

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 January 31, 2016

OR

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 000-7642

PASSUR AEROSPACE, INC.

(Exact Name of Registrant as Specified in Its Charter)

New York

(State or Other Jurisdiction of Incorporation or Organization)

11-2208938

(I.R.S. Employer Identification No.)

One Landmark Square, Suite 1900, Stamford, Connecticut

(Address of Principal Executive Office)

06901

(Zip Code)

Registrant's telephone number, including area code: (203) 622-4086

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 [X] No []

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, 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).

Yes [X] No []

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

Large accelerated filer []

Accelerated filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [] No [X]

There were 7,673,199 shares of the Registrant's common stock with a par value of \$0.01 per share outstanding as of March 3, 2016.

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PART I: Financial Information

Item 1. Financial Statements

PASSUR Aerospace, Inc. and Subsidiary

Consolidated Balance Sheets

	January 31, 2016	October 31, 2015
	(Unaudited)	
Assets		
Current assets:		
Cash	\$ 457,476	\$ 925,508
Accounts receivable, net	2,821,365	1,234,986
Deferred tax asset, current	551,671	551,671
Prepaid expenses and other current assets	263,561	157,930
Total current assets	4,094,073	2,870,095
PASSUR Network, net	5,882,743	5,902,751
Capitalized software development costs, net	7,866,776	7,684,603
Property and equipment, net	1,323,798	1,353,532
Deferred tax asset, non-current	1,632,281	1,658,557
Other assets	233,698	239,861
Total assets	\$ 21,033,369	\$19,709,399
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 568,747	\$ 880,819
Accrued expenses and other current liabilities	942,920	977,900
Deferred revenue, current portion	4,283,690	2,680,244
Total current liabilities	5,795,357	4,538,963
Deferred revenue, less current portion	172,718	197,336
Notes payable – related party	3,500,000	3,500,000
	9,468,075	8,236,299
Commitment and contingencies		
Stockholders' equity:		
Preferred shares – authorized 5,000,000 shares, par value \$0.01 per share; none issued or outstanding	-	-
Common shares – authorized 10,000,000 shares, par value \$0.01 per share; issued 8,448,526 and 8,428,526 at January 31, 2016 and October 31, 2015, respectively	84,484	84,284
Additional paid-in capital	15,731,215	15,663,796
Accumulated deficit	(2,354,977)	(2,379,552)
	13,460,722	13,368,528
Treasury stock, at cost, 775,327 shares at January 31, 2016 and October 31, 2015, respectively	(1,895,428)	(1,895,428)
Total stockholders' equity	11,565,294	11,473,100
Total liabilities and stockholders' equity	\$ 21,033,369	\$19,709,399

See accompanying notes to consolidated financial statements.

PASSUR Aerospace, Inc. and Subsidiary

Consolidated Statements of Income

(Unaudited)

	Three months ended January 31,	
	2016	2015
Revenues	\$ 3,435,480	\$ 2,764,012
Cost and expenses:		
Cost of revenues	1,512,486	1,114,452
Research and development expenses	183,409	182,275
Selling, general, and administrative expenses	1,633,501	1,181,854
	3,329,396	2,478,581
Income from operations	106,084	285,431
Interest expense – related party	53,667	59,262
Income before income taxes	52,417	226,169
Provision for income taxes	27,842	85,000
Net income	\$ 24,575	\$ 141,169
Net income per common share – basic	\$ -	\$ 0.02
Net income per common share – diluted	\$ -	\$ 0.02
Weighted average number of common shares outstanding – basic	7,660,590	7,654,928
Weighted average number of common shares outstanding – diluted	7,736,288	7,825,820

See accompanying notes to consolidated financial statements.

PASSUR Aerospace, Inc. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended January 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 24,575	\$ 141,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	785,742	710,085
Provision for deferred taxes	26,276	85,000
Provision for doubtful accounts	8,990	-
Stock-based compensation	57,219	28,695
Changes in operating assets and liabilities:		
Accounts receivable	(1,595,370)	(293,796)
Prepaid expenses and other current assets	(56,282)	(64,352)
Other assets	6,164	6,710
Accounts payable	(312,072)	151,406
Accrued expenses and other current liabilities	(98,318)	(129,860)
Deferred revenue	1,578,828	19,549
Accrued interest – related party	-	39,937
Total adjustments	<u>401,178</u>	<u>553,374</u>
Net cash provided by operating activities	<u>425,752</u>	<u>694,543</u>
Cash flows from investing activities		
PASSUR Network	(196,169)	(546,163)
Software development costs	(621,395)	(520,813)
Property and equipment	(86,620)	(94,324)
Net cash used in investing activities	<u>(904,184)</u>	<u>(1,161,300)</u>
Proceeds from the exercise of stock options	10,400	34,320
Net cash provided from financing activities	<u>10,400</u>	<u>34,320</u>
Decrease in cash	(468,032)	(432,437)
Cash – beginning of period	925,508	648,727
Cash – end of period	<u>\$ 457,476</u>	<u>\$ 216,290</u>
Supplemental cash flow information		
Cash paid during the period for:		
Interest – related party	\$ 53,667	\$ 19,325
Income taxes	\$ 50,737	\$ 9,033
Non-cash investing activities – purchase of property and equipment under capital lease	\$ 63,336	-

See accompanying notes to consolidated financial statements.

PASSUR Aerospace, Inc. and Subsidiary
Notes to Consolidated Financial Statements

January 31, 2016

(Unaudited)

1. Nature of Business

PASSUR Aerospace, Inc. (“PASSUR®” or the “Company”) is a leading business intelligence company, providing predictive analytics and decision support technology for the aviation industry primarily to improve the operational performance and cash flow of airlines and the airports where they operate. The Company is recognized as a leader in airline and airport operational efficiency and business aviation marketing and operational solutions, and is a pioneer in the successful use of big data, with an aviation intelligence platform and suite of web-based solutions that address the aviation industry’s most intractable and costly challenges, including underutilization of airspace and airport capacity, delays, cancellations, and diversions, among others. Several studies have estimated the annual direct costs of such inefficiencies at over \$30 billion. The Company’s technology platform is supported by its Aviation Intelligence Center of Excellence (“COE”), a team of subject matter experts with extensive experience in airline, airport, and business aviation operations, finance, air traffic management, systems automation, and data visualization, with specific expertise in the operational and business needs, requirements, objectives, and constraints of the aviation industry.

PASSUR’s solutions are used by the five largest North American airlines, over 60 airport customers (including 22 of the top 30 North American airports as customers - with PASSUR solutions also used at the remaining top eight airports by one or more PASSUR airline customers), more than 200 corporate aviation customers, and the U.S. government.

PASSUR’s mission is to improve global air traffic efficiencies by connecting the world’s aviation professionals onto a single aviation intelligence platform. PASSUR offers companies products that are commercially proven, commercially accepted, and with a demonstrated return on investment (“ROI”) for airlines, airports, governments, and business aviation companies.

PASSUR provides data aggregation and consolidation, information, decision support, predictive analytics, collaborative solutions, and professional services to airlines, airports, governments, and business aviation companies. To enable this unique offering, PASSUR owns and operates the largest commercial passive radar network in the world that updates flight tracks every 1 to 4.6 seconds, powering a proprietary database that is accessible in real-time and delivers timely, accurate information and solutions via PASSUR’s industry-leading algorithms and business logic included in its products.

Solutions offered by PASSUR help to ensure flight completion, covering the entire flight life cycle, from gate to gate, and result in reductions in overall costs and emissions, while maximizing revenue opportunities, as well as optimizing airline completion rates and enhancing the passenger experience.

PASSUR gives operators the ability to optimize performance in today’s air traffic management system, while bridging the needs of operators and government aviation agencies through collaborative information exchange, shared procedures, and common operating metrics. Many of PASSUR’s core capabilities developed for the commercial sector help achieve Next Generation Air Transportation System (“NextGen”) objectives. We believe these commercial solutions have helped operators extract maximum value and capacity from today’s infrastructure while creating business and operational case studies for several core NextGen programs.

Commercial aviation operators using the airspace depend on information from the government Air Navigation Services Provider (“ANSP”) for flight, airspace, and airport information outside their own fleets. PASSUR augments and integrates government information with data from its independent network (the largest passive commercial radar network in the world), with over 180 radar locations covering North America from coast to coast, and other installations in Europe and Asia. PASSUR provides faster aircraft position updates (from 1 to 4.6 seconds), and more complete information on aircraft. PASSUR’s sensors receive aircraft and drone signals in Mode A, C, S, and Automatic Dependent Surveillance-Broadcast (“ADS-B”), providing position, altitude, beacon code, and tail number, among other information.

PASSUR receives signals from aircraft that, when combined with our historical database of aircraft and airport behavior, including information recorded by our network over the last 10 years, allows the Company to know more about what has happened historically, and what is happening in real-time. In addition, the historical database allows the Company to predict how aircraft, the airspace, and airports are going to perform, and more importantly, how the aircraft, the airspace, and airport should perform.

2. Basis of Presentation and Significant Accounting Policies

The consolidated financial information contained in this quarterly report on Form 10-Q represents condensed financial data and, therefore, does not include all footnote disclosures required to be included in financial statements prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). Such footnote information was included in the Company's Annual Report on Form 10-K for the year ended October 31, 2015, filed with the Securities and Exchange Commission ("SEC"); the consolidated financial data included herein should be read in conjunction with that report. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (which include only normal recurring adjustments) necessary to present fairly the Company's consolidated financial position as of January 31, 2015, and its consolidated results of operations and cash flows for the three months ended January 31, 2016 and 2015.

The results of operations for the interim period stated above are not necessarily indicative of the results of operations to be recorded for the full fiscal year ending October 31, 2016.

Certain financial information in the footnotes has been rounded to the nearest thousand for presentation purposes.

Principles of Consolidation

The consolidated financial statements include the accounts of PASSUR and its wholly-owned subsidiary. All significant inter-company transactions and balances have been eliminated in consolidation.

Revenue Recognition Policy

The Company recognizes revenue in accordance with FASB ASC 605-15, ("Revenue Recognition in Financial Statements") which requires that four basic criteria must be met before revenues can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured.

The Company's revenues are generated by selling: (1) subscription-based, real-time decision and solution information and (2) professional services.

Revenues generated from subscription agreements are recognized over the term of such executed agreements and/or customer's receipt of such data or services. In accordance with ASC 605-15, the Company recognizes revenue when persuasive evidence of an arrangement exists which is evidenced by a signed agreement, the service has been deployed, as applicable, to its hosted servers, the fee is fixed or determinable, and collection of the resulting receivable is reasonably assured. The Company records revenues pursuant to individual contracts on a month-by-month basis, as outlined by the applicable agreement. In many cases, the Company may invoice respective customers in advance of the specified period, either quarterly or annually, which coincides with the terms of the agreement. In such cases, the Company will defer at the close of each month and/or reporting period, any subscription revenues invoiced for which services have yet to be rendered, in accordance with ASC 605-15. Revenues generated by professional services are recognized when services are provided.

The individual offerings that are included in arrangements with the Company's customers are identified and priced separately to the customer based upon the relative fair value for each individual element sold in the arrangement irrespective of the combination of products and services which are included in a particular arrangement. As such, the units of accounting are based on each individual element sold, and revenue is allocated to each element based on selling price. Selling price is determined using vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE or TPE is available. BESP must be determined in a manner that is consistent with that used to determine the price to sell the specific elements on a standalone basis. Best estimate of selling price is established considering multiple factors including, but not limited to, pricing practices with different classes of customers, geographies and other factors contemplated in negotiating the arrangement with the customer. The Company uses either VSOE or BESP.

From time to time, the Company will enter into an agreement with a customer to receive a one-time fee for rights including, but not limited to, the rights to use certain data at an agreed upon location(s) for a specific use and/or for an unlimited number of users. These fees are recognized as revenue ratably over the term of the agreement or expected useful life of such arrangement, whichever is longer, but typically five years.

Deferred revenue is classified on the Company's balance sheet as a liability until such time as revenue from services is properly recognized as revenue in accordance with ASC 605-15 and the corresponding agreement.

Cost of Revenues

Costs associated with subscription and maintenance revenues consist primarily of direct labor, depreciation of PASSUR and SMLAT Network Systems, amortization of capitalized software development costs, communication costs, data feeds, allocated overhead costs, travel and entertainment, and consulting fees. Also included in cost of revenues are costs associated with upgrades to PASSUR and SMLAT Systems necessary to make such systems compatible with new software applications, as well as the ordinary repair and maintenance of existing PASSUR and SMLAT Systems. Additionally, cost of revenues in each reporting period is impacted by: (1) the number of PASSUR and SMLAT Systems added to the Network, which includes the cost of production, shipment, and installation of these assets, which are capitalized to the PASSUR Network; and (2) new capitalized costs associated with software development projects. Both of these are referred to as "Capitalized Assets" and are depreciated and/or amortized over their respective useful lives and charged to cost of revenues.

Accounts Receivable

The Company has a history of successfully collecting all amounts due from its customers under the original terms of its subscription agreements without making concessions. The Company records accounts receivables for agreements under which amounts due from customers are contractually required and are non-refundable. The carrying amount of accounts receivables is reduced by a valuation allowance that reflects the Company's best estimate of the amounts that will not be collected. Net accounts receivable is comprised of the monthly, quarterly, or annual committed amounts due from customers pursuant to the terms of each respective customer's agreement. Account receivable balances include amounts attributable to deferred revenues.

The provision for doubtful accounts was \$45,000 and \$30,000 as of January 31, 2016 and 2015, respectively. In addition to reviewing delinquent accounts receivable, the Company considers many factors in estimating its reserve, including historical data, experience, customer types, credit worthiness, and economic trends. The Company monitors its outstanding accounts receivable balances and believes its provision is reasonable.

PASSUR Network

The PASSUR Network is comprised of PASSUR and SMLAT Systems, which include the direct and indirect production, shipping, and installation costs incurred for each PASSUR and SMLAT System, which are recorded at cost, net of accumulated depreciation. Depreciation is charged to cost of revenues and is recorded using the straight-line method over the estimated useful life of the asset, which is estimated at five years for SMLAT Systems and seven years for PASSUR Systems. PASSUR and SMLAT Systems which are not installed, raw materials, work-in-process, and finished goods components are carried at cost and no depreciation is recorded.

Capitalized Software Development Costs

The Company follows the provisions of ASC 350-40, "Internal Use Software." ASC 350-40 provides guidance for determining whether computer software is internal-use software, and on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The Company expenses all costs incurred during the preliminary project stage of its development, and capitalizes the costs incurred during the application development stage. Costs incurred relating to upgrades and enhancements to the software are capitalized if it is determined that these upgrades or enhancements add additional functionality to the software. Costs incurred to improve and support products after they become available are charged to expense as incurred. The Company capitalized \$621,000 for the three months ended January 31, 2016 and \$521,000 for the three months ended January 31, 2015. The Company records amortization of the software on a straight-line basis over the estimated useful life of the software, typically five years.

Long-Lived Assets

The Company reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. Impairment is recognized to the extent the sum of undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. Assets to be disposed of are carried at the lower of their carrying value or fair value, less costs to sell. The Company evaluates the periods of amortization continually in determining whether later events and circumstances warrant revised estimates of useful lives. If estimates are changed, the unamortized costs will be allocated to the increased or decreased number of remaining periods in the asset's revised life.

Deferred Tax Asset

The Company had a federal net operating loss carry-forward of \$7,795,000 available for income tax purposes as of January 31, 2016, which will expire in various tax years from fiscal year 2022 through fiscal year 2030. The Company evaluates whether a valuation allowance related to deferred tax assets is required each reporting period. A valuation allowance would be established if, based on the weight of available evidence, it is more likely than not that some or all of the deferred income tax asset will not be realized. The Company's deferred tax asset amount was \$2,184,000 and \$2,210,000 as of January 31, 2016 and October 31, 2015, respectively, and it was determined that it is more likely than not that the net operating loss carry-forward would be used. As of October 31, 2015, the Company had a federal net operating loss carry-forward of \$7,847,000 available for income tax purposes, which will expire in various tax years from fiscal year 2022 through fiscal year 2030.

Deferred Revenue

Deferred revenue includes amounts attributable to advances received or invoices sent on customer agreements, which are contractually required and are non-refundable, and may be prepaid either annually, quarterly, or monthly. Revenues from such customer agreements are recognized as income ratably over the period that coincides with the respective agreement.

The Company recognizes initial set-up fee revenues and associated costs on a straight-line basis over the estimated life of the customer relationship period, typically five years.

Fair Value of Financial Instruments

The recorded amounts of the Company's cash, receivables, accounts payable, and accrued liabilities approximate their fair values principally because of the short-term nature of these items. The fair value of related party debt is not practicable to determine due primarily to the fact that the Company's related party debt is held by its Chairman and significant shareholder, and the Company does not have any third-party debt with which to compare.

Additionally, on a recurring basis, the Company uses fair value measures when analyzing asset impairments. Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined such indicators are present, and the review indicates that the assets will not be fully recoverable based on the undiscounted estimated future cash flows expected to result from the use of the asset, their carrying values are reduced to estimated fair value.

Net Income per Share Information

Basic net income per share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed similarly to basic earnings per share, except that it reflects the effect of common shares issuable upon exercise of stock options, using the treasury stock method in periods in which they have a dilutive effect. The Company's 2009 Stock Incentive Plan allows for a cashless exercise. Shares used to calculate net income per share are as follows:

	For the three months ended January 31,	
	2016	2015
Basic weighted average shares outstanding	7,660,590	7,654,928
Effect of dilutive stock options	75,698	170,892
Diluted weighted average shares outstanding	7,736,288	7,825,820

Weighted average shares that are not included in the calculation of diluted net income per share because their impact is anti-dilutive. These shares consist of stock options.	1,117,802	632,608
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Stock-Based Compensation

The Company follows FASB ASC 718 "Compensation-Stock Compensation", which requires the measurement of compensation cost for all stock-based awards at fair value on date of grant, and recognition of stock-based compensation expense over the service period for awards expected to vest. The fair value of stock options was determined using the Black-Scholes valuation model. Such fair value is recognized as an expense over the service period, net of forfeitures. Stock-based compensation expense was \$57,000 and \$29,000 for the three months ended January 31, 2016 and 2015, respectively, and was primarily included in selling, general, and administrative expenses.

3. Notes Payable – Related Party

The Company has a note payable to G.S. Beckwith Gilbert, the Company's significant shareholder and Chairman, of \$3,500,000 (the "Second Replacement Note") as of January 31, 2016. The Second Replacement Note bears a maturity date of November 1, 2017, with an annual interest rate of 6%. Interest payments are due by October 31 of each fiscal year. The Company has paid all interest incurred on the Second Replacement Note through January 31, 2016. In February of 2016 the Company paid \$600,000 of principal of the Second Replacement Note to G.S. Beckwith Gilbert.

The Company believes that its liquidity is adequate to meet operating and investment requirements through March 3, 2017.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The information provided in this Quarterly Report on Form 10-Q (including, without limitation, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and “Liquidity and Capital Resources”, below) contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 regarding the Company’s future plans, objectives, and expected performance. The words “believe,” “may,” “will,” “could,” “should,” “would,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “objective,” “seek,” “strive,” “might,” “likely result,” “build,” “grow,” “plan,” “goal,” “expand,” “position,” or similar words, or the negatives of these words, or similar terminology, identify forward-looking statements. These statements are based on assumptions that the Company believes are reasonable, but are subject to a wide range of risks and uncertainties, and a number of factors could cause the Company’s actual results to differ materially from those expressed in the forward-looking statements referred to above. These factors include, without limitation, the risks and uncertainties discussed under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the uncertainties related to the ability of the Company to sell its existing product and professional service lines, as well as in new products and professional services (due to potential competitive pressure from other companies or other products), as well as the potential for terrorist attacks, changes in fuel costs, airline bankruptcies and consolidations, economic conditions, and other risks detailed in the Company’s periodic report filings with the SEC. Other uncertainties which could impact the Company include, without limitation, uncertainties with respect to future changes in governmental regulation and the impact that such changes in regulation will have on the Company’s business. Additional uncertainties include, without limitation, uncertainties relating to: (1) the Company’s ability to find and maintain the personnel necessary to sell, manufacture, and service its products; (2) its ability to adequately protect its intellectual property; and (3) its ability to secure future financing. Readers are cautioned not to place undue reliance on these forward-looking statements, which relate only to events as of the date on which the statements are made and which reflect management’s analysis, judgments, belief, or expectation only as of such date. The Company undertakes no obligation to publicly update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Description of Business

The Company provides data aggregation and consolidation, information, decision support, predictive analytics, collaborative solutions, and professional services to airlines, airports, governments, and business aviation companies. To enable this unique offering, PASSUR owns and operates the largest commercial passive radar network in the world that updates flight tracks every 1 to 4.6 seconds, powering a proprietary database that is accessible in real-time and delivers timely, accurate information and solutions via PASSUR’s industry-leading algorithms and business logic included in its products.

PASSUR’s solutions are used by the five largest North American airlines, over 60 airport customers (including 22 of the top 30 North American airports as customers - with PASSUR solutions also used at the remaining top eight airports by one or more airline customers), more than 200 corporate aviation customers, and the U.S. government.

Our core business addresses some of aviation’s most intractable and costly operational and financial challenges, including underutilization of airspace and airport capacity, delays, cancellations, and diversions. Several studies have estimated the annual direct costs to the system of such inefficiencies at over \$30 billion.

Solutions offered by PASSUR help to ensure flight completion. They cover the entire flight life cycle, from gate to gate, and result in reductions in overall costs and emissions, while maximizing revenue opportunities, improving operational efficiency, and enhancing the passenger experience.

The Company’s business plan is to continue to focus on increasing subscription-based revenues from its suite of software applications, and to develop new applications and professional services designed to address the needs of the aviation industry and the U.S. government. The Company’s goal is to help solve problems faced by its customers and is built on the following product development objectives: (1) continue developing decision support solutions built on business intelligence, predictive analytics, and web-dashboard technology; (2) continue integrating multiple additional industry data sets into its integrated aviation database, including data from a variety of additional aircraft, airspace, and ground surveillance technologies, in order to ensure that PASSUR is the primary choice for data integration and management for large aviation organizations; (3) continue extending the reach of the PASSUR Network, which provides the proprietary backbone for many of the Company’s solutions; and (4) continue developing the Company’s professional service capabilities, in order to ensure that its solutions can be fully implemented in its customers’ work environments, with minimal demand on customers’ internal resources.

Results of Operations

Revenues

Management concentrates its efforts on the sale of business intelligence, predictive analytics, and decision support product applications, utilizing data primarily derived from the PASSUR Network. Such efforts include the continued development of new products, professional services, and existing product enhancements.

Revenues increased \$671,000, or 24%, to \$3,435,000 for the three months ended January 31, 2016, as compared to the same period in fiscal 2015. Customer subscriptions to the Company's suite of software applications and services increased compared to the prior year period by \$555,000, or 20%, for the three months ended January 31, 2016. The Company had consulting and license revenue of \$118,000 for the three months ended January 31, 2016, as compared to none in the same period in fiscal 2015. The Company continues to develop and deploy new software applications and solutions, as well as a wide selection of products which address customers' needs, easily delivered through web-based applications, as well as other new products which include stand-alone professional services.

Cost of Revenues

Costs associated with subscription and maintenance revenues consist primarily of direct labor, depreciation of PASSUR and Surface Multilateration ("SMLAT") Network Systems, amortization of capitalized software development costs, communication costs, data feeds, allocated overhead costs, travel and entertainment, and consulting fees. Also included in cost of revenues are costs associated with upgrades to PASSUR and SMLAT Systems necessary to make such systems compatible with new software applications, as well as the ordinary repair and maintenance of existing PASSUR and SMLAT Systems. Additionally, cost of revenues in each reporting period is impacted by: (1) the number of PASSUR and SMLAT System units added to the Network, which includes the production, shipment, and installation of these assets, which are capitalized to the PASSUR Network; and (2) capitalized costs associated with software development and data center projects. Both of these are referred to as "Capitalized Assets", and are depreciated and/or amortized over their respective useful lives and charged to cost of revenues. The Company does not break down its costs by product.

When the Company uses its employees to manufacture PASSUR and SMLAT Systems, build capital assets, and ship and install PASSUR and SMLAT Systems in the field, or for software development, there is a reduction in cost of revenues due to the fact that the labor-related costs for these systems are capitalized, rather than expensed in the period.

Cost of revenues increased \$398,000, or 36%, to \$1,512,000 for the three months ended January 31, 2016, as compared to the same period in fiscal 2015.

In the current three month period compared to the same period in the prior year, the increase in cost of revenues primarily resulted from lower capitalized costs of \$122,000 due to a decrease in the number of PASSUR and SMLAT Systems manufactured, shipped, and installed in the field, higher amortization of \$108,000, higher compensation related costs of \$92,000, and an increase in consulting costs of \$78,000.

Research and Development

The Company's research and development efforts include activities associated with new product development, as well as the enhancement and improvement of the Company's existing software and information products. Research and development expenses were consistent for the three months ended January 31, 2016, as compared to the same period in fiscal year 2015.

The Company anticipates that it will continue to invest in research and development to develop, maintain, and support existing and newly developed applications for its customers.

Selling, General, and Administrative

Selling, general, and administrative expenses increased \$452,000, or 38%, for the three months ended January 31, 2016, as compared to the same period in fiscal year 2015. The increase in the current three month period compared to the same period in the prior year was primarily due to an increase in compensation and related costs of \$436,000, primarily due to an increase in headcount.

Income from Operations

Income from operations decreased \$179,000, or 63%, for the three months ended January 31, 2016, to \$106,000 as compared to the same period in fiscal year 2015. This decrease in the three months ended January 31, 2016, was largely due to an increase in total costs and expenses of \$850,000, or 34%, partially offset by an increase in revenue of \$671,000, or 24%, as compared to the same period in fiscal year 2015.

Interest Expense – Related Party

Interest expense – related party decreased \$6,000, or 9%, for the three months ended January 31, 2016, as compared to the same period in fiscal year 2015, due to the lower principal balance on the note.

Net Income

The Company had net income of \$25,000, or \$0.00 per diluted share, for the three months ended January 31, 2016, as compared to net income of \$141,000, or \$0.02 per diluted share, for the same period in fiscal year 2015.

Liquidity and Capital Resources

The Company's current liabilities exceeded its current assets by \$1,701,000 as of January 31, 2016. The note payable to a related party, G.S. Beckwith Gilbert, the Company's significant shareholder and Chairman, was \$3,500,000 as of January 31, 2016, with a maturity of November 1, 2017. In February of 2016 the Company paid \$600,000 of principal of the Second Replacement Note to G.S. Beckwith Gilbert.

The Company's stockholders' equity was \$11,565,000 as of January 31, 2016. The Company had net income of \$25,000 for the three months ended January 31, 2016.

Management is addressing the Company's working capital deficiency by aggressively marketing the Company's PASSUR and SMLAT Network Systems information capabilities in its existing product and professional service lines, as well as in new products and professional services, which are continually being developed and deployed.

Since the PASSURs and SMLATS manufactured by PASSUR are not sold, but used by the Company in its wholly-owned networks, PASSUR's inventory of parts, work in process, and finished goods (not yet installed in the networks) located at its plant of \$1,785,000 is not included in Total current assets, but rather is included in the PASSUR Network, net, a long term asset.

Management believes that expanding its existing suite of software products and professional services, which address the wide array of needs of the aviation industry, through the continued development of new product and service offerings, will continue to lead to increased growth in the Company's customer-base and subscription-based revenues.

If the Company's business plan does not generate sufficient cash flows from operations to meet the Company's operating cash requirements, the Company will attempt to obtain external financing on commercially reasonable terms. The Company believes that its liquidity is adequate to meet operating and investment requirements through March 3, 2017.

Net cash provided by operating activities was \$362,000 for the three months ended January 31, 2016, and consisted of \$25,000 of net income, depreciation and amortization of \$786,000, and stock-based compensation expense of \$57,000, with the balance offset by a decrease in operating assets and an increase in operating liabilities. Net cash used in investing activities was \$904,000 for the three months ended January 31, 2016, which was expended for capitalized software development costs, additions to the PASSUR Network, and additional servers at our redundant server center in Orlando, Florida. Net cash provided by financing was \$74,000 for the three months ended January 31, 2016, which consisted of an equipment lease for computer servers in Orlando, Florida and the exercise of stock options of \$10,000.

The Company actively monitors the costs associated with supporting the business, and continually seeks to identify and reduce any unnecessary costs as part of its cost reduction initiatives. Additionally, the aviation market has been impacted by budgetary constraints, airline bankruptcies and consolidations, current economic conditions, the continued war on terrorism, and fluctuations in fuel costs. The aviation market is extensively regulated by government agencies, particularly the FAA and the National Transportation Safety Board, and management anticipates that new regulations relating to air travel may continue

to be issued. Substantially all of the Company's revenues are derived from airlines, airports, and organizations that serve, or are served by, the aviation industry. Any new regulations or changes in the economic situation of the aviation industry could have an impact on the future operations of the Company, either positively or negatively.

Interest by potential customers in the information and decision support software products obtained from PASSUR Network Systems and its professional services remains strong. As a result, the Company anticipates an increase in future revenues. However, the Company cannot predict if such revenues will materialize. If revenues do not increase, losses may occur. The extent of such profits or losses will be dependent on sales volume achieved and Company cost reduction initiatives.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

General

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities based upon accounting policies management has implemented. These significant accounting policies are disclosed in Note 1 to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2015, and there have been no material changes to such policies since the filing of such Annual Report. These policies and estimates are critical to the Company's business operations and the understanding of its results of operations. The impact and any associated risks related to these policies on the Company's business operations are discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015, as such policies affect its reported financial results. The actual impact of these factors may differ under different assumptions or conditions.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers: Topic 606" ("ASU 2014-09"), to supersede nearly all-existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services, ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. We are currently evaluating the impact of our pending adoption of ASC 2014-09 on our consolidated financial statements.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740) Balance Sheet Classification of Deferred Assets. This ASU is intended to simplify the presentation of deferred taxes on the balance sheet and will require an entity to present all deferred tax assets and deferred tax liabilities as non-current on the balance sheet. Under the current guidance, entities are required to separately present deferred taxes as current or non-current. Netting deferred tax assets and deferred tax liabilities by tax jurisdiction will still be required under the new guidance. This guidance will be effective beginning in 2018, with early adoption permitted. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, which amends the ASC and creates Topic 842, Leases. Topic 842 will require lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under previous US GAAP on the balance sheet. This guidance is effective for annual periods beginning after December 15, 2018 and early adoption is permitted. The Company does not believe this new accounting standard update will have a material impact on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of the end of the period covered by this report, management carried out an evaluation, under the supervision, and with the participation of, the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules. The Company believes that a control system, no matter how well designed and operated, can provide only reasonable assurance, not absolute assurance, that the objectives of the control system are met. Based on their evaluation as of the end of the period covered by this report, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures were effective at a reasonable assurance level as of January 31, 2016.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) within the fiscal quarter to which this report relates, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. Other Information

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 *Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 *Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 *Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 *Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.ins* XBRL Instance

101.xsd* XBRL Schema

101.cal* XBRL Calculation

101.def* XBRL Definition

101.lab* XBRL Label

SIGNATURES

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

PASSUR AEROSPACE, INC.

Dated: March 10, 2016

By:

/s/ James T. Barry

James T. Barry
President and Chief Executive Officer
(Principal Executive Officer)

Dated: March 10, 2016

By:

/s/ David M. Henderson

David M. Henderson
Chief Financial Officer, Senior Vice President, Treasurer,
and Secretary (Principal Financial and Accounting
Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James T. Barry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PASSUR Aerospace, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly 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 quarterly report;
4. The registrant's other certifying officer(s) 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly 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(s) 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.

Date: March 10, 2016

By:

/s/ James T. Barry

James T. Barry
Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Henderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PASSUR Aerospace, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly 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 quarterly report;
4. The registrant's other certifying officer(s) 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly 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(s) 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.

Date: March 10, 2016

By:

/s/ David M. Henderson

David M. Henderson
Chief Financial Officer

Exhibit 32.1

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

In connection with the quarterly report of PASSUR Aerospace, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended July 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James T. Barry, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:

/s/ James T. Barry

James T. Barry
Chief Executive Officer

March 10, 2016

Exhibit 32.2

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

In connection with the quarterly report of PASSUR Aerospace, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended July 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Henderson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By:

/s/ David M. Henderson

David M. Henderson
Chief Financial Officer

March 10, 2016