TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.

FORM 10-Q
(Quarterly Report)

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Address	700 CORPORATE DRIVE SUITE D NEWPORT NEWS, VA, 23602
Telephone	757-875-7779
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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 ACT OF 1934**

For the quarterly period ended March 31, 2017

☐ **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: 333-201424

TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**47-2599251**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
471 McLaws Circle, Suite A Williamsburg, Virginia	**23185**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (757) 875-7779

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date 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). ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of May 22, 2017, there were 11,064,664 shares of the registrant's common stock issued and outstanding.

TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report") contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements give current expectations or forecasts of future events. Our forward-looking statements include, but are not limited to, statements regarding our business strategy, plans and objectives, expected or contemplated future operations, hopes, beliefs and intentions. In addition, any statements that refer to projections, forecasts or other characterizations or predictions of future events or circumstances, including any underlying assumptions on which such statements are expressly or implicitly based, in whole or in part, are forward-looking statements. The words "anticipate", "believe", "continue", "could", "estimate", "expect", "intend", "may", "might", "plan", "possible", "potential", "predict", "project", "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. Forward-looking statements in this Report may include, for example, statements about:

- the benefits or risks of the Business Combination (as defined later in this Report) and the related financing transactions;
- the future financial performance of Tempus Applied Solutions Holdings, Inc. and its subsidiaries ("we", the "Company" or "Tempus Holdings"), including the Company's wholly owned subsidiary, Tempus Applied Solutions, LLC ("Tempus");
- changes in the markets for the Company's products and services; and
- expansion plans and other plans and opportunities.

Our forward-looking statements are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results and developments could differ materially from those contemplated by our forward-looking statements, including as a result of the occurrence of one or more of the adverse effects contemplated in the risk factors discussions we include in our ongoing filings with the Securities and Exchange Commission (the "SEC"). As a result, you should not place undue reliance on our forward-looking statements. Additionally, the forward-looking statements contained in this Report represent our views as of the date of this Report (or any earlier date indicated in such statement). While we may update certain forward-looking statements from time to time, we specifically disclaim any obligation to update any statement at any time, whether as a result of new information, future developments or otherwise, except as required by applicable law. You are advised to consult any further disclosures we make on related subjects in the periodic and current reports we file with the SEC. Our SEC filings are available free of charge through the SEC's website at www.sec.gov . None of the information contained on our website, or accessible from our website, is a part of this Report.

PART 1 – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Tempus Applied Solutions Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 402,599	$ 592,514
Restricted cash	50,007	50,007
Accounts receivable:		
Trade, net	1,403,734	1,415,083
Other	1,119	1,119
Related party	355,025	435,948
Other assets	102,637	98,871
Total current assets	2,315,121	2,593,542
PROPERTY AND EQUIPMENT, NET	5,850,338	5,934,907
OTHER ASSETS		
Deposits	51,428	52,172
Intangibles, net	548,402	1,054,839
Total other assets	599,830	1,107,011
Total assets	$ 8,765,289	$ 9,635,460
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable:		
Trade	$ 3,349,544	$ 3,781,287
Related party	2,380,200	1,886,386
Accrued liabilities	514,363	912,314
Capital Lease obligation	5,799,886	5,835,181
Customer deposits	104,950	278,945
Total current liabilities	12,148,943	12,694,113
LONG TERM LIABILITIES		
Common stock warrant liability	11,385	102,185
Total long term liabilities	11,385	102,185
Total liabilities	12,160,328	12,796,298
Commitments and contingencies - Note 13		
STOCKHOLDERS' DEFICIT		
Preferred stock, $0.0001 par value; 40,000,000 shares authorized, 4,578,070 shares issued and outstanding at March 31, 2017 and December 31, 2016	458	458
Common stock, $0.0001 par value; 100,000,000 shares authorized; 11,064,664 shares issued and outstanding at March 31, 2017 and December 31, 2016	1,106	1,106
Additional paid in capital	10,084,896	10,050,746
Accumulated deficit	(13,481,499)	(13,213,148)
Total stockholders' deficit	(3,395,039)	(3,160,838)
Total liabilities and stockholders' deficit	$ 8,765,289	$ 9,635,460

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

Tempus Applied Solutions Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations (unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
REVENUES	$ 4,386,839	$ 3,749,023
COST OF REVENUE	3,761,056	3,750,595
Gross profit (loss)	625,783	(1,572)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	822,973	1,554,409
Total operating loss	(197,190)	(1,555,981)
OTHER INCOME (EXPENSE)		
Interest income	-	1,793
Interest expense	(175,122)	-
Non-operational income (expense)	103,961	(309,669)
Total other income (expense)	(71,161)	(307,876)
NET LOSS	$ (268,351)	$ (1,863,857)
BASIC LOSS PER COMMON SHARE	$ (0.02)	$ (0.20)
DILUTED LOSS PER COMMON SHARE	$ (0.02)	$ (0.20)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC	11,064,664	9,132,839
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, DILUTED	11,064,664	9,132,839

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

Tempus Applied Solutions Holdings, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit

	Common stock $0.0001 par value		Preferred stock $0.0001 par value		Additional paid	Accumulated	Total stockholders'
	Shares	Amount	Shares	Amount	in capital	deficit	equity (deficit)
Balance, December 31, 2015 (audited)	8,836,421	$ 884	1,369,735	$ 137	$ 262,496	$ (10,087,076)	$ (9,823,559)
Net loss	-	-	-	-	-	(3,126,072)	(3,126,072)
Conversion of warrant liability to common stock	1,986,112	198	-	-	2,797,164	-	2,797,362
Conversion of warrant liability to preferred stock	-	-	3,208,335	321	6,339,960	-	6,340,281
Issuance of common stock for acquisition of Tempus Jets, Inc.	242,131	24	-	-	499,976	-	500,000
Stock-based compensation	-	-	-	-	151,150	-	151,150
Balance, December 31, 2016 (audited)	11,064,664	1,106	4,578,070	458	10,050,746	(13,213,148)	(3,160,838)
Net Loss	-	-	-	-	-	(268,351)	(268,351)
Stock Based Compensation	-	-	-	-	34,150	-	34,150
Balance, March 31, 2017 (unaudited)	11,064,664	$ 1,106	4,578,070	$ 458	$ 10,084,896	$ (13,481,499)	$ (3,395,039)

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

Tempus Applied Solutions Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (268,351)	$ (1,863,857)
Adjustments to reconcile net loss to net cash used for operating activities:		
Stock-based compensation expense	34,150	58,559
Depreciation and amortization	67,856	18,761
Loss on conversion of warrant liability to stock	-	3,550,487
Fair value adjustment of common stock warrants	(90,800)	(3,239,884)
Changes in operating assets and liabilities:		
Accounts receivable-trade	11,349	(428,063)
Accounts receivable-other	-	(569,307)
Due to/from related parties	509,008	334,088)
Inventory	-	24,999
Other current assets	(3,766)	(3,296)
Deposits	-	496,900
Accounts payable-trade	(13,319)	516,796
Accrued liabilities	(362,786)	(680,367)
Deferred revenue	-	607,746
Customer deposits	(60,144)	(349,075)
Net cash used for operating activities	(176,803)	(1,526,531)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	22,183	(35,467)
Purchases of intangible assets	-	(24,164)
Sale of Business	-	-
Decrease in restricted cash	-	900,000
Net cash provided by (used for) investing activities	22,183	840,369
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Capital Lease Obligation	(35,295)	-
Net cash provided by financing activities	(35,295)	-
Net decrease in cash	(189,915)	(685,144)
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the period	592,514	1,288,495
Cash and cash equivalents at the end of the period	$ 402,599	$ 603,351
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 175,122	$ -
Supplemental disclosure of non-cash investing and financing activities:		
Intangible assets acquired through acquisition of Tempus Jets, Inc.	$ -	$ 500,000
Intangible assets and net liabilities disposed of through disposition of Tempus Jets Inc	$ 500,000	$ -
Issuance of stock for exercise of warrants	$ -	7,591,530

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

TEMPUS APPLIED SOLUTIONS HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Tempus Applied Solutions Holdings, Inc. ("we", the "Company" or "Tempus Holdings") is a Delaware corporation organized on December 19, 2014 as a direct, wholly owned subsidiary of Chart Acquisition Corp. ("Chart"). We were formed solely for the purpose of effecting a business combination between Chart and Tempus Applied Solutions, LLC ("Tempus"). Tempus was organized under the laws of Delaware on December 4, 2014 and provides turnkey flight operations, customized design, engineering and modification solutions and training services that support critical aviation missions of the United States Department of Defense (the "DoD"), the U.S. intelligence community, foreign governments, heads of state and high net worth individuals worldwide. Tempus currently has the following six subsidiaries: three wholly owned operating subsidiaries, Global Aviation Support, LLC, Proflight Aviation Services LLC, and Tempus Jets, Inc., and three recently formed, wholly owned entities that do not yet have any operations, Tempus Applied Solutions, Inc., Tempus Aero Solutions SIA, and Tempus Training Solutions, LLC. On March 1, 2017, the Company entered into a Stock Purchase Agreement (the "Agreement"), to be effective January 1, 2017, for the sale of Tempus Jets, Inc. See Note 18 below. The Company has its headquarters in Williamsburg, Virginia. The Company's activities are subject to significant risks and uncertainties, including without limitation the risks of deadline and budget overruns and risks specific to government and international contracting businesses.

On July 31, 2015, pursuant to an Agreement and Plan of Merger dated as of January 5, 2015, as amended (the "Merger Agreement"), by and among Tempus Holdings, Chart, Tempus, the holders of Tempus' membership interests named in the Merger Agreement (the "Members"), Benjamin Scott Terry and John G. Gulbin III (together, in their capacity under the Merger Agreement as the representative of the Members for the purposes set forth therein, the "Members' Representative"), Chart Merger Sub Inc. ("Chart Merger Sub"), Chart Financing Sub Inc. ("Chart Financing Sub"), TAS Merger Sub LLC ("Tempus Merger Sub"), TAS Financing Sub Inc. ("Tempus Financing Sub"), Chart Acquisition Group LLC ("CAG"), in its capacity under the Merger Agreement as the representative of the equity holders of Chart and Tempus Holdings (other than the Members and their successors and assigns) for the purposes set forth therein and, for the limited purposes set forth therein, CAG, Joseph Wright and Cowen Investments LLC, the following was effected: (i) Chart Financing Sub and Chart Merger Sub merged with and into Chart, with Chart continuing as the surviving entity; (ii) Tempus Financing Sub and Tempus Merger Sub merged with and into Tempus, with Tempus continuing as the surviving entity; and (iii) each of Chart and Tempus became wholly owned subsidiaries of the Company. We refer to the transactions contemplated by the Merger Agreement as the "Business Combination."

The consummation of the Business Combination was preceded by a series of privately negotiated transactions, referred to collectively herein as the "Financing", involving aggregate cash investments of $10.5 million by three outside investor entities (or affiliates thereof) that had not previously invested in Chart or Tempus (the "New Investors"), aggregate cash investments of $5.0 million by the Sponsor, Mr. Joseph Wright and Cowen (collectively, the "Chart Affiliate Investors") and a cash investment of $500,000 by the Chief Financial Officer of Tempus (through his individual retirement account) (the "Tempus Affiliate Investor", and together with the Chart Affiliate Investors, the "Affiliate Investors", and together with the New Investors, the "Investors").

2. GOING CONCERN

The Company's consolidated financial statements have been prepared assuming that it will continue as a going concern. The conditions noted below raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Historically, the Company has experienced operating losses and negative cash flows from operations, and it currently has a working capital deficit, due principally to delays in the commencement of contracts, low margins on initial contracts. In addition, the Company has been seeking financing in order to fund a purchase obligation of $5.5 million related to an aircraft. See note 18 below. These conditions raise substantial doubt about the Company's ability to continue as a going concern, especially in the near term and within one year after the date that the consolidated financial statements are issued.

In light of the foregoing, the Company has implemented cost cutting initiatives, including reductions in our employee headcount, facilities and other expenses. Headcount has been reduced from 52 in June 2016 to 13 as of March 31, 2017. The Company expects to undertake additional cost-cutting measures in the future to the extent consistent with the provision of full performance under the Company's contracts with customers, including the disposition of unprofitable entities. In addition, the Company continues to explore possibilities for raising both working capital and longer-term capital from outside sources in various possible transactions. Management expects that these efforts will begin to achieve result over the remainder of 2017 and, assuming the timely commencement of new contracts, that the Company will begin to reduce its working capital deficit over the coming year. Nevertheless, whether, and when, the Company can attain positive operating cash flows for operations is highly dependent on the commencement of new contracts and the timing of their commencement. There can be no assurance that the Company's cash flows or costs of operations will develop as currently expected. Our cash flows and liquidity plans remain subject to a number of risks and uncertainties. See "Item 1A. Risk Factors" of our Annual Report on Form 10-K (the "Form 10-K").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company has prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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

Because Tempus was deemed the accounting acquirer in the Business Combination, which was consummated on July 31, 2015, the historical financial information for the three months ended March 31, 2017 and 2016 reflects the financial information and activities of Tempus only. In conjunction with the Business Combination, all outstanding membership interests of Tempus were exchanged for shares of the Company's common stock. The historical members' equity of Tempus (which is a limited liability company) has been retroactively adjusted to reflect the stockholders' equity structure of Tempus Holdings (which is a corporation), using the respective exchange ratios established in the Business Combination. This reflects the number of shares Tempus Holdings issued to the members of Tempus upon the consummation of the Business Combination. Accordingly, all shares and per share amounts for all periods presented in these consolidated financial statements and the notes thereto have been adjusted retrospectively, where applicable, to reflect the respective exchange ratios established in the Business Combination. For details on the conversion of Tempus' membership interests into Company common stock, see the Company's Current Report on Form 8-K filed with the SEC on August 6, 2015 in connection with the Business Combination.

The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment, flight operations and support. Our chief executive officer is the primary decision maker.

Principles of Consolidation

The consolidated financial statements include the accounts of Tempus Holdings and its subsidiaries. Significant inter-entity accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax

The Company follows the reporting requirements of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 "Income Taxes", which requires an asset and liability approach to financial accounting and reporting for income taxes. The Company recognizes deferred tax assets or liabilities based on differences between the financial statement and tax basis of assets and liabilities that will result in future taxable or deductible amounts calculated on enacted tax laws and rates applicable to the periods in which the differences are expected to be ultimately realized.

FASB ASC 740, Income Taxes, sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained upon examination by taxing authorities. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized.

Tempus, a limited liability company, was the acquiror in the Business Combination; therefore, Tempus' taxable income or loss for the period commencing January 1, 2015 through July 31, 2015 (the effective date of the Business Combination) is allocated to its members in accordance with its operating agreement and is reflected in the members' income taxes. The members' income tax filings are subject to audit by various taxing authorities depending on their physical residence. All members reside in the United States of America.

Tempus' consolidated financial statements reflect a provision or liability for Federal and state income taxes for the period commencing January 1, 2015 through July 31, 2015 (the effective date of the Business Combination) for Chart, the predecessor company, and for Tempus Holdings for the period commencing March 31, 2017.

The Company's tax returns are subject to possible examination by the taxing authorities. For income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing of those returns.

Revenue Recognition

The Company uses the percentage-of-completion method for accounting for long-term aircraft maintenance and modification fixed-price contracts to recognize revenues and receivables for financial reporting purposes. Revenues from firm fixed price contracts are measured by the percentage of costs incurred to date to estimated total costs for each contract. Revenues from time-and-material line items are measured by direct labor hours or flight hours incurred during the period at the contracted hourly rates plus the cost of materials, if applicable. To the extent this earned revenue is not invoiced, it is recognized as earnings in excess of billings and is represented in other accounts receivable on the consolidated balance sheets. Earnings in excess of billings were $459 at March 31, 2017 and December 31, 2016.

The Company records payments received in advance for services to be performed under contractual agreements and billings in excess of costs on uncompleted fixed-price contracts as deferred revenue until such related services are provided. Deferred revenue was $0 at March 31, 2017 and December 31, 2016.

Revenue on leased aircraft and equipment representing rental fees and financing charges are recorded on a straight line basis over the term of the leases.

Currently, the Company's consolidated revenues consist principally of revenues earned under aircraft management contracts (which are based on fixed expenses and fees plus variable expenses and fees tied to actual aircraft flight hours) and revenues earned from the provision of leased aircraft.

Pre-contract Costs

We capitalize the pre-contract costs we incur, excluding start-up costs which are expensed as incurred, if we determine that it is probable that we will be awarded a specific anticipated contract. These capitalized costs are recognized as a cost of revenue ratably across flight hours that are expected to be flown, as they are actually flown, for that particular contract. Capitalized pre-contract costs of $56,270 and $49,799 at March 31, 2017 and December 31, 2016, respectively, are included in other current assets in the accompanying consolidated balance sheets. Should future orders not materialize or should we determine that the costs are no longer probable of recovery, the associated capitalized costs would be written off.

Cash and Cash Equivalents

For purposes of cash flow, the Company considers all cash accounts that are not subject to withdrawal restrictions or penalties, and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash balances usually do exceed federally insured limits.

Restricted Cash

The Company considers cash or highly liquid debt instruments on deposit with financial institutions that are held to secure an obligation by the Company to be restricted cash. As of March 31, 2017 and December 31, 2016, the Company had restricted cash balances of $50,007. This balance consists of a certificate of deposit that secures the Company's credit card borrowings.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest.

The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other relevant information. Management believes that its contract acceptance, billing and collection policies are adequate to minimize the potential credit risk associated with accounts receivable. The Company had $29,302 and $37,369 allowance for doubtful accounts as of March 31, 2017 and December 31, 2016, respectively.

In June 2016, the Company entered a factoring agreement to sell without recourse, certain U.S. government contract receivables to an unrelated third-party financial institution. Under the current terms of the factoring agreement, the maximum amount of outstanding advances at any one time is $1.0 million. The discount rate included in the agreement was subject to change based on the historical performance of the receivables sold.

Approximately, $2.0 million of receivables has been sold under the factoring agreement during fiscal year 2016 and the first quarter of 2017. The sale of these receivables accelerated the collection of the Company's cash and reduced credit exposure during year. Sales of accounts receivable are reflected as a reduction of Accounts receivable trade, net in the Consolidated Balance Sheets, and any costs incurred by the Company associated with the factoring activity is reflected in Other Income / Expense in the Consolidated Statements of Operations, as they meet the applicable criteria of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities ("SFAS No. 140"). The amount due from the factoring company, net of advances received from the factoring company, was approximately $29,000 at March 31, 2017. The Company pays factoring fees associated with the sale of receivables based on the dollar value of the receivables sold. Such fees are immaterial and are included in the Other Income / Expense in the Consolidated Statement of Operations.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Maintenance and repairs, including replacement of minor items of physical properties, are charged to expense; major additions to physical properties are capitalized.

It is the Company's policy to commence depreciation upon the date that assets are placed into service. For the three months ended March 31, 2017, the Company recognized depreciation of fixed assets in the amount of $61,419; $12,324 of depreciation was recognized for the three months ended March 31, 2016. Depreciation is computed on a straight-line basis over the estimated service lives of the assets as follows:

	Years
Computer equipment	3-5
Furniture and fixtures	3-5

Intangibles

Intangibles are stated at cost, less accumulated amortization. Intangibles consist of computer software, Federal Aviation Administration (the "FAA") licenses and independent research and development costs associated with the development of supplemental type certificates ("STCs").

STCs are authorizations granted by the FAA for specific modifications of a certain aircraft. An STC authorizes us to perform modifications, installations, and assemblies on applicable customer-owned aircraft. Costs incurred to obtain STC's are capitalized and subsequently amortized against revenue being generated from aircraft modifications associated with the STC. The costs are expensed as services are rendered on each aircraft through cost of sales using the units of production method. The legal life of an STC is indefinite. We believe we have enough future sales to fully amortize our STC development costs. As of March 31, 2017 and 2016 we have recognized no amortization of these costs.

On October 1, 2015, the Company purchased Proflight Aviation Services, LLC, which provides flight training services under a Federal Aviation Regulations ("FAR") Part 141 certificate. The total purchase price of $50,000 was allocated to intangibles and is considered to be indefinite-lived.

On March 15, 2016, the Company purchased Tempus Jets, Inc. ("TJI") from our CEO B. Scott Terry for non-cash consideration of $500,000, paid in the form of 242,131 shares of common stock of the Company. TJI owns an operating certificate issued by the FAA in accordance with the requirements of Parts 119 and 135 of the FAR (the "Operating Certificate"). The total purchase price of $500,000 was allocated to intangibles and is considered to be indefinite-lived. TJI has been sold in a transaction that was effective January 1, 2017. For the details on the sale of TJI, see the Company's Current Report on form 8-K filed with the SEC on March 1, 2017 in connection with the transaction.

It is the Company's policy to commence amortization of computer software upon the date that assets are placed into service. For the three months ended March 31, 2017 and 2016, the Company recognized amortization expense of computer software in the amount of $6,437. Amortization is computed on a straight-line basis over the estimated service lives of the assets as follows:

	Years
Computer software	3

Long-Lived Assets

The Company reviews its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. As a result of its review, the Company does not believe that any such change has occurred. If such changes in circumstance are present, a loss is recognized to the extent the carrying value of the asset is in excess of the fair value of cash flows expected to result from the sale of the asset and amounts expected to be realized upon its eventual disposition.

Customer Deposits

In the normal course of business, the Company receives cash as security for certain contractual obligations, which are held on deposit until termination of the contract. Customer deposits are returned to the customer at contract termination or taken into income if the customer fails to perform under the contract. At March 31, 2017 and December 31, 2016, the Company held $104,950 and $278,945, respectively, in customer deposits.

Sales and Marketing

The Company records costs for general advertising, promotion and marketing programs at the time those costs are incurred. Sales and Marketing expense was $55,387 and $315,392 for the three months ended March 31, 2017 and 2016, respectively.

Inventory

The Company values its inventory at the lower of average cost, first-in-first-out ("FIFO") or net realizable value. Any identified excess, slow moving, and obsolete inventory is written down to its market value through a charge to income from operations. There were no costs held in inventory at March 31, 2017 or December 31, 2016.

Stock Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based upon fair value at the date of award using a fair value based option pricing model. The compensation expense is recognized on a straight-line basis over the requisite service period.

Fair Value of Financial Instruments

The Company complies with ASC Topics 820, "Fair Value Measurement", and 815, "Derivatives and Hedging" for its liabilities, which are re-measured and reported at fair value for each reporting period. The fair value of the Company's assets and liabilities, which qualify as financial instruments under ASC Topic 820, approximates the carrying amounts represented in the accompanying consolidated balance sheets.

Reclassification

Certain prior period amounts have been reclassified to conform to the current period presentation in the accompanying consolidated financial statements. These reclassifications had no material effect on the previously reported results of operations or accumulated deficit.

Correction of an Error

The Company determined that it had been accounting for a lease agreement and its purchase obligation related to an aircraft in error. The Company should have accounted for its purchase obligation as a capital lease, thereby recording a capital lease aircraft asset and a corresponding capital lease liability of approximately $6,000,000 as of the end of the quarter ended March 31, 2016. The error was not material to the unaudited consolidated financial statements for the quarterly period ended March 31, 2016 since the correction of the error increased assets and liabilities by the same amount.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Under the update, revenue will be recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In the third quarter of 2015, the FASB deferred the effective date of the standard to annual and interim periods beginning after December 15, 2017. Early adoption will be permitted for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact that adopting this ASU will have on its financial position, results of operations and cash flows.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures, and provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. Until the issuance of this ASU, U.S. GAAP lacked guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The amendments are effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. The Company has concluded that there is substantial doubt about its ability to continue as a going concern and has presented the required disclosures of this ASU in Note 2.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). Under the update, an acquirer in a business combination is no longer required to account for measurement-period adjustments retrospectively, and, instead, will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The ASU is effective for financial statements issued after December 15, 2017, and interim periods within those years. Early adoption will be permitted for annual and interim periods beginning after December 15, 2016. The Company does not expect the impact of adopting this ASU to be material to the Company's financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes. Under the update, deferred taxes would be classified as noncurrent in the statement of financial position instead of being separated into current and non-current amounts. The ASU is effective for financial statements issued after January 1, 2017 with early adoption permitted. Additionally, the Company may apply the standard either prospectively or retrospectively. The Company has adopted this ASU and will present deferred taxes in accordance with this ASU when deferred taxes are required to be recorded and presented in the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Company is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Further, the lease requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 requires the Company to adopt the standard using a modified retrospective approach and adoption beginning on January 1, 2019. The Company is currently evaluating the impact that ASU 2016-02 will have on its financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The update amends the guidelines for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for annual and interim periods beginning January 1, 2017, and early adoption is permitted. The Company adopted 2016-09 effective January 1, 2017. The adoption of this standard did not have a material impact on the results of operations.

In November 21016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash. The ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This update is for entities for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years using a retrospective transition method for each period presented. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-18 will have on its financial position, results of operations and cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

4. CUSTOMER AND VENDOR CONCENTRATION

We have significant customer and vendor concentration. Customer concentration as of the three months ended March 31, 2017 and 2016 was:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Revenue		Revenue	
Customer A	$ 1,059,450	24%	$ 978,207	26%
Customer B	1,325,467	30%	1,248,790	33%
Customer C	1,150,857	26%	-	-%
Customer D	659,807	15%	132,240	4%
Customer E	-	-%	920,622	25%
Other customers	191,258	5%	469,164	12%
	$ 4,386,839	100%	$ 3,749,023	100%

	March 31, 2017		December 31, 2016	
	Accounts Receivable		Accounts Receivable	
Customer A	$ 329,955	24%	$ 387,729	27%
Customer B	639,139	46%	449,658	32%
Customer C	383,619	27%	383,619	27%
Customer D	29,486	2%	42,624	3%
Customer E	-	-%	-	-%
Other customers	21,535	1%	151,453	11%
	$ 1,403,734	100%	$ 1,415,083	100%

Vendor concentration as of the three months ended March 31, 2017 and 2016 was:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Cost of Revenue		Cost of Revenue	
Vendor A	$ 916,073	24%	$ 775,901	21%
Vendor B	327,554	9%	423,981	11%
Vendor C	10,294	1%	250,269	7%
Vendor D	476,034	13%	-	0%
Other vendors	2,041,395	54%	2,567,699	61%
	$ 3,761,056	100%	$ 3,750,595	100%

	March 31, 2017		December 31, 2016	
	Accounts Payable		Accounts Payable	
Vendor A	$ 412,763	12%	$ 304,826	8%
Vendor B	130,871	4%	235,388	6%
Vendor C	-	-%	18,615	0%
Vendor D	223,016	7%	170,998	4%
Other vendors	2,582,894	77%	674,969	82%
	$ 3,349,544	100%	$ 3,781,287	100%

5. INCOME TAXES

The Company follows the reporting requirements of FASB ASC 740 “Income Taxes”, which requires an asset and liability approach to financial accounting and reporting for income taxes. The Company recognizes deferred tax assets or liabilities based on differences between the financial statement and tax basis of assets and liabilities that will result in future taxable or deductible amounts calculated on enacted tax laws and rates applicable to the periods in which the differences are expected to be ultimately realized. These differences arose principally from the valuation of stock warrants, net operating loss carryovers, and temporary differences in deprecation methods between financial reporting and income tax basis.

GAAP requires companies to assess whether valuation allowances should be recorded to offset deferred tax assets based on the consideration of all available evidence using a “more likely than not” standard. In making such assessments, significant weight is given to evidence that can be objectively verified. A company’s current and previous losses are given more weight than its future projections. A cumulative loss position is considered a significant factor that is difficult to overcome.

The Company evaluates its deferred tax assets each reporting period, including assessing its cumulative loss position, to determine if valuation allowances are required. A significant factor is the Company’s cumulative loss position. This, combined with uncertain near-term economic conditions, reduces the Company’s ability to rely on projections of future taxable income in establishing its deferred tax assets valuation allowance. Due to the weight of the significant negative evidence, GAAP requires that a valuation allowance be established on all of the Company’s net deferred tax assets. The Company is projecting a 0% annual estimated tax rate

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

FASB ASC 740, Income Taxes, sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained upon examination by taxing authorities. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of December 31, 2015. The Company's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Company files an income tax return in the U.S. federal jurisdiction, and may file income tax returns in various U.S. states and foreign jurisdictions. The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense and other expenses, respectively. No interest expense or penalties have been recognized as of March 31, 2017.

At March 31, 2017, approximately $8,000,000 in federal and state net operating losses were available to be carried forward, expiring at various dates through 2035.

Pursuant to Sections 382 and 383 of the Internal Revenue Code, annual use of net operating loss carryforwards may be limited in the event a cumulative change in ownership of more than 50% occurs within a three-year period. We had a Business Combination in 2015; however, we have not completed a Section 382 study to determine the limitations resulting from any ownership changes. Accordingly, the timing or amount of our net operating loss carryforwards that are available for utilization in the future may be limited in any given year.

The Company's tax returns are subject to possible examination by the taxing authorities. In general, tax returns remain open for possible examination for a period of three years after the respective filing of those returns.

6. BASIC AND DILUTED SHARES OUTSTANDING

Basic common shares outstanding as of March 31, 2017 are 11,064,664. Our weighted average basic shares outstanding for the three months ended March 31, 2017 is calculated based on the average number of basic common shares outstanding over the period in question and is calculated as 11,064,664 shares.

Our weighted average diluted common shares outstanding as of March 31, 2017 would normally be calculated based on the sum of the weighted average basic shares outstanding for the three months ended March 31, 2017 and the weighted average of the shares that would convert into common stock from our preferred stock and warrants over the period in question. This conversion would be calculated on a treasury method basis based on the average closing share price of our common stock over the period in question as compared to the conversion rate of the preferred stock, and the strike price of the particular warrants. The number of warrants outstanding along with their respective strike prices can be found in Note 15, below. However, due to the fact that the Company experienced a net loss for the three months ended March 31, 2017 and diluted earnings per share would otherwise be higher than basic earnings per share, our diluted common shares outstanding are represented to be the same as our basic common shares outstanding.

7. OTHER RECEIVABLES

Other receivables consist of the following:

	March 31, 2017	December 31, 2016
Earnings in excess of billings	$ 459	$ 459
Other receivable	660	660
Total	$ 1,119	$ 1,119

8. OTHER ASSETS

Other assets consist of the following:

	March 31, 2017	December 31, 2016
Pre-contract costs	$ 56,270	$ 49,799
Other prepaid expenses	46,367	49,072
Total	$ 102,637	$ 98,871

9. RELATED PARTY TRANSACTIONS

In the Business Combination, the members of Tempus received 3,642,084 shares of the Company's common stock in exchange for all of the issued and outstanding membership interests of Tempus. The members have the right to receive up to an additional 6,300,000 shares of the Company's common stock upon the achievement of certain financial milestones.

On March 15, 2016, the Company purchased Tempus Jets, Inc. ("TJI") from our CEO B. Scott Terry for non-cash consideration of $500,000, paid in the form of 242,131 shares of common stock of the Company. The purchase price was based on an independent valuation of similar operations and approved by the independent directors of the board. The number of shares issued to Mr. Terry was calculated based on the volume weighted average market price of the Company's common stock for the previous 20 trading days.

TJI owns an operating certificate issued by the FAA in accordance with the requirements of Parts 119 and 135 of the FAR (the "Operating Certificate"). Prior to the Company's purchase of TJI, TJI divested itself of substantially all of its assets other than the Operating Certificate, and settled or transferred all of its liabilities. As a result of the acquisition of TJI, the Company owns, and can operate under, the Operating Certificate. Under the Agreement, Mr. Terry and Jackson River Aviation, an affiliate of Mr. Terry's, have indemnified the Company against liabilities that may arise from the acquisition. The transaction was approved by the independent directors of the Company after a review to determine that (a) the terms of the transaction were on an arm's length basis; and (b) the transaction was effected by the issuance of Company securities to a person who is an owner of an asset in a business synergistic with the business of the Company, the transaction provided benefits to the Company in addition to the investment of funds and the transaction was not one in which the Company was issuing securities primarily for the purpose of raising capital or to an entity whose primary business was investing in securities. TJI has been sold back to Mr. Terry in a transaction that was effective January 1, 2017 for consideration of $500,000. See Note 18 Subsequent Events of our Annual Report on Form 10-K (the "Form 10-K").

Jackson River Aviation ("JRA") is controlled by B. Scott Terry, the Company's CEO and sole member of the Company's Board of Directors. JRA (through its subsidiary, TJI) prior to the acquisition of TJI by Tempus on March 15, 2016, provided FAR Part 135 aircraft charter services to the Company. Total purchases by the Company from JRA for the three months ended March 31, 2017 and 2016 were $643,971and $5,591, respectively. Billings by the Company to JRA for the three months ended March 31, 2017 and 2016 were $220,009 and 42,876, respectively. As of March 31, 2017 the Company had a net outstanding payable to JRA of $284,051. As of December 31, 2016, the Company had a net outstanding receivable from JRA of $38,962.

TIH is controlled by John G. Gulbin III, a former member of our Board of Directors. TIH owns certain aircraft used by Tempus to provide services to certain customers. (see Note 13 below). In addition, Tempus, through its wholly owned subsidiary Global Aviation Support, LLC, provided flight planning, fuel handling and travel services to TIH. Prior to the close of the Business Combination, TIH provided administrative support, including human resources, financial, legal, contracts and other general administrative services to Tempus. Subsequent to the Business Combination, any administrative relationship is limited to certain shared information technology and marketing expenses, which are incurred at cost. Total purchases by the Company from TIH for the three months ended March 31, 2017 and 2016 were $864,131 and 333,490, respectively. Total billings from the Company to TIH for the three months ended March 31, 2017 and 2016 were $33,612 and 70,588, respectively. The net outstanding payable from Tempus to TIH at March 31, 2017 and December 2016 was $1,528,036 and 1,284,886, respectively.

Southwind Capital, LLC ("Southwind") is controlled by R. Lee Priest, Jr., the Company's Executive Vice President. Southwind owned certain aircraft used by Tempus to provide services to certain customers. Total purchases by the Company from Southwind for the three months ended March 31, 2017 and 2016 were $0. The net outstanding payable from Tempus to Southwind at March 31, 2017 and December 31, 2016 was $142,496.

In 2015, the Company entered into an aircraft purchase agreement with Pilatus Business Aircraft, Ltd. for the purchase of a Pilatus PC-12 with certain special mission modifications for approximately $7.3 million. The Company entered into this agreement pursuant to a contract with a government law enforcement agency whereby Tempus would lease the aircraft to the agency. Tempus subsequently assigned the lease contract and the purchase obligation to Cowen Aviation Finance Holdings, Inc. ("CAF") for no consideration and has entered into a services agreement with CAF whereby it will provide certain administrative, servicing and marketing services for this and other aircraft owned by CAF. CAF is owned by Cowen Group, Inc., ("Cowen") whose CEO and Chairman, Peter Cohen, and board member, Joe Wright, are former members of our board of directors. For the three months ended March 31, 2017 and 2016 Tempus billed $16,388 and $18,605, respectively to CAF under the services agreement. At March 31, 2017 and December 31, 2016, the net payable to CAF was $70,592 and $62,018, respectively.

All related party transactions are entered into and performed under commercial terms consistent with what might be expected from a third party service provider. Certain sales and marketing, and information technology functions of the Company are supported by TIH and are expensed to the Company on a time and materials basis.

10. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	March 31, 2017	December 31, 2016
Office equipment	$ 135,897	$ 168,055
Furniture and fixtures	456	456
Leased Aircraft	6,015,505	6,015,505
Total	6,151,858	6,184,016
Accumulated depreciation	(301,520)	(249,109)
Property and equipment, net	$ 5,850,338	$ 5,934,907

11. INTANGIBLES, NET

Intangibles, net consists of the following:

	March 31, 2017	December 31, 2016
Infinite-lived intangible assets:		
FAA licenses	$ 50,000	$ 550,000
Finite-lived intangible assets:		
STC costs	455,901	455,901
Accumulated amortization	-	-
	455,901	455,901
Software	85,275	85,275
Accumulated amortization	(42,774)	(36,337)
	42,501	43,938
Total intangible assets, net	$ 548,402	$ 1,054,839

FAA licenses includes the $50,000 purchase price for Proflight Aviation Services, LLC, which provides flight training services under a FAR Part 141 certificate and the $500,000 purchase price for TJI, which owns an Operating Certificate issued by the FAS in accordance with the requirements of Parts 119 and 135 of the FAR. The Company disposed of TJI effective January 1, 2017 for consideration of $500,000. See Note 18 Subsequent Events of our Annual Report on Form 10-K (the "Form 10-K")

STC costs relate to our efforts to gain approval from the FAA for modifications to Gulfstream III, IV and V business jets to upgrade them for Future Air Navigation System ("FANS") and Automatic Dependent Surveillance Broadcast ("ADS-B") capabilities. Regulatory mandates in the U.S and abroad will require FANS / ADS-B compliance on certain preferred air routes on a rolling basis over the next four years. Tempus was awarded this STC in the fourth quarter of 2016. Estimated amortization of this STC will be as follows:

	Estimated STC Amortization
2017	$ 18,236
2018	45,590
2019	136,770
2020	255,305
Total	$ 455,901

For the three months ended March 31, 2017, recognized amortization of software was $6,437, all associated with software purchases. Future amortization schedules associated with existing software is as follows:

	Software Amortization
2017	$ 21,988
2018	19,843
2019	670
Total	$ 42,501

12. ACCRUED LIABILITES

Accrued liabilities at March 31, 2017 and December 31, 2016 include the following:

	March 31, 2017	December 31, 2016
Accrued employment costs	$ 255,411	$ 380,903
Aircraft maintenance reserves	74,349	37,050
Board fees	104,833	104,833
Other	79,770	389,528
Total	$ 514,363	$ 912,314

13. COMMITMENTS AND CONTINGENCIES

The Company incurred lease expense for real office and hangar space for the three months ended March 31, 2017 of $45,743. Lease expense for aircraft and simulators was $1,358,403 for the three months ended March 31, 2017.

The Company leases office space on McLaws Circle in Williamsburg, Virginia. The Company occupied the premises as of September 1, 2016 under a month-to-month sublease from Jackson River Aviation, which is controlled by B. Scott Terry, the Company's CEO and a member of the Company's Board of Directors.

The Company leases office space in San Marcos, TX to support its training operations. The Company occupied the premises as of October, 1, 2015 under a fifteen (15) month lease at a rate of $10,500 per month. The lease was extended as of January 1, 2017 for an additional 12 months. The Company also leases simulators used in its training operations at this location. The simulator lease commenced on October, 1, 2015 and extends to December 31, 2016 at a rate of $3,000 per month, at which point it was also renewed for an additional 12 months. The future minimum lease payments associated with these leases at San Marcos, TX as of March 31, 2017 total $121,500.

The Company leased hangar space in Newport News, VA to support its operations. The Company occupied the premises as of October 1, 2015 under a one-year lease at a rate of $2,000 per month. The term of the lease ended and was not renewed. The future minimum lease payments associated with this lease as of March 31, 2017 is $0. Unpaid lease invoices at March 31, 2017 totaled $14,000 and are included in accounts payable.

The Company leased office and hangar space in Brunswick, ME to support its operations. The Company occupied the premises as of March 1, 2016 under a six-month lease at a rate of $16,673, after which the lease has reverted to a month to month agreement. The facility and related employees were transferred to Tempus Intermediate Holdings as of November 2016. Unpaid lease invoices at March 31, 2017 totaled $157,291 and are included in accounts payable.

In 2015, the Company entered into an aircraft purchase agreement with Pilatus Business Aircraft, Ltd. for the purchase of a Pilatus PC-12 with certain special mission modifications for approximately $7.3 million. The Company entered into this agreement pursuant to a contract with a government law enforcement agency whereby Tempus would lease the aircraft to the agency. Tempus subsequently assigned the lease contract and the purchase obligation to Cowen Aviation Finance Holdings, Inc. ("CAF") for no consideration and has entered into a services agreement with CAF whereby it will provide certain administrative, servicing and marketing services for this and other aircraft owned by CAF. CAF is owned by Cowen Group, Inc., ("Cowen") whose board member, Joseph Wright, is also one of our board of directors as of March 31, 2017. For the three months March 31, 2017, Tempus generated $16,388 of billings in support of CAF. Based on the assignment of the lease contract and purchase obligation to CAF, a $750,000 customer deposit received from the law enforcement agency customer and the $500,000 deposit Tempus paid to Pilatus was transferred to CAF. At March 31, 2017 and December 31, 2016 the net payable to CAF was $70,592 and $62,018, respectively.

Effective as of February 25, 2016, the Company leased a Gulfstream G-IV, at a rate of $70,000 a month for a period of 40 months under a capital lease. The lease permits the lessor to exercise an option to sell the aircraft to the Company at any time after November 30, 2016, or the Company to purchase the aircraft from the lessor, in either case at a value of $5,500,000. We have modified this aircraft for a government customer and are providing it to this customer at an hourly and daily rate, based on this customer's usage of the aircraft. The monthly lease rate we are paying for this aircraft is fully expensed as cost of revenue upon each event whereby we recognize revenue with this government customer. As of November 4, 2016, the lessor has exercised its option to sell the aircraft to the Company. See Item 5 Other Information of the Management Discussion and Analysis (MD&A) of this report for information on the purchase and financing of this aircraft.

The Company has employment agreements with certain key executives with terms that expire in 2018, with provisions for termination obligations, should termination occur prior thereto, of up to 12 months' severance. The Company expects to pay total aggregate base compensation of approximately $350,000 annually through 2018, plus other normal customary fringe benefits and bonuses.

14. FAIR VALUE MEASUREMENTS

The Company complies with ASC Topics 820, "Fair Value Measurement", and 815, "Derivatives and Hedging" for its liabilities, which are re-measured and reported at fair value for each reporting period.

The following table presents information about the Company's liabilities that are measured at fair value on a recurring basis as of December 31, 2016, and March 31, 2017, and indicates the fair value hierarchy of the valuation techniques the Company has used to determine such fair value. In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs use data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs use 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	December 31, 2016	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Liabilities:				
IPO and Placement Warrant Liability	$ 78,750	$ 78,750	$ -	$ -
Series A Warrant Liability	23,435	-	23,435	-
Total Warrant Liability	$ 102,185	$ 78,750	$ 23,435	$ -

Description	March 31, 2017	Quoted Prices In Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Liabilities:				
IPO and Placement Warrant Liability	$ 7,875	$ 7,875	$ -	$ -
Series A Warrant Liability	3,510	-	3,510	-
Total Warrant Liability	$ 11,385	$ 7,875	$ 3,510	$ -

The fair values of the Company's warrant liabilities are determined through market, observable and corroborated sources. The Company engaged an independent valuation firm (the "Valuation Firm") to perform valuations of the warrant liabilities as of December 31, 2015. The Valuation Firm used a multi-stage process to determine the fair value of the warrants of the Company, which involved several types of analyses and calculations of value for the Company's securities as follows:

IPO and Placement Warrants – The value of the IPO and Placement Warrants was calculated based upon the quoted price of the warrants that trade on the OTC markets under the ticker symbol TMPSW, which was $0.01 as of that date.

Series A Warrants – The value of these warrants was calculated using a Black-Scholes option pricing model based on the value of the common stock, the assumed volatility of such shares and the risk free rate at the of time of valuation.

Series B Warrants – The Valuation Firm determined the impact of various common stock values as of the expiration date of the Series B Warrants after considering the exercise features, including the alternate cashless exercise of those warrants. The Valuation Firm then used a Monte Carlo simulation to determine the probability of common stock values as of the expiration date and calculated the value of the Series B Warrants in each trial. The weighted average value of the Series B Warrants as of the valuation date was then calculated.

Observable inputs used in the calculation of the valuations include the implied valuation of the Company's securities based on prior sales, specifically the Financing associated with the Business Combination. Other inputs include a risk-free rate as of the valuation date and implied volatility derived from comparable publicly traded companies, as well as the quoted price of Tempus' common shares and the quoted price of Tempus' IPO and Placement Warrants.

15. WARRANTS

IPO and Placement Warrants

Upon the consummation of the Business Combination, each outstanding Chart warrant was exchanged for a warrant to purchase one share of our common stock, and as of the date of this filing, there were 7,875,000 such warrants outstanding, of which 7,500,000 warrants were originally sold as part of the units in Chart's initial public offering (the "IPO Warrants") and 375,000 warrants were originally issued as part of placement units issued to CAG, Mr. Wright and Cowen in a private placement simultaneously with the consummation of Chart's initial public offering, ("the Placement Warrants").

Each IPO and Placement Warrant entitles the holder to purchase one share of common stock at an exercise price of $11.50 per share, subject to adjustment. The IPO Warrants became exercisable on August 30, 2015, and expire at 5:00 p.m., New York time, on July 31, 2020 or earlier upon redemption or liquidation. Once the IPO Warrants become exercisable, we may redeem the outstanding IPO Warrants at a price of $0.01 per warrant, if the last sale price of the common stock equals or exceeds $17.50 per share for any 20 trading days within a 30 trading day period ending on the third trading day before we send the notice of redemption to the warrant holders. The Placement Warrants, however, are non-redeemable so long as they are held by the initial holders or their permitted transferees.

Series A Warrants and Series B Warrants

In connection with the Financing, upon the consummation of the Business Combination on July 31, 2015, we issued a total of 3,000,000 Series A-1 Warrants and Series A-2 Warrants and 1,000,000 Series B-1 Warrants and Series B-2 Warrants. Pursuant to the Securities Purchase Agreement, on August 14, 2015, we issued an additional 187,500 Series A-3 Warrants and 62,500 Series B-3 Warrants. The Series A-1 Warrants, Series A-2 Warrants and Series A-3 Warrants are referred to collectively as the Series A Warrants, the Series B-1 Warrants, Series B-2 Warrants and Series B-3 Warrants are referred to collectively as the Series B Warrants, and the Series A Warrants and the Series B Warrants are referred to collectively as the Investor Warrants.

Each Investor Warrant is immediately exercisable in cash and entitles the holder to take delivery of the shares purchased through the exercise, at the sole election of the holder, in the form of either common stock or preferred stock, subject to the Maximum Warrant Percentage, with the number of shares of preferred stock issued based on the conversion price, as described in Note 17, below, under the heading "Preferred Stock".

The Series A Warrants have an exercise price of $4.80 per share purchased and expire on July 31, 2020. As of September 30, 2016 there are no Series B Warrants outstanding.

The Investor Warrants contain customary "cashless exercise" terms, pursuant to which holder of an Investor Warrant, at any time after October 31, 2015, may choose to exercise such Investor Warrant (at a time when such Investor Warrant is otherwise exercisable according to its terms) without paying cash, by effectively submitting in exchange for shares a greater number of warrants than the number of shares purchased, rather than a number of warrants equal to the number of shares purchased plus cash. The Series B Warrants (but not the Series A Warrants) also contain an additional alternative cashless exercise feature, pursuant to which, beginning from December 31, 2015 and until the expiration of such Series B Warrant, on October 31, 2016, as applicable, if 90% of the average of the four lowest volume-weighted average prices of common stock for the preceding 10 trading days (the "Alternative Market Price") is less than $4.00 (subject an Alternative Market Price floor of $1.80), the holder of a Series B Warrant can exercise such Series B Warrant to acquire on a cashless basis a number of shares of common stock or preferred stock equal to (depending on the Market Price) up to 488.9% of the number of shares that could otherwise be purchased under such Series B Warrant pursuant to a cash exercise, with the lower the Alternative Market Price, the more shares being available for acquisition by the Series B Warrant holder pursuant to this alternative cashless exercise.

The Investor Warrants also include "full ratchet" anti-dilution protection provisions, which provide that if any shares of common stock are issued at a price less than then current exercise price of such Investor Warrant, or if any warrants, options or other securities with the right to acquire or that are convertible into or exchangeable for shares of common stock are issued with an exercise price less than the then current exercise price of such Investor Warrant, then the exercise price of such Investor Warrant will automatically be reduced to the issuance price of such new shares of common stock or the exercise price of such warrants, options or other securities with the right to acquire or that are convertible into or exchangeable for shares of common stock. These anti-dilution provisions do not apply in the case of an issuance of "Excluded Securities", including certain option and other equity incentive awards to directors and officers, and securities issued pursuant to acquisitions or strategic transactions approved by a majority of our disinterested directors, but does not include a transaction in which we are issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities.

Under the terms of the Investor Warrants, we may not enter into or be party to a "Fundamental Transaction" unless the successor entity assumes in writing all of our obligations under such Investor Warrants. A "Fundamental Transaction" means, among other things, a transaction in which we, directly or indirectly, including through subsidiaries, affiliates or otherwise, in one or more related transactions, (i) consolidate or merge with or into (whether or not we are the surviving corporation) another entity; (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of our properties or assets of or any of our "significant subsidiaries" (as defined in Rule 1-02 of Regulation S-X) to one or more entities; (iii) make, or allow one or more entities to make, or allow us to be subject to or have its common stock be subject to or party to one or more entities making, a purchase, tender or exchange offer that is accepted by at least 50% of the outstanding shares of common stock; (iv) consummate a stock or share purchase agreement or other business combination (including a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more entities whereby all such entities, individually or in the aggregate, acquire at least 50% of the outstanding shares of common stock; or (v) reorganize, recapitalize or reclassify its common stock. The foregoing provisions will not apply to a Fundamental Transaction where the purchaser or other successor entity, after giving effect to such Fundamental Transaction, does not have any equity securities that are then listed or designated for quotation on a national securities exchange or automated quotation system. Moreover, a holder of an Investor Warrant may choose, in connection with any Fundamental Transaction, to have us or the successor entity purchase such Investor Warrant from the holder by paying the holder cash in an amount equal to the "Black Scholes Value" (as defined in such Investor Warrant) of such Investor Warrant.

Under the terms of the Investor Warrants, if we shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of common stock, then, in each such case, holders of such Investor Warrants shall be entitled to participate in such distribution to the same extent that they would have participated if they had held the number of shares of common stock acquirable upon complete exercise of such Investor Warrants (without regard to any limitations or restrictions on exercise of such Investor Warrants) immediately before the date on which a record is taken for such distribution.

Under the terms of the Investor Warrants, if we grant, issue or sell any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to all or substantially all of the record holders of any class of common stock, which are referred to with respect to the warrants as Warrant Purchase Rights, then each holder of an Investor Warrant will be entitled to acquire, upon the terms applicable to such Warrant Purchase Rights, the aggregate Warrant Purchase Rights which such holder could have acquired if such holder had held the number of shares of common stock acquirable upon complete excise of all Investor Warrants (without taking into account any limitations or restrictions on exercise of such Investor Warrants) held by such holder immediately prior to the date on which a record is taken for the grant, issuance or sale of such Warrant Purchase Rights.

Under the terms of the Series A Warrants (but not the Series B Warrants), until July 31, 2016, the holders have pre-emptive rights pursuant to which we must offer them the right to purchase at least 56.3% (with the Series A-1 entitled to purchase 35%, the Series A-2 entitled to purchase 18% and the Series A-3 entitled to purchase 3.3%) of any additional issuances by us or our subsidiaries of equity securities or securities that are convertible into, exercisable or exchangeable for, or which give the holder the right to acquire any of our equity securities or the securities of our subsidiaries, except for certain "Excluded Securities" as described above.

Under the terms of the Investor Warrants, if a holder exercises an Investor Warrant and we fail to deliver common stock or preferred stock in response within the time periods and in the manner specified in the terms of such Investor Warrant, we may suffer substantial penalties.

Under the terms of the Series A-1 Warrants (but not the other Investor Warrants), we may not effect the exercise of any such Investor Warrants and the exercise shall be null and void and treated as if never made, to the extent that after giving effect to such exercise, the holder would beneficially own in excess of either 4.99% or 9.99% (the "Maximum Warrant Percentage") (as elected in writing by the holder on or prior to the initial issuance date of the warrants) of the shares of common stock outstanding immediately after giving effect to such exercise. For purposes of the foregoing sentence, beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act, and the shares of common stock issuable to a holder pursuant to the terms of the warrants in excess of the Maximum Warrant Percentage shall not be deemed to be beneficially owned by such holder for any purpose including for purposes of Section 13(d) or Rule 16a-1(a)(1) of the Exchange Act. All of the holders of the outstanding Series A-1 Warrants as of the date of this filing have elected a Maximum Warrant Percentage of 4.99%.

Between February 2, 2016 and February 3, 2016, the Company issued an aggregate of 1,680,557 shares of preferred stock valued at $3,361,114 to certain holders of Series B-1 Warrants who exercised their Series B-1 Warrants using the alternative cashless exercise feature and elected to receive their shares in the form of preferred stock rather than common stock (see Note 17 below for an explanation of this feature). These shares were issued pursuant to exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

On February 24, 2016 the Company issued an aggregate of 641,666 shares of common stock valued at $1,251,249 to certain holders of Series B-2 and Series B-3 Warrants who exercised their warrants using the alternative cashless exercise feature. These shares were issued pursuant to exemptions from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

On February 29, 2016 the Company issued an aggregate of 1,527,778 shares of preferred stock valued at $2,979,167 to certain holders of Series B-1 Warrants who exercised their warrants using the alternative cashless exercise feature and elected to receive their shares in the form of preferred stock rather than common stock (see Note 17 below for an explanation of this feature). These shares were issued pursuant to exemptions from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

The quantity of issued and outstanding warrants as of March 31, 2017 and respective strike prices for are outlined in the table below:

Security	Quantity	Strike Price
IPO & Placement Warrants	7,875,000	$ 11.50
Series A Warrants	3,187,500	$ 4.80
Series B Warrants	-	$ 5.00

16. STOCK BASED COMPENSATION

The Company maintains a stock option plan under which the Company may grant incentive stock options and non-qualified stock options to employees and non-employee directors. Stock options have been granted with exercise prices at or above the fair market value of the underlying shares of common stock on the date of grant. Options vest and expire according to terms established at the grant date.

The Company records compensation expense for the fair value of stock-based awards determined as of the grant date, including employee stock options. For the three months ended March 31, 2017 and 2016 there were 499,000 stock options granted, under the Company's option plan. The Company recognized $34,150 and $58,559 in stock-based compensation expense for the three months ended March 31, 2017 and 2016, respectively.

Stock options to purchase 291,000 & 322,000 shares of common stock were outstanding as of March 31, 2017 and December 31, 2016, respectively.

The Company uses the Black-Scholes option-pricing model to value the options. The life of the option is equivalent to the expiration of the option award. The risk-free interest rate is assumed at 1.77%. The estimated volatility is based on management's expectations of future volatility and is assumed at 60%. Estimated dividend payout is zero, as the Company has not paid dividends in the past and, at this time, does not expect to do so in the future.

	Shares	Weighted Average Exercise Price Per Option
Options outstanding, December 31, 2016	322,000	$ 2.05
Granted to employees and non-employee directors	-	-
Exercised	-	-
Canceled/expired/forfeited	31,000	-
Options outstanding, March 31, 2017	291,000	2.05
Options exercisable, March 31, 2017	-	$ -

Compensation cost is recognized over the required service period which is three years for all granted options. As of March 31, 2017, $239,048 of total unrecognized compensation cost related to stock options was expected to be recognized over the remaining 7 quarters. As of March 31, 2016 $644,150 of total unrecognized compensation cost related to stock options was expected to be recognized over the remaining 11 quarters.

17. STOCKHOLDERS' EQUITY

Preferred Stock

As of March 31, 2017, we had 4,578,070 shares of preferred stock issued and outstanding. Additionally, there are a total of 3,187,500 Series A Warrants outstanding that are convertible into common stock or preferred stock.

The rights and obligations of the holders of the preferred stock are set forth in the certificate of designations relating thereto.

At any time after its initial issuance date, each share of preferred stock is convertible into validly issued, fully paid and non-assessable shares of common stock based on a conversion price of $4.00 per share, subject to adjustment for unpaid dividends and any accrued charges, as well as equitable adjustments for stock splits, recapitalizations and similar transactions. However, it will effect the conversion of any preferred stock and any such conversion shall be null and void and treated as if never made, to the extent that after giving effect to such conversion, the holder would beneficially own in excess of either 4.99% or 9.99% (the "Maximum Percentage") (as elected in writing by the holder on or prior to the initial issuance date of the preferred stock) of the shares of common stock outstanding immediately after giving effect to such conversion. For purposes of the foregoing sentence, beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act, and the shares of common stock issuable to a holder pursuant to the terms of the preferred stock in excess of the Maximum Percentage shall not be deemed to be beneficially owned by such holder for any purpose including for purposes of Section 13(d) or Rule 16a-1(a)(1) of the Exchange Act. All of the holders of the issued and outstanding preferred stock as of the date of this filing have elected a Maximum Percentage of 4.99%.

Under the certificate of designations, we may not enter into or be party to a "Fundamental Transaction" unless the successor entity assumes in writing all of our obligations under the certificate of designations. A "Fundamental Transaction" means, among other things, a transaction in which we, directly or indirectly, including through subsidiaries, affiliates or otherwise, in one or more related transactions, (i) consolidate or merge with or into (whether or not we are the surviving corporation) another entity; (ii) sell, assign, transfer, convey or otherwise dispose of all or substantially all of our properties or assets or any of our "significant subsidiaries" (as defined in Rule 1-02 of Regulation S-X) to one or more entities; (iii) make, or allow one or more entities to make, or allow us to be subject to or have our common stock be subject to or party to one or more entities making, a purchase, tender or exchange offer that is accepted by at least 50% of the outstanding shares of common stock; (iv) consummate a stock or share purchase agreement or other business combination (including a reorganization, recapitalization, spin-off or scheme of arrangement) with one or more entities whereby all such entities, individually or in the aggregate, acquire at least 50% of the outstanding shares of common stock; or (v) reorganize, recapitalize or reclassify our common stock. The foregoing provisions will not apply to a Fundamental Transaction where the purchaser or other successor entity provides cash consideration and such Fundamental Transaction does not involve the issuance of any securities to the holders of our securities or securities of our affiliates.

If at any time we grant, issue or sell any options, convertible securities or rights to purchase stock, warrants, securities or other property pro rata to all or substantially all of the record holders of any class of common stock, which is referred to as Purchase Rights, then each holder of preferred stock will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such holder could have acquired if such holder had held the number of shares of common stock acquirable upon complete conversion of all preferred stock (without taking into account any limitations or restrictions on the convertibility of the shares of preferred stock) held by such holder immediately prior to the date on which a record is taken for the grant, issuance or sale of such Purchase Rights.

Holders of preferred stock have no voting rights with respect to their preferred stock, except as required by law.

Shares of preferred stock rank pari passu to the shares of common stock in respect of preferences as to dividends, distributions and payments upon our liquidation, dissolution and winding up, except that in a liquidation event, the holders of preferred stock shall be entitled to receive in cash out of our assets an amount per share of preferred stock equal to the greater of $4.00 (plus any unpaid dividends and accrued charges, as equitably adjusted for stock splits, recapitalizations and similar transactions) and the amount per share such holder would receive if such holder converted such preferred stock into common stock immediately prior to the date of such payment (without regard to any limitations on conversion), provided that if the liquidation funds are insufficient to pay the full amount due to the holders, then each holder shall receive a percentage of the liquidation funds equal to the full amount of liquidation funds payable to such holder, as a percentage of the full amount of liquidation funds payable to all holders (on an as-converted basis, without regard to any limitations on conversion set forth herein) and all holders of common stock.

Under the terms of the preferred stock, if holders convert their preferred stock and we fail to deliver common stock in response within the time periods and in the manner specified in the certificate of designations, we may suffer substantial penalties.

Our Amended Charter and related Certificate of Incorporation also provides that additional shares of preferred stock may be issued from time to time in one or more series. Our board of directors will be authorized to fix the voting rights, if any, designations, powers, preferences, the relative, participating, optional or other special rights and any qualifications, limitations and restrictions, applicable to such additional shares of each series. Our board of directors will be able to, without stockholder approval, issue preferred stock with voting and other rights that could adversely affect the voting power and other rights of the holders of the common stock and could have anti-takeover effects, but subject to the rights of the holders of the preferred stock. The ability of our board of directors to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change of control of us or the removal of existing management.

Between February 2, 2016 and February 3, 2016, the Company issued an aggregate of 1,680,557 shares of preferred stock at a value of $3,361,114 to certain holders of Series B-1 Warrants who exercised their Series B-1 Warrants using the alternative cashless exercise feature and elected to receive their shares in the form of preferred stock rather than common stock. These shares were issued pursuant to exemptions from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

On February 29, 2016 the Company issued an aggregate of 1,527,778 shares of preferred stock at a value of $2,979,167 to certain holders of Series B-1 Warrants who exercised their warrants using the alternative cashless exercise feature and elected to receive their shares in the form of preferred stock rather than common stock. These shares were issued pursuant to exemptions from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

Common Stock

As of March 31, 2017, we had 11,064,664 shares of common stock issued and outstanding. Additionally, there are 4,578,070 issued and outstanding shares of preferred stock convertible into common stock, outstanding warrants exercisable into 7,875,000 shares of common stock that were issued in exchange for former Chart warrants, and 3,187,500 Series A Warrants and 275,000 Series B Warrants outstanding that are convertible into common stock or preferred stock (with the Series B Warrants convertible into a maximum of 1,344,446 shares using the alternative cashless exercise feature as described in Note 15, above, under the heading "Series A Warrants and Series B Warrants").

Additionally, pursuant to the terms of the Merger Agreement, we may be obligated to issue additional shares of common stock thereunder to the Members (or the Members may be required to forfeit certain of their shares of common stock) as a result of (i) adjustments to the merger consideration payable to the Members as a result of Tempus' working capital and/or debt as of the completion of the Business Combination varying from the estimates that were made at the time of the consummation of the Business Combination, (ii) Tempus meeting certain financial milestones pursuant to the earn-out provisions of the Merger Agreement, up to a total of 6,300,000 shares and (iii) any indemnification payments that are made under the Merger Agreement by delivery of shares of common stock. The shares of common stock issued to the Members under the Merger Agreement are subject to certain lock-up restrictions as set forth in the Tempus Registration Rights Agreement to which the Members are subject.

Additionally, we may issue awards for up to a maximum of 640,616 shares of common stock under our 2015 Omnibus Equity Incentive Plan. On January 22, 2016 our compensation committee awarded 499,000 options to purchase our common stock at a price of $2.05, to our employees and our board of directors. These options are subject to a minimum vesting period of three years.

Holders of common stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock. Holders of common stock are entitled to receive such dividends, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor.

Common stockholders of record are entitled to one vote for each share held on all matters to be voted on by stockholders. Our board of directors is divided into three classes, each of which will generally serve for a term of three years (with a shorter period for the initial directors upon the Business Combination, where they continue until their class is up for election) with only one class of directors being elected in each year and with directors only permitted to be removed for cause. There is no cumulative voting with respect to the election of directors, with the result that the holders of more than 50% of the shares voted for the election of directors can elect all of the directors up for election at such time.

Certain shares of common stock that were issued in the Business Combination in exchange for Chart's common stock held by certain of its initial stockholders, which we refer to as Founder Shares, are subject to forfeiture upon certain conditions. With certain limited exceptions, the Founder Shares are not transferable, assignable or salable (except to our officers and directors and other persons or entities affiliated with the Chart's initial stockholders, each of whom will be subject to the same transfer restrictions) until the earlier of (i) July 31, 2016 or earlier if the last sales price of our common stock equals or exceeds $12.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 150 days after July 31, 2015, or (ii) the date on which we consummate a liquidation, merger, stock exchange or other similar transaction that results in all of our stockholders having the right to exchange their shares of common stock for cash, securities or other property. In addition, 234,375 Founder Shares are subject to forfeiture pro rata by Chart's initial stockholders in the event the last sales price of our common stock does not equal or exceed $11.50 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period within 60 months following July 31, 2015. An additional 234,375 Founder Shares, will be subject to forfeiture pro rata by Chart's initial stockholders in the event the last sales price of our common stock does not equal or exceed $13.50 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period prior to July 31, 2020. Chart' s initial stockholders have agreed that such shares will be subject to lockup and will not sell or transfer Founder Shares that remain subject to forfeiture as described above, until such time as the related forfeiture provisions no longer apply. The securities held by Chart's initial stockholders are also subject to certain other lock-up restrictions under the terms of the Founders' Registration Rights Agreement, to which such stockholders are subject.

We have made an adjustment to our capital contributed in excess of par to account for the fact that the Financing and Business Combination expenses, along with the valuation of the warrant liabilities associated with the warrants issued pursuant thereto, caused capital contributed in excess of par to go below zero. Any excess negative amount due to these transactions that would otherwise have been allocated to capital contributed in excess of par has now been recognized as a negative retained earnings amount.

On February 24, 2016 the Company issued an aggregate of 641,666 shares of common stock at a value of $1,251,249 to certain holders of Series B-2 and Series B-3 Warrants who exercised their warrants using the alternative cashless exercise feature. These shares were issued pursuant to exemptions from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

On March 15, 2016, the Company purchased Tempus Jets, Inc. ("TJI") from our CEO B. Scott Terry for consideration of $500,000, paid in the form of 242,131 shares of common stock of the Company. The number of shares issued to Mr. Terry was calculated based on the volume weighted average market price of the Company's common stock for the previous 20 trading days. (See Note 8 above).

On June 24, 2016, the Company issued an aggregate of 1,344,446 shares of common stock valued at $1,546,113 to certain holders of Series B-2 and Series B-3 Warrants who exercised their warrants using the alternate cashless exercise feature. These shares were issued pursuant to exemptions from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act and Rule 506 of the Regulation D promulgated thereunder.

18. SUBSEQUENT EVENT

On April 28, 2017, the Company entered into a Note Purchase Agreement with Santiago Business Co. International Ltd, (" Santiago "), its 10% Senior Secured Convertible Note due April 28, 2018, in an aggregate principal amount of $6,200,000 (the " Note ") and Santiago caused to be transferred to the Company certain shares of capital stock of a subsidiary of Santiago, Bluebell Business Limited, a company limited by shares organized and existing under the laws of the British Virgin Islands (" Bluebell "), and, upon receipt of the Note, to cause to be forgiven approximately $700,000 owed by the Company in connection with a certain G-IV Aircraft Lease Agreement, dated as of February 25, 2016, and certain related matters. See Item 5. Other Information below.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited interim financial statements and the notes thereto contained elsewhere in this Report. Certain information contained in this discussion and analysis includes forward-looking statements. See the section entitled "Cautionary Note Regarding Forward-Looking Statements" set forth elsewhere in this Report.

Overview

Tempus Applied Solutions Holdings, Inc. ("we", the "Company" or "Tempus Holdings") is a Delaware corporation organized on December 19, 2014 as a direct, wholly owned subsidiary of Chart Acquisition Corp. ("Chart"). We were formed solely for the purpose of effecting a business combination between Chart and Tempus Applied Solutions, LLC ("Tempus").

Business Combination

On July 31, 2015, pursuant to an Agreement and Plan of Merger dated as of January 5, 2015, as amended (the "Merger Agreement") by and among Tempus Holdings, Chart, Tempus, the holders of Tempus' membership interests named in the Merger Agreement (the "Members"), Benjamin Scott Terry and John G. Gulbin III (together, in their capacity under the Merger Agreement as the representative of the Members for the purposes set forth therein, the "Members' Representative"), Chart Merger Sub Inc. ("Chart Merger Sub"), Chart Financing Sub Inc. ("Chart Financing Sub"), TAS Merger Sub LLC ("Tempus Merger Sub"), TAS Financing Sub Inc. ("Tempus Financing Sub"), Chart Acquisition Group LLC ("CAG"), in its capacity under the Merger Agreement as the representative of the equity holders of Chart and Tempus Holdings (other than the Members and their successors and assigns) for the purposes set forth therein and, for the limited purposes set forth therein, CAG, Joseph Wright and Cowen Investments LLC ("Cowen"), the following was effected: (i) Chart Financing Sub and Chart Merger Sub merged with and into Chart, with Chart continuing as the surviving entity; (ii) Tempus Financing Sub and Tempus Merger Sub merged with and into Tempus, with Tempus continuing as the surviving entity; and (iii) each of Chart and Tempus became wholly owned subsidiaries of the Company. We refer to the transactions contemplated by the Merger Agreement as the "Business Combination."

The Business Combination was approved by Chart's stockholders at a special meeting of stockholders held on July 31, 2015 (the "Special Meeting"). At the Special Meeting, 4,985,780 shares of Chart common stock were voted in favor of the proposal to approve the Business Combination and no shares of Chart common stock were voted against that proposal. In connection with the stockholders' approval of the Business Combination, Chart redeemed a total of 2,808,329 shares of its common stock pursuant to the terms of Chart's amended and restated certificate of incorporation.

The consummation of the Business Combination was preceded by a series of privately negotiated transactions, referred to collectively herein as the "Financing", involving aggregate cash investments of $10.5 million by three outside investor entities (or affiliates thereof) that had not previously invested in Chart or Tempus (the "New Investors"), aggregate cash investments of $5.0 million by CAG, Joseph Wright and Cowen (collectively, the "Chart Affiliate Investors") and a cash investment of $500,000 by R. Lee Priest, Jr., the Chief Financial Officer of Tempus (through his individual retirement account) (the "Tempus Affiliate Investor", and together with the Chart Affiliate Investors, the "Affiliate Investors", and together with the New Investors, the "Investors").

In the Business Combination, the Members received 3,642,084 shares of Tempus Holdings' common stock (the "Merger Shares") in exchange for all of the issued and outstanding membership interests of Tempus. The number of Merger Shares received reflected a downward merger consideration adjustment (in accordance with the Merger Agreement) of 57,916 shares of Tempus Holdings common stock, based on Tempus' estimated working capital and debt as of the closing of the Business Combination. Such merger consideration adjustment is subject to a post-closing true-up based on Tempus' actual working capital and debt as of the closing of the Business Combination. In addition, pursuant to the earn-out provisions of the Merger Agreement, the Members have the right to receive up to an additional 6,300,000 shares of Tempus Holdings' common stock upon the achievement of certain financial milestones.

In connection with the Business Combination, Chart stockholders and warrant holders received shares of Tempus Holdings common stock and warrants to purchase shares of Tempus Holdings common stock in exchange for their existing shares of Chart common stock and existing Chart warrants. In connection with the Business Combination, (i) the Affiliate Investors received an aggregate of 1,375,000 shares of Tempus Holdings common stock, 1,031,250 Series A-2 Warrants and 343,750 Series B-2 Warrants (collectively, the "Affiliate Investor Securities") and (ii) the New Investors received an aggregate of 1,255,265 shares of Tempus Holdings common stock, 1,369,735 shares of Tempus Holdings Preferred Stock, 1,968,750 Series A-1 Warrants and 656,250 Series B-1 Warrants (collectively, the "New Investor Securities", and collectively with the Affiliate Investor Securities, the "Financing Securities"). The terms and provisions of the Financing Securities are described in more detail in the registration statement on Form S-4 filed in connection with the Business Combination (SEC File No. 333-201424) (the "Form S-4"), in the section therein entitled "Description of Tempus Holdings' Securities", which section is incorporated herein by reference.

Business of Tempus

We provide turnkey flight operations; customized design, engineering and modification solutions; and training services that support critical aviation mission requirements for such customers as the U.S. Department of Defense (the "DoD"), U.S. intelligence agencies, foreign governments, heads of state and high net worth individuals worldwide. Our management and employees have extensive experience in the design and implementation of special mission aircraft modifications related to intelligence, surveillance, and reconnaissance ("ISR") systems, new generation command, control and communications systems and VIP interior components; the provision of ongoing operational support, including flight crews, maintenance and other services to customers; and the operation and leasing of corporate, VIP and other specialized aircraft.

Our principal areas of expertise include:

- Flight Operations: turnkey flight operations and related support services required by the customer for the ultimate successful execution of its mission, including leasing, planning, maintenance, training, logistics support and other support services; and

- Design, Engineering and Modification: the modification of aircraft for airborne research and development, the addition and upgrading of ISR and electronic warfare capabilities and wide body aircraft VIP interior conversions.

We operate out of our corporate headquarters in Williamsburg, Virginia. Additionally, we utilize office and hangar space in Brunswick, Maine and San Marcos, TX to provide the required facilities for production and logistic support for our customers.

The Company's activities are subject to significant risks and uncertainties, including without limitation the risks of deadline and budget overruns and risks specific to government and international contracting businesses. Anticipated contracts are large and the periods of performance are long.

Going Concern

The Company's consolidated financial statements have been prepared assuming that it will continue as a going concern. The conditions noted below raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Historically, the Company has experienced operating losses and negative cash flows from operations, and it currently has a working capital deficit, due principally to delays in the commencement of contracts, low margins on initial contracts as the Company works to achieve market share and high overhead costs associated with sales, marketing and proposal costs related to the team of Company personnel assigned to aggressively pursue new contracts. Management expects that these efforts will begin to achieve results over the remainder of 2017 and, assuming the timely commencement of new contracts, that the Company will begin to reduce its working capital deficit over the coming months. Nevertheless, whether, and when, the company can attain positive operating cash flows from operations is highly dependent on the commencement of these new contracts and the timing of their commencement. Management believes that the uncertainties regarding these contracts and their timing cast substantial doubt upon the Company's ability to continue as a going concern, especially in the near term and within one year after the date that the consolidated financial statements are issued.

In light of the foregoing, the Company has implemented cost cutting initiatives, including reductions in our employee headcount, facilities and other expenses. Headcount has been reduced from 52 in June 2016 to 13 as of March 31, 2017. The Company expects to undertake additional cost-cutting measures in the future to the extent consistent with the provision of full performance under the Company's contracts with customers. In addition, the Company continues to explore possibilities for raising both working capital and longer-term capital from outside sources in various possible transactions. As of the date of this filing, the Company expects its cash flows to cover its costs of operations. However, there can be no assurance that the Company's cash flows or costs of operations will develop as currently expected. Our cash flows and liquidity plans remain subject to a number of risks and uncertainties. See "Item 1A. Risk Factors" of our Annual Report on Form 10-K (the "Form 10-K").

Results of Operations

Currently, the Company's consolidated revenues consist principally of revenues earned under aircraft management contracts (which are based on fixed expenses and fees plus variable expenses and fees tied to actual aircraft flight hours), revenues earned from the provision of leased aircraft (which are based on actual aircraft flight hours) and modification of aircraft (based on fixed price contracts) that will be utilized for the provision of leased aircraft services to our customers.

The Company regularly engages in marketing and negotiation efforts and submits bids with the aim of converting current business opportunities into signed contracts and identifying and developing new business opportunities. The Company expects to be able to make public announcements from time to time as and when it is able to enter into additional, material contracts with customers.

As a result of the Business Combination, which was consummated on July 31, 2015, we have begun to, and expect to continue to, incur increased operating expenses as a result of being a public company (for legal, financial reporting, accounting and auditing compliance); increased sales, marketing and business development efforts; increased professional services, recruiting, salaries and benefits and facility costs; and other expenses.

Three Months Ended March 31, 2017 and 2016

Revenues

Revenues were $4,386,839 for the three months ended March 31, 2017. As set forth below, four customers each represented greater than 10% of our revenues during this period. These four customers represented 24%, 30% and 26%, and 15% of our revenues respectively.

Revenues were $3,749,023 for the three months ended March 31, 2016. As set forth below, three customers each represented greater than 10% of our revenues over this period. These three customers represented 26%, 33% and 25% of our revenues respectively.

Revenue growth is due to increased flying activity, and the commencement of an aircraft modification contract with a government customer.

The table below sets forth the amount of revenues we recognized for the three months ended March 31, 2017 and 2016:

	Three months ended March 31, 2017		Three months ended March 31, 2016	
	Revenue		Revenue	
Customer A	$ 1,059,450	24%	$ 978,207	26%
Customer B	1,325,467	30%	1,248,790	33%
Customer C	1,150,857	26%	-	-%
Customer D	659,807	15%	132,240	4%
Customer E	-	-%	920,622	25%
Other customers	191,258	5%	469,164	12%
	$ 4,386,839	100%	$ 3,749,023	100%

Cost of Revenue and Gross Profit

Cost of revenue for the three months ended March 31, 2017 was $3,761,056, which represented 86% of revenues. The Company's gross profit was $625,783 or 14% of revenues for the three months ended March 31, 2017.

Cost of revenue for the three months ended March 31, 2016 was $3,750,595, which represented 100% of revenues. The Company's gross loss was ($1,572) or 0% of revenues for the three months ended March 31, 2016.

The improvement in gross profit was primarily due to decreased fixed costs associated with aircraft for customer contracts. Other factors affecting gross profit include an increased mix of higher margin contracts for the three months ended March 31, 2017 as compared to the prior year period.

Selling, general and administrative.

Selling, general and administrative expenses were $822,973 for the three months ended March 31, 2017, which represented 19% of revenues for this period.

Selling, general and administrative expenses were $1,554,409 for the three months ended March 31, 2016, which represented 41% of revenues for this period.

The decrease over the comparable prior year period is primarily associated with the following: (i) lower staffing costs; (ii) decreased sales and marketing expenses; (iii) offset by increases in depreciation expense.

Other Income (Expense)

Other income (expense) was ($71,161) for the three months ended March 31, 2017 and ($307,876) for the three months ended March 31, 2016. The decreased expense period over period is primarily due to non-cash charges associated with the change in warrant valuation along with a charge for interest expense primarily related to capital leases on aircraft.

Net Loss

Net loss for the three months ended March 31, 2017 was ($268,351). Net loss for the three months ended March 31, 2016 was ($1,863,857).

Liquidity and Capital Resources

As of March 31, 2017, we had cash and cash equivalents of $402,599. As of that date, we held restricted cash of $50,007, consisting of a certificate of deposit securing credit card borrowings. Credit card borrowings outstanding as of March 31, 2017 totaled $285,029.

Our working capital as of March 31, 2017 was ($9,833,822), equal to the difference between our total current assets as of that date of $2,315,121 and our total current liabilities as of that date of $12,148,943.

Tempus continues to incur operating expenses in support of business development efforts in addition to various organizational and transactional costs in support of potential merger and acquisition activity. In addition, new customers and contracts will require investment in working capital and aircraft assets.

In 2015, the Company entered into an aircraft purchase agreement with Pilatus Business Aircraft, Ltd. for the purchase of a Pilatus PC-12 with certain special mission modifications for approximately $7.3 million. The Company entered into this agreement pursuant to a contract with a government law enforcement agency whereby Tempus would lease the aircraft to the agency. Tempus subsequently assigned the lease contract and the purchase obligation to Cowen Aviation Finance Holdings, Inc. ("CAF") for no consideration and has entered into a services agreement with CAF whereby it will provide certain administrative, servicing and marketing services for this and other aircraft owned by CAF. For the three months ended March 31, 2017 Tempus billed $16,388 to CAF under the services agreement. Based on the assignment of the lease contract and purchase obligation to CAF, a $750,000 customer deposit received from the law enforcement agency customer and the $500,000 deposit Tempus paid to Pilatus was transferred to CAF. At March 31, 2017 and December 31, 2016, the net payable to CAF was $70,592 and $62,018, respectively.

Subsequent to December 31, 2015, effective as of February 25, 2016, we entered into an agreement to lease a Gulfstream G-IV, at a rate of $70,000 a month for a period of 40 months, in support of a modification contract and expected operational contract with a government customer. The lease permits the lessor to exercise an option to sell the aircraft to the Company at any time after November 30, 2016, or the Company to purchase the aircraft from the lessor, in either case at a value of $5,500,000. We have modified this aircraft for a government customer and are providing it to this customer at an hourly and daily rate, based on the customer's usage of the aircraft. As of November 4, 2016 the lessor has exercised its option to sell the aircraft to the Company. As of April 24, 2017 the lender has provided owner financing to the Company in exchange for a note payable, convertible at the lender's discretion into company stock.

The Company will continue to evaluate the merits of aviation asset ownership, whereby aircraft and related modifications will be owned by the Company, as compared to arrangements whereby the Company leases the aviation assets used in support of its customers. Factors considered will include availability of investment capital, required down payments, interest rates on asset backed loans, expected lease rates, expected customer utilization rates, expected customer duration and the level of guaranteed minimum usage to which our customers contractually commit.

For the three months ended March 31, 2017, the Company incurred lease expense for aviation assets used in the provision of its services of $1,358,403. Lease expenses for aviation assets for the three months ended March 31, 2016 were $1,293,735.

We believe that cash on hand, funds generated from increased flight operations in the last three quarters of the year and secured borrowings for aircraft will be sufficient to satisfy our liquidity and capital resource needs over the next twelve months. Our liquidity plans are subject to a number of risks and uncertainties, including those described in "Item 1A. Risk Factors" of our Annual Report on Form 10-K (the "Form 10-K").

Off-Balance Sheet Arrangements

None.

Distributions

None.

Contractual Obligations

The Company leases office space in Williamsburg, Virginia to support its operations. The Company occupied the premises as of September 1, 2016 under a month-to-month sublease to Jackson River Aviation, which is controlled by B. Scott Terry, the Company's CEO and sole member of the Company's Board of Directors.

The Company leases office space in San Marcos, TX to support its training operations. The Company occupied the premises as of October, 1, 2015 under a fifteen (15) month lease at a rate of $10,500 per month. The lease was extended as of January 1, 2017 for an additional 12 months. The Company also leases simulators used in its training operations at this location. The simulator lease commenced on October 1, 2015 and extends to December 31, 2016 at a rate of $3,000 per month, at which point it was also renewed for an additional 12 months. The future minimum lease payments associated with these leases at San Marcos, TX as of March 31, 2017 total $121,500.

The Company leased hangar space in Newport News, VA to support its operations. The Company occupied the premises as of October 1, 2015 under a one-year lease at a rate of $2,000 per month. The term of the lease ended and was not renewed. Unpaid invoices at March 31, 2017 was $14,000 and are included in accounts payable.

The Company leased office and hangar space in Brunswick, ME to support its operations. The Company occupied the premises as of March 1, 2016 under a six-month lease at a rate of $16,673 per month, after which the lease reverted to a month to month agreement. The facility and related employees were transferred to Tempus Intermediate Holdings as of November 2016. Unpaid lease invoices at March 31, 2017 totaled $157,291 and are included in accounts payable.

The Company has employment agreements with certain key executives with terms that expire in 2018, with provisions for termination obligations, should termination occur prior thereto, of up to 12 months' severance. The Company expects to pay a total aggregate base compensation of approximately $350,000 annually through 2018, plus other normal customary fringe benefits and bonuses.

In 2015, the Company entered into an aircraft purchase agreement with Pilatus Business Aircraft, Ltd. for the purchase of a Pilatus PC-12 with certain special mission modifications for approximately $7.3 million. The Company entered into this agreement pursuant to a contract with a government law enforcement agency whereby Tempus would lease the aircraft to the agency. Tempus subsequently assigned the lease contract and the purchase obligation to Cowen Aviation Finance Holdings, Inc. ("CAF") for no consideration and has entered into a services agreement with CAF whereby it will provide certain administrative, servicing and marketing services for this and other aircraft owned by CAF. CAF is owned by Cowen Group, Inc., ("Cowen") whose board member, Joe Wright, was also on our board of directors at such time. For the three months ended March 31, 2017 Tempus billed $16,388 to CAF under the services agreement. Based on the assignment of the lease contract and purchase obligation to CAF, a $750,000 customer deposit received from the law enforcement agency customer and the $500,000 deposit Tempus paid to Pilatus was transferred to CAF. At March 31, 2017 and December 31, 2016, the net payable to CAF was $70,592 and $62,018, respectively.

Effective as of February 25, 2016, we entered into an agreement to lease a Gulfstream G-IV, at a rate of $70,000 a month for a period of 40 months. The lease permits the lessor to exercise an option to sell the aircraft to the Company at any time after November 30, 2016, or the Company to purchase the aircraft from the lessor, in either case at a value of $5,500,000. We have modified the aircraft for a government customer and are providing it to this customer at an hourly and daily rate, based on this customer's usage of the aircraft. As of November 4, 2016, the lessor exercised its option to sell the aircraft to the Company. In connection with the issuance by the Company on April 28, 2017, of a 10% Senior Secured Convertible Note, the Company purchased the aircraft using owner financing. See the Company's Current Report on Form 8-K filed with the SEC on May 3, 2017, and Item 5 Other Information below, in connection with this event.

Significant Accounting Policies

Basis of Presentation

The Company has prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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

Because Tempus was deemed the accounting acquirer in the Business Combination, which was consummated on July 31, 2015, the historical financial information for the three months ended March 31, 2016 and 2015 reflects the financial information and activities of Tempus only. In conjunction with the Business Combination, all outstanding membership interests of Tempus were exchanged for shares of the Company's common stock. The historical members' equity of Tempus (which is a limited liability company) has been retroactively adjusted to reflect the stockholders' equity structure of Tempus Holdings (which is a corporation), using the respective exchange ratios established in the Business Combination. This reflects the number of shares Tempus Holdings issued to the members of Tempus upon the consummation of the Business Combination. Accordingly, all shares and per share amounts for all periods presented in these consolidated financial statements and the notes thereto have been adjusted retrospectively, where applicable, to reflect the respective exchange ratios established in the Business Combination. For details on the conversion of Tempus' membership interests into Company common stock, see the Company's Current Report on Form 8-K filed with the SEC on August 6, 2015 in connection with the Business Combination.

The Company manages, analyzes and reports on its business and results of operations on the basis of one operating segment, flight operations and support. Our chief executive officer is the primary decision maker.

Principles of Consolidation

The consolidated financial statements include the accounts of Tempus Holdings and its subsidiaries. Significant inter-entity accounts and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax

The Company follows the reporting requirements of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 "Income Taxes", which requires an asset and liability approach to financial accounting and reporting for income taxes. The Company recognizes deferred tax assets or liabilities based on differences between the financial statement and tax basis of assets and liabilities that will result in future taxable or deductible amounts calculated on enacted tax laws and rates applicable to the periods in which the differences are expected to be ultimately realized.

FASB ASC 740, Income Taxes, sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more-likely-than-not to be sustained upon examination by taxing authorities. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized.

Tempus, a limited liability company, was the acquiror in the Business Combination; therefore, Tempus' taxable income or loss for the period commencing January 1, 2015 through July 31, 2015 (the effective date of the Business Combination) is allocated to its members in accordance with its operating agreement and is reflected in the members' income taxes. The members' income tax filings are subject to audit by various taxing authorities depending on their physical residence. All members reside in the United States of America.

Tempus' consolidated financial statements reflect a provision or liability for Federal and state income taxes for the period commencing January 1, 2015 through July 31, 2015 (the effective date of the Business Combination) for Chart, the predecessor company, and for Tempus Holdings for the period commencing July 31, 2015 through March 31, 2017.

The Company's tax returns are subject to possible examination by the taxing authorities. For income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing of those returns.

Revenue Recognition

The Company uses the percentage-of-completion method for accounting for long-term aircraft maintenance and modification fixed-price contracts to recognize revenues and receivables for financial reporting purposes. Revenues from firm fixed price contracts are measured by the percentage of costs incurred to date to estimated total costs for each contract. Revenues from time-and-material line items are measured by direct labor hours or flight hours incurred during the period at the contracted hourly rates plus the cost of materials, if applicable. To the extent this earned revenue is not invoiced, it is recognized as earnings in excess of billings and is represented in other accounts receivable on the consolidated balance sheets. Earnings in excess of billings were $459 at March 31, 2017 and at December 31, 2016.

The Company records payments received in advance for services to be performed under contractual agreements and billings in excess of costs on uncompleted fixed-price contracts as deferred revenue until such related services are provided. Deferred revenue was $0 at March 31, 2017 and December 31, 2016.

Revenue on leased aircraft and equipment representing rental fees and financing charges are recorded on a straight line basis over the term of the leases.

Currently, the Company's consolidated revenues consist principally of revenues earned under aircraft management contracts (which are based on fixed expenses and fees plus variable expenses and fees tied to actual aircraft flight hours) and revenues earned from the provision of leased aircraft.

Intangibles

Intangibles are stated at cost, less accumulated amortization. Intangibles consist of computer software, Federal Aviation Administration (the "FAA") licenses and independent research and development costs associated with the development of supplemental type certificates ("STCs").

STCs are authorizations granted by the FAA for specific modifications of a certain aircraft. An STC authorizes us to perform modifications, installations, and assemblies on applicable customer-owned aircraft. While the legal life of an STC is indefinite, we intend to fully amortize STC development costs on a straight line basis over the expected economic life of the STC. It is the Company's policy to commence amortization of STCs upon the date that the STC is formally granted by the FAA. As of March 31,2017 and 2016, we have recognized no amortization of these costs.

On October 1, 2015, the Company purchased Proflight Aviation Services, LLC, which provides flight training services under a Federal Aviation Regulations ("FAR") Part 141 certificate. The total purchase price of $50,000 was allocated to intangibles and is considered to be indefinite-lived.

On March 15, 2016, the Company purchased Tempus Jets, Inc. ("TJI") from our CEO B. Scott Terry for non-cash consideration of $500,000, paid in the form of 242,131 shares of common stock of the Company. TJI owns an operating certificate issued by the FAA in accordance with the requirements of Parts 119 and 135 of the FAR (the "Operating Certificate"). The total purchase price of $500,000 was allocated to intangibles and is considered to be indefinite-lived. TJI has been sold in a transaction that was effective January 1, 2017. For the details on the sale of TJI, see the Company's Current Report on form 8-K filed with the SEC on March 1, 2017 in connection with the transaction.

It is the Company's policy to commence amortization of computer software upon the date that assets are placed into service. For the three months ended March 31, 2017, the Company recognized amortization expense of computer software in the amount of $6,437. For the three months ended March 31, 2016 the Company also recognized amortization expense of computer software in the amount of $6,437. Amortization is computed on a straight-line basis over the estimated service lives of the assets as follows:

	Years
Computer software	3

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Under the update, revenue will be recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In the third quarter of 2015, the FASB deferred the effective date of the standard to annual and interim periods beginning after December 15, 2017. Early adoption will be permitted for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact that adopting this ASU will have on its financial position, results of operations and cash flows.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures, and provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. Until the issuance of this ASU, U.S. GAAP lacked guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The amendments are effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. The Company has concluded that there is substantial doubt about its ability to continue as a going concern and has presented the required disclosures of this ASU in Note 2.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). Under the update, an acquirer in a business combination is no longer required to account for measurement-period adjustments retrospectively, and, instead, will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The ASU is effective for financial statements issued after December 15, 2017, and interim periods within those years. Early adoption will be permitted for annual and interim periods beginning after December 15, 2016. The Company does not expect the impact of adopting this ASU to be material to the Company's financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes. Under the update, deferred taxes would be classified as noncurrent in the statement of financial position instead of being separated into current and non-current amounts. The ASU is effective for financial statements issued after January 1, 2017 with early adoption permitted. Additionally, the Company may apply the standard either prospectively or retrospectively. The Company has adopted this ASU and will present deferred taxes in accordance with this ASU when deferred taxes are required to be recorded and presented in the financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Company is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Further, the lease requires a finance lease to recognize both an interest expense and an amortization of the associated expense. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 requires the Company to adopt the standard using a modified retrospective approach and adoption beginning on January 1, 2019. The Company is currently evaluating the impact that ASU 2016-02 will have on its financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The update amends the guidelines for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for annual and interim periods beginning January 1, 2017, and early adoption is permitted. The Company adopted 2016-09 effective January 1, 2017. The adoption of this standard did not have a material impact on the results of operations.

In November 21016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash. The ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. This update is for entities for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years using a retrospective transition method for each period presented. Early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-18 will have on its financial position, results of operations and cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer (together, the "Certifying Officers"), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report. Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed or submitted under 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 our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Our management has concluded that our internal control over financial reporting may not have been consistently effective through the date hereof, due to the fact that, at times, including in particular at times since December 31, 2016, we may not have employed a sufficient number of accounting personnel to adequately segregate duties. A failure to adequately segregate duties means that, for example, journal entries and account reconciliations may not be reviewed by someone other than the preparer, heightening the risk of error or fraud. Such a failure constitutes a material weakness in our internal control over financial reporting. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. If we are unable to remediate this material weakness or avoid other control deficiencies, we may not be able to report our financial results accurately, prevent errors or fraud or file our periodic reports as a public company in a timely manner. The foregoing could result in the loss of investor confidence, errors in our public filings and declines in the market price of our securities.

Limitations on the Effectiveness of Internal Controls

Readers are cautioned that our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our control have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any control design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

To the knowledge of our management, there are no material legal proceedings currently pending against us, any of our officers or directors as such or against any of our property. In February 2017, a lawsuit was filed by a former counterparty of certain businesses affiliated with our CEO, Benjamin Scott Terry, and on our former board members, John G. Gulbin III, against such businesses and individuals, alleging claims for damages in the approximate total of $10 million. Tempus Applied Solutions Holdings, Inc. was also named as a defendant in that suit. We do not believe that the allegations in the complaint involve us in any way, and we expect the suit against us to be abandoned or dismissed. However, there can be no assurance as to the outcome of this matter.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors as disclosed in the section titled “Risk Factors” in the Form 10-K.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

None.

ITEM 5. OTHER INFORMATION

10% Senior Secured Convertible Note due April 28, 2018

The following descriptions of the 10% Senior Secured Convertible Note due April 28, 2018, and the related agreements do not purport to be complete and are qualified in their entirety by reference to their full text, copies of which are included in this Report as Exhibits 10.1 and 10.2, and are incorporated herein by reference.

On April 28, 2017, the Company entered into a Note Purchase Agreement with Santiago (as defined below) pursuant to which the Company issued and sold to Santiago Business Co. International Ltd, a business company organized under the laws of the British Virgin Islands (“ Santiago ”), its 10% Senior Secured Convertible Note due April 28, 2018, in an aggregate principal amount of $6,200,000 (the “ Note ”) and Santiago caused to be transferred to the Company certain shares of capital stock of a subsidiary of Santiago, Bluebell Business Limited, a company limited by shares organized and existing under the laws of the British Virgin Islands (“ Bluebell ”), and, upon receipt of the Note, to cause to be forgiven approximately $700,000 owed by the Company in connection with a certain Aircraft Lease Agreement, dated as of February 25, 2016, and certain related matters.

Upon conversion of the Note at a conversion price of $0.08 per share, Santiago has the right to acquire up to 77,500,000 shares of Common Stock. Assuming conversion of the Note in full, assuming further that no warrants to purchase Common Stock or securities convertible into shares of Common Stock held by parties other than Santiago are exercised or converted, and taking into account 2,032,944 shares of Common Stock acquired by Santiago in a separate transaction (see below), shares beneficially owned by Santiago and which it has the right to acquire would constitute approximately 89.8% of the shares of Common Stock that would be issued and outstanding following conversion in full of the Note.

Pursuant to its authority as the controlling person of Santiago, Johan Eliasch, an individual, may be deemed to indirectly beneficially own any shares of Common Stock attributable to Santiago (Santiago and Eliasch are collectively referred to below as the " Shareholders "). The Shareholders have the voting rights, protective provisions and registration rights described below. Such rights may give the Shareholders the ability to influence control of the Company, including the ability to elect a majority of the Company's board of directors.

Voting Rights

The terms of the Note entitle Santiago or its successors or assigns (the " Holder "), with respect to all matters submitted to a vote of the shareholders of the Company, to vote on an as-converted basis. The Company has agreed to take any and all actions as may be necessary, including, if necessary, amending the terms of its certificate of incorporation and bylaws, to provide the Company the right to vote on an as-converted basis and to assure that the Company is at all times entitled, if the Company exercises its right to vote on an as-converted basis in full, to nominate and elect a majority of the members of the Company's board of directors.

Protective Provisions

The terms of the Note further provide that, for so long as the Note remains outstanding, the Company will not (by amendment, merger, consolidation or otherwise) take any of the following actions without first obtaining the written approval of the Holder:

(i) approve or consummate a transaction with any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity that is directly or indirectly controlling or controlled by or under direct or indirect common control with the Issuer;

(ii) effect or approve any Liquidation Event (as defined in the Note);

(iii) effect any alteration, repeal, change or amendment of the certificate of incorporation of the Issuer (except to the extent otherwise required to comply with the provisions of the Note), including any increase or decrease in the authorized capital stock of the Company, or to create, or authorize the creation of, any additional class or series of capital stock or securities of the Company;

(iv) reclassify, alter or amend any existing security of the Company;

(v) effect any authorization, creation or issuance of (or any obligation to authorize, create or issue) any equity securities of a subsidiary of the Company to any third party;

(vi) create or authorize the creation of any debt security or instrument or otherwise incur new indebtedness of any kind (other than pursuant to credit facilities of the Company existing on the issuance date of the Note);

(vii) amend, change, waive or otherwise alter the Company's bylaws (except to the extent otherwise required to comply with the provisions of the Note);

(viii) adopt or amend any Company equity incentive plan, including any amendment to increase the number of shares of Common Stock reserved for issuance pursuant to any Company stock plan, equity incentive plan, restricted stock plan or other similar arrangement;

(ix) purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Company;

(x) use any available cash at the Company or any of its subsidiaries, other than net cash provided by operating activities, for working capital;

(xi) effect any change in the authorized number of directors of the Company;

(xii) commence or consummate any public offering;

(xiii) effect any sale, transfer or other disposition, in a single transaction or series of related transactions, of more than $[10,000] of the assets of the Company and its subsidiaries;

(xiv) approve any annual budget or any material deviation therefrom; or

(xv) make any changes to the executive officers of the Issuer, including, but not limited to, those individuals performing the chief executive, financial, legal and accounting functions.

For the purposes of the foregoing provisions, any reference to the Company will be deemed to include any subsidiary of the Company.

Registration Rights

The Company and Santiago have entered into a registration rights agreement, dated as of April 28, 2017 (the " Registration Rights Agreement "). Pursuant to the Registration Rights Agreement and subject to the terms and conditions therein, within 30 days of April 28, 2017, the Company shall prepare and file with the Securities and Exchange Commission a "resale" registration statement (the " Registration Statement ") providing for the resale of the number of shares of Common Stock issuable to the Holder upon conversion of the Note (the " Registrable Securities ") pursuant to an offering to be made on a continuous basis under Rule 415 promulgated under the Securities Act of 1933, as amended (the " Securities Act "). The Company's obligation as described in the preceding sentence is subject to limited exceptions specified in the Registration Rights Agreement. The Company has agreed to use its reasonable best efforts to cause the Registration Statement to be declared effective under the Securities Act and to keep the Registration Statement continuously effective under the Securities Act until the earlier of (x) the date when all Registrable Securities covered by such Registration Statement have been sold or (y) the date on which all Registrable Securities then held by Santiago, or which may be acquired by Santiago upon conversion of the Note, may be sold without restriction pursuant to Rule 144 under the Securities Act. The Company has further agreed, upon the written demand of Santiago, facilitate in the manner described in the Registration Rights Agreement a "takedown" of Registrable Securities off of the Registration Statement.

Subject to limited exceptions, the Company will pay the registration expenses incident to the performance of or compliance with the Registration Rights Agreement but will not be responsible for any underwriters', brokers' and dealers' discounts and commissions, transfer taxes or similar fees incurred by Santiago in connection with the sale of the Registrable Securities.

The Registration Rights Agreement contains customary cross-indemnification provisions, pursuant to which the Company is obligated to indemnify Santiago in the event of material misstatements or omissions in the registration statement attributable to the Company, and Santiago is obligated to indemnify the Company for material misstatements or omissions attributable to it.

The Registration Rights Agreement will terminate on the earlier (i) the first date on which no Registrable Securities are outstanding or are issuable upon conversion of the Note; and (ii) the fifth anniversary of the effective date of the Registration Statement; provided, however, that the parties' rights and obligations under the indemnification provisions of the Registration Rights Agreement shall continue in full force and effect in accordance with their respective terms.

Collateral

The Company's obligations under the Note are to be secured by the following collateral: (i) a pledge by the Company of all of the issued and outstanding shares of Bluebell; (ii) a mortgage and security interest to be granted by N198GS Inc. and Bluebell of their respective interests in a specified Gulfstream G-IV aircraft; and (iii) a security interest to be granted by Bluebell in its rights under the trust agreement between Bluebell and N198GS Inc.

Tempus Jets, Inc. transaction

On May 10, 2017, Santiago acquired 2,032,994 shares of Common Stock from Benjamin Scott Terry, Director and CEO of the Company, in partial satisfaction of a promissory note (the " Promissory Note ") pursuant to which Tempus Jets, Inc., a Kansas corporation, was indebted to an affiliate of Santiago; such shares had been pledged to the affiliate to secure payment of the Promissory Note.

Board of Directors Resignations

The unconditional resignations of four of the Company's directors were automatically effected on Wednesday, April 26, 2017. As of such date, director and Company CEO, Benjamin Scott Terry, has been the only sitting member of the Board. The circumstances relating to the foregoing events were reported in the Company's Form 8-K filed with the Commission on May 3, 2017, which is incorporated by reference herein.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
10.1	10% Senior Secured Convertible Note due April 28, 2018 in the principal amount of $6,200,000
10.2	Registration Rights Agreement, dated as of April 28, 2017, between Tempus Applied Solutions Holdings, Inc. and Santiago Business Co. International Ltd.
31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of the Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
32.2	Certification of the Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.

Dated: May 22, 2017

By: /s/ Steven Bush
Name: Steven Bush
Title: Chief Financial Officer
(Principal financial and accounting officer)

EXHIBIT 10.1

10% Senior Secured Convertible Note due April 28, 2018

US$6,200,000

TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.

(the "Company") promises to pay to SANTIAGO BUSINESS CO. INTENATIONAL LTD., or its successors or assigns (the "Holder"), the principal sum of US$6,200,000, together with accrued and unpaid interest, on April 28, 2018.

THIS NOTE AND THE SHARES OF COMMON STOCK OF TEMPUS APPLIED SOLUTIONS HOLDINGS, INC. ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. NEITHER THIS NOTE NOR THE SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THIS NOTE IS BEING ISSUED PURSUANT TO THE TERMS OF A NOTE PURCHASE AGREEMENT, DATED AS OF THE DATE HEREOF, BETWEEN THE COMPANY AND SANTIAGO BUSINESS CO. INTERNATIONAL LTD. (THE "NOTE PURCHASE AGREEMENT"). THE HOLDER IS ENTITLED TO THE BENEFITS OF A REGISTRATION RIGHTS AGREEMENT, DATED AS OF THE DATE HEREOF, BETWEEN THE COMPANY AND SANTIAGO BUSINESS CO. INTERNATIONAL LTD. (THE "REGISTRATION RIGHTS AGREEMENT").

Certain capitalized terms used herein have the definitions ascribed to them in Section 9 hereof.

1. *INTEREST* . The Company promises to pay interest on the principal amount of this Note at a rate of 10.0% per annum from its issuance date until maturity.

The Company will pay interest quarterly in arrears on February 1, May 1, August 1, and November 1 of each year, commencing on August 1, 2017, or if any such day is not a Business Day, on the next succeeding Business Day. Interest on this Note will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the issuance date.

The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and interest on demand at a rate that is 2% per annum in excess of the rate then in effect. Interest will be computed on the basis of a 365- or 366-day year and the actual number of days elapsed.

2. *METHOD OF PAYMENT* . Payments as to principal and interest shall be made by wire transfer of immediately available funds pursuant to the wire transfer instructions set forth on Annex A hereto; *provided* that the Holder may change such wire transfer instructions by providing written notice to the Company no later than two Business Days preceding any such payment. Such payment shall be in such coin or currency of The United States of America as at the time of payment is legal tender for payment of public and private debts.

3. *SECURITY DOCUMENTS* . The Company covenants with the Holder, not later than the 30 th day after the date of this Note, (i) to execute and deliver, or cause to be executed and delivered, to the Holder documents in form and substance satisfactory to the Holder providing for the following collateral security for the obligations of the Company under this Note: (x) a mortgage and security interest to be granted by N198GS Inc. and Bluebell Business Limited of their respective interests in Gulfstream G-IV Airframe serial no. 1098, registration no. N198GS, and Rolls-Royce Tay MK611-8 engines serial nos. 16134 and 16135, and related property; (y) a security interest to be granted by the Company in all the issued and outstanding shares of Bluebell Business Limited; and (z) a security interest to be granted by Bluebell Business Limited in its rights under the trust agreement between Bluebell Business Limited and N198GS Inc., (the documents providing for such mortgage and security interests, collectively, the "Security Documents") and (ii) to take such steps as are required, or are requested by the Holder, in order to perfect and protect the security to be granted pursuant to such Security Documents.

4. *PREPAYMENT* . This Note may not be prepaid at the option of the Company.

5. *CONVERSION* . The Holder may convert the principal amount of, and any accrued and unpaid interest on, this Note (or any portion thereof equal to $1,000 or any integral multiple of $1,000 in excess thereof) at any time into shares of Common Stock. The initial conversion price is $0.08 per share of Common Stock (the Closing Sale Price of the Common Stock on April 24, 2017), subject to adjustment as provided herein (the "Conversion Price").

To convert this Note, or any portion thereof, the Holder shall deliver a notice (a "Conversion Notice") to the Company at the address set forth below. In only a portion of this Note is to be converted, the Conversion Notice shall so state. The Holder shall not be required to deliver the original of this Note in order to effect a conversion hereunder. On or before the first Business Day following the date on which the Company has received a Conversion Notice, the Company shall send an acknowledgment of confirmation of receipt of such Conversion Notice to the Holder and the Company's transfer agent (the "Transfer Agent"), which confirmation shall constitute an instruction to the Transfer Agent to process such Conversion Notice in accordance with the terms herein. On or before the third Business Day following the date on which the Company has received such Conversion Notice, the Company shall issue and deliver (via reputable overnight courier) to the address as specified in the Conversion Notice a certificate, registered in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder shall be entitled pursuant to such conversion. Upon delivery of a Conversion Notice, the Holder shall be deemed for all corporate purposes to have become the holder of record of the shares of Common Stock with respect to which this Note has been converted, irrespective of the date of delivery of the certificates evidencing such shares. If this Note is submitted in connection with any conversion pursuant to this Section 5 and this Holder has elected to convert only a portion of this Note, then the Company shall, as soon as practicable and in no event later than three Business Days after any conversion and at its own expense, issue and deliver to the Holder (or its designee) a new Note representing the portion of this Note not so converted. No fractional shares of Common Stock are to be issued upon the conversion of this Note, but rather the number of shares of Common Stock to be issued shall be rounded up to the nearest whole number. The Company shall pay any and all transfer, stamp, issuance and similar taxes, costs and expenses (including, without limitation, fees and expenses of the Transfer Agent) that may be payable with respect to the issuance and delivery of shares of Common Stock upon conversion of this Note.

So long as this Note remains outstanding, the Company shall at all times keep reserved for issuance under this Note a number of shares of Common Stock at least equal to the maximum number of shares of Common Stock as shall be necessary to satisfy the Company's obligation to issue shares of Common Stock to the Holder upon a conversion of this Note in full. If, notwithstanding the preceding sentence, and not in limitation thereof, at any time while this Note remains outstanding, the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to issue shares of Common Stock to the Holder upon a conversion of this Note in full, then the Company shall immediately take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to satisfy its obligation to issue shares of Common Stock to the Holder upon a conversion of this Note in full.

The Conversion Price is subject to adjustment from time to time as set forth herein.

(a) If the Company, at any time this Note is outstanding, (i) pays a stock dividend on one or more classes of its then outstanding shares of Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its then outstanding shares of Common Stock into a larger number of shares or (iii) combines (by combination, reverse stock split or otherwise) one or more classes of its then outstanding shares of Common Stock into a smaller number of shares, then in each such case the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination.

(b) If the Company, at any time this Note is outstanding, issues or sells, or in accordance with this Note is deemed to have issued or sold, any shares of Common Stock (including the issuance or sale of shares of Common Stock owned or held by or for the account of the Company) for a consideration per share (the "New Issuance Price") less than a price equal to the Conversion Price in effect immediately prior to such issuance or sale or deemed issuance or sale (such Conversion Price then in effect is referred to herein as the "Applicable Price") (the foregoing a "Dilutive Issuance"), then immediately after such Dilutive Issuance, the Conversion Price then in effect shall be reduced to an amount equal to the New Issuance Price. For all purposes of the foregoing, the following shall be applicable:

(i) If the Company in any manner grants or sells any Options and the lowest price per share for which one share of Common Stock is at any time issuable upon the exercise of any such Option or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option or otherwise pursuant to the terms thereof is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this paragraph, the "lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Options or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option or otherwise pursuant to the terms thereof" shall be equal to (A) the lower of (1) the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the granting or sale of such Option, upon exercise of such Option and upon conversion, exercise or exchange of any Convertible Security issuable upon exercise of such Option or otherwise pursuant to the terms thereof and (2) the lowest exercise price set forth in such Option for which one share of Common Stock is issuable upon the exercise of any such Options or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option or otherwise pursuant to the terms thereof minus (B) the sum of all amounts paid or payable to the holder of such Option upon the granting or sale of such Option, upon exercise of such Option and upon conversion, exercise or exchange of any Convertible Security issuable upon exercise of such Option or otherwise pursuant to the terms thereof plus the value of any other consideration received or receivable by, or benefit conferred on, the holder of such Option. Except as contemplated in paragraph (iii) below, no further adjustment of the Conversion Price shall be made upon the actual issuance of such shares of Common Stock or of such Convertible Securities upon the exercise of such Options or otherwise pursuant to the terms of or upon the actual issuance of such shares of Common Stock upon conversion, exercise or exchange of such Convertible Securities.

(ii) If the Company in any manner issues or sells any Convertible Securities and the lowest price per share for which one share of Common Stock is at any time issuable upon the conversion, exercise or exchange thereof or otherwise pursuant to the terms thereof is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this paragraph (ii), the "lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof or otherwise pursuant to the terms thereof" shall be equal to (A) the lower of (1) the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to one share of Common Stock upon the issuance or sale of the Convertible Security and upon conversion, exercise or exchange of such Convertible Security or otherwise pursuant to the terms thereof and (2) the lowest conversion price set forth in such Convertible Security for which one share of Common Stock is issuable upon conversion, exercise or exchange thereof or otherwise pursuant to the terms thereof minus (B) the sum of all amounts paid or payable to the holder of such Convertible Security upon the issuance or sale of such Convertible Security plus the value of any other consideration received or receivable by, or benefit conferred on, the holder of such Convertible Security. Except as contemplated in paragraph (iii) below, no further adjustment of the Conversion Price shall be made upon the actual issuance of such shares of Common Stock upon conversion, exercise or exchange of such Convertible Securities or otherwise pursuant to the terms thereof, and if any such issuance or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of the Conversion Price has been or is to be made pursuant to other provisions of this Section 5, except as contemplated below, no further adjustment of the Conversion Price shall be made by reason of such issuance or sale.

(iii) If the purchase or exercise price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exercise or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exercisable or exchangeable for shares of Common Stock increases or decreases at any time (other than proportional changes in conversion or exercise prices, as applicable, in connection with an event referred to in paragraph (a) above), the Conversion Price in effect at the time of such increase or decrease shall be adjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities provided for such increased or decreased purchase price, additional consideration or increased or decreased conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this paragraph (iii), if the terms of any Option or Convertible Security that was outstanding as of the issuance date of this Note are increased or decreased in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the shares of Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such increase or decrease. No adjustment pursuant to this paragraph (b) shall be made if such adjustment would result in an increase of the Conversion Price then in effect.

(iv) If any Option and/or Convertible Security and/or Adjustment Right is issued in connection with the issuance or sale or deemed issuance or sale of any other securities of the Company (as determined by the Holder, the "Primary Security," and such Option and/or Convertible Security and/or Adjustment Right, the "Secondary Securities"), together comprising one integrated transaction (or one or more transactions if such issuances or sales or deemed issuances or sales of securities of the Company either (A) have at least one investor or purchaser in common, (B) are consummated in reasonable proximity to each other and/or (C) are consummated under the same plan of financing), the aggregate consideration per share of Common Stock with respect to such Primary Security shall be deemed to be equal to the difference of (1) the lowest price per share for which one share of Common Stock was issued (or was deemed to be issued pursuant to paragraph (i) or (ii) above, as applicable) in such integrated transaction solely with respect to such Primary Security, minus (2) with respect to such Secondary Securities, the sum of (x) the Black Scholes Consideration Value of each such Option, if any, (y) the fair market value (as determined by the Holder in good faith) or the Black Scholes Consideration Value, as applicable, of such Adjustment Right, if any, and (z) the fair market value (as determined by the Holder) of such Convertible Security, if any, in each case, as determined on a per share basis in accordance with this paragraph (iv). If any shares of Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor (for the purpose of determining the consideration paid for such Common Stock, Option or Convertible Security, but not for the purpose of the calculation of the Black Scholes Consideration Value) will be deemed to be the net amount of consideration received by the Company therefor. If any shares of Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of such consideration received by the Company (for the purpose of determining the consideration paid for such Common Stock, Option or Convertible Security, but not for the purpose of the calculation of the Black Scholes Consideration Value) will be the fair value of such consideration, except where such consideration consists of publicly traded securities, in which case the amount of consideration received by the Company for such securities will be the arithmetic average of the VWAP of such security for each of the five Trading Days immediately preceding the date of receipt. If any shares of Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor (for the purpose of determining the consideration paid for such Common Stock, Option or Convertible Security, but not for the purpose of the calculation of the Black Scholes Consideration Value) will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such shares of Common Stock, Options or Convertible Securities (as the case may be). The fair value of any consideration other than cash or publicly traded securities will be determined jointly by the Company and the Holder. If such parties are unable to reach agreement within ten days after the occurrence of an event requiring valuation (the "Valuation Event"), the fair value of such consideration will be determined within five Business Days after the tenth day following such Valuation Event by an independent, reputable appraiser jointly selected by the Company and the Holder. The determination of such appraiser shall be final and binding upon all parties absent manifest error and the fees and expenses of such appraiser shall be borne by the Company.

(v) If the Company takes a record of the holders of shares of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in shares of Common Stock, Options or Convertible Securities or (B) to subscribe for or purchase shares of Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issuance or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase (as the case may be).

(c) In addition to and not in limitation of the other provisions of this Section 5, if the Company, at any time this Note is outstanding, in any manner issues or sells or enters into any agreement to issue or sell, any Common Stock, Options or Convertible Securities (any such securities, "Variable Price Securities") that are issuable pursuant to such agreement or convertible into or exchangeable or exercisable for shares of Common Stock at a price which varies or may vary with the market price of the Common Shares, including by way of one or more reset(s) to a fixed price, but exclusive of such formulations reflecting customary anti-dilution provisions (such as share splits, share combinations, share dividends and similar transactions) (each of the formulations for such variable price being herein referred to as, the "Variable Price"), the Company shall provide written notice thereof to the Holder no later than the date of such agreement and the issuance of such Convertible Securities or Options. From and after the date the Company enters into such agreement or issues any such Variable Price Securities, the Holder shall have the right, but not the obligation, in its sole discretion, to substitute the Variable Price for the Conversion Price upon conversion of this Note by designating in the Conversion Notice delivered upon any conversion of this Note that solely for purposes of such exercise the Holder is relying on the Variable Price rather than the Conversion Price then in effect. The Holder's election to rely on a Variable Price for a particular conversion of this Note shall not obligate the Holder to rely on a Variable Price for any future conversions of this Note.

(d) If at any time this Note is outstanding there occurs any stock split, stock dividend, stock combination recapitalization or other similar transaction involving the Common Stock (each, a "Stock Combination Event," and such date thereof, the "Stock Combination Event Date") and the Event Market Price is less than the Conversion Price then in effect (after giving effect to the adjustment in clause (b) above), then on the 16th Trading Day immediately following such Stock Combination Event, the Exercise Price then in effect on such 16th Trading Day (after giving effect to the adjustment in clause (b) above) shall be reduced (but in no event increased) to the Event Market Price. For the avoidance of doubt, if the adjustment in the immediately preceding sentence would otherwise result in an increase in the Conversion Price hereunder, no adjustment shall be made.

(e) In the event that the Company (or any subsidiary of the Company) shall take any action to which the provisions hereof are not strictly applicable, or, if applicable, would not operate to protect the Holder from dilution or if any event occurs of the type contemplated by the provisions of this Section 5 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Company's board of directors shall in good faith determine and implement an appropriate adjustment in the Conversion Price so as to protect the rights of the Holder; *provided* that no such adjustment pursuant to this paragraph (e) shall increase the Conversion Price as otherwise determined pursuant to this Section 5; *provided, further,* that if the Holder does not accept such adjustments as appropriately protecting its interests hereunder against such dilution, then the Company's board of directors and the Holder shall agree, in good faith, upon an independent investment bank of nationally recognized standing to make such appropriate adjustments, whose determination shall be final and binding absent manifest error and whose fees and expenses shall be borne by the Company.

(f) All calculations under this Section 5 shall be made by rounding to the nearest cent or the nearest 1/100 th of a share, as applicable. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issuance or sale of Common Stock.

(g) The Company may at any time, with the prior written consent of the Holder, reduce the then current Conversion Price to any amount and for any period of time deemed appropriate by the board of directors of the Company.

(h) Nothing in this Section 5 shall be deemed to limit the application of Section 8 of this Note, pursuant to which the Company many not take certain actions without first obtaining the written approval of the Holder.

6. *VOTING* . This Note shall entitle the Holder, with respect to all matters submitted to a vote of the shareholders of the Company, to vote on an as-converted basis. The Company shall take any and all actions as may be necessary, including, if necessary, amending the terms of its certificate of incorporation and bylaws, to provide the Holder the right to vote on an as-converted basis and to assure that the Holder is at all times entitled, if the Holder exercises its right to vote on an as-converted basis in full, to nominate and elect a majority of the members of the Company's board of directors.

7. *TRANSFER* . The Holder may transfer this Note or any portion thereof at any time at its option.

8. *PROTECTIVE PROVISIONS* . So long this Note remains outstanding, the Company will not (by amendment, merger, consolidation or otherwise) take any of the following actions without first obtaining the written approval of the Holder:

(i) approve or consummate a transaction with any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity that is directly or indirectly controlling or controlled by or under direct or indirect common control with the Company;

(ii) effect or approve any Liquidation Event;

(iii) effect any alteration, repeal, change or amendment of the certificate of incorporation of the Company (except to the extent otherwise required to comply with the provisions of this Note), including any increase or decrease in the authorized capital stock of the Company, or to create, or authorize the creation of, any additional class or series of capital stock or securities of the Company;

(iv) reclassify, alter or amend any existing security of the Company;

(v) effect any authorization, creation or issuance of (or any obligation to authorize, create or issue) any equity securities of a subsidiary of the Company to any third party;

(vi) create or authorize the creation of any debt security or instrument or otherwise incur new indebtedness of any kind (other than pursuant to credit facilities of the Company existing on the Issuance Date);

(vii) amend, change, waive or otherwise alter the Company's bylaws (except to the extent otherwise required to comply with the provisions of this Note);

(viii) adopt or amend any Company equity incentive plan, including any amendment to increase the number of shares of Common Stock reserved for issuance pursuant to any Company stock plan, equity incentive plan, restricted stock plan or other similar arrangement;

(ix) purchase or redeem (or permit any subsidiary to purchase or redeem) or pay or declare any dividend or make any distribution on, any shares of capital stock of the Company;

(x) use any available cash at the Company or any of its subsidiaries, other than net cash provided by operating activities, for working capital;

(xi) effect any change in the authorized number of directors of the Company;

(xii) commence or consummate any public offering;

(xiii) effect any sale, transfer or other disposition, in a single transaction or series of related transactions, of more than $[10,000] of the assets of the Company and its subsidiaries;

(xiv) approve any annual budget or any material deviation therefrom; or

(xv) make any changes to the executive officers of the Company, including, but not limited to, those individuals performing the chief executive, financial, legal and accounting functions.

For the purposes of this Section 7, any reference to the Company will be deemed to include any subsidiary of the Company.

9. *AMENDMENT* . This Note, the Note Purchase Agreement and the Registration Rights Agreement may be amended or supplemented only pursuant to a written instrument signed by the Company and the Holder.

10. *DEFAULTS AND REMEDIES* . Each of the following shall comprise an "Event of Default": (a) the Company fails to make any payment of principal, interest or other amounts under this Note or any Security Document when the same shall be due and payable; (b) the Company fails to perform or observe any other covenant, condition or agreement to be performed or observed by it under this Note, the Note Purchase Agreement, the Registration Rights Agreement or any Security Document; (c) any representation or warranty made by the Company under this Note, the Note Purchase Agreement, the Registration Rights Agreement, or any Security Document is false or untrue; (d) the Company repudiates, or evidences an intention to repudiate, any of its obligations under this Note, the Note Purchase Agreement, the Registration Rights Agreement or any Security Document; (e) there occurs, in the opinion of the Holder, a material adverse change in the financial condition of the Company; or (f) a dissolution, termination of existence, insolvency, business failure, or appointment of a receiver or other custodian of any material part of the assets of, or any assignment for the benefit of creditors by, the Company, or any proceedings under any bankruptcy or insolvency laws are commenced against the Company which are not dismissed within 30 days or any such proceeding is commenced by voluntarily. Upon the occurrence of an Event of Default, the Holder may declare all amounts under this Note to be immediately due and payable; *provided* that upon the occurrence of an Event of Default specified in clause (f) above, all amounts outstanding under this Note shall immediately become due and payable without further action or notice.

11. *DEFINITIONS.*

" *Adjustment Right* " means any right granted with respect to any securities issued in connection with, or with respect to, any issuance or sale (or deemed issuance or sale in accordance with Section 5) of shares of Common Stock that could result in a decrease in the net consideration received by the Company in connection with, or with respect to, such securities (including, without limitation, any cash settlement rights, cash adjustment or other similar rights).

" *Black Scholes Consideration Value* " means the value of the applicable Option, Convertible Security or Adjustment Right (as the case may be) as of the date of issuance thereof calculated using the Black Scholes Option Pricing Model obtained from the "OV" function on Bloomberg, L.P. utilizing (i) an underlying price per share equal to the Closing Sale Price of the Common Stock on the Trading Day immediately preceding the public announcement of the execution of definitive documents with respect to the issuance of such Option or Convertible Security (as the case may be), (ii) a risk-free interest rate corresponding to the U.S. Treasury rate for a period equal to the remaining term of such Option, Convertible Security or Adjustment Right (as the case may be) as of the date of issuance of such Option, Convertible Security or Adjustment Right (as the case may be), (iii) a zero cost of borrow and (iv) an expected volatility equal to 80%.

" *Business Day* " means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

" *Closing Sale Price* " means, for any security as of any date, the last closing trade price for such security on the Principal Market, as reported by Bloomberg, L.P., or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing trade price, then the last trade price of such security prior to 4:00 p.m., New York City time, as reported by Bloomberg, L.P., or, if the Principal Market is not the principal securities exchange or trading market for such security, the last trade price of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, L.P., or if the foregoing does not apply, the last trade price of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, L.P., or, if no last trade price is reported for such security by Bloomberg, L.P., the average of the ask prices of any market makers for such security as reported in the "pink sheets" by OTC Markets Group Inc. If the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Sale Price of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved in accordance with the procedures in Section 5. All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during such period.

" *Common Stock* " means (i) the Company's shares of common stock, $0.0001 par value per share, and (ii) any capital stock into which such common stock shall have been changed or any share capital resulting from a reclassification of such common stock.

" *Convertible Securities* " means any stock or other security (other than Options) that is at any time and under any circumstances, directly or indirectly, convertible into, exercisable or exchangeable for, or which otherwise entitles the holder thereof to acquire, any shares of Common Stock.

" *Event Market Price* " means , with respect to any Stock Combination Event Date, the quotient determined by dividing (i) the sum of the VWAP of the Common Stock for each of the five lowest Trading Days during the 20 consecutive Trading Day period ending and including the Trading Day immediately preceding the 16th Trading Day after such Stock Combination Event Date, by (ii) five.

" *Liquidation Event* " means (i) the liquidation, dissolution or winding up of the Company; (ii) the merger, acquisition or consolidation of the Company by means of any transaction or series of related transactions; (iii) any transaction or series of related transactions to which the Company is a party in which more than 50% of the Company's voting power is transferred (taking into account only voting power resulting from stock held by such stockholders prior to such transaction); and (iv) a sale, transfer or other disposition, in a single transaction or series of related transactions, of all or substantially all of the assets of the Company and its subsidiaries taken as a whole (including, without limitation, the sale or disposition (by merger or otherwise) of one or more subsidiaries of the Company if substantially all of the assets of the Company and its subsidiaries taken as a whole are held by such subsidiary or subsidiaries, except where such sale, transfer or other disposition is to a wholly owned subsidiary of the Company).

" *Option* " means a ny rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities.

" *Principal Market* " means OTCQB.

" *Trading Days* " means , as applicable, (i) with respect to all price or trading volume determinations relating to the Common Stock, any day on which the Common Stock is traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock is then traded, provided that "Trading Day" shall not include any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00 p.m., New York City time) unless such day is otherwise designated as a Trading Day in writing by the Holder or (ii) with respect to all determinations other than price determinations relating to the Common Stock, any day on which The New York Stock Exchange (or any successor thereto) is open for trading of securities.

" *VWAP* " means, for any security as of any date, the dollar volume-weighted average price for such security on the Principal Market (or, if the Principal Market is not the principal trading market for such security, then on the principal securities exchange or securities market on which such security is then traded) during the period beginning at 9:30:01 a.m., New York City time, and ending at 4:00 p.m., New York City time, as reported by Bloomberg, L.P. through its "HP" function (set to weighted average) or, if the foregoing does not apply, the dollar volume-weighted average price of such security in the over-the-counter market on the electronic bulletin board for such security during the period beginning at 9:30:01 a.m., New York City time, and ending at 4:00 p.m., New York City time, as reported by Bloomberg, L.P., or, if no dollar volume-weighted average price is reported for such security by Bloomberg, L.P. for such hours, the average of the highest closing bid price and the lowest closing ask price of any of the market makers for such security as reported in the "pink sheets" by OTC Markets Group Inc. If the VWAP cannot be calculated for such security on such date on any of the foregoing bases, the VWAP of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved in accordance with the procedures in Section 5. All such determinations shall be appropriately adjusted for any stock dividend, stock split, stock combination, recapitalization or other similar transaction during such period.

12. *NOTICES* . Any notice required or permitted to be given by the provisions of this Note will be deemed given only if such notice is provided by email, in which case such notice will be deemed to have been received on the date on which receipt of such email is acknowledged, or by reputable overnight courier, in which case such notice will be deemed to have been received on the date on which such courier confirms delivery (or if such day is not a Business Day, on the next succeeding Business Day), if given at the following addresses (or at such other address as may be provided by the Company to the Holder, or by the Holder to the Company, as the case may be, in accordance with this Section 11):

If to the Company to it at:	If to the Holder, to it at:
Tempus Applied Solutions Holdings, Inc. 133 Waller Mill Road Williamsburg, Virginia 23185 Attn.: Email:	Santiago Business Co. International Ltd. Attn.: Email:

12. *GOVERNING LAW*. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS NOTE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICT OF LAWS TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

IN WITNESS WHEREOF , the Company has caused this instrument to be duly executed.

Issuance Date: April 28, 2017

Tempus Applied Solutions Holdings, Inc.

By: /s/ B. Scott Terry

Name: B. Scott Terry

Title: CEO

Annex A

[Insert wires instructions]

EXHIBIT 10.2

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the " **Agreement** "), dated as of April 28, 2017, by and between TEMPUS APPLIED SOLUTIONS HOLDINGS, INC., a Delaware corporation (the " **Company** "), and SANTIAGO BUSINESS CO. INTERNATIONAL LTD. (the " **Purchaser** ").

WITNESSETH:

WHEREAS, the Company and the Purchaser have entered into a Note Purchase Agreement, dated as of April 28, 2017, (the " **Purchase Agreement** "), pursuant to which, among other things, the Purchaser has agreed to purchase the Company's 10% Senior Secured Convertible Note due April 28, 2018 (the " **Note** "), which is convertible into Registrable Securities; and

WHEREAS, the execution of this Agreement by the Company and its delivery to the Purchaser a condition to the Purchaser's obligations under the Purchase Agreement,

NOW THEREFORE, in consideration of the premises and the covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which the parties hereto acknowledge, the parties agree as follows:

ARTICLE 1. DEFINITIONS

Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in the Purchase Agreement. As used in this Agreement, the following terms shall have the following meanings:

" **Business Day** " means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York generally are authorized or required by law or other government action to close.

" **Closing Date** " shall have the meaning set forth in the Purchase Agreement.

" **Commission** " means the United States Securities and Exchange Commission.

" **Common Stock** " means the Company's Common Stock, par value $0.0001 per share.

" **Exchange Act** " means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

" **Filing Date** " means the date on which the Registration Statement is initially filed.

" **Holder** " shall have the meaning set forth in the Note.

" **Person** " means any individual, corporation, partnership, trust, limited liability company, association or other entity.

" **Proceeding** " means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

" **Prospectus** " means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference in such Prospectus.

" **Registrable Securities** " means the number of shares of Common Stock issuable to the Holder upon conversion of the Note; provided, that any such securities shall cease to constitute "Registrable Securities" upon the earliest to occur of: (A) the date on which such securities are disposed of pursuant to the Registration Statement; (B) the date on which such securities become eligible for sale under Rule 144 (or any successor rule then in effect) promulgated under the Securities Act, without restriction thereunder and restrictive legends have been removed from all certificates representing the applicable Registrable Securities; and (C) the date on which such securities cease to be outstanding.

" **Registration Statement** " means any registration statement contemplated by this Agreement, including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference in such registration statement.

" **Rule 144** " means Rule 144 promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

" **Rule 158** " means Rule 158 promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

" **Rule 415** " means Rule 415 promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

" **Rule 424** " means Rule 424 promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

" **Securities Act** " means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

ARTICLE 2. RESALE REGISTRATION STATEMENT

2.1 **Registration Statement**. Within 30 days after the Closing Date and subject to Section 2.3, the Company shall prepare and file with the Commission the Registration Statement, which shall be a "resale" registration statement providing for the resale of the Registrable Securities pursuant to an offering to be made on a continuous basis under Rule 415. The Registration Statement shall cover, to the extent allowable under the Securities Act and the rules promulgated thereunder, such indeterminate number of additional shares of Common Stock resulting from stock splits, stock dividends or similar transactions of and/or from the Registrable Securities. The Registration Statement may include only the Registrable Securities. The Company shall use its reasonable best efforts to cause the Registration Statement to be declared effective under the Securities Act and to keep the Registration Statement continuously effective under the Securities Act until the earlier of (x) the date when all Registrable Securities covered by such Registration Statement have been sold or (y) the date on which all Registrable Securities then held by the Purchaser, or which may be acquired by the Purchaser upon conversion of the Note, may be sold without restriction pursuant to Rule 144, as determined by counsel satisfactory to the Company in a written opinion addressed to the Company and its transfer agent.

2.2 **Certain Matters**. In the event that, due to limits imposed by the Commission, the Company is unable on the Registration Statement to register for resale under Rule 415 of Regulation C under the Securities Act all of the Registrable Securities that it has agreed to file pursuant to the first sentence of Section 2.1, the Company shall include in the Registration Statement, which may be a subsequent Registration Statement if the Company is required, or determines that it is desirable, to withdraw the original Registration Statement and file a new Registration Statement in order to rely on Rule 415 with respect to the full such amount of the Registrable Securities permitted by the Commission.

2.3 **Blackout Period**. The Company may postpone the filing or effectiveness of any Registration Statement (or amendment or supplement thereto) or suspend the use or effectiveness of any Registration Statement (and in each case suspend any other related action otherwise contemplated hereunder) for a reasonable "blackout period" if the board of directors of the Company determines in good faith that such registration or the sale by the Purchaser of Registrable Securities under such Registration Statement at such time (i) would adversely affect a pending or proposed significant corporate event, or (ii) would require the disclosure of material non-public information the disclosure of which at such time would, in the good faith judgment of the board of directors of the Company, be materially adverse to the interests of the Company; provided that the filing or effectiveness of a Registration Statement (or amendment or supplement thereto) by the Company may not be postponed and the use or effectiveness of any Registration Statement may not be suspended (A) in the case of clause (i) above, for more than ten days after the abandonment or consummation of any of the pending or proposed significant corporate event, proposed financing or the negotiations, discussions or pending proposals with respect thereto; (B) in the case of clause (ii) above, until the earlier to occur of the filing by the Company of its next succeeding Form 10-K or Form 10-Q or the date upon which such information is otherwise publicly disclosed by the Company; or (C) in any event, in the case of either clause (i) or (ii) above, for more than 30 days after the date of the determination of the board of directors of the Company; provided that the Company may not postpone the filing or effectiveness of a Registration Statement (or amendment or supplement thereto) or suspend the use or effectiveness of any Registration Statement for more than an aggregate of 30 days in any 365-day period. In addition to the foregoing, the Company shall have the right to suspend the Purchaser's ability to use a Prospectus in connection with non-underwritten sales off of a Registration Statement during each of its regular quarterly blackout periods applicable to directors and senior officers under the Company's policies in existence from time to time. The Company shall not be required to effectuate an underwritten offering (during such a regular quarterly blackout period or otherwise) to the extent the Company reasonably concludes, after consultation in good faith with the Purchaser, that the Company cannot provide adequate, timely disclosure or satisfy other underwriting conditions in connection with such offering without undue burden.

2.4 **Demand Rights for Shelf Takedowns**. Subject to Sections 2.3 and 8.4, upon the written demand of the Purchaser, the Company will facilitate in the manner described in this Agreement a "takedown" of Registerable Securities off of the Registration Statement.

ARTICLE 3. NOTICES AND OTHER MATTERS

3.1 **Notifications Regarding Request for Takedown**. In order for the Purchaser to initiate a shelf takedown off of the Registration Statement, the Purchaser must so notify the Company in writing indicating the number of Registrable Securities sought to be offered and sold in such takedown and the proposed plan of distribution. Pending any required public disclosure by the Company and subject to applicable legal requirements, the parties will maintain the confidentiality of all notices and other communications regarding any such proposed takedown.

3.2 **Plan of Distribution, Underwriters and Counsel**. If the Registrable Securities are proposed to be sold in an underwritten offering, the Purchaser will be entitled to determine the plan of distribution and select the managing underwriters, and the Purchaser will also be entitled to select counsel for the Purchaser (which may be the same as counsel for the Company).

3.3 **Withdrawals**. If the Purchaser has demanded a registered underwritten offering to be conducted, the Purchaser may, no later than the time at which the public offering price and underwriters' discount are determined with the managing underwriter, decline to sell all or any portion of the Registrable Securities being offered for the Purchaser's account.

3.4 **Lockups**. In connection with any underwritten offering of Registrable Securities, the Company will agree to be bound by customary lockup restrictions in the applicable underwriting agreement.

ARTICLE 4. FACILITATING REGISTRATIONS AND OFFERINGS

4.1 **Registration Statements**. In connection with any Registration Statement, the Company will:

(a) (i) prepare and file with the Commission the Registration Statement covering the applicable Registrable Securities, (ii) file amendments thereto as warranted, (iii) seek the effectiveness thereof, and (iv) file with the Commission such Prospectuses as may be required, all in consultation with the Purchaser (or its representatives) and as reasonably necessary in order to permit the offer and sale of such Registrable Securities in accordance with the applicable plan of distribution;

(b) (1) within a reasonable time prior to the filing of any Registration Statement, any Prospectus, any amendment to any Registration Statement, any amendment or supplement to a Prospectus or any issuer free writing prospectus covering Registrable Securities, provide copies of such documents to the Purchaser (or its representatives) and to the underwriter or underwriters of an underwritten offering, if applicable, and to their respective counsel; fairly consider such reasonable changes in any such documents prior to or after the filing thereof as the counsel to the Purchaser or the underwriter or the underwriters may request; and make such of the representatives of the Company as shall be reasonably requested by the Purchaser or any underwriter available for discussion of such documents;

(2) within a reasonable time prior to the filing of any document which is to be incorporated by reference into any Registration Statement or a Prospectus covering Registrable Securities, provide copies of such document to counsel for the Purchaser and underwriters; fairly consider such reasonable changes in such document prior to or after the filing thereof as counsel for the Purchaser or such underwriter shall request; and make such of the representatives of the Company as shall be reasonably requested by such counsel available for discussion of such document;

(c) use its commercially reasonable efforts to cause any Registration Statement and the related Prospectus and any amendment or supplement thereto, as of the effective date of such Registration Statement, amendment or supplement and during the distribution of the registered Registrable Securities (x) to comply in all material respects with the requirements of the Securities Act and the rules and regulations of the Commission and (y) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading;

(d) notify the Purchaser promptly, and, if requested by the Purchaser, confirm such advice in writing, (i) when any Registration Statement has become effective and when any post-effective amendments and supplements thereto become effective if such Registration Statement or post-effective amendment is not automatically effective upon filing pursuant to Rule 462, (ii) of the issuance by the Commission or any U.S. state securities authority of any stop order, injunction or other order or requirement suspending the effectiveness of any Registration Statement or the initiation of any proceedings for that purpose, (iii) if, between the effective date of any Registration Statement and the closing of any sale of securities covered thereby pursuant to any agreement to which the Company is a party, the representations and warranties of the Company contained in such agreement cease to be true and correct in all material respects or if the Company receives any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose, and (iv) of the happening of any event during the period any Registration Statement is effective as a result of which such Registration Statement or the related Prospectus contains any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading; provided that the Purchaser, upon receiving written notice of an event described in clauses (ii) to (iv) of this Section 4.1(d), shall discontinue (and direct any other person making offers and sales of Registrable Securities on its behalf to discontinue) offers and sales of Registrable Securities pursuant to any Registration Statement (other than those pursuant to a plan in effect prior to such event and that complies with Rule 10b5-1 under the Exchange Act) until it is advised in writing by the Company that the use of the applicable Prospectus may be resumed and is furnished with an amended or supplemented Prospectus;

(e) furnish counsel for each underwriter, if any, and for the Purchaser with copies of any written correspondence with the Commission or any state securities authority relating to the Registration Statement or Prospectus;

(f) otherwise use its commercially reasonable efforts to comply with all applicable rules and regulations of the Commission, including making available to its security holders an earnings statement covering at least 12 months which shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar provision then in force); and

(g) use its commercially reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of any Registration Statement at the earliest possible time.

4.2 **Shelf Takedowns**. In connection with any shelf takedown that is demanded by the Purchaser, the Company will:

(a) cooperate with the Purchaser and the sole underwriter or managing underwriter of an underwritten offering, if any, to facilitate the timely preparation and delivery of certificates representing the Registrable Securities to be sold and not bearing any restrictive legends; and enable such Registrable Securities to be in such denominations (consistent with the provisions of the governing documents thereof), and registered in such names as the Purchaser or the sole underwriter or managing underwriter of an underwritten offering of Registrable Securities, if any, may reasonably request at least five days prior to any sale of such Registrable Securities;

(b) furnish to the Purchaser and to each underwriter, if any, participating in the relevant offering, without charge, as many copies of the applicable Prospectus, including each preliminary prospectus, and any amendment or supplement thereto and such other documents as the Purchaser or underwriter may reasonably request in order to facilitate the public sale of the Registrable Securities, subject to the other provisions of this Agreement; the Company hereby consents to the use of the Prospectus, including each preliminary prospectus, by the Purchaser and each underwriter in connection with the offering and sale of the Registrable Securities covered by the Prospectus or the preliminary prospectus;

(c) (i) use its commercially reasonable efforts to register or qualify the Registrable Securities being offered and sold under all applicable U.S. state securities or "blue sky" laws of such jurisdictions as each underwriter shall reasonably request; (ii) use reasonable efforts to keep each such registration or qualification effective during the period such Registration Statement is required to be kept effective; and (iii) do any and all other acts and things which may be reasonably necessary or advisable to enable each such underwriter, if any, and/or the Purchaser to consummate the disposition in each such jurisdiction of such Registrable Securities owned by the Purchaser; provided, however, that the Company shall not be obligated to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified, to subject itself to taxation in any such jurisdiction, or to consent to be subject to general service of process (other than service of process in connection with such registration or qualification or any sale of Registrable Securities in connection therewith) in any such jurisdiction;

(d) use its commercially reasonable efforts to cause all Registrable Securities being offered and sold pursuant to this Agreement to be qualified for inclusion in or listed on any securities exchange on which the Common Stock issued by the Company are then so qualified or listed if so requested by the Purchaser or if so requested by the underwriter or underwriters of an underwritten offering of Registrable Securities, if any;

(e) cooperate and assist in any filings required to be made with such securities exchange and, solely with regard to an underwritten shelf takedown, in the performance of any reasonable due diligence investigation by the underwriters;

(f) solely with regard to an underwritten shelf takedown, use its commercially reasonable efforts to facilitate the distribution and sale of any Registrable Securities to be offered pursuant to this Agreement, including without limitation by making road show presentations, holding meetings with and making calls to potential investors and taking such other actions as shall be reasonably requested by the Purchaser or the lead managing underwriter;

(g) solely with regard to an underwritten shelf takedown, enter into underwriting agreements in customary form (including provisions with respect to indemnification and contribution in customary form) and take all other customary and appropriate actions in order to expedite or facilitate the disposition of such Registrable Securities and in connection therewith:

1. make such representations and warranties to the Purchaser and the underwriters in such form, substance and scope as are customarily made by issuers to underwriters in similar underwritten offerings;

2. obtain opinions of counsel to the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the lead managing underwriter) addressed to the underwriters and, if reasonably obtainable, the Purchaser covering the matters customarily covered in opinions delivered in similar underwritten offerings; and

3. obtain "cold comfort" letters and updates thereof from the Company's independent certified public accountants addressed to the underwriters, and, if reasonably obtainable, the Purchaser, which letters shall be customary in form and shall cover matters of the type customarily covered in "cold comfort" letters to underwriters in connection with similar underwritten offerings.

4.3 **Due Diligence** . In connection with each registration and offering of Registrable Securities to be sold by the Purchaser, the Company will, in accordance with customary practice, make reasonably available for inspection by representatives of the Purchaser and underwriters and any counsel or accountant retained by the Purchaser or underwriters all relevant financial and other records, pertinent corporate documents and properties of the Company and cause appropriate officers, managers and employees of the Company to supply all information reasonably requested by any such representative, underwriter, counsel or accountant in connection with their due diligence exercise. Such access to information, documents, personnel and other matters shall be provided to such participants, at such times and in such manner as are customary for offerings of the relevant type and as do not unreasonably burden the Company or unreasonably interfere with its operations. All information, documents and other matters provided or made accessible by the Company in connection with a registered offering hereunder shall be kept confidential pending any public disclosure thereof by the Company and subject to applicable legal requirements.

4.4 **Information from the Purchaser** . The Purchaser shall furnish to the Company such information regarding itself as is required to be included in any Registration Statement, the ownership of Registrable Securities by the Purchaser and the proposed distribution by the Purchaser of such Registrable Securities as the Company may from time to time reasonably request in writing. The Purchaser shall do so on the terms and conditions applicable to such offering and the applicable plan of distribution; provided that the Purchaser shall not be required to make any representations or warranties to or agreements with the Company or the underwriters other than representations, warranties or agreements regarding the Purchaser and the Purchaser's Registrable Securities.

ARTICLE 5. REGISTRATION EXPENSES

All fees and expenses incident to the performance of or compliance with this Agreement by the Company, except as and to the extent specified in this Section 4, shall be borne by the Company whether or not the Registration Statement is filed or becomes effective and whether or not any Registrable Securities are sold pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, and to the extent applicable (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with each securities exchange or market on which Registrable Securities are required hereunder to be listed, if any, (B) with respect to filing fees required to be paid to the Financial Industry Regulatory Authority and (C) in compliance with state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel for the Purchaser in connection with Blue Sky qualifications of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as the Company may designate)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is requested by the Company), (iii) messenger, telephone and delivery expenses, (iv) Securities Act liability insurance, if the Company elects to purchase such insurance, and (v) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement, including, without limitation, the Company's independent public accountants (including the expenses of any comfort letters or costs associated with the delivery by independent public accountants of a comfort letter or comfort letters). In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange if required hereunder. The Company shall not be responsible for any underwriters', brokers' and dealers' discounts and commissions, transfer taxes or other similar fees incurred by Purchaser in connection with the sale of the Registrable Securities.

ARTICLE 6. INDEMNIFICATION

6.1 **Indemnification by the Company**. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless the Purchaser, its officers, directors, employees and affiliates, each Person who controls the Purchaser (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors and employees of each such controlling Person (collectively, the " **Purchaser Indemnified Parties** "), to the full extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' and expert witnesses' fees) and expenses (collectively, " **Losses** ") (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review), to which the Purchaser Indemnified Parties may become subject under the Securities Act or otherwise, arising out of or relating to any violation of securities laws or untrue or alleged untrue statement of a material fact contained in any Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that such untrue statements or omissions are based solely upon information regarding the Purchaser furnished in writing to the Company by the Purchaser expressly for use therein. The Company shall notify the Purchaser promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any the Purchaser, the directors and officers of the Purchaser, or controlling Person of the Purchaser, and shall survive the transfer of such securities held by the Purchaser.

6.2 **Indemnification by Purchaser**. The Purchaser shall indemnify and hold harmless the Company, its directors, officers and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers and employees of such controlling Persons (collectively, the " **Company Indemnified Parties** "), to the full extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review), to which the Company Indemnified Parties may become subject under the Securities Act or otherwise, arising solely out of or based solely upon any untrue statement of a material fact contained in any Registration Statement, any Prospectus, or any form of prospectus, or in any amendment or supplement thereto, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by the Purchaser to the Company specifically for inclusion in the Registration Statement or such Prospectus. Notwithstanding anything to the contrary contained herein, the Purchaser shall be liable under this Section 6.2 for only that amount as does not exceed the net proceeds to the Purchaser as a result of the sale of Registrable Securities pursuant to such Registration Statement.

6.3 **Conduct of Indemnification Proceedings**. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "**Indemnified Party**"), such Indemnified Party promptly shall notify the Person from whom indemnity is sought (the "**Indemnifying Party**") in writing, and the Indemnifying Party shall be entitled to assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such parties shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party (in which case, if such Indemnified Party notifies the Indemnifying Party in writing that it elects to employ separate counsel at the expense of the Indemnifying Party, the Indemnifying Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party). The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld or delayed. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending or threatened Proceeding in respect of which any Indemnified Party is a party and indemnity has been sought hereunder, unless such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within 30 (30) Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnified Party shall reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

6.4 **Contribution**. If a claim for indemnification under Sections 6.1 or 6.2 is due but unavailable to an Indemnified Party, then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and the Indemnified Party on the other in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission.

The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 6.3, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms. In no event shall the Company be required to contribute an amount under this Section 6(d) in excess of the net proceeds received by it upon the sale of its Registrable Securities pursuant to a Registration Statement giving rise to such contribution obligation.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 6(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not also guilty of such fraudulent misrepresentation.

The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties pursuant to the law.

6.5 **Survival**. The agreements contained in this Section 6 shall survive the transfer of the Registered Securities by the Purchaser and sale of all of the Registrable Securities pursuant to any registration statement and shall remain in full force and effect, regardless of any investigation made by or on behalf of the Purchaser Indemnified Party.

ARTICLE 7. RULE 144

If the Company is subject to the requirements of Section 13, 14 or 15(d) of the Exchange Act, the Company covenants that it will file any reports required to be filed by it under the Securities Act and the Exchange Act, so as to enable the Purchaser to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 under the Securities Act, as such rule may be amended from time to time, or any successor rule or regulation hereafter adopted by the Commission. Upon the request of the Purchaser, the Company will deliver to the Purchaser a written statement as to whether it has complied with such requirements. Notwithstanding anything in this Agreement, the Company shall not be required to register any of its equity securities under Section 12 of the Exchange Act in order to enable the Purchaser to dispose of Registrable Securities under Rule 144.

ARTICLE 8. MISCELLANEOUS

8.1 **Remedies**. In the event of a breach by the Company or the Purchaser of any of their respective obligations under this Agreement, the Company or the Purchaser, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and the Purchaser acknowledge and agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by either of them of any of the provisions of this Agreement and each hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

8.2 **No Inconsistent Agreements**. The Company shall not enter into any such agreement with respect to its securities that is inconsistent with or violates the rights granted to the Purchaser in this Agreement.

8.3 **Amendments and Waivers**. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the Purchaser shall have consented thereto.

8.4 **Termination of Registration Rights**. This Agreement to register Registrable Securities for sale under the Securities Act shall terminate on the earliest to occur of (i) the first date on which no Registrable Securities are outstanding or are issuable upon conversion of the Note; and (ii) the fifth anniversary of the effective date of the Registration Statement filed pursuant to Section 2.1. Notwithstanding any termination of this Agreement pursuant to this Section 8.4, the parties' rights and obligations under Article VI hereof shall continue in full force and effect in accordance with their respective terms.

8.5 **Notices**. Any notice, demand, request, waiver or other communication required or permitted to be given hereunder shall be in writing and shall be given in accordance with the notice provisions of the Purchase Agreement.

8.6 **Successors and Assigns**. (a) This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns and shall inure to the benefit of the Purchaser and its successors and permitted assigns. Neither party may assign this Agreement nor any of its rights or obligations hereunder without the prior written consent of the other party.

(b) In the event the Company engages in a merger or consolidation in which the Registrable Securities are converted into securities of another company, or if there are any changes in the Common Stock by way of share split, stock dividend, combination or reclassification, appropriate arrangements will be made so that the registration rights provided under this Agreement continue to be provided to the Purchaser by the issuer of such securities. To the extent any new issuer, or any other company acquired by the Company in a merger or consolidation, was bound by registration rights obligations that would conflict with the provisions of this Agreement, the Company will, unless the Purchaser otherwise agrees, use commercially reasonable efforts to modify any such "inherited" registration rights obligations so as not to interfere in any material respects with the rights provided under this Agreement.

8.7 **Counterparts**. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement and shall become effective when counterparts have been signed by each party and delivered to the other parties hereto, it being understood that all parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile signature were the original thereof.

8.8 Entire Agreement. This Agreement constitutes the entire agreement and understanding between the parties in connection with the subject matter of this Agreement and supersedes all previous proposals, representations, warranties, agreements or undertakings relating thereto whether oral, written or otherwise and no party hereto has relied or is entitled to rely on any such proposals, representations, warranties, agreements or undertakings.

8.9 **Governing Law; Jurisdiction**. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York. This Agreement shall not be interpreted or construed with any presumption against the party causing this Agreement to be drafted. The exclusive jurisdiction for the resolution of any conflicts regarding this Agreement shall be in the courts of the Southern District of New York. This exclusive jurisdiction is a material provision to this Agreement.

8.10 **Waiver of Jury Trial**. Each of the parties to this Agreement hereby unconditionally agrees to waive, to the fullest extent permitted by applicable law, its respective rights to a jury trial of any claim or cause of action (whether based on contract, tort or otherwise) based upon, arising out of or relating to this Agreement or the transactions contemplated hereby. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this Agreement, including contract claims, tort claims and all other common law and statutory claims. Each party hereto: (i) acknowledges that this waiver is a material inducement to enter into this Agreement, that each has already relied on this waiver in entering into this Agreement, and that each will continue to rely on this waiver in their related future dealings, (ii) acknowledges that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not in the event of any action or proceeding, seek to enforce the foregoing waiver and (iii) warrants and represents that it has reviewed this waiver with its legal counsel and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING (OTHER THAN BY A MUTUAL WRITTEN WAIVER SPECIFICALLY REFERRING TO THIS SECTION 8.10 AND EXECUTED BY EACH OF THE PARTIES HERETO), AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

8.11 **Cumulative Remedies**. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

8.12 **Severability**. If any term, provision, covenant or restriction of this Agreement is held to be invalid, illegal, void or unenforceable in any respect, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

8.13 **Section Headings**. The Section headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Registration Rights Agreement to be duly executed by a person thereunto authorized as of the date first indicated above.

COMPANY:

TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.

By: /s/ B. Scott Terry
Name: B. Scott Terry
(print)
Title: CEO

SANTIAGO BUSINESS CO. INTERNATIONAL LTD.

By: _____
Name: _____
(print)
Title: _____

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Benjamin Scott Terry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tempus Applied Solutions Holdings, Inc. (the "report");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significarole in the registrant's internal control over financial reporting.

Dated: May 22, 2017

By: /s/ Benjamin Scott Terry
Name: Benjamin Scott Terry
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven Bush, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tempus Applied Solutions Holdings, Inc. (the "report");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 22, 2017

By: /s/ Steven Bush
Name: Steven Bush
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report on Form 10-Q of Tempus Applied Solutions Holdings, Inc. (the "Company") for the quarter ended March 31, 2017, (the "Report"), I, Benjamin Scott Terry, the Principal Executive Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 22, 2017

By: /s/ Benjamin Scott Terry
Name: Benjamin Scott Terry
Title: Chief Executive Officer
(Principal Executive Officer)

This certification accompanies this report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purpose of Section 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report on Form 10-Q of Tempus Applied Solutions Holdings, Inc. (the "Company") for the quarter ended March 31, 2017, (the "Report"), I, Steven Bush, the Principal Financial Officer of the Company, do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 22, 2017

By: /s/ Steven Bush
Name: Steven Bush
Title: Chief Financial Officer
(Principal Financial Officer)

This certification accompanies this report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purpose of Section 18 of the Securities Exchange Act of 1934, as amended.