow agent to disburse the Escrow Amount (including any amount of Additional Cash Escrow, if any) *pro rata* to the STG Stockholders. In the event there are any pending claim notices on the Release Date, GDEF and the Stockholders’ Representative shall jointly instruct the escrow agent to retain only the portion of the Cash Escrow Deposit and/or that number of the Escrow Shares equal to the disputed amount in any pending claim notice and release to the STG Stockholders all of the Escrow Amount in excess of the pending claim amount as set forth in the joint instructions.

A copy of the Escrow Agreement is filed with this Current Report on Form 8-K as Exhibit 10.7 and is incorporated herein by reference, and the foregoing description of the Escrow Agreement is qualified in its entirety by reference thereto.

Second Amended and Restated Backstop Common Stock Purchase Agreement

On November 23, 2015, the Company entered into a Second Amended and Restated Backstop Common Stock Purchase Agreement (the “Backstop Purchase Agreement”) with the Sponsor, which amended and restated the stock purchase agreement that the Company had previously reported on a Current Report on Form 8-K filed with the Securities and Exchange Commission on October 20, 2015. The Backstop Purchase Agreement granted the Sponsor the right to purchase shares of Common Stock, at a price of \$10.63 per share (the “Backstop Purchase”) in connection with the close of the Business Combination. The purchase right was exercisable only in the event, and to the extent, that the Company would not meet the Threshold Cash Amount. The term “Threshold Cash Amount” means \$20,000,000 in cash available to the Company from (1) the Company’s Trust Account (as defined in the Company’s Amended and Restated Certificate of Incorporation) at the closing of the Business Combination between the Company and STG following the payment in full to the Company’s stockholders who 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.

A copy of the Backstop Purchase Agreement is filed with this Current Report on Form 8-K as Exhibit 10.8 and is incorporated herein by reference, and the foregoing description of the Backstop Purchase Agreement is qualified in its entirety by reference thereto.

Contribution and Exchange Agreement

Concurrently with the exercise of the Sponsor's purchase right under the Backstop Purchase Agreement, the Company and the Sponsor entered into a Contribution and Exchange Agreement, dated as of November 23, 2015 (the "Contribution Agreement") on the Closing Date, pursuant to which the Sponsor agreed to contribute to the capital of the Company an amount of cash equal to \$10,950,000, being the aggregate purchase price of the Backstop Purchase, in exchange for 1,030,103 shares of Common Stock, in a transaction in which the Company will not recognize taxable income.

A copy of the Contribution Agreement is filed with this Current Report on Form 8-K as Exhibit 10.9 and is incorporated herein by reference, and the foregoing description of the Contribution Agreement is qualified in its entirety by reference thereto.

Employment Agreements

Paul Fernandes

In connection with the closing of the Business Combination, we entered into an employment agreement with Paul Fernandes (the "Fernandes Employment Agreement"), providing that Mr. Fernandes would serve as the Company's President beginning on the Closing Date. Pursuant to the Fernandes Employment Agreement, the Company will pay Mr. Fernandes an annual salary of \$400,752, and Mr. Fernandes will be entitled to participate in all of the employee benefit plans and arrangements generally provided from time to time to senior executive officers of the Company.

Pursuant to the Fernandes Employment Agreement, in the event of the termination of his employment by the Company without Cause (as defined in the Fernandes Employment Agreement) or by Mr. Fernandes for Good Reason (as defined in the Fernandes Employment Agreement), Mr. Fernandes would be entitled to cash severance equal to the sum of 18 months of his annual base salary in effect immediately prior to the date of termination.

A copy of the Employment Agreement with Mr. Fernandes is filed with this Current Report on Form 8-K as Exhibit 10.10 and is incorporated herein by reference, and the foregoing description of the Employment Agreement is qualified in its entirety by reference thereto.

Charles Cosgrove

In connection with the closing of the Business Combination, we entered into an employment agreement with Charles L. Cosgrove (the “Cosgrove Employment Agreement”), providing that Mr. Cosgrove would serve as the Company’s Chief Financial Officer beginning on the Closing Date. Pursuant to the Cosgrove Employment Agreement, the Company will pay Mr. Cosgrove an annual salary of \$330,000. Mr. Cosgrove will be eligible to participate in the Company’s Annual Incentive plan, at up to a 50% target of his salary, and will be eligible to participate in the Company’s deferred compensation plan. Mr. Cosgrove also will be entitled to participate in all of the employee benefit plans and arrangements generally provided from time to time to senior executive officers of the Company.

In addition, upon any termination of Mr. Cosgrove’s employment by the Company without Cause (as defined in the Cosgrove Employment Agreement) or by Mr. Cosgrove for Good Reason (as defined in the Cosgrove Employment Agreement) within one year of his start date for any reason other than for Cause, he will be eligible for one month of severance equal to his then-current base salary, for each completed month of service. If the Company terminates Mr. Cosgrove’s employment on or after one year of his start date for any reason other than for Cause, he will be eligible for twelve months’ severance equal to his current base salary.

A copy of the Employment Agreement with Mr. Cosgrove is filed with this Current Report on Form 8-K as Exhibit 10.11 and is incorporated herein by reference, and the foregoing description of the Employment Agreement is qualified in its entirety by reference thereto.

Glenn W. Davis, Jr.

In connection with the closing of the Business Combination, we entered into an employment agreement with Glenn W. Davis, Jr. (the “Davis Employment Agreement”), providing that Mr. Davis would serve as the Company’s Senior Vice President & General Manager beginning on the Closing Date. Pursuant to the Davis Employment Agreement, the Company will pay Mr. Davis an annual salary of \$265,000, and Mr. Davis will be entitled to participate in all of the employee benefit plans and arrangements generally provided from time to time to senior executive officers of the Company.

Pursuant to the Davis Employment Agreement, in the event of the termination of his employment by the Company without Cause (as defined in the Davis Employment Agreement) or by Mr. Davis for Good Reason (as defined in the Davis Employment Agreement), Mr. Davis would be entitled to cash severance equal to the greater of (1) the sum of two months of his annual base salary in effect immediately prior to the date of termination or (2) the product of (x) one month of Mr. Davis’ annual base salary in effect immediately prior to the date of termination, multiplied by (y) the number of years that Mr. Davis has been employed by the Company, not to exceed twelve months.

A copy of the Employment Agreement with Mr. Davis is filed with this Current Report on Form 8-K as Exhibit 10.12 and is incorporated herein by reference, and the foregoing description of the Employment Agreement is qualified in its entirety by reference thereto.

Keith Lynch

In connection with the closing of the Business Combination, we entered into an employment agreement with Keith Lynch (the “Lynch Employment Agreement”), providing that Mr. Lynch would serve as the Company’s Vice President, Accounting & Controller beginning on the Closing Date. Pursuant to the Lynch Employment Agreement, the Company will pay Mr. Lynch an annual salary of approximately \$217,498, and Mr. Lynch will be entitled to participate in all of the employee benefit plans and arrangements generally provided from time to time to senior executive officers of the Company.

Pursuant to the Lynch Employment Agreement, in the event of the termination of his employment by the Company without Cause (as defined in the Lynch Employment Agreement) or by Mr. Lynch for Good Reason (as defined in the Lynch Employment Agreement), Mr. Lynch would be entitled to cash severance equal to the greater of (1) the sum of nine months of his annual base salary in effect immediately prior to the date of termination or (2) the product of (x) one month of Mr. Lynch's annual base salary in effect immediately prior to the date of termination, multiplied by (y) the number of years that Mr. Lynch has been employed by the Company, not to exceed twelve months.

A copy of the Employment Agreement with Mr. Lynch is filed with this Current Report on Form 8-K as Exhibit 10.13 and is incorporated herein by reference, and the foregoing description of the Employment Agreement is qualified in its entirety by reference thereto.

Dale R. Davis

On November 30, 2015, we entered into an employment agreement with Dale Davis (the "CIO Employment Agreement"), providing that Mr. Davis would serve as the Company's Chief Integration Officer beginning on November 30, 2015. Pursuant to the CIO Employment Agreement, the Company will pay Mr. Davis an annual salary of \$346,000. Mr. Davis will be eligible to participate in the Company's Annual Incentive plan, at up to a 50% target of his salary, and will be eligible to participate in the Company's deferred compensation plan. Mr. Davis also will be entitled to participate in all of the employee benefit plans and arrangements generally provided from time to time to senior executive officers of the Company.

Pursuant to the CIO Employment Agreement, in the event of the termination of his employment by the Company without Cause (as defined in the CIO Employment Agreement) or by Mr. Davis for Good Reason (as defined in the CIO Employment Agreement), Mr. Davis would be entitled to cash severance equal to the greater of (1) the sum of two months of his annual base salary in effect immediately prior to the date of termination or (2) the product of (x) one month of Mr. Davis' annual base salary in effect immediately prior to the date of termination, multiplied by (y) the number of years that Mr. Davis has been employed by the Company, not to exceed twelve months.

A copy of the Employment Agreement with Mr. Davis is filed with this Current Report on Form 8-K as Exhibit 10.14 and is incorporated herein by reference, and the foregoing description of the Employment Agreement is qualified in its entirety by reference thereto.

Services Agreement

On November 23, 2015, Global Strategies Group (North America) Inc. and STG entered into a services agreement (the “Services Agreement”), pursuant to which STG may retain Global Strategies Group (North America) Inc. from time to time to perform certain services as described under task orders to be issued from time to time. The services may include the following, in each case, at agreed upon prices:

- Corporate development services, such as sourcing acquisition targets, negotiating transactions with potential targets, and assisting STG in post-integration matters;
- Regulatory compliance support services;
- Financial services such as planning, analysis, compilation of budget proposals and requests, and financial reporting;
- Business development and strategic services, such as new-business-opportunity identification and review;
- Marketing and public relations services; and
- Human resources services.

The Services Agreement may be terminated by either party at its convenience, with or without cause, upon 15 days’ prior written notice to the other party. Global Strategies Group (North America) Inc. is an affiliate of both the Sponsor and Damian Perl, who will serve on the board of directors following the Business Combination.

A copy of the Services Agreement is filed with this Current Report on Form 8-K as Exhibit 10.15 and is incorporated herein by reference, and the foregoing description of the Services Agreement is qualified in its entirety by reference thereto.

Item 1.02. Termination of a Material Definitive Agreement.

In connection with the closing, the Second Amended and Restated Management Trust Agreement, dated October 23, 2013, between GDEF and American Stock Transfer & Trust Company, as trustee, was terminated.

Item 2.01. Completion of Acquisition or Disposition of Assets.

The disclosure set forth under “Introductory Note” above is incorporated in this Item 2.01 by reference. The material provisions of the Purchase Agreement are described in the Company’s Proxy Statement dated October 22, 2015 (the “Proxy Statement”) relating to the Special Meeting (as defined below) in the section entitled “*The Business Combination*,” which is incorporated by reference herein.

As previously reported, the Business Combination was approved by GDEF’s stockholders at the Special Meeting in lieu of 2015 Annual Meeting of the Stockholders held on November 13, 2015 (the “Special Meeting”). At the Special Meeting, 4,598,665 shares of Common Stock were voted in favor of the proposal to approve the Business

Combination and 676,350 shares of Common Stock were voted against that proposal.

In connection with the closing, GDEF's public stockholders redeemed a total of 2,031,383 shares of its Common Stock pursuant to the terms of GDEF's amended and restated certificate of incorporation, resulting in a total payment to redeeming stockholders of \$21,593,601.29. In connection with the Business Combination, GDEF paid the following consideration to the STG Stockholders: (i) \$68,000,000 in aggregate cash consideration and (ii) 8,578,199 shares of Common Stock, valued at a price of \$10.55 per share. In addition, GDEF issued to the STG Stockholders 445,161 shares of Common Stock that were previously held by the Sponsor and contributed by the Sponsor to GDEF immediately prior to the Business Combination, and the Sponsor transferred 35,000 shares of Common Stock previously held by the Sponsor to the STG Stockholders for no consideration.

In accordance with the terms of the Business Combination Agreement, the STG Stockholders elected to convert approximately \$7,000,000 of the cash consideration payable to them thereunder into an additional 658,513 shares of Common Stock at a value of \$10.63 each (the "Conversion Shares").

As of the Closing Date, following the redemption, there were 13,774,962 shares of Common Stock outstanding. As of the Closing Date, the STG Stockholders owned approximately 9,716,873 shares of Common Stock. As of the Closing Date, the Sponsor owned approximately 23.8% of the outstanding common stock of the Company and the public stockholders owned approximately 5.7% of the outstanding common stock of the Company.

In connection with the closing of the Business Combination, the non-interest bearing promissory notes, dated as of July 21, 2015 and November 5, 2015, by and between the Company and the Sponsor, for \$351,436 and \$56,296, respectively, were paid in full. In addition, the non-interest bearing convertible promissory notes issued on May 15, 2014, May 12, 2015, October 8, 2015, and November 13, 2015 were also paid in full.

In addition, pursuant to the Second Amended and Restated Backstop Common Stock Purchase Agreement, dated as of November 23, 2015, by and between the Company and the Sponsor (the "Backstop Purchase Agreement"), the Sponsor purchased 1,030,103 shares of Common Stock at a price of \$10.63 per share.

The Company has declared a dividend of one share of Common Stock for every 1.06 shares of Common Stock payable to stockholders of record immediately following the consummation of the Business Combination. The Sponsor and the STG Stockholders have agreed to forfeit any dividend shares that they would be entitled to in exchange for no consideration, provided that the Sponsor will not forfeit any right to receive any dividend shares in respect of any shares it acquired pursuant to the Backstop Purchase Agreement and the STG Stockholders will not forfeit any right to receive any dividend shares in respect of the Conversion Shares.

GDEF was formed as a vehicle to effect a business combination with one or more operating businesses. After the closing, the Company became a holding company whose assets primarily consist of interests in its subsidiary, STG. The following information is provided about the business of the Company reflecting the consummation of the Business Combination.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Company makes forward-looking statements in this Current Report on Form 8-K. These forward-looking statements relate to outlooks or expectations for earnings, revenues, expenses or other future financial or business performance, strategies or expectations, or the impact of legal or regulatory matters on business, results of operations or financial condition. Specifically, forward-looking statements may include statements relating to:

- the benefits of the Business Combination;
- the future financial performance of the Company following the Business Combination;
- expansion plans and opportunities;
- maintaining/increasing the growth rates of the Company through marketing and an effective sales force;
- maintaining the Company’s technology platforms and continue to develop enhancements;
- maintaining cost-effectiveness of technology and operations;
- maintaining and successfully bidding for government contracts;
- changes in economic, business, competitive, technological and/or regulatory factors;
- identify and consummating acquisitions on an accretive basis; and

other statements preceded by, followed by or that include the words “estimate,” “plan,” “project,” “forecast,” “intend,” “expect,” “anticipate,” “believe,” “seek,” “target” or similar expressions.

Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results may vary in material respects from those expressed or implied by these forward-looking statements. You should not place undue reliance on these forward-looking statements. These forward-looking statements are based on information available to us as of the date of this Current Report on Form 8-K and current expectations, forecasts and assumptions and involve a number of risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date

they were made.

These forward-looking statements involve a number of known and unknown risks and uncertainties or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Some factors that could cause actual results to differ include:

- costs related to the Business Combination;
- success in retaining or recruiting, or changes required in, the Company's officers, key employees or directors;
 - economic weakness, either nationally, or in the local markets in which the Company operates;
- the size of the Company's addressable markets and the amount of U.S. government spending on private contractors;
 - adverse litigation or arbitration results;
 - changes in economic, business, competitive, technological and/or regulatory factors;
 - competitors in the Company's various markets;

the recent delisting of the Company's securities from the NASDAQ Capital Market as discussed in the section entitled "*Risk Factors*" below;

- the potential liquidity and trading of the Company's securities;

risks and costs associated with regulation of corporate governance and disclosure standards (including pursuant to Section 404 of the Sarbanes-Oxley Act); and

other risks and uncertainties set forth in the Proxy Statement in the section entitled "*Risk Factors*" beginning on page 30.

Business

The business of GDEF prior to the Business Combination is described in the Proxy Statement in the section entitled "*GDEF's Business*" beginning on page 137, which is incorporated by reference herein. The business of STG prior to the Business Combination is described in the Proxy Statement in the section entitled "STG's Business" beginning on page 181, which is incorporated by reference herein.

Risk Factors

The risk factors related to the Company's business and operations are described in the Proxy Statement in the section entitled "*Risk Factors*" beginning on page 30, which is incorporated by reference herein, as supplemented below.

Our Common Stock has been delisted from NASDAQ, which could limit investors' ability to make transactions in our shares and subject us to additional trading restrictions.

On November 25, 2015, our Common Stock was delisted from NASDAQ and our shares are currently quoted in the over-the-counter market on the OTC Pink Current Information tier. As a result of delisting, we could face material adverse consequences, including:

- a limited availability of market quotations for our shares;
reduced liquidity for our shares;

a determination that our common stock is a “penny stock” which will require brokers trading in our common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our shares;

a limited amount of news and analyst coverage; and
a decreased ability to issue additional securities or obtain additional financing in the future.

Selected Financial Information

Selected Historical Financial Information of STG

STG’s consolidated balance sheet data as of September 30, 2015 and consolidated statement of operations data for the three months and nine months ended September 30, 2015 and 2014 are derived from STG’s unaudited condensed consolidated financial statements, which are included elsewhere in this Current Report on Form 8-K. The September 30, 2014 consolidated balance sheet was derived from internal consolidated financial statements. STG’s consolidated balance sheet data as of December 31, 2014, December 31, 2013 and December 31, 2012 and consolidated statement of operations data for the three years ended December 31, 2014 are derived from STG’s audited consolidated financial statements, which were included in the Proxy Statement beginning on page F-1 and are incorporated herein by reference.

The information is only a summary and should be read in conjunction with each of STG’s consolidated financial statements and related notes and “*STG’s Management’s Discussion and Analysis of Financial Condition and Results of Operations*” contained elsewhere herein. The historical results included below and elsewhere in this Current Report on Form 8-K are not indicative of the future performance of STG.

	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2015	2014	2015	2014	2014	2013	2012
(US dollars in thousands)							
Income Statement Data:							
Contract revenue	\$50,081	\$53,588	\$149,138	\$158,801	\$209,727	\$248,858	\$212,767
Direct expenses	34,721	36,644	102,224	107,631	141,925	172,685	143,279
Gross profit	15,360	16,944	46,914	51,170	67,802	76,173	69,488
Indirect and selling expenses	11,718	14,041	40,933	45,798	61,286	70,041	63,928
Impairment of intangible assets (including goodwill)	2,970	—	2,970	—	6,928	1,655	—
Operating income	672	2,903	3,011	5,372	(412)	4,477	5,560
Total other income, net	(423)	(131)	(302)	45	243	702	335
Net income (loss)	249	2,772	2,709	5,417	(169)	5,179	5,895
Balance Sheet Data:							
Contract receivables, net	\$26,775	\$39,161	\$26,775	\$39,161	\$47,517	\$54,766	\$58,819
Total current assets	37,889	44,481	37,889	44,481	54,140	62,284	63,170
Total assets	44,022	66,438	44,022	66,438	68,635	84,351	91,361
Total current liabilities	24,920	27,491	24,920	27,491	37,401	44,228	46,314
Total liabilities	29,877	36,391	29,877	36,391	45,678	53,044	54,100
Total stockholders' equity	14,145	30,047	14,145	30,047	22,957	31,307	37,261
Cash Flow Data:							
Net cash provided by operating activities	12,815	463	38,027	26,331	\$13,991	\$11,752	\$17,485
Net cash used in investing activities	(557)	(74)	(1,371)	(906)	(1,280)	(838)	(1,413)
Net cash used in financing activities	(7,636)	(541)	(31,182)	(25,184)	(12,526)	(11,178)	(15,661)
Adjusted EBITDA ⁽¹⁾	\$4,416	\$4,965	\$13,588	\$13,020	\$17,521	\$18,634	\$13,834

Selected Unaudited Pro Forma Condensed Combined Financial Information of the Combined Company

The selected unaudited pro forma condensed combined financial information has been derived from, and should be read in conjunction with, the unaudited pro forma condensed combined financial information included elsewhere in this Current Report on Form 8-K.

The unaudited pro forma condensed combined statements of operations information for the nine months ended September 30, 2015 and the year ended December 31, 2014 give pro forma effect to the Business Combination and the related proposed financing transactions as if they had occurred on January 1, 2014. The unaudited pro forma condensed combined balance sheet as of September 30, 2015 assumes that the Business Combination and the related proposed financing transactions were completed on September 30, 2015.

The unaudited pro forma condensed combined balance sheet information as of September 30, 2015 was derived from STG's unaudited consolidated balance sheet as of September 30, 2015 and GDEF's unaudited balance sheet as of September 30, 2015. The unaudited pro forma condensed combined statement of operations information for the nine months ended September 30, 2015 and the year ended December 31, 2014 was derived from STG's unaudited consolidated statement of operations for the nine months ended September, 2015, STG's audited consolidated statement of operations for the year ended December 31, 2014, GDEF's unaudited statement of operations for the nine months ended September, 2015 and GDEF's audited statement of operations for the year ended December 31, 2014.

The pro forma adjustments are based on the information currently available. The assumptions and estimates underlying the pro forma adjustments are described in the section entitled "*Unaudited Pro Forma Condensed Financial Information* ." The unaudited pro forma condensed combined statement of operations is not necessarily indicative of what the actual results of operations would have been had the Business Combination taken place on the date indicated, nor is it indicative of the future consolidated results of operations of the post-combination company. The selected unaudited pro forma condensed combined financial information below should be read in conjunction with the sections entitled "*Unaudited Pro Forma Condensed Combined Financial Information* ," "*Management's Discussion and Analysis of Financial Condition and Results of Operations of STG* " and the historical consolidated financial statements and notes thereto of GDEF and STG.

(1) EBITDA represents net income before interest expenses, income taxes, depreciation and amortization, and impairment of goodwill and intangible assets. Adjusted EBITDA represents EBITDA adjusted for operational restructuring charges and non-cash or non-operational losses or gains, including long-lived asset impairment charges, formal cost reduction plans, transactional legal fees, other professional fees and special employee bonuses. Adjusted EBITDA is included because it is used by management and certain investors to measure STG's operating performance. Adjusted EBITDA is also used by management in its determination of the fair value of STG's common stock and is also reviewed periodically as a measure of financial performance by STG's board of directors. Adjusted EBITDA is not an item recognized by the generally accepted accounting principles in the United States of America, or U.S. GAAP, and should not be considered as an alternative to net income, operating income, or any other indicator of a company's operating performance required by U.S. GAAP. STG's definition of Adjusted EBITDA used here may not be comparable to the definition of Adjusted EBITDA used by other companies. A reconciliation of income from net income to Adjusted EBITDA is as follows:

	For the three months ended September 30,		For the nine months ended September 30,		For the years ended December 31,		
	2015	2014	2015	2014	2014	2013	2012
	(US dollars in thousands)						
Net income (loss)	\$249	\$2,772	\$2,709	\$5,417	\$(169)	\$5,179	\$5,895
State income taxes	(80)	(10)	202	348	346	394	332
Interest expense, net	24	9	34	32	58	116	68
Depreciation & Amortization	143	304	760	878	1,179	1,162	1,229
Amortization of intangible assets	198	156	594	468	625	1,633	626
Impairment of goodwill	2,064	—	2,064	—	5,117	1,655	—
Impairment of other intangible assets	906	—	906	—	1,811	—	—
EBITDA	3,504	3,231	7,269	7,143	8,966	10,139	8,150
Adjustments to EBITDA:							
CEO expenses(1)	\$106	\$549	\$1,069	\$1,727	\$2,462	\$3,758	\$2,753
Excess rent expenses(2)	39	205	2,384	996	1,212	1,739	1,030
Excess business development costs(3)	—	583	—	1,827	2,281	2,733	2,680
Discontinued operations	—	322	—	1,501	1,529	3	—
Employee terminations & related costs(4)	599	732	2,208	2,265	2,755	801	433
Accruals and reserve adjustments(5)	—	(278)	221	(1,259)	(246)	514	—
Acquisition costs(6)	296	—	1,026	—	—	—	—
Cost plus contracts revenue adjustments(7)	(128)	(379)	(589)	(1,180)	(1,438)	(1,053)	(1,212)
Adjusted EBITDA	4,416	4,965	13,588	13,020	17,521	18,634	13,834

(1) Salary, bonus and miscellaneous expenses directly related to Simon Lee, the Owner and Chairman of STG, and certain other family members. Management considers these expenses to be non-recurring, as Mr. Lee or his family members were not fully active in the business and will continue to not be active in an executive capacity post-closing. The compensation costs of STG's president are included in the historical results.

(2) Cost incurred in unutilized lease space as well as the anticipated reduction in the price per square foot upon the business' relocation to STG's new facility in July 2015.

(3) To reflect a plan implemented in 2015 to reduce the business development expenses to their appropriate level following implementation of the reduction plan.

(4) Salary, fringe, bonus and severance for terminated employees included in three separate reductions in force in 2013, 2014 and 2015.

(5) Reversal of excess accruals and unutilized provisions in the periods when the expenses were initially reflected in the financial statements.

- (6) Transaction costs associated with the Business Combination.

- (7) To adjust for the revenue effect of the above adjustments on cost-plus contracts.

Selected Unaudited Pro Forma Condensed Combined
Statement of Operations Nine Months Ended September 30, 2015
(in thousands, except share and per share information)

(U.S. dollars in thousands)

Contract revenue	\$ 149,138
Gross profit	\$46,914
Operating loss	\$(8,753)
Net loss	\$(9,228)
Net income per share – basic	\$(0.57)
Net income per share – diluted	\$(0.57)
Weighted-average shares outstanding – basic	16,107,072
Weighted-average shares outstanding – diluted	16,107,072
Selected Unaudited Pro Forma Condensed Combined Statement of Operations Year Ended December 31, 2014 (in thousands, except share and per share information)	
Contract revenue	\$209,727
Gross profit	\$67,802
Operating loss	\$(11,140)
Net loss	\$(11,580)
Net income per share – basic	\$(0.72)
Net income per share – diluted	\$(0.72)
Weighted-average shares outstanding – basic	16,107,072
Weighted-average shares outstanding – diluted	16,107,072
Selected Unaudited Pro Forma Condensed Combined Balance Sheet Data At September 30, 2015	
Cash and cash equivalents	\$ 19,154
Long-term debt, net of current portion	\$81,239
Net current Assets	\$21,660
Total assets	\$235,515
Total liabilities	\$ 123,516
Total stockholders' equity	\$ 111,999

Unaudited Pro Forma Condensed Combined Financial Statements

The following unaudited pro forma condensed combined financial statements give effect to the Business Combination and the proposed related financing transactions. This transaction which was signed on June 8, 2015 and closed on November 23, 2015 will be accounted for using the acquisition method of accounting under the provisions of Accounting Standards Codification (“ASC”) 805, “Business Combinations”, (“ASC 805”). The pro forma adjustments are based on the information currently available and the assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes. Actual results may differ materially from the assumptions within the accompanying unaudited pro forma condensed combined financial information.

Edgar Filing: STG Group, Inc. - Form 8-K

The unaudited pro forma condensed combined balance sheet of GDEF and STG as of September 30, 2015 assumes the Business Combination had occurred on that date. Such pro forma information is based upon the unaudited historical balance sheet of GDEF and unaudited historical consolidated balance sheet of STG as of September 30, 2015.

The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2015 and for the year ended December 31, 2014 assumes the Business Combination had occurred on January 1, 2014. The unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2015 is based upon the historical unaudited statement of operations of GDEF and the historical unaudited consolidated statement of income of STG for the nine months ended September 30, 2015. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2014 is based on the historical audited statement of operations of GDEF and the historical audited consolidated statement of income of STG for the year ended December 31, 2014.

The unaudited pro forma condensed combined financial statements are based on estimates and assumptions set forth in the notes to these financial statements, which have been made solely for purposes of developing this pro forma information. The unaudited pro forma consolidated financial statements are not necessarily an indication of the results that would have been achieved had such transactions been consummated as of the dates indicated or that may be achieved in the future. Furthermore, these pro forma condensed combined financial statements do not reflect changes which may occur as a result of post-Business Combination activities and other matters.

These unaudited pro forma condensed combined financial statements should be read in conjunction with the historical financial statements and related notes of STG and GDEF, which are included as exhibits to this Current Report on Form 8-K.

The unaudited pro forma condensed combined financial information has been prepared to illustrate the effect of the Business Combination and has been prepared for informational purposes only. The historical consolidated financial statements have been adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma events that are (1) directly attributable to the Business Combination, (2) factually supportable and (3) with respect to the statement of operations, expected to have a continuing impact on the results of the post-combination company.

The following table summarizes the consideration, sources and uses for the Business Combination, and ownership interests:

US dollars in thousands	
Cash consideration	\$68,000
Stock consideration ⁽¹⁾	102,200
	\$170,200
Public stockholders	783,422
Stock Dividend	739,077
STG stockholders - Stock consideration	9,023,360
STG stockholders – Promote shares received from GDEF at close	35,000
STG stockholders – Conversion Shares	658,513
STG stockholders – Stock Dividend	621,238
Sponsor - Shares held since IPO	2,279,564
Sponsor – Promote shares transferred to STG stockholders at close	(35,000)
Sponsor - Backstop	1,030,103
Sponsor - Stock Dividend	971,795
	16,107,072
% Non-public shares	% 90.6
Ownership interest of STG stockholders	% 64.2
Ownership interest of Sponsor	% 26.4
Ownership interest of public stockholders	% 9.4
Sources and Uses of Cash	
Sources	
Proceeds from debt financing	\$81,750
Share consideration to STG	90,500
Equity from Public Capital Markets	7,448
Equity from Private Capital Markets - Sponsor	10,950
Equity from Private Capital Markets - STG stockholders	7,000
Satisfaction of Note receivable from STG stockholders	2,500
GDEF and STG cash balance at November 23, 2015	2,796

Edgar Filing: STG Group, Inc. - Form 8-K

	\$202,944
Uses	
Cash consideration to STG stockholders	68,000
Share consideration to STG stockholders	90,500
STG stockholders – Conversion Shares	7,000
Estimated transaction fees and expenses	8,955
Repayment of GDEF affiliated debt	4,986
Repayment of GDEF liabilities	2,569
Cash Consideration Adjustment for Working Capital	6,793
Cash to Balance Sheet	14,141
	\$202,944

Unaudited Pro Forma Condensed Combined Balance Sheet
As of September 30, 2015
(in thousands)

	GDEF – Historical	STG – Historical	Pro Forma Adjustments for Redemption, Merger, Recapitalization and Debt Financing	Notes	Pro Forma Adjustments Redemption	Notes	Pro Forma Combined Redemption
ASSETS							
Current Assets							
Cash and cash equivalents	\$ 226	\$ 5,814	\$ 33,819	2a, 2b, 2f, 2g, 2i, 2m, 2l, 2n	(22,473)	2b, 2k	\$ 17,385
Contract receivables, net	—	26,775					26,775
Investments held in Rabbi Trust	—	4,279	(4,279)	2j			—
Prepaid expenses and other current assets	20	1,021					1,041
Total current assets	246	37,889	29,540		(22,473)		45,201
Property and equipment, net	—	1,915					1,915
Goodwill	—	2,635	135,395	2a, 2e, 2h, 2o, 2p, 2q, 2r			138,030
Intangible assets, net	—	1,500	41,850	2p, 2q			43,350
Cash and investments held in Trust Account	63,914	—	(63,914)	2b			—
Other assets	—	83	5,338	2f			5,421
Total long-term assets	63,914	8,633	118,669		—		188,716
TOTAL ASSETS	\$ 64,160	\$ 44,022	\$ 148,209		\$ (22,473)		\$ 233,917
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current Liabilities							
Long-term debt, current portion	\$ —	\$ —	511	2f			511
Convertible promissory note to affiliate	2,607	—	(2,607)	2l			—
Accounts payable and accrued expenses	2,346	14,911	(2,346)	2l			14,911
Accrued payroll and related liabilities	—	9,599					9,599
Billings in excess of revenue recognized	—	288					288
Due to affiliate	1,465	—	(1,465)	2l			—

Edgar Filing: STG Group, Inc. - Form 8-K

Deferred rent	—	122	(122) 2o	—	—
Total current liabilities	6,418	24,920	(6,029)	—	25,310

Unaudited Pro Forma Condensed Combined Balance Sheet – (continued)
As of September 30, 2015

(in thousands)

	GDEF – Historical	STG – Historical	Pro Forma Adjustments for Redemption, Merger, Recapitalization and Debt Financing	Notes	Pro Forma Adjustments Redemption	Notes	Pro Forma Combined Redemption
Long-term debt, net of current portion			81,239	2f			81,239
Deferred compensation plan	—	4,279	(4,279) 2j			—
Deferred equity underwriter fees	1,898	—	(1,898) 2i			—
Deferred income taxes	—	—	16,967	2h			16,967
Deferred rent	—	678	(678) 2o			—
Total long-term liabilities	1,898	4,957	91,352		—		98,206
TOTAL LIABILITIES	8,315	29,877	85,323		—		123,516
Redeemable securities	50,845	—	(50,845) 2k			—
STOCKHOLDERS' EQUITY							
Common stock	—	—	1	2c, 2m, 2n			1
Additional paid-in capital	11,742	10,391	119,610	2e, 2h, 2k, 2l, 2m, 2n	\$ (22,473)	2b, 2k	119,270
Retained earnings	(6,743)	3,754	(5,881) 2d, 2e, 2g			(8,869)
TOTAL STOCKHOLDERS' EQUITY	5,000	14,145	113,731		(22,473)		110,401
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 64,160	\$ 44,022	\$ 148,209		\$ (22,473)		\$ 233,917

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Nine Months Ended September 30, 2015
(in thousands, except share and per share information)

	GDEF – Historical	STG – Historical	Pro Forma Adjustments for Redemption, Merger, Recapitalization and Debt Financing	Notes	Pro Forma Adjustments	Notes	Pro Forma Combined
Contract revenue	\$—	\$ 149,138					\$ 149,138
Direct expenses	—	\$ 102,224					102,224
Gross profit	—	46,914	—		—		46,914
Operating Expenses							
Indirect and selling expenses	4,536	\$ 40,933	\$ 7,228	3c, 3d			52,697
Impairment of goodwill	—	2,064					2,064
Impairment of other intangible assets	—	906					906
Total Operating Expenses	4,536	43,903	7,228		—		55,667
Operating income (loss)	(4,536)	3,011	(7,228)		—		(8,753)
Other income (expense)							
Other (expense) income, net	1	(259)					(258)
Interest expense	—	(43)	(6,110)	3a			(6,153)
Total other Income (expense)	1	(302)	(6,110)		—		(6,410)
Income (loss) before income taxes	(4,535)	2,709	(13,337)		—		(15,163)
Tax provision (benefit)			(5,935)	3b	—		(5,935)
Net income (loss)	\$(4,535)	\$ 2,709	\$(7,403)		\$ —		\$(9,228)
Net income (loss) per share available to common stockholders							
Basic and diluted	\$(1.26)	\$ 2,438					\$(0.57)
Weighted average number of common shares outstanding							
Basic and diluted	3,601,715	1,111	12,504,246	4a			16,107,072

NOTE — basic and diluted is equivalent since there is a combined loss. The only common stock equivalents are the convertible related party notes which are non-interest bearing and are convertible into GDEF Common Stock at the greater of the 30-day average trading price or \$10 per share. The assumed conversion price was the average daily trading price for December 1, 2014 through December 31, 2014 (the applicable 30-day period prior to January 1, 2015) of \$10.27.

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2014
(in thousands, except share and per share information)

	GDEF – Historical	STG – Historical	Pro Forma Adjustments for Redemption, Merger, Recapitalization and Debt Financing	Notes	Pro Forma Adjustments	Pro Forma Combined
Contract revenue	\$—	\$ 209,727				\$ 209,727
Direct expenses	—	141,925				141,925
Gross profit	—	67,802	—		—	67,802
Operating Expenses						
Indirect and selling expenses	2,145	61,286	\$ 8,583	3c, 3d		72,014
Impairment of goodwill	—	5,117				5,117
Impairment of other intangible assets	—	1,811				1,811
Total Operating Expenses	2,145	68,214	8,583		—	78,942
Operating income (loss)	(2,145)	(412)	(8,583)		—	(11,140)
Other income (expense)						
Other (expense) income, net	23	313				336
Interest expense	—	(70)	(8,124)	3a		(8,194)
Total other Income (expense)	23	243	(8,124)		—	(7,858)
Income (loss) before income taxes	(2,122)	(169)	(16,707)		—	(18,998)
Tax provision (benefit)			(7,409)	3b		(7,409)
Net income (loss)	\$(2,122)	\$(169)	\$(9,298)		\$ —	\$(11,583)
Net income (loss) per share available to common stockholders						
Basic and diluted	\$(0.62)	\$(152.12)				\$(0.72)
Weighted average number of common shares outstanding						
Basic and diluted	3,399,156	1,111	12,706,805	4a		16,107,072

NOTE — basic and diluted is equivalent since there is a combined loss. The only common stock equivalents are the convertible related party notes which are non-interest bearing and are convertible into GDEF Common Stock at the greater of the 30-day average trading price or \$10 per share. The assumed conversion price was the average daily trading price for December 1, 2013 through December 31, 2014 (the applicable 30-day period prior to January 1, 2014) of \$10.05.

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Description of Transaction

Pursuant to the Business Combination Agreement, upon the effectiveness of the Business Combination shares of common stock of STG were exchanged for cash and validly issued shares of GDEF Common Stock paid and issued to the STG Stockholders. The Business Combination purchase price of \$170.9 million was subject to working capital and other customary adjustments determined at the closing of the Business Combination in accordance with the terms of the Business Combination Agreement. The Business Combination occurred on November 23, 2015, the consideration paid to the STG Stockholders for their shares of STG common stock was \$177.0 million, consisting of \$68 million in cash (the "Cash Consideration"), \$7 million in Conversion Shares (658,513 shares) and \$90.5 million in common equity, or 8,578,199 shares, valued at approximately \$10.55 per share, issued by GDEF, and \$6.8 million of purchase price adjustments for cash on the balance sheet and net working capital differences between the estimated working capital at close and the targeted working capital of \$10.1 million. GDEF issued to the STG Stockholders 445,161 shares (\$4.7 million) of GDEF Common Stock held by the Sponsor that was contributed by the Sponsor to GDEF immediately prior to the closing of the transactions contemplated by the Business Combination Agreement.

In addition, at close, the Sponsor transferred to the STG Stockholders 35,000 shares of GDEF common stock immediately prior to closing the transaction.

If, immediately following the closing of the transaction, the share consideration was, in the aggregate, less than 56.7% of the outstanding shares of GDEF Common Stock, as of the closing, a portion of the Cash Consideration may have been exchanged for additional shares of GDEF Common Stock at a price of \$10.55 per share, so that the STG Stockholders would own, in the aggregate, 56.7% of the outstanding shares of GDEF Common Stock following the closing of the Business Combination. In addition, in the event that the transaction otherwise did not qualify for the tax treatment described in the Business Combination Agreement, a portion of the Cash Consideration would have been exchanged for additional shares of GDEF 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 GDEF Common Stock in connection with an equity financing completed in connection with the closing, would own 80% of the outstanding shares of GDEF Common Stock at closing. The Cash Consideration was increased by \$5.9 million by the amount of estimated working capital and cash at close exceeding the defined threshold.

The Cash Consideration was paid using proceeds held in our Trust Account and the balance of the Cash Consideration was paid using proceeds from debt financing. The remainder of the proceeds from the debt financing will be used by GDEF to pay debt and transaction related expenses and for general corporate purposes after closing. GDEF finalized debt financing of \$81.75 million at close, while remaining cash raised in the Company's IPO and remaining in trust in the amount of \$8.3 million was transferred from the Trust (as defined below) to GDEF at close. Shares redeemed at close amounted to 2,031,383 at \$10.63 per share (\$21.6 million).

On October 17, 2015, GDEF entered into an Amended and Restated Backstop Common Stock Purchase Agreement (the “Backstop Purchase Agreement”) with the Sponsor. The Backstop Purchase Agreement granted the Sponsor the right to purchase shares of GDEF Common Stock, at a price of \$10.63 per share (the “Backstop Purchase”). The purchase right was exercisable only in the event, and to the extent, that the Company did 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. In connection with the closing of the Business Combination, the Sponsor purchased 1,030,103 shares for consideration of approximately \$10.95 million.

GDEF declared a dividend of one share of GDEF Common Stock for every 1.06 shares of GDEF Common Stock payable to Stockholders of record immediately following the consummation of the Business Combination, which occurred on November 23, 2015. The Sponsor, with respect to the shares of GDEF 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 did not forfeit any right to receive any Dividend Shares in respect of any shares it acquired pursuant to the Backstop Purchase and the STG Stockholders did not forfeit any right to receive Dividend Shares with respect to the Conversion Shares. Payment of the dividend was contingent upon the closing of the Business Combination and made as soon as practicable after close of the Business Combination.

On July 17, 2015, GDEF held a special meeting of stockholders (the “July Extension Meeting”). At the July Extension Meeting, the stockholders approved amendments to the Charter 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 Charter, in connection with the July Extension Meeting and the approval of the amendments to the Charter, our Public Stockholders were entitled to redeem their GDEF 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 GDEF to pay franchise or income taxes. Our stockholders redeemed 876,072 shares of GDEF 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, GDEF issued a non-interest bearing promissory note to the Sponsor for an aggregate of approximately \$361,436. GDEF used the proceeds from the note to deposit \$0.06 per share that was not redeemed in the Trust Account. In connection with the October Extension Meeting, on October 23, 2015, GDEF issued a non-interest bearing promissory note to the Sponsor for an aggregate approximately \$56,300. GDEF used the proceeds from the note to deposit \$0.02 per share that was not redeemed in the Trust Account. The notes will be repaid on the earlier of (1) November 24, 2015, or (2) immediately following consummation of GDEF’s initial business combination. After giving effect to the redemptions and the additional deposits, there was approximately \$29,921,377 in the Trust Account as of October 30, 2015, or approximately \$10.63 per public share. There were 3,209,123 shares redeemed at \$10.61 per share.

In connection with the closing, GDEF’s public stockholders elected to redeem 2,031,383 shares of Common Stock pursuant to the terms of GDEF’s amended and restated certificate of incorporation, at a price per share of \$10.63, resulting in a total payment to redeeming stockholders of \$21,593,601.29.

2. Unaudited Pro Forma Condensed Combined Balance Sheet Adjustments

The estimated purchase price and the allocation of the estimated purchase price discussed below are preliminary. An independent third-party valuation firm assisted in performing a preliminary valuation. The final allocation of the purchase price will be determined at a later date and is dependent on a number of factors, including the determination of the final aggregate consideration paid in connection with the Business Combination as a result of all adjustments set forth in the Business Combination Agreement and the final evaluation of STG’s tangible and identifiable intangible assets acquired and liabilities assumed. Such final adjustments may be material. The allocation is expected to occur within one year of the consummation of the Business Combination. The preliminary consideration and allocation of the purchase price to the fair value of STG’s assets acquired and liabilities assumed as if the acquisition date was September 30, 2015 is presented as follows (in thousands):

	Note	Amount
Calculation of consideration		

Edgar Filing: STG Group, Inc. - Form 8-K

Purchase price – cash consideration	(refer to 2 (a) below)	\$68,000
Purchase price – share consideration	(refer to 2 (a) below)	102,200
Purchase price adjustments (cash and workings capital)	(refer to 2 (a) below)	6,793
Total consideration		\$176,993
Recognized amounts of identifiable assets acquired and liabilities assumed		
Book value of STG’s net assets	(refer to 2 (d), 2 (e) below)	\$16,645
Less: Transaction costs incurred by STG	(refer to 2 (a) below)	(730)
Less: Historical STG goodwill	(refer to 2 (r) below)	(2,635)
Less: Historical STG intangible assets	(refer to 2 (p) below)	(1,500)
Add: Historical STG deferred rent liabilities	(refer to 2 (o) below)	800
		12,580
Fair value adjustments of net assets acquired		
Identifiable intangible assets		
Customer relationships	(refer to 2 (p) below)	28,480
Trade name	(refer to 2 (q) below)	14,870
Deferred tax liabilities – Identifiable intangible assets	(refer to 2 (h) below)	(16,967)
Goodwill	(refer to 2 (r) below)	\$138,030

Notes to Unaudited Pro Forma Condensed Combined Financial Information**2. Unaudited Pro Forma Condensed Combined Balance Sheet Adjustments – (continued)****Cash and cash equivalents — Merger, Recapitalization and Debt Financing**

(US dollars in thousands)

Cash consideration – business combination	\$ (82,240)	(refer to 2 (a) below)
Cash from Trust Account (100%)	29,921	(refer to 2 (b) below)
Debt	81,750	(refer to 2 (f) below)
Estimated transaction fees and expenses	(8,955)	(refer to 2 (i) below)
Equity from Private Capital Markets - Sponsor	10,950	(refer to 2 (n) below)
Equity from Private Capital Markets - STG stockholders	7,000	(refer to 2 (n) below)
STG Shareholder loan	2,500	(refer to 2 (m) below)
Settlement of promissory note	(4,986)	(refer to 2 (l) below)
Settlement of accounts payable	(2,123)	(refer to 2 (l) below)
	\$ 33,819	

Pro forma adjustment to reflect the Business Combination, recapitalization and debt financing on the additional paid-in capital account balance is as follows:

Additional paid-in capital — Merger, Recapitalization and Debt Financing

(US dollars in thousands)

Share consideration – business combination	\$ 95,200	(refer to 2 (a) below)
Redemption of shares	(33,992)	(refer to 2 (b) below)
Elimination of additional paid-in capital of STG	(10,391)	(refer to 2 (d) 2 (e) below)