

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

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FORM 8-K  
CURRENT REPORT

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

Date of Report (Date of earliest event reported): February 18, 2017

**STG GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation)

**001-36149**  
(Commission File Number)

**46-3134302**  
(I.R.S. Employer Identification  
No.)

**11091 Sunset Hills Road, Suite 200**  
**Reston, Virginia**  
(Address of principal executive offices)

**20190**  
(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))
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**Item 1.01. Entry into a Material Definitive Agreement.**

On February 21, 2017, STG Group, Inc. (the “Company”) announced that it entered into an Agreement and Plan of Merger (the “Merger Agreement”), dated as of February 18, 2017, by and among the Company, Ripcord Acquisition Corp., a Delaware corporation and a wholly-owned subsidiary of the Company, PSS Holdings, Inc., a Delaware corporation (“PSS”), PSS PE I, L.P., a Delaware limited partnership (“PSS PE”), PSS Co-Investors, L.P., a Delaware limited partnership (“PSS Co-Investors”), WWC Capital Fund II, L.P., a Delaware limited partnership (“WWC”), Spring Capital Partners II, L.P., a Maryland limited partnership (“Spring Capital”), and Scott Goss (together with PSS PE, PSS Co-Investors, WWC and Spring Capital, the “Seller Parties”), and Peter M. Schulte, a resident of the State of New York, but solely in his capacity as the “Stockholders’ Representative.” PSS is a privately-held government services business that provides products and services in information technology, engineering, and program management. Upon consummation of the merger contemplated by the Merger Agreement (the “Merger”), PSS will become a wholly-owned subsidiary of the Company. The Merger is expected to close in the first quarter of 2017.

***Merger Agreement***

Under the terms of the Merger Agreement, the aggregate purchase price to be paid for PSS at closing is \$119,500,000 in cash, subject to certain adjustments based upon closing working capital and the timing of closing, plus a portion of the value of certain tax benefits as they are realized after the closing (collectively, the “Merger Consideration”). The Company intends to fund the Merger Consideration through a combination of equity and debt financing (the “Financing”).

The Merger Consideration is subject to adjustment (increased or decreased) on a dollar-for-dollar basis to the extent the working capital of PSS as of the closing differs from a specified target. The Merger Agreement includes a mechanism for determining the working capital position of PSS as of the closing, promptly following the closing, and requires the parties to deposit \$1,000,000 of the Merger Consideration in escrow to secure payment of any post-closing working capital adjustments in favor of the Company. In addition, the Merger Agreement includes customary indemnification obligations and requires the parties to deposit \$2,000,000 of the Merger Consideration in escrow to secure the indemnification obligations of the stockholders of PSS thereunder. The parties are also purchasing a buy-side representation and warranty insurance policy for the benefit of the Company and other named insureds.

The consummation of the Merger is subject to the satisfaction of certain conditions, including receipt of certain required third party consents, approval of the stockholders of PSS (which has since been obtained), written confirmation by the Committee on Foreign Investment in the United States that it has completed its review and determined that there are no unresolved national security concerns with respect to the Merger and expiration or termination of all applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and any other regulatory approvals.

In addition, the Seller Parties agreed not to solicit or encourage the initiation of certain discussions with third parties regarding other proposals to acquire all or a substantial portion of any capital stock or other securities of PSS, or all or a substantial portion of PSS’ business or assets, after the signing of the Merger Agreement until consummation of the Merger or termination of the Merger Agreement, and agreed to certain restrictions on their ability to respond to such proposals.

The Merger Agreement includes customary termination provisions. The Company and the Stockholders’ Representative may jointly agree to terminate the Merger Agreement at any time prior to the closing, and either the Company or the Stockholders’ Representative may terminate the Merger Agreement if the closing has not occurred by March 15, 2017, subject to certain conditions and the Company’s right, in its sole discretion, to extend such date to April 15, 2017. In addition, either the Company or the Stockholders’ Representative may terminate the Merger Agreement if the conditions to closing have all been satisfied or waived and PSS delivers written notice to the Company that it is ready, willing and able to effect the closing but the closing has not occurred within five business days of such notice as a result of any lender’s failure to fund the Financing, in which case such termination shall trigger payment by the Company to PSS of \$625,000. The Merger Agreement may also be terminated by the Stockholders’ Representative if an event occurs during the interim period between signing and closing, based solely on the operations of PSS, that causes a breach of PSS’ representations and warranties, and the Company fails to waive its indemnification rights with respect to such breach within 15 days following PSS’ request for such waiver, in which case such termination shall trigger payment by PSS to the Company of \$625,000.

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**Item 8.01        Other Events.**

On February 21, 2017, the Company issued a press release announcing the signing of the Merger Agreement. A copy of the press release is attached as Exhibit 99.1 and incorporated herein by reference.

**Item 9.01.        Financial Statements and Exhibits.**

(d) Exhibits.

99.1      Press release issued by the Company on February 21, 2017.

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## SIGNATURES

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

STG GROUP, INC.

Date: February 24, 2017

/s/ Charles L. Cosgrove  
Charles L. Cosgrove  
Chief Financial Officer

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## EXHIBIT INDEX

Exhibit No.	Description of Exhibits
99.1	Press release issued by the Company on February 21, 2017.



**STG Group Announces Agreement to Acquire Preferred Systems Solutions (PSS)**  
*Completes next step in transformation strategy through combination with leading intelligence community-focused contractor*

**Reston VA, February 21, 2017** – STG Group, Inc. (OTCQB: STGG), (the “Company” or “STG”), a leading provider of mission-critical technology, cyber, and data solutions to the U.S. Government, today announced that it has entered into a definitive merger agreement to acquire Preferred Systems Solutions, Inc. (PSS) for a total consideration of approximately \$119 million. STG Group intends to fund the purchase price with a combination of debt and equity financing. STG Group expects the transaction to close during the first quarter of 2017, subject to customary closing conditions, including regulatory review.

PSS is a leading provider of advanced computing, analytics, program and acquisition management, cyber and software solutions to key defense, intelligence and federal civilian customers, working with over 25 government agency partners.

Transaction rationale:

- Strengthens STG position as a leader in National Security, extends the Company’s reach into the Intelligence Community, and creates complementary technical capabilities to enhance mission performance. Adds new customers and core capabilities in Department of Homeland Security, DoD, and FBI.
- Allows for the integration of strong cyber, data and software security backgrounds of both companies, enabling greater reach into these high priority areas of government policy and spending. Further diversifies the customer base, contract mix and routes to new customers.
- Expands margin profile of the Company and expected to provide significant revenue synergies and cost efficiencies.

The acquisition of PSS advances STG’s vision to create a new breed of high growth, agile business delivering knowledge superiority and information security to U.S. federal clients. It will combine strong capabilities and proven success in delivery and innovation with a shared commitment to developing and enhancing new solutions with much greater speed and efficiency, aligned to a growing customer demand for rapid innovation.

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“We are excited to announce the next step in our transformation strategy for STG Group. With the acquisition of PSS, we are advancing our technological agility and ingenuity to meet the most complex and demanding national security challenges facing the U.S.,” said STG President Phillip Lacombe. “Preferred Systems Solutions has proven excellence in data analytics, cyber security, high performance computing, acquisition and program management, and software development, with particular strength and depth in the Intelligence Community. The combined company will have stronger core competences, greater scale and depth, the ability to develop new capabilities and focus on a wider range of customers managing larger, more complex Federal programs. With our progressive vision for the business, I believe that we will deliver on the growing demands of those customers. As we work towards close, we look forward to welcoming and integrating PSS and its people in to the STG team.”

“We are extremely pleased to become part of the STG Group as it will significantly increase our ability to provide an expanded set of advanced technology capabilities across the broad spectrum of critical national security programs” said Scott Goss, CEO of PSS. “Equally important is the opportunity for our associates to grow personally and professionally in an environment with similar values and culture. The company’s commitment to outstanding customer support enables world class services in support of our country’s warfighters and the federal civilian workforce working daily to safeguard our country.”

Morrison & Foerster LLP (legal counsel) served as advisors to STG Group, Inc. on this transaction. Sagent Advisors acted as financial advisor and rendered a fairness opinion to the Board of Directors of STG in connection with the acquisition.

**STG Group, Inc. Contact:**

Bobby Winters, Alpha IR Group  
929-266-6315  
STGG@alpha-ir.com

**About STG**

STG Group, Inc. is a leading provider of mission-critical technology, cyber, and data solutions to more than 50 U.S. Federal Agencies. Applying decades of experience, the company works to ensure the security of the digital domain, the effectiveness of complex IT systems and the delivery of quality intelligence to decision makers. STG is a Washington Technology Top 100 Company. Visit STG at [www.stg.com](http://www.stg.com).

**About Preferred Systems Solutions**

Preferred Systems Solutions is a premier provider of Software Engineering & Development, High Performance Computing, Cyber Security, Cloud Computing, Systems Engineering & Technical Assistance, Business Applications and Financial Management, and Program and Acquisition Management services to government and industry clients that include the Intelligence Community, U.S. Army, U.S. Navy, Defense Logistics Agency, U.S. Transportation Command, Defense Advanced Research Project Agency (DARPA), Federal Bureau of Investigation (FBI), and the Departments of Homeland Security and Transportation, among other customers. For more information, visit [www.pssfed.com](http://www.pssfed.com).

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**Forward-Looking Statements**

This press release contains forward-looking statements that involve risks and uncertainties concerning STG, STG's expected financial performance, as well as STG's strategic and operational plans. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Terms such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predict," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Actual events or results may differ materially from those described in this press release due to a number of risks and uncertainties. The potential risks and uncertainties include, among others, the possibility that the transaction will not close or that the closing may be delayed; the reaction of customers to the acquisition; the possibility that conditions to the closing of the transaction may not be satisfied; the transaction may involve unexpected costs, liabilities or delays; or the occurrence of any event, change or other circumstances that could give rise to the termination of the transaction agreement. In addition, please refer to risks described in the "Risk Factors" in STG's Annual Report on Form 10-K for the year ended December 31, 2015 and filed with the SEC. Please also refer to the other documents that STG filed with the SEC on Forms 10-K, 10-Q and 8-K. The filings by STG identify and address other important factors that could cause its financial and operational results to differ materially from those contained in the forward-looking statements set forth in this press release. STG is under no duty to update any of the forward-looking statements after the date of this press release to conform to actual results, and you are cautioned not to place undue reliance on any such statements.

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