

# TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.

## FORM 10-Q (Quarterly Report)

Filed 11/14/16 for the Period Ending 09/30/16

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 September 30, 2016

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**

(State or other jurisdiction of  
incorporation or organization)

**47-2599251**

(I.R.S. Employer  
Identification Number)

**471 McLaws Circle, Suite A  
Williamsburg, Virginia**

(Address of principal executive offices)

**23185**

(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 Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

As of November 14, 2016, there were 11,064,664 shares of the registrant's common stock issued and outstanding.

**TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.**

**TABLE OF CONTENTS**

<b>PART I. FINANCIAL INFORMATION</b>	
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS	1
Consolidated Balance Sheets	1
Consolidated Statements of Operations	2
Consolidated Statements of Stockholders' Equity (Deficit)	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	23
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	31
ITEM 4. CONTROLS AND PROCEDURES	31
<b>PART II. OTHER INFORMATION</b>	
ITEM 1. LEGAL PROCEEDINGS	32
ITEM 1A. RISK FACTORS	32
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	32
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	32
ITEM 4. MINE SAFETY DISCLOSURE	32
ITEM 5. OTHER INFORMATION	32
ITEM 6. EXHIBITS	32

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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](http://www.sec.gov). None of the information contained on our website, or accessible from our website, is a part of this Report.

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**PART 1 – FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

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

	September 30, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,890	\$ 1,288,495
Restricted cash	200,000	1,100,000
Accounts receivable:		
Trade, net	1,033,557	855,963
Other	196,083	21,697
Related party	212,454	27,818
Inventory	-	24,999
Other assets	249,934	373,074
	<u>1,901,918</u>	<u>3,692,046</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>113,753</u>	<u>117,398</u>
<b>OTHER ASSETS</b>		
Deposits	52,172	515,000
Intangibles, net	1,066,944	537,884
	<u>1,119,116</u>	<u>1,052,884</u>
<b>Total assets</b>	<u>\$ 3,134,787</u>	<u>\$ 4,862,328</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable:		
Trade	\$ 3,215,207	\$ 995,105
Related party	1,325,148	331,337
Accrued liabilities	570,991	1,313,970
Deferred revenue	-	48,130
Customer deposits	256,449	754,545
	<u>5,367,795</u>	<u>3,443,087</u>
<b>LONG TERM LIABILITIES</b>		
Common stock warrant liability	<u>851,250</u>	<u>11,242,800</u>
	<u>851,250</u>	<u>11,242,800</u>
<b>Total liabilities</b>	<u>6,219,045</u>	<u>14,685,887</u>
Commitments and contingencies - Note 14		
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock, \$0.0001 par value; 40,000,000 shares authorized, 4,578,070 and 1,369,735 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	458	137
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 11,064,664 and 8,836,421 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	1,106	884
Additional paid in capital	10,075,273	262,496
Accumulated deficit	<u>(13,161,095)</u>	<u>(10,087,076)</u>
Total stockholders equity (deficit)	<u>(3,084,258)</u>	<u>(9,823,559)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 3,134,787</u>	<u>\$ 4,862,328</u>

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

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

	Nine Months Ended Sept 30, 2016	Nine Months Ended Sept 30, 2015	Three Months Ended Sept 30, 2016	Three Months Ended Sept 30, 2015
<b>REVENUES</b>	\$ 13,592,131	\$ 8,808,064	\$ 4,409,789	\$ 2,948,958
<b>COST OF REVENUE</b>	<u>14,289,833</u>	<u>8,265,427</u>	<u>4,404,192</u>	<u>3,257,295</u>
Gross profit (loss)	(697,702)	542,637	5,597	(308,337)
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>3,629,650</u>	<u>2,128,804</u>	<u>883,004</u>	<u>1,177,479</u>
Total operating loss	<u>(4,327,352)</u>	<u>(1,586,167)</u>	<u>(877,407)</u>	<u>(1,485,816)</u>
<b>OTHER INCOME (EXPENSE)</b>				
Interest income	1,793	-	-	-
Interest expense	(10,493)	(28,032)	(10,493)	(7,044)
Non-operational income (expense)	<u>1,262,033</u>	<u>43,762</u>	<u>389,477</u>	<u>38,001</u>
Total other income (expense)	<u>1,253,333</u>	<u>15,730</u>	<u>378,984</u>	<u>30,957</u>
<b>NET LOSS</b>	<u>\$ (3,074,019)</u>	<u>\$ (1,570,437)</u>	<u>\$ (498,423)</u>	<u>\$ (1,454,859)</u>
<b>BASIC LOSS PER COMMON SHARE</b>	<u>\$ (0.31)</u>	<u>\$ (0.33)</u>	<u>\$ (0.05)</u>	<u>\$ (0.21)</u>
<b>DILUTED LOSS PER COMMON SHARE</b>	<u>\$ (0.31)</u>	<u>\$ (0.28)</u>	<u>\$ (0.05)</u>	<u>\$ (0.18)</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC</b>	<u>10,024,972</u>	<u>4,797,823</u>	<u>11,064,664</u>	<u>7,034,738</u>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, DILUTED</b>	<u>10,024,972</u>	<u>5,542,796</u>	<u>11,064,664</u>	<u>7,947,908</u>

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

**Tempus Applied Solutions Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity (Deficit)**

	Common stock \$0.0001 par value		Preferred stock \$0.0001 par value		Additional paid in capital	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount			
Balance, December 31, 2014 (audited)	3,642,084	\$ 364	-	\$ -	\$ 1,009,737	\$ (111,990)	\$ 898,111
Net loss	-	-	-	-	-	(7,525,821)	(7,525,821)
Distributions	-	-	-	-	-	(309,015)	(309,015)
Business Combination, net	4,774,465	477	1,369,735	137	2,525,251	-	2,525,865
Fair value of Series A and B warrant liabilities	-	-	-	-	(6,675,200)	-	(6,675,200)
Issuance of common stock and warrants	375,000	38	-	-	999,962	-	1,000,000
Issuance of common stock penalty shares	44,872	5	-	-	262,496	-	262,501
Adjustment to additional paid in capital	-	-	-	-	2,140,250	(2,140,250)	-
Balance, December 31, 2015 (audited)	8,836,421	884	1,369,735	137	262,496	(10,087,076)	(9,823,559)
Net loss	-	-	-	-	-	(3,074,019)	(3,074,019)
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	-	-	-	-	175,677	-	175,677
Balance, September 30, 2016 (unaudited)	<u>11,064,664</u>	<u>\$ 1,106</u>	<u>4,578,070</u>	<u>\$ 458</u>	<u>\$ 10,075,273</u>	<u>\$ (13,161,095)</u>	<u>\$ (3,084,258)</u>

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)**

	Nine Months Ended Sept 30, 2016	Nine Months Ended Sept 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (3,074,019)	\$ (1,570,437)
Adjustments to reconcile net loss to net cash used for operating activities:		
Stock-based compensation expense	175,677	-
Depreciation and amortization	60,962	5,723
Loss on conversion of warrant liability to stock	3,505,300	-
Fair value adjustment of common stock warrants	(4,759,207)	(34,900)
Changes in operating assets and liabilities:		
Accounts receivable-trade	(177,594)	(982,586)
Accounts receivable-other	(174,386)	(30,327)
Due to/from related parties	793,390	324,122
Inventory	24,999	-
Other current assets	123,140	(242,946)
Deposits	462,828	-
Accounts payable-trade	2,235,887	647,551
Accrued liabilities	(742,979)	491,507
Deferred revenue	(48,130)	-
Customer deposits	(498,096)	1,016,000
Net cash used for operating activities	<u>(2,092,228)</u>	<u>(376,293)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(36,667)	(126,635)
Purchases of intangible assets	(49,710)	(375,394)
Decrease in restricted cash	900,000	(1,100,000)
Net cash provided by (used for) investing activities	<u>813,623</u>	<u>(1,602,029)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds (repayments) of loan from officer	-	(489,899)
Issuance of common stock, preferred stock and warrants pursuant to Business Combination and Financing (see Note 19)	-	16,000,000
Issuance of common stock and warrants	-	1,000,000
Payment of costs related to Business Combination and Financing (see Note 19)	-	(12,214,875)
Increase in liabilities related to Business Combination and Financing	-	130,981
Cash from business acquired pursuant to the Business Combination	-	212,640
Member distributions prior to Business Combination	-	(309,015)
Net cash used for financing activities	<u>-</u>	<u>4,329,832</u>
Net (decrease) increase in cash	(1,278,605)	2,351,510
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at the beginning of the period	1,288,495	1,466,019
Cash and cash equivalents at the end of the period	<u>\$ 9,890</u>	<u>\$ 3,817,529</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 10,493	\$ 21,942
Supplemental disclosure of non-cash investing and financing activities:		
Intangible assets acquired through acquisition of Tempus Jets, Inc.	<u>\$ 500,000</u>	<u>\$ -</u>
Issuance of stock for exercise of warrants	<u>\$ 9,137,643</u>	<u>\$ -</u>

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 eight subsidiaries: four wholly owned operating subsidiaries, Tempus Manx Aviation Limited, Global Aviation Support, LLC, Proflight Aviation Services LLC and Tempus Jets, Inc., and four recently formed, wholly owned entities that do not yet have any operations, Tempus Applied Solutions, Inc., Tempus Aero Solutions AG, Tempus Applied Solutions Limited, and Tempus Training Solutions. 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 former 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**

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 that have already been won or are expected to be won, combined with the recognition of start-up costs in excess of recognized revenue for contracts that have already commenced. Management expects that these start-up costs will be recovered within the next 12 months of operations and, assuming the timely commencement of new contracts, that the Company will reverse its working capital deficit over the coming 12 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 prior to the passage of the next 12 months.

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 29 as of September 30, 2016. 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 through approximately the end of January 2017, and thereafter to more than cover its costs of operations, provided in all events that the \$5,500,000 purchase obligation regarding the G-IV aircraft (see Note 14 below) is satisfied using lender financing. 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”).

**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 nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 nine months ended September 30, 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 September 30, 2015 for Chart, the predecessor company, and for Tempus Holdings for the period commencing January 1, 2016 through September 30, 2016.

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. The tax returns for the year ended December 31, 2015 have not yet been filed and this point are late. While there should be no income taxes due with the filings, some jurisdictions may impose late filing penalties. The Company is in the process of filing the tax returns as soon as possible, and has not accrued for any late filing penalties.

### **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 \$195,423 at September 30, 2016. There were no earnings in excess of billings at December 31, 2015.

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 and \$48,130 at September 30, 2016 and December 31, 2015, respectively.

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 \$205,442 and \$334,134 at September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015, the Company had restricted cash balances of \$200,000 and \$1,100,000 respectively. This balance consists of a certificate of deposit that secures the Company's credit card borrowings in the amount of \$200,000 and \$350,000 at September 30, 2016 and December 31, 2015, respectively, and a \$750,000 certificate of deposit that secured a standby letter of credit in support of the Company's response to a formal contract bid at December 31, 2015.

#### **Standby Letters of Credit**

As of December 31, 2015, the Company had deposited \$750,000 into a certificate of deposit to secure a standby letter of credit in support of the Company's response to a formal contract bid. The standby letter of credit was included in restricted cash and cancellable only by the beneficiary in certain circumstances, to draw drafts on the issuing bank up to the face amount of the standby letter of credit under the rules relating to the contract billing process in which the \$750,000 served as a bid bond. On February 18, 2016, the Company was notified that the beneficiary was terminating contract negotiations and liquidating the bid bond. The Company retrospectively took a full reserve against the standby letter of credit for the full amount of \$750,000, which was included in accrued liabilities at December 31, 2015.

#### **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 \$0 and \$14,600 allowance for doubtful accounts as of September 30, 2016 and December 31, 2015, respectively.

#### **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 nine months ended September 30, 2016, the Company recognized depreciation of fixed assets in the amount of \$40,313; \$3,577 of depreciation was recognized for the nine months ended September 30, 2015. Depreciation is computed on a straight-line basis over the estimated service lives of the assets as follows:

	<u>Years</u>
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 STCs 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 September 30, 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. The Company intends to file an election under I.R.C. Section 338(h)(10) to treat this qualified acquisition of stock as an acquisition of assets for tax purposes.

It is the Company’s policy to commence amortization of computer software upon the date that assets are placed into service. For the nine months ended September 30, 2016, the Company recognized amortization expense of computer software in the amount of \$20,649. For the nine months ended September 30, 2015 the company recognized amortization expense of \$2,146. 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 September 30, 2016, and December 31, 2015, the Company held \$256,449 and \$754,545, 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 \$620,829 and \$335,459 for the nine months ended September 30, 2016 and 2015, 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 was \$0 and \$24,999 in inventory recorded at September 30, 2016 and December 31, 2015, respectively.

## 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.

## 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. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect that the adoption of this amendment will have a material impact on its consolidated financial statements or disclosures.

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 is currently evaluating the impact that adopting this ASU will have on its financial position, results of operations and cash flows.

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 is currently evaluating the impact that ASU 2016-09 will have on its consolidated 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 and for the nine months ended September 30, 2016 and 2015 was:

	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	Revenue		Revenue	
Customer A	\$ 3,242,239	24%	\$ 2,951,434	34%
Customer B	4,310,714	32%	3,923,423	45%
Customer C	1,395,658	10%	104,389	1%
Customer D	2,088,692	15%	-	-%
Other customers	2,554,828	19%	1,828,818	21%
	<u>\$ 13,592,131</u>	<u>100%</u>	<u>\$ 8,808,064</u>	<u>100%</u>

	<u>September 30, 2016</u>		<u>December 31, 2015</u>	
	<u>Accounts Receivable</u>		<u>Accounts Receivable</u>	
Customer A	\$ 369,573	36%	\$ 392,453	46%
Customer B	395,541	38%	442,885	52%
Customer C	-	0%	-	0%
Customer D	94,841	9%	-	0%
Other customers	173,602	17%	20,625	2%
	<u>\$ 1,033,557</u>	<u>100%</u>	<u>\$ 855,963</u>	<u>100%</u>

Vendor concentration as of and for the nine months ended September 30, 2016 and 2015 was:

	<u>Nine months ended September 30, 2016</u>		<u>Nine months ended September 30, 2015</u>	
	<u>Cost of Revenue</u>		<u>Cost of Revenue</u>	
Vendor A	\$ 2,605,512	18%	\$ 2,046,534	25%
Vendor B	1,610,070	11%	914,045	11%
Vendor C	1,424,456	10%	752,220	9%
Other	8,649,795	61%	4,552,628	55%
	<u>\$ 14,289,833</u>	<u>100%</u>	<u>\$ 8,265,427</u>	<u>100%</u>

	<u>September 30, 2016</u>		<u>December 31, 2015</u>	
	<u>Accounts Payable</u>		<u>Accounts Payable</u>	
Vendor A	\$ 312,510	10%	\$ 195,511	20%
Vendor B	121,508	4%	33,270	3%
Vendor C	190,678	6%	91,355	9%
Other vendors	2,590,511	80%	674,969	68%
	<u>\$ 3,215,207</u>	<u>100%</u>	<u>\$ 995,105</u>	<u>100%</u>

## 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 depreciation 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 assessment of its cumulative loss position, to determine if valuation allowances are required. A significant negative 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 following table reconciles the income tax (benefit) provision from continuing operations computed at the U.S. federal statutory income tax rates to the income tax (benefit) provision for the nine months ended September 30, 2016 and year ended December 31, 2015:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Federal income tax rate	34%	34%
Income tax benefit at the federal statutory rate	\$ (1,045,166)	\$ (2,558,779)
State benefit, net of federal benefit	(172,193)	(176,615)
Permanent differences net	(418,462)	1,057,550
Tax attributes from business combination	-	(434,725)
Changes in valuation allowances	1,635,821	2,112,569
Income tax (benefit) provision	<u>\$ -</u>	<u>\$ -</u>

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.

Significant components of the Company's deferred tax assets and liabilities as of September 30, 2016 and December 31, 2015 were as follows:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Deferred tax assets:		
Accounts receivable	\$ -	\$ 5,548
Other reserves	35,406	7,554
Standby letter of credit reserve	-	285,000
Start-up costs	363,210	382,902
Net operating loss carryforwards	3,392,329	1,474,121
Total deferred tax assets	3,790,945	2,155,125
Less: valuation allowances	(3,790,945)	(2,155,125)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

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 September 30, 2016. 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 September 30, 2016.

At September 30, 2016 approximately \$8,900,000 in federal and state net operating losses were available to be carried forward, expiring at various dates through 2036.

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 and March 2016; 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. The tax returns for the tax year ended December 31, 2015 have not been filed yet and at this point are late. While there should be no income taxes due with the filings, some jurisdictions may impose late filing penalties. The Company is in the process of filing the tax returns as soon as possible, and has not accrued for any late filing penalties.

## 6. BASIC AND DILUTED SHARES OUTSTANDING

Basic common shares outstanding as of September 30, 2016 are 11,064,664. Our weighted average basic shares outstanding for the nine months ended September 30, 2016 is calculated based on the average number of basic common shares outstanding over the period in question and is calculated as 10,024,972 shares. Our weighted average basic shares outstanding for the three months ended September 30, 2016 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 September 30, 2016 would normally be calculated based on the sum of the weighted average basic shares outstanding for the nine months ended September 30, 2016 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 16, below. However, due to the fact that the Company experienced a net loss for the nine months ended September 30, 2016 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:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Contract A earnings in excess of billings	\$ 160,000	\$ -
Other earnings in excess of billings	35,423	-
Other receivable	660	21,697
Total	<u>\$ 196,083</u>	<u>\$ 21,697</u>



## 8. OTHER ASSETS

Other assets consist of the following:

	September 30, 2016	December 31, 2015
Pre-contract costs	\$ 205,442	\$ 334,134
Other prepaid expenses	44,492	38,940
Total	<u>\$ 249,934</u>	<u>\$ 373,074</u>

## 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.

In connection with the formation of Tempus, the Company's former Chief Financial Officer, R. Lee Priest, Jr., loaned Tempus \$500,000. Of this amount, \$10,101 was allocated to the purchase of 1.0% of the membership interests of Tempus, and \$489,899 took the form of a loan from an officer. The loan was unsecured and bears interest monthly at a rate of 5.0% per annum. Accrued interest totaled \$0 and \$21,942 as of September 30, 2016 and 2015, respectively.

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.

Jackson River Aviation ("JRA") is controlled by B. Scott Terry, the Company's CEO and a 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. As of September 30, 2016, the Company had a net outstanding receivable from JRA of \$12,726. Total purchases by the Company from JRA for the nine months ended September 30, 2016 were \$196,035. Billings by the Company to JRA for the nine months ended September 30, 2016 were \$57,053.

TIH is controlled by John G. Gulbin III, a member of our Board of Directors. TIH owns certain aircraft used by Tempus to provide services to certain customers. (see Note 14 below). In addition, Tempus, through its wholly owned subsidiary Global Aviation Support, LLC, provides 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 has been limited to certain shared information technology and marketing expenses, which are incurred at cost. Total purchases by the Company from TIH for the nine months ended September 30, 2016 were \$1,125,246. Total billings from the Company to TIH for the nine months ended September 30, 2016 were \$136,482. The net outstanding payable from Tempus to TIH at September 30, 2016 was \$946,355.

Southwind Capital, LLC ("Southwind") is controlled by R. Lee Priest, Jr., the Company's Executive Vice President. Southwind owns certain aircraft used by Tempus to provide services to certain customers. Total purchases by the Company from Southwind for the nine months ended September 30, 2016 were \$116,545. The net outstanding payable from Tempus to Southwind at September 30, 2016 was \$116,545.

As of August 31, 2016, as part of the cost-cutting initiatives instituted by Tempus, the Company gave up its lease on its previous office headquarters at 133 Waller Mill Road, Williamsburg, Virginia, and relocated to office premises at 471 McLaws Circle, Suite A, Williamsburg, Virginia. The premises have been made available to the Company by JRA, which holds them under a lease. The Company uses the entire space and has begun paying JRA's full monthly rent amount. The move has reduced the Company's monthly office lease expense from approximately \$10,000 to approximately \$5,000.

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, Joseph Wright, are on our board of directors. For the nine months ended September 30, 2016 Tempus billed \$39,646 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 September 30, 2016 and December 31, 2015, the net payable to CAF was \$62,520 and \$0, 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:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Office equipment	\$ 168,055	\$ 131,389
Furniture and fixtures	456	456
<b>Total</b>	<b>168,511</b>	<b>131,845</b>
Accumulated depreciation	(54,758)	(14,447)
<b>Property and equipment, net</b>	<b>\$ 113,753</b>	<b>\$ 117,398</b>

## 11. INTANGIBLES, NET

Intangibles, net consists of the following:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Infinite-lived intangible assets:		
FAA licenses	\$ 550,000	\$ 50,000
Finite-lived intangible assets:		
STC costs	455,901	414,226
Accumulated amortization	-	-
	<b>455,901</b>	<b>414,226</b>
Software	90,275	82,240
Accumulated amortization	(29,232)	(8,582)
	<b>61,043</b>	<b>73,658</b>
<b>Total intangible assets, net</b>	<b>\$ 1,066,944</b>	<b>\$ 537,884</b>

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 FAA in accordance with the requirements of Parts 119 and 135 of the Federal Aviation Regulations (“FAR”).

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 five years. Tempus was awarded this STC in the fourth quarter of 2016. Estimated amortization of this STC will be as follows:

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

For the nine months ended September 30, 2016, recognized amortization of software was \$20,649, all associated with software purchases. Future amortization schedules associated with existing software is as follows:

	<b>Software Amortization</b>
October 1, 2016 – December 31, 2016	\$ 12,106
2017	28,425
2018	20,066
2019	446
<b>Total</b>	<b>\$ 61,043</b>

## 12. ACCRUED LIABILITIES

Accrued liabilities at September 30, 2016 and December 31, 2015 include the following:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Reserve for standby letter of credit	\$ -	\$ 750,000
Accrued employment costs	343,090	185,567
Aircraft maintenance reserves	102,250	110,000
Other	125,651	268,403
<b>Total</b>	<b>\$ 570,991</b>	<b>\$ 1,313,970</b>

## 13. CUSTOMER DEPOSITS

Customer Deposits consists of the following:

	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Project A	\$ -	\$ 750,000
Other customer deposits	256,449	4,545
<b>Total</b>	<b>\$ 256,449</b>	<b>\$ 754,545</b>

## 14. COMMITMENTS AND CONTINGENCIES

The Company incurred lease expense for real office and hangar space for the nine months ended September 30, 2016, of \$351,795. Lease expense for aircraft and simulators was \$4,238,694 for the nine months ended September 30, 2016. Lease expenses for real office space and hangar space was \$87,446 and lease expense for aircraft and simulators was \$2,120,336 for the nine months ended September, 30, 2015.

The Company leases office space in Williamsburg, Virginia to support its operations. The Company occupied the premises as of January 1, 2015 under a one-year lease, which was subsequently extended to February 28, 2016, after which the lease reverted to a month to month agreement. The company vacated the space August 31, 2016.

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 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. The future minimum lease payments associated with these leases at San Marcos, TX as of September 30, 2016 total \$40,500.

The Company leases 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 future minimum lease payments associated with this lease as of September 30, 2016 is \$0. Unpaid lease invoices at September 30, 2016 totaled \$14,000.

The Company leases 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. The future minimum lease payments associated with this lease as of September 30, 2016 total \$0; the lease has reverted to a month to month agreement. Unpaid lease invoices at September 30, 2016 totaled \$115,054.

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 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 capitalized as pre contract costs (see Note 3 above) and 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. The Company currently expects the sale to close in approximately 60 days.

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, Joseph Wright, are on our board of directors. For the nine months ended September 30, 2016 Tempus generated \$39,646 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 September 30, 2016 and December 31, 2015, the net payable to CAF was \$62,520 and \$0, respectively.

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.

## 15. 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, 2015, and September 30, 2016, 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, 2015	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	\$ 1,575,000	\$ 1,575,000	\$ -	\$ -
Series A Warrant Liability	4,215,600	-	4,215,600	-
Series B Warrant Liability	5,452,200	-	5,452,200	-
Total Warrant Liability	\$ 11,242,800	\$ 1,575,000	\$ 9,667,800	\$ -

Description	September 30, 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	\$ 787,500	\$ 787,500	\$ -	\$ -
Series A Warrant Liability	63,750	-	63,750	-
Series B Warrant Liability	-	-	-	-
Total Warrant Liability	\$ 851,250	\$ 787,500	\$ 63,750	\$ -

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 July 31, 2015, the date of the Business Combination and related Financing, and 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** – For December 31, 2015, 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 \$0.20 as of that date. For September 30, 2016, 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 \$0.001 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 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.

## **16. 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 18, 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 exercise 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 18 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 18 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.

On June 23, 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 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.

The quantity of issued and outstanding warrants as of September 30, 2016 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

## 17. 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 nine months ended September 30, 2016 and 2015 there were 499,000 and 0 stock options granted, respectively, under the Company’s option plan. The Company recognized \$175,677 and \$0 in stock-based compensation expense for the nine months ended September 30, 2016 and 2015, respectively.

Stock options to purchase 499,000 and 0 shares of common stock were outstanding as of September 30, 2016 and December 31, 2015, respectively.

The Company uses the Black-Scholes option-pricing model to value options. The life of the option is equivalent to the expiration of the option award. The risk-free interest rate was 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, 2015	-	\$ -
Granted to employees and non-employee directors	499,000	2.05
Exercised	-	-
Canceled/expired/forfeited	-	-
Options outstanding, September 30, 2016	499,000	2.05
Options exercisable, September 30, 2016	-	\$ -

Compensation cost is recognized over the required service period which is three years for all granted options. As of September 30, 2016, \$527,032 of total unrecognized compensation cost related to stock options was expected to be recognized over the remaining 9 quarters.

## 18. STOCKHOLDERS' EQUITY

### Preferred Stock

As of September 30, 2016, 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 affect 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 September 30, 2016, 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 outstanding that are convertible into common stock or preferred stock.

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 9 above).

On June 23, 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 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.

## 19. 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 the Sponsor, Mr. Joseph Wright and Cowen (collectively, the “Chart Affiliate Investors”) and a cash investment of \$500,000 by the former 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 Form S-4 (as defined below), in the section therein entitled “Description of Tempus Holdings’ Securities,” which section is incorporated herein by reference. In connection with the closing of the Business Combination, the parties to the Merger Agreement waived certain conditions to closing, which waivers were consented to by the New Investors pursuant to their rights under the New Investor Purchase Agreements. The waivers made (and consented to by the New Investors) included, in substantial part: (i) the waiver of the condition that a final warrant tender offer for outstanding public warrants of Chart be concluded prior to the closing of the Business Combination; and (ii) the waiver of the condition that, immediately prior to the closing of the Business Combination, but after giving effect to the Business Combination, there be sufficient capital in Tempus and Chart, including to cover certain post-closing commitments.

The issuance of the Company’s common stock and warrants to former holders of Chart common stock and warrants in connection with the Business Combination was registered under the Securities Act of 1933, as amended (the “Securities Act”), pursuant to a registration statement on Form S-4 (File No. 333-201424), filed with the United States SEC and declared effective on July 17, 2015 (the “Form S-4”). The Form S-4 contains additional information about the Merger Agreement, the Business Combination, the Financing and the related transactions. The Merger Shares and the Financing Securities were issued pursuant to exemptions from the registration requirements of the Securities Act, pursuant to Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder.

Prior to the closing of the Business Combination, Chart was a shell company with no operations, formed as a special purpose acquisition company to effect a business combination with one or more operating businesses. After the closing of the Business Combination, Chart is now a subsidiary of Tempus Holdings.

The following table presents the assets acquired and the liabilities assumed in the Business Combination as of July 31, 2015 as recorded by the Company on the acquisition date and the initial fair value adjustments.

	<b>As Recorded by Chart Acquisition Corp</b>	<b>Adjustments</b>	<b>As Recorded by the Company</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,128,746(C)	\$ -	\$ 4,128,746
Due from Sponsor	660(B)	-	660
Total assets	<u>4,129,406</u>	<u>-</u>	<u>4,129,406</u>
<b>Liabilities</b>			
Accounts payable	\$ 100,027(B)	\$ -	\$ 100,027
Payable to affiliates of the Sponsor	6,614(B)	-	6,614
Accrued expenses	25,000(B)	-	25,000
Warrant liability	1,808,176	(336,276(A))	1,471,900
Total liabilities	<u>1,939,817</u>	<u>(336,276)</u>	<u>1,603,541</u>
Net assets acquired over liabilities assumed	<u>\$ 2,189,589</u>	<u>\$ 336,276</u>	<u>\$ 2,525,865</u>

- (A) Based on the valuation report of the Valuation Firm (see Note 15 above), valuing the warrants as of July 31, 2015, the date of the Business Combination, the warrant liability carried on the balance sheet of Chart has been adjusted to the value calculated by the Valuation Firm.
- (B) As part of the Business Combination, Tempus assumed the working capital (liabilities) of Chart, net of cash and warrant liability, in the amount of (\$130,981). Please see the Consolidated Statements of Cash Flows.
- (C) Pursuant to the Business Combination and the Financing, the Company received \$16,000,000 in cash related to the sale of common stock, preferred stock and warrants. The use of the proceeds is summarized as follows:

Sale of common stock, preferred stock and warrants pursuant to the Business Combination and Financing	\$ 16,000,000
Payment of costs related to the Business Combination and Financing	(12,214,875)
Cash from business acquired pursuant to the Business Combination	212,640
Net cash proceeds related to Business Combination	<u>\$ 3,997,765</u>

The Company allocated the \$16,000,000 in proceeds among common stock, preferred stock and warrants based on the third party valuation by the Valuation Firm as of July 31, 2015, the date of the Business Combination. The valuation of the warrants, which are classified as liabilities on the consolidated balance sheets, resulted in an adjustment to additional paid in capital, as shown in the consolidated statement of stockholders' equity (deficit), of \$6,675,200 to record the underlying value of the warrants at the estimated redemption value.

## 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 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 former 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 Newport News, Virginia, Brunswick, Maine and San Marcos, Texas 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**

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 that have already been won or are expected to be won, combined with the recognition of start-up costs in excess of recognized revenue for contracts that have already commenced. Management expects that these start-up costs will be recovered within the next 12 months of operations and, assuming the timely commencement of new contracts, that the Company will reverse its working capital deficit over the coming 12 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 prior to the passage of the next 12 months.

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 29 as of September 30, 2016. 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 through approximately the end of January 2017 and thereafter to more than cover its costs of operations, provided in all events that the \$5,500,000 purchase obligation regarding the G-IV aircraft (see Note 14 to the Company’s Consolidated Financial Statements – Commitments and Contingencies) is satisfied using lender financing. 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 September 30, 2016 and 2015***

#### ***Revenues***

Revenues were \$4,409,789 for the three months ended September 30, 2016. As set forth below, three customers each represented greater than 10% of our revenues during this period. These three customers represented 25%, 34% and 14% of our revenues respectively.

Revenues were \$2,948,958 for the three months ended September 30, 2015. As set forth below, two customers each represented greater than 10% of our revenues over this period. One customer, under two separate contracts, represented 37%, of our revenues while a second customer represented 36% of our revenues.

Revenue growth is due to increased flying activity under the charter / brokerage and related to a flight operations contract with a government customer.

The table below sets forth the amount of revenues we recognized for the three months ended September 30, 2016 and 2015:

	<b>Three months ended September 30, 2016</b>		<b>Three months ended September 30, 2015</b>	
	<b>Revenue</b>		<b>Revenue</b>	
Customer A	\$ 1,092,255	25%	\$ 1,101,797	37%
Customer B	1,498,732	34%	1,065,843	36%
Customer C	632,648	14%	-	-%
Other customers	1,186,154	27%	781,318	26%
	<b>\$ 4,409,789</b>	<b>100%</b>	<b>\$ 2,948,958</b>	<b>100%</b>

#### *Cost of Revenue and Gross Profit*

Cost of revenue for the three months ended September 30, 2016 was \$4,404,192, which represented 99.9% of revenues. The Company's gross profit was \$5,597 or .1% of revenues for the three months ended September 30, 2016.

Cost of revenue for the three months ended September 30, 2015 was \$3,257,295, which represented 110.5% of revenues. The Company's gross loss was (\$308,337) or (10.5%) of revenues for the three months ended September 30, 2015.

The increase in gross profit was primarily due to decreased fixed costs associated with aircraft for customer contracts.

#### *Selling, general and administrative.*

Selling, general and administrative expenses were \$883,004 for the three months ended September 30, 2016, which represented 20.0% of revenues for this period.

Selling, general and administrative expenses were \$1,177,479 for the three months ended September 30, 2015, which represented 39.9% of revenues for this period.

The decrease over the comparable prior year period is primarily associated with the following: (i) Decrease in public company costs, (ii) increased overhead costs from our acquisitions of ProFlight Aviation Services, LLC and Tempus Jets, Inc. resulting in an increase of business unit administrative expenses from \$284,501 for the three months ended September 30, 2015 to \$359,323 for the three months ended September 30, 2016; and (iii) decrease in bid and proposal expenses from \$222,180 for the three months ended September 30, 2015 to \$29,212 for the three months ended September 30, 2016.

#### *Other Income (Expense)*

Other income (expense) was \$378,984 for the three months ended September 30, 2016 and \$30,957 for the three months ended September 30, 2015. The increased income period over period is primarily due to non-cash income associated with the change in warrant valuation along with income associated with the conversion of warrants into common and preferred stock, which was \$382,500 and \$38,001 respectively.

#### *Net Income (Loss)*

Net income (loss) for the three months ended September 30, 2016 was (\$498,423). Net income (loss) for the three months ended September 30, 2015 was (\$1,454,859).

#### ***Nine Months Ended September 30, 2016 and 2015***

##### *Revenues*

Revenues were \$13,592,131 for the nine months ended September 30, 2016. As set forth below, four customers each represented greater than 10% of our revenues during this period. These four customers represented 24%, 32%, 10% and 15% of our revenues respectively.

Revenues were \$8,808,064 for the nine months ended September 30, 2015. As set forth below, two customers each represented greater than 10% of our revenues over this period. One customer, under two separate contracts, represented 34%, of our revenues while a second customer represented 45% of our revenues.

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 nine months ended September 30, 2016 and 2015:

	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	Revenue		Revenue	
Customer A	\$ 3,242,239	23%	\$ 2,951,434	34%
Customer B	4,310,714	32%	3,923,423	45%
Customer C	1,395,658	10%	104,389	1%
Customer D	2,088,692	15%	-	-%
Other customers	2,554,828	19%	1,828,818	21%
	<u>\$ 13,592,131</u>	<u>100%</u>	<u>\$ 8,808,064</u>	<u>100%</u>

#### *Cost of Revenue and Gross Profit*

Cost of revenue for the nine months ended September 30, 2016 was \$14,289,833 which represented 105.1% of revenues. The Company's gross loss was (\$697,702) or (5.1%) of revenues for the nine months ended September 30, 2016.

Cost of revenue for the nine months ended September 30, 2015 was \$8,265,427, which represented 93.8% of revenues. The Company's gross profit was \$542,637 or 6.2% of revenues for the nine months ended September 30, 2015.

The decline in gross profit was primarily due to increased fixed costs associated with aircraft for customer contracts. Other factors affecting gross profit include an increased mix of lower margin contracts for the nine months ended September 30, 2016 as compared to the prior year period.

#### *Selling, general and administrative.*

Selling, general and administrative expenses were \$3,629,650 for the nine months ended September 30, 2016, which represented 26.7% of revenues for this period.

Selling, general and administrative expenses were \$2,128,804 for the nine months ended September 30, 2015, which represented 24.2% of revenues for this period.

The increase over the comparable prior year period is primarily associated with the following: (i) increased costs associated with being a public company, resulting in corporate administrative expenses totaling \$1,473,435 for the nine months ended September 30, 2016 as compared to \$477,791 for the nine months ended September 30, 2015; (ii) increased overhead operations from our acquisitions of ProFlight Aviation Services, LLC and Tempus Jets, Inc. resulting in an increase of business unit administrative expenses from \$681,781 for the nine months ended September 30, 2015 to \$1,238,565 for the nine months ended September 30, 2016; and (iii) increases in sales and marketing expenses from \$335,459 for the nine months ended September 30, 2015 to \$620,829 for the nine months ended September 30, 2016.

#### *Other Income (Expense)*

Other income (expense) was \$1,253,333 for the nine months ended September 30, 2016 and \$15,730 for the nine months ended September 30, 2015. The increased income period over period is primarily due to non-cash income (expense) associated with the change in warrant valuation along with income (expense) associated with the conversion of warrants into common and preferred stock, which was \$4,759,207 and (\$3,505,327) respectively.

#### *Net Loss*

Net loss for the nine months ended September 30, 2016 was (\$3,074,019). Net loss for the nine months ended September 30, 2015 was (\$1,570,437).

#### **Liquidity and Capital Resources**

As of September 30, 2016, we had cash and cash equivalents of \$9,890. As of that date, we held restricted cash of \$200,000, consisting of a certificate of deposit securing credit card borrowings. Credit card borrowings outstanding as of September 30, 2016 totaled \$248,013.

Our working capital deficit as of September 30, 2016 was (\$3,465,877), equal to the difference between our total current assets as of that date of \$1,901,918 and our total current liabilities as of that date of \$5,367,795.

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 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. CAF is owned by Cowen Group, Inc., (“Cowen”) whose CEO and Chairman, Peter Cohen, and board member, Joseph Wright, are on our board of directors. For the nine months ended September 30, 2016 Tempus generated \$39,646 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 September 30, 2016, the net receivable from CAF was \$2,306.

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. As of November 4, 2016, the lessor has exercised its option to sell the aircraft to the Company. The Company currently expects the sale to close in approximately 60 days.

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 nine months ended September 30, 2016, the Company incurred lease expense for aviation assets used in the provision of its services of \$4,238,694. Lease expenses for aviation assets for the nine months ended September 30, 2015 were \$2,120,336.

Management believes that uncertainties regarding the commencement of new contracts that have been won or are expected to be won, and the timing of their commencement, cast significant doubt upon the Company’s ability to continue as a going concern, especially in the near term and prior to the passage of the next 12 months. See Note 2 to the Company’s Consolidated Financial Statements -- Going Concern.

#### ***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 January 1, 2015 under a one-year lease, which was subsequently extended to February 28, 2016, after which the lease reverted to a month to month agreement. The Company vacated the space August 31, 2016 as part of its cost-cutting initiatives, and relocated to the office premises at 471 McLaws Circle, Williamsburg, Virginia. Those premises have been made available to the Company by Jackson River Aviation (“JRA”), which is controlled by B. Scott Terry, the Company’s CEO and a member of the Company’s Board of Directors. JRA hold the premises under lease. The Company uses the entire space and has begun paying JRA’s full monthly rent amount. The move has reduced the Company’s monthly office lease expense from approximately \$10,000 to approximately \$5,000.

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 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. The future minimum lease payments associated with these leases at San Marcos, TX as of September 30, 2016 total \$40,500.

The Company leases 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 future minimum lease payments associated with this lease as of September 30, 2016 total \$0.

The Company leases 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. The future minimum lease payments associated with this lease as of September 30, 2016 total \$0; the lease has reverted to a month to month agreement.

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 CEO and Chairman, Peter Cohen, and board member, Joseph Wright, are on our board of directors. For nine months ended September 30, 2016 Tempus generated \$39,646 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 September 30, 2016, the net receivable from CAF was \$2,306.

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 this aircraft for a government customer and will be 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 capitalized as pre-contract costs and 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. The Company currently expects the sale to close in approximately 60 days.

### ***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 nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 nine months ended September 30, 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 September 30, 2015 for Chart, the predecessor company, and for Tempus Holdings for the period commencing January 1, 2016 through September 30, 2016.

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. The tax returns for the tax year ended December 31, 2015 have not been filed at this point are late. While there should be no income taxes due with the filings, some jurisdictions may impose late filing penalties. The Company is in the process of filing the tax returns as soon as possible, and has not accrued for any late filing penalties.

## **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 \$195,422 at September 30, 2016. There were no earnings in excess of billings at December 31, 2015.

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 and \$48,130 at September 30, 2016 and December 31, 2015, respectively.

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. Costs incurred to obtain STCs 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 September 30, 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. The Company intends to file an election under I.R.C. Section 338(h)(10) to treat this qualified acquisition of stock as an acquisition of assets for tax purposes.

It is the Company’s policy to commence amortization of computer software upon the date that assets are placed into service. For the nine months ended September 30, 2016, the Company recognized amortization expense of computer software in the amount of \$20,649. For the nine months ended September 30, 2015 there was no amortization expense. 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. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company does not expect that the adoption of this amendment will have a material impact on its consolidated financial statements or disclosures.

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 is currently evaluating the impact that adopting this ASU will have on its financial position, results of operations and cash flows.

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 is currently evaluating the impact that ASU 2016-09 will have on its consolidated 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*

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### *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

None.

### 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

None.

### ITEM 6. EXHIBITS

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

<b>Exhibit Number</b>	<b>Description</b>
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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

\* Filed herewith.

**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.

Dated: November 14, 2016

**TEMPUS APPLIED SOLUTIONS HOLDINGS, INC.**

By: /s/ Steven Bush

Name: Steven Bush

Title: Chief Financial Officer

(Principal financial and accounting officer)

**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 significant role in the registrant’s internal control over financial reporting.

Dated: November 14, 2016

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

**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: November 14, 2016

By: /s/ Steven Bush

Name: Steven Bush

Title: Chief Financial Officer

(Principal Financial Officer)

**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 September 30, 2016, (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: November 14, 2016

By: 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.

**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 September 30, 2016, (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: November 14, 2016

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.