

Global Defense & National Security Systems, Inc.  
Form 10-Q  
November 13, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2014

**.. 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  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

(Do not check if a smaller reporting company)

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

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).

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As of November 13, 2014, there were 9,624,725 shares of Company's common stock issued and outstanding.

GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.

TABLE OF CONTENTS

<b>PART I. FINANCIAL INFORMATION</b>	2
ITEM 1. FINANCIAL STATEMENTS	2
<u>Condensed Balance Sheets</u>	3
<u>Condensed Statements of Operations</u>	4
<u>Condensed Statement of Changes in Stockholders' Equity</u>	5
<u>Condensed Statements of Cash Flows</u>	6
<u>Notes to Condensed Interim Financial Statements</u>	7
<b><u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	15
<u>Overview</u>	15
<u>Results of Operations</u>	15
<u>Liquidity and Capital Resources</u>	15
<u>Critical Accounting Policies</u>	16
<b><u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	17
<b><u>ITEM 4. CONTROLS AND PROCEDURES</u></b>	17
<b><u>PART II. OTHER INFORMATION</u></b>	18
<b><u>ITEM 1. LEGAL PROCEEDINGS</u></b>	18
<b><u>ITEM 1A. RISK FACTORS</u></b>	18
<b><u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	19
<b><u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u></b>	20
<b><u>ITEM 4. MINE SAFETY DISCLOSURE</u></b>	20
<b><u>ITEM 5. OTHER INFORMATION</u></b>	20
<b><u>ITEM 6. EXHIBITS</u></b>	20
Ex-31.1	
Ex-31.2	
Ex-32.1	
Ex-32.2	

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****(A Corporation in the Development Stage)****CONDENSED BALANCE SHEETS**

	Sept 30, 2014 (Unaudited)	Dec 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$ 726,687	\$ 827,541
Prepaid insurance	14,281	128,771
Total current assets	740,968	956,312
Cash and cash equivalents held in Trust Account	72,834,448	72,810,956
Total assets	\$ 73,575,416	\$ 73,767,268
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 230,185	\$ 44,937
Loan note payable to affiliate	1,263,263	-
Due to affiliate	143,373	80,105
Total current liabilities	1,636,821	125,042
Deferred underwriters fees	1,897,500	1,897,500
Total liabilities	3,534,321	2,022,542
Common stock subject to possible redemption: 6,165,031 shares (at redemption value) at September 30, 2014 (6,326,513 at December 31, 2013)	65,041,094	66,744,725
Stockholders' equity		
Common stock, \$.0001 par value, 100,000,000 shares authorized; 3,459,694 and 3,298,212 shares issued and outstanding (excluding 6,165,031 and 6,326,513 shares subject to possible redemption) at September 30, 2014 and December 31, 2013, respectively	346	329
Additional paid-in capital	6,788,420	5,084,805
Deficit accumulated during the development stage	(1,788,765 )	(85,133 )
Total stockholders' equity	5,000,001	5,000,001
Total liabilities and stockholders' equity	\$ 73,575,416	\$ 73,767,268

See accompanying notes to condensed interim financial statements.



**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****(A Corporation in the Development Stage)****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months ended Sept 30, 2014	July 3, 2013 (date of inception) to Sept 30, 2013	Nine Months ended Sept 30, 2014	July 3, 2013 (date of inception) to Sept 30, 2014
Revenue	\$-	\$-	\$-	\$-
General and administrative expenses	364,069	1,989	1,727,124	1,828,213
Loss from operations	(364,069 )	(1,989 )	(1,727,124 )	(1,828,213 )
Interest income	112	-	23,492	39,448
Net loss attributable to common stock not subject to possible redemption	\$(363,957 )	\$(1,989 )	\$(1,703,632 )	\$(1,788,765 )
Weighted average number of common shares, excluding shares subject to possible redemption – basic and diluted	3,445,303	2,003,225	3,378,610	4,351,325
Net loss per common share, excluding shares subject to possible redemption – basic and diluted	\$(0.11 )	\$(0.001 )	\$(0.50 )	\$(0.41 )

See accompanying notes to condensed interim financial statements.

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****(A Corporation in the Development Stage)****CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****For the period from July 3, 2013 (inception) to September 30, 2014****(Unaudited)**

	Common Stock			Deficit Accumulated	Total
	Shares	Amount	Additional Paid-in Capital	During the Development Stage	Stockholders' Equity
Sale of common stock issued to initial stockholder on July 3, 2013 at approximately \$0.012 per share	2,003,225	\$ 200	\$24,800	\$ -	\$25,000
Proceeds from private placement of 721,500 shares	721,500	72	7,214,928	-	7,215,000
Proceeds from public offering of 6,900,000 shares, net of offering expenses	6,900,000	690	68,999,310	-	69,000,000
Underwriters' discount and offering expenses	-	-	(4,410,141 )	-	(4,410,141 )
Net proceeds subject to possible redemption of 6,326,513 shares	(6,326,513 )	(633 )	(66,744,092 )	-	(66,744,725 )
Net loss attributable to common stock not subject to possible redemption	-	-	-	(85,133 )	(85,133 )
Balances at December 31, 2013	3,298,212	329	\$5,084,805	(85,133 )	5,000,001
Change in carrying amount of redeemable shares to 6,165,031 shares subject to possible redemption at September 30, 2014 (unaudited)	161,482	17	1,703,615	-	1,703,632
Net loss attributable to common stock not subject to possible redemption (unaudited)	-	-	-	(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.****(A Corporation in the Development Stage)****CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Nine Months ended Sept 30, 2014	July 3, 2013 (date of inception) to September 30, 2014
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (1,703,632	) \$ (1,788,765 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Prepaid insurance	114,491	(14,280 )
Accounts payable and accrued expenses	105,430	150,367
Due to affiliate	63,268	143,373
Interest on Trust Account	(23,492 )	(39,448 )
Franchise taxes accrued	79,818	79,818
Net cash used in operating activities	(1,364,117 )	(1,468,935 )
<b>Cash Flows from Investing Activities:</b>		
Proceeds deposited in Trust Account	-	(72,795,000 )
Net cash used in investing activities	-	(72,795,000 )
<b>Cash Flows from Financing Activities:</b>		
Proceeds from convertible promissory note to affiliate	1,263,263	1,263,263
Payment of underwriting fees	-	(2,070,000 )
Proceeds from sale of shares to Sponsor	-	25,000
Proceeds from public offering	-	69,000,000
Proceeds from private placement	-	7,215,000
Payment of offering costs	-	(442,641 )
Net cash provided by financing activities	1,263,263	74,990,622
(Decrease) / Increase in cash	(100,854 )	726,687
Cash at beginning of period	827,541	-
Cash at end of period	\$ 726,687	\$ 726,687
<b>Supplemental Disclosure of Non-Cash Financing Activities:</b>		
Deferred underwriters' fee	\$ -	\$ 1,897,500

**Supplemental Disclosure of Cash Flow Information:**

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Cash paid for franchise taxes	\$ 55,182	\$ 146,459
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See accompanying notes to condensed interim financial statements.

6

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

**(A Corporation in the Development Stage)**

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

**For the period from July 3, 2013 (inception) to September 30, 2014**

**(Unaudited)**

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

Global Defense & National Security Systems, Inc. (a development stage company) (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 that we have not yet identified (“Business Combination”). The Company has neither engaged in any operations nor generated revenue to date. The Company is considered to be in the development stage as defined in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 915, “Development Stage Entities” and is subject to the risks associated with activities of development stage companies.

At September 30, 2014, the Company had not commenced any operations. All activity through September 30, 2014, 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.

Net proceeds of \$72,795,000 from the Public Offering and simultaneous private placements of the placement shares (as described below in Note 3) are being held in a trust account ("Trust Account") in the United States maintained by American Stock Transfer & Trust Company, acting as trustee, 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.

The Company will proceed with a Business Combination if it is approved by the board of directors. In the event that the Company is required to seek stockholder approval in connection with our initial Business Combination, 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.

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

**(A Corporation in the Development Stage)**

### Liquidation and going concern

Our Sponsor, officers and directors have agreed that the Company will have only 21 months from the date of our prospectus (October 24, 2013) to consummate our initial Business Combination. If we are unable to consummate our initial Business Combination by July 24, 2015, 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. 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 we fail to consummate our initial Business Combination within 21 months from the date of our prospectus (October 24, 2013), (iii) in connection with an expired or unwithdrawn tender offer, and (iv) upon our liquidation prior to the expiration of the 21 month period. However, if our 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 we fail 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 we do not consummate a Business Combination within 21 months from the date of our 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 our 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 unaudited financial statements as of September 30, 2014 and the results of operations and cash flows for the three and nine month periods ended September 30, 2014 and for the period from July 3, 2013 (inception)

through September 30, 2014 are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, all adjustments necessary for a fair presentation have been included and are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for any other interim period or for the full year.

These unaudited condensed interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the period ended December 31, 2013 included on Form 10-K filed with the SEC on March 14, 2014. The December 31, 2013 balance sheet included herein has been derived from those audited financial statements. The accounting policies used in preparing these unaudited condensed interim financial statements are consistent with those used in preparing the December 31, 2013 audited financial statements.

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

### **(A Corporation in the Development Stage)**

While preparing its financial statements for the six months ended June 30, 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 year ended December 31, 2013. This treatment has been consistently applied for the period ended September 30, 2014. 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 condensed 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 10-Q or 10-K reports with the SEC are required.

### **Development stage company**

The Company complies with the reporting requirements of FASB ASC 915, "Development Stage Entities". At September 30, 2014, the Company has not commenced any operations nor generated revenue to date. All activity through September 30, 2014 relates to the Company's formation, the Public Offering, activities relating to identifying and evaluating prospective Business Combination candidates and activities relating to general corporate matters. The Company will not generate any operating revenues until after completion of a Business Combination, at the earliest. The Company generates non-operating income in the form of interest income on the designated Trust Account.

### **Securities held in trust**

The Company classifies investment in short-term treasury securities as held-to-maturity in accordance with FASB ASC 320, "Investments -Debt and Equity Securities", as the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost and adjusted for the amortization or accretion of premiums or discounts. A decline in the market value of held-to-maturity securities below cost that the Company deems to be other than temporary results in an impairment that reduces the carrying costs to such securities' fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other than temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and the duration of the impairment, changes in value subsequent to year-end, forecasted



performance of the investee, and the general market condition in the geographic area or industry the investee operates in. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective-interest method. Such amortization and accretion is included in the "Interest income" line item in the statement of operations. Interest income is recognized when earned.

#### Net loss per share of Common Stock

The Company complies with accounting and disclosure requirements of FASB ASC 260, "Earnings Per Share." Net loss per share of Common Stock is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of Common Stock outstanding for the period.

Diluted net loss per share of Common Stock is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of Common Stock outstanding, plus, to the extent dilutive, the incremental number of shares of common stock 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 shares of common stock are not considered as they are anti-dilutive. As a result, diluted profit/loss per share of Common Stock is the same as basic profit/loss per share of Common Stock for the period. At September 30, 2014, the Company had an outstanding advance owing to Sponsor convertible into 122,172 shares of Common Stock.

#### 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.

**GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.****(A Corporation in the Development Stage)**

## 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, 2014 and December 31, 2013, 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, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Cash equivalents held in Trust Account:				
U.S. Government Treasury Bills	\$72,800,690	\$ 72,800,690	\$ -	\$ -
Description	December 31, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Cash equivalents held in Trust Account:				
U.S. Government Treasury Bills	\$72,780,878	\$ 72,780,878	\$ -	\$ -

## Recent accounting pronouncements

In June 2014, FASB issued 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 shareholder equity. Early application of each of the amendments is permitted for any annual reporting period or interim period for which the entity’s financial statements have not yet been issued (public business entities) or made available for issuance (other entities). Upon adoption, entities will no longer present or disclose any information required by Topic 915.

For public business entities, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company will be adopting this standard in future filings.

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.

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

**(A Corporation in the Development Stage)**

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, 2014 and December 31, 2013, the Company has a net deferred tax asset, before valuation allowance, of approximately \$693,000 and \$65,000 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 ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There were no unrecognized tax benefits as of September 30, 2014 and December 31, 2013. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at September 30, 2014 or December 31, 2013. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position. The Company is subject to income tax examinations by major taxing authorities since inception.

The Company may be subject to potential examination by U.S. federal, U.S. states or foreign jurisdiction 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, U.S. state and foreign tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

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, 2014, 6,165,031 (at December 31, 2013, 6,326,513) 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 \$10.55 at September 30, 2014 and December 31, 2013).

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

**(A Corporation in the Development Stage)**

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 21 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 21 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.

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

**(A Corporation in the Development Stage)**

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 the proceeds of \$1,000,000 will be used as working capital in order to finance transaction costs in connection with an intended initial Business Combination and \$263,263 was used to pay operating costs incurred in the period from inception through March 31, 2014. For the three-month period ended September 30, 2014, the Sponsor has paid operating costs amounting to \$40,770, which the Company recorded as due to affiliate in the accompanying condensed balance sheets. There were no similar payments for the same period ended September 30, 2013. As of September 30, 2014, the total amount owed to the Sponsor is \$1,406,636. The convertible note is due on the earlier of (1) July 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 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.

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 21 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.

## GLOBAL DEFENSE & NATIONAL SECURITY SYSTEMS, INC.

### (A Corporation in the Development Stage)

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

#### 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.

As of September 30, 2014, the Company's Trust Account consists of \$72,800,690 (December 31, 2013, \$72,780,878), invested exclusively in 3 month U.S. government treasury bills and another \$33,758 (December 31, 2013, \$30,078) is held as cash.

#### 7.

#### COMMITMENTS & 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.

Management has approved the financial statements and performed an evaluation of subsequent events through the date of issuance noting no items requiring disclosure except for the following:

On October 8, 2014, we received an inquiry from the NASDAQ Staff relating to whether we satisfied the minimum public holder requirement. We must reply to this letter by November 14, 2014. We expect to inform NASDAQ that we do not believe we meet this requirement. We expect to receive written notification from NASDAQ that allows us 45 calendar days to provide NASDAQ with a plan to regain compliance. If the plan is accepted, NASDAQ can grant us up to 180 calendar days from the date of the NASDAQ notice of non-compliance to evidence compliance. If the plan is not accepted by NASDAQ, or if the Company is unable to regain compliance prior to the expiration of any extension period granted by the NASDAQ Staff, the Company can appeal the decision to an independent hearings panel. The filing of such an appeal would stay any suspension or delisting action until the conclusion of the hearing process and the expiration of any extension granted by the panel.

If NASDAQ suspends or delists our shares from trading on its exchange and we are not able to list our shares on another national securities exchange, we expect our shares could be quoted in the over-the-counter market on the OTCQB market tier or the OTC Pink Current Information tier.

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

**(A Corporation in the Development Stage)**

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

References to the "Company," "us" or "we" refer to Global Defense & National Security Systems, Inc. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the condensed financial statements and the notes thereto contained elsewhere in this report. Certain information contained in the discussion and analysis set forth below includes forward-looking statements that involve risks and uncertainties.

**Special Note Regarding Forward-Looking Statements**

All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. When used in this Form 10-Q, words such as "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to us or the Company's management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of management, as well as assumptions made by, and information currently available to, the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors detailed in our filings with the SEC. All subsequent written or oral forward-looking statements attributable to us or persons acting on the Company's behalf are qualified in their entirety by this paragraph.

**Overview**

We are a blank check company incorporated on July 3, 2013 as a Delaware corporation and formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses ("Business Combination"). We intend to effectuate our Business Combination using cash from the proceeds of a public offering (the "Public Offering") and a sale of shares of Common Stock in a private placement that occurred simultaneously with the completion of the Public Offering (the "Private Placement Shares"), our capital stock, debt or a combination of cash, stock and debt.

## Results of Operations

For the three and nine month periods ended September 30, 2014, we had a net loss of \$363,957 and \$1,703,632, respectively. For the period from July 3, 2013 (inception) to September 30, 2013, we had a net loss of \$1,989. The Company's entire activity from July 3, 2013 (inception) through September 30, 2014, was in preparation for the Public Offering, which was consummated on October 29, 2013 and the identification of a target company for our initial Business Combination. On May 15, 2014, the Company issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,263,263, of which the proceeds of \$1,000,000 will be used as working capital in order to finance transaction costs in connection with an intended initial Business Combination and \$263,263 was used to pay operating costs incurred in the period from inception through March 31, 2014. For the three-month period ended September 30, 2014, the Sponsor has paid operating costs amounted to \$40,770, which the Company recorded as due to affiliate in the accompanying condensed balance sheets. There were no similar payments for the same period ended September 30, 2013. As of September 30, 2014, the total amount owed to the Sponsor is \$1,406,636. The convertible note is due on the earlier of (1) July 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. We believe that we have sufficient funds available to complete our efforts to effect a Business Combination with an operating business within the required 21 months from October 24, 2013. The Company intends to seek additional working capital from our sponsor for these purposes, should it be required.

## Liquidity and Capital Resources

As of September 30, 2014, we had cash of \$726,687. On May 15, 2014, the Company issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,263,263, of which the proceeds of \$1,000,000 will be used as working capital in order to finance transaction costs in connection with an intended initial Business Combination and \$263,263 was used to pay operating costs incurred in the period from inception through March 31, 2014. For the three-month period ended September 30, 2014, the Sponsor has paid operating costs of \$40,770, which the Company recorded as due to affiliate in the accompanying condensed balance sheets. There were no similar payments for the same period ended September 30, 2013. As of September 30, 2014, the total amount owed to the Sponsor is \$1,406,636. The convertible note is due on the earlier of (1) July 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. If we do not complete a Business Combination, 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.

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

### **(A Corporation in the Development Stage)**

On October 29, 2013, we consummated the Company's Public Offering of 6,900,000 shares of the Company's common stock, \$0.0001 par value (the "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.

#### Off-balance sheet financing arrangements

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements. We have not entered into any off-balance sheet financing arrangements, established any special purpose entities, guaranteed any debt or commitments of other entities, or enter into any non-financial agreements involving assets.

#### 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, the Company issued a non-interest bearing convertible promissory note to the Sponsor amounting to \$1,263,263, of which the proceeds of \$1,000,000 will be used as working capital in order to finance transaction costs in connection with an intended initial Business Combination and \$263,263 was used to pay operating costs incurred in the period from inception through March 31, 2014. For the three-month period ended September 30, 2014,

the Sponsor has paid operating costs amounted to \$40,770, which the Company recorded as due to affiliate in the accompanying condensed balance sheets. There were no similar payments for the same period ended September 30, 2013. As of September 30, 2014, the total amount owed to the Sponsor is \$1,406,636. The convertible note is due on the earlier of (1) July 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.

#### Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with GAAP 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. The Company has identified the following as its 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.

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

### **(A Corporation in the Development Stage)**

#### 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.

#### Recent accounting pronouncements

In June 2014, FASB issued 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 shareholder equity. Early application of each of the amendments is permitted for any annual reporting period or interim period for which the entity’s financial statements have not yet been issued (public business entities) or made available for issuance (other entities). Upon adoption, entities will no longer present or disclose any information required by Topic 915. For public business entities, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. The Company will be adopting this standard in future filings.

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. 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, 2014, approximately \$70,936,948 (excluding approximately \$1,897,500 of deferred underwriting discounts) was held in trust for the purposes of consummating a Business Combination. The proceeds held in trust amounting to \$72,800,690 (including approximately \$1,897,500 of deferred underwriting discounts) have been invested in U.S. Government Treasury Bills exclusively with a 3 month maturity. This investment is performed via Wells Fargo Bank, N.A. Given the limited risk associated with such securities, we do not view our interest rate risk to be significant. As of September 30, 2014, the effective annualized interest rate payable on our investments was approximately 0.02%.

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 are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2014. Based upon their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act) were effective.

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

**(A Corporation in the Development Stage)**

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

We are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or any of our officers and directors in their corporate capacity.

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 prospectus as filed with the SEC on October 25, 2013. This section supplements and updates that discussion. For a complete understanding of the subject, you should read both 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 below and in our prospectus, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.

***NASDAQ may suspend or delist our shares from trading on its exchange which could limit investors’ ability to make transactions in our shares and subject us to additional trading restrictions.***

Although at the time of our initial listing we met the applicable minimum initial listing standards set forth in the NASDAQ Listing Rules, we cannot assure you that our shares will continue to be listed on NASDAQ in the future or prior to a business combination.

In order to continue listing our shares on NASDAQ prior to a business combination, we must maintain certain financial, distribution and stock price levels. Generally, we must maintain a minimum amount in stockholders' equity (\$2,500,000) and a minimum number of public stockholders (300 public holders). In addition, in connection with the completion of a business combination, we would be required to again demonstrate compliance with the applicable minimum initial listing standards.

On October 8, 2014, we received an inquiry from the NASDAQ Staff relating to whether we satisfied the minimum public holder requirement. We must reply to this letter by November 14, 2014. We expect to inform NASDAQ that we do not believe we meet this requirement. We expect to receive written notification from NASDAQ that allows us 45 calendar days to provide NASDAQ with a plan to regain compliance. If the plan is accepted, NASDAQ can grant us up to 180 calendar days from the date of the NASDAQ notice of non-compliance to evidence compliance. If the plan is not accepted by NASDAQ, or if the Company is unable to regain compliance prior to the expiration of any extension period granted by the NASDAQ Staff, the Company can appeal the decision to an independent hearings panel. The filing of such an appeal would stay any suspension or delisting action until the conclusion of the hearing process and the expiration of any extension granted by the panel.

If NASDAQ suspends or delists our shares from trading on its exchange and we are not able to list our shares on another national securities exchange, we expect our shares could be quoted in the over-the-counter market on the OTCQB market tier or the OTC Pink Current Information tier. If this were to occur, we could face material adverse consequences, including:

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

**(A Corporation in the Development Stage)**

- 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.

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

Unregistered Sales

None.

Use of Proceeds

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 shares to our Sponsor and \$9,495,000 as a result of the underwriters’ exercise of the over allotment option.

The Company’s management has broad discretion with respect to the specific application of the net proceeds of its Public Offering, 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.

Net proceeds of \$72,795,000 from the Public Offering and simultaneous private placements of the Private Placement Shares are being held in a trust account in the United States maintained by American Stock Transfer & Trust Company, acting as trustee. An amount equal to a percentage of the gross proceeds of the Public Offering will be held in a trust account (“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.

The amount of proceeds not deposited in the Trust Account was \$1,082,434. 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 21 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 21 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.

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

**(A Corporation in the Development Stage)**

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.

<b>Exhibit Number</b>	<b>Description</b>
10.1	Form of Convertible Promissory Note, dated May 15, 2014, issued by the Company to Global Defense & National Security Holdings LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 19, 2014).
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).

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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.

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

**(A Corporation in the Development Stage)**

**SIGNATURES**

Pursuant to the requirements of Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

Date: November 13, 2014

*/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)