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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 July 31, 2019**

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 every Interactive Data File required to be submitted 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 [ ]

Smaller reporting company [X]

Emerging growth company [ ]

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

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

Securities registered pursuant to Section 12(b) of the Act: None

There were 7,696,091 shares of the Registrant's common stock with a par value of \$0.01 per share outstanding as of September 1, 2019.

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## PASSUR Aerospace, Inc. and Subsidiary

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**PART I: Financial Information****Item 1. Financial Statements**

## PASSUR Aerospace, Inc. and Subsidiary

## Consolidated Balance Sheets

	<b>July 31, 2019</b>	<b>October 31, 2018</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash	\$ 3,786	\$ 100,856
Accounts receivable, net	1,292,723	1,186,664
Prepaid expenses and other current assets	306,908	199,173
<b>Total current assets</b>	<b>1,603,417</b>	<b>1,486,693</b>
PASSUR Network, net	4,191,555	4,800,750
Capitalized software development costs, net	8,375,011	8,141,589
Property and equipment, net	514,179	672,601
Other assets	84,747	112,551
<b>Total assets</b>	<b>\$ 14,768,909</b>	<b>\$ 15,214,184</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,189,618	\$ 989,958
Accrued expenses and other current liabilities	916,064	1,189,342
Deferred revenue, current portion	3,478,241	2,847,323
<b>Total current liabilities</b>	<b>5,583,923</b>	<b>5,026,623</b>
Deferred revenue, long term portion	386,390	409,971
Note payable - related party	7,700,000	6,050,000
Other liabilities	88,782	113,273
<b>Total liabilities</b>	<b>13,759,095</b>	<b>11,599,867</b>
<b>Commitments and contingencies</b>		
Stockholders' equity:		
Preferred shares - authorized 5,000,000 shares, par value \$0.01 per share; none issued or outstanding	-	-
Common shares - authorized 20,000,000 shares, respectively, par value \$0.01 per share; issued 8,480,526 at July 31, 2019 and October 31, 2018, respectively	84,804	84,804
Additional paid-in capital	17,814,486	17,345,450
Accumulated deficit	(14,955,798)	(11,882,259)
	2,943,492	5,547,995
Treasury stock, at cost, 784,435 shares at July 31, 2019 and October 31, 2018, respectively	(1,933,678)	(1,933,678)
<b>Total stockholders' equity</b>	<b>1,009,814</b>	<b>3,614,317</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 14,768,909</b>	<b>\$ 15,214,184</b>

See accompanying notes to consolidated financial statements.

PASSUR Aerospace, Inc. and Subsidiary

Consolidated Statements of Operations

(Unaudited)

	Three months ended July 31,	
	<u>2019</u>	<u>2018</u>
<b>Revenues</b>	\$ 3,798,149	\$ 3,715,767
<b>Operating expenses:</b>		
Cost of revenues	2,137,662	3,908,281
Research and development expenses	143,102	151,185
Selling, general, and administrative expenses	2,411,029	2,254,846
	<u>4,691,793</u>	<u>6,314,312</u>
<b>Loss from operations</b>	\$ (893,644)	\$ (2,598,545)
Interest expense - related party	180,191	78,300
Other loss	-	-
Loss before income taxes	<u>(1,073,835)</u>	<u>(2,676,845)</u>
Provision for income taxes	-	-
<b>Net loss</b>	<u>\$ (1,073,835)</u>	<u>\$ (2,676,845)</u>
Net loss per common share - basic	<u>\$ (0.14)</u>	<u>\$ (0.35)</u>
Net loss per common share - diluted	<u>\$ (0.14)</u>	<u>\$ (0.35)</u>
Weighted average number of common shares outstanding - basic	<u>7,696,091</u>	<u>7,696,091</u>
Weighted average number of common shares outstanding - diluted	<u>7,696,091</u>	<u>7,696,091</u>

See accompanying notes to unaudited consolidated financial statements.

## PASSUR Aerospace, Inc. and Subsidiary

## Consolidated Statements of Operations

(Unaudited)

	Nine months ended July 31,	
	<u>2019</u>	<u>2018</u>
<b>Revenues</b>	\$ 11,088,397	\$ 10,731,096
<b>Operating expenses:</b>		
Cost of revenues	6,206,428	8,173,702
Research and development expenses	426,376	455,014
Selling, general, and administrative expenses	7,079,287	6,751,959
	<u>13,712,091</u>	<u>15,380,675</u>
<b>Loss from operations</b>	\$ (2,623,694)	\$ (4,649,579)
Interest expense - related party	515,875	214,100
Other loss	-	4,506
Loss before income taxes	<u>(3,139,569)</u>	<u>(4,868,185)</u>
Provision for income taxes	-	-
<b>Net loss</b>	\$ <u>(3,139,569)</u>	\$ <u>(4,868,185)</u>
Net loss per common share - basic	<u>\$ (0.41)</u>	<u>\$ (0.63)</u>
Net loss per common share - diluted	<u>\$ (0.41)</u>	<u>\$ (0.63)</u>
Weighted average number of common shares outstanding - basic	<u>7,696,091</u>	<u>7,696,091</u>
Weighted average number of common shares outstanding - diluted	<u>7,696,091</u>	<u>7,696,091</u>

See accompanying notes to consolidated financial statements.

PASSUR Aerospace, Inc. and Subsidiary  
Consolidated Statements of Stockholders' Equity

(Unaudited)

	Nine Months ended July 31, 2019					
	Common Stock		Additional Paid-In Capital	Accum. Deficit	Treasury Stock	Total Stockholders Equity
	Shares	Amount				
<b>Balance at October 31, 2018</b>	8,480,526	\$ 84,804	\$ 17,345,450	\$ (11,882,259)	\$ (1,933,678)	\$ 3,614,317
Stock-based compensation expense			155,747	-	-	155,747
Net loss			-	(934,067)	-	(934,067)
Effect of new accounting standard			-	66,030	-	66,030
<b>Balance at January 31, 2019</b>	<b>8,480,526</b>	<b>84,804</b>	<b>17,501,197</b>	<b>(12,750,296)</b>	<b>(1,933,678)</b>	<b>2,902,027</b>
Stock-based compensation expense			163,144	-	-	163,144
Net loss			-	(1,131,667)	-	(1,131,667)
<b>Balance at April 30, 2019</b>	<b>8,480,526</b>	<b>84,804</b>	<b>17,664,341</b>	<b>(13,881,963)</b>	<b>(1,933,678)</b>	<b>1,933,504</b>
Stock-based compensation expense			150,145	-	-	150,145
Net loss			-	(1,073,835)	-	(1,073,835)
<b>Balance at July 31, 2019</b>	<b>8,480,526</b>	<b>84,804</b>	<b>17,814,486</b>	<b>(14,955,798)</b>	<b>(1,933,678)</b>	<b>1,009,814</b>
	Nine Months ended July 31, 2018					
	Common Stock		Additional Paid-In Capital	Accum. Deficit	Treasury Stock	Total Stockholders Equity
	Shares	Amount				
<b>Balance at October 31, 2017</b>	8,480,526	\$ 84,804	\$ 16,699,337	\$ (6,397,874)	\$ (1,933,678)	\$ 8,452,589
Stock-based compensation expense			171,112	-	-	171,112
Net loss			-	(1,167,019)	-	(1,167,019)
<b>Balance at January 31, 2018</b>	<b>8,480,526</b>	<b>84,804</b>	<b>16,870,449</b>	<b>(7,564,893)</b>	<b>(1,933,678)</b>	<b>7,456,682</b>
Stock-based compensation expense			170,528	-	-	170,528
Net loss			-	(1,024,320)	-	(1,024,320)
<b>Balance at April 30, 2018</b>	<b>8,480,526</b>	<b>84,804</b>	<b>17,040,977</b>	<b>(8,589,213)</b>	<b>(1,933,678)</b>	<b>6,602,890</b>
Stock-based compensation expense			166,260	-	-	166,260
Net loss			-	(2,676,845)	-	(2,676,845)
<b>Balance at July 31, 2018</b>	<b>8,480,526</b>	<b>84,804</b>	<b>17,207,237</b>	<b>(11,266,058)</b>	<b>(1,933,678)</b>	<b>4,092,305</b>

See accompanying notes to consolidated financial statements.

PASSUR Aerospace, Inc. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended	
	July 31,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net loss	\$ (3,139,569)	\$ (4,868,185)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,659,381	2,723,450
Provision for doubtful accounts	-	7,500
Provision for obsolete and slow moving PASSUR Network parts and supplies	-	229,500
Other Liabilities	(24,491)	116,394
Stock-based compensation	469,036	507,900
Loss from impairment charges	-	1,246,354
Changes in operating assets and liabilities:		
Accounts receivable	(106,059)	(625,208)
Prepaid expenses and other current assets	(138,254)	(42,699)
Other assets	27,804	18,741
Accounts payable	199,660	(45,930)
Accrued expenses and other current liabilities	(273,278)	(11,595)
Accrued interest - related party	-	78,300
Deferred revenue	673,366	822,899
Total adjustments	<u>3,487,165</u>	<u>5,025,606</u>
Net cash provided by operating activities	347,596	157,421
<b>Cash flows used in investing activities</b>		
PASSUR Network	(32,964)	(320,601)
Software development costs	(1,976,541)	(1,844,224)
Property and equipment	(85,161)	(160,328)
Net cash used in investing activities	<u>(2,094,666)</u>	<u>(2,325,153)</u>
<b>Cash flows from financing activities</b>		
Proceeds from notes payable - related party	1,650,000	1,925,000
Net cash provided by financing activities	<u>1,650,000</u>	<u>1,925,000</u>
Decrease in cash	(97,070)	(242,732)
Cash - beginning of period	100,856	275,146
Cash - end of period	<u>\$ 3,786</u>	<u>\$ 32,414</u>
<b>Supplemental cash flow information</b>		
Cash paid during the period for:		
Interest - related party	\$ 515,875	\$ 135,800
Income taxes	\$ (26,057)	\$ 5,545

See accompanying notes to consolidated financial statements.

PASSUR Aerospace, Inc. and Subsidiary

Notes to Consolidated Financial Statements

July 31, 2019

(Unaudited)

**1. Nature of Business**

PASSUR Aerospace, Inc. (“PASSUR” or the “Company”), a New York corporation founded in 1967, is a business intelligence company that provides the aviation industry with predictive analytics and decision support technology primarily to improve the operational performance and cash flow of airlines and the airports where they operate. PASSUR uses big data, within the aviation intelligence platform, and a suite of web-based solutions to address the aviation industry’s intractable and costly challenges, including, but not limited to, the underutilization of airspace and airport capacity, delays, cancellations, and diversions. The Company’s technology platform is supported by its Aviation Intelligence Center of Excellence, 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, and specific expertise in the operational and business needs, requirements, objectives, and constraints of the aviation industry.

PASSUR’s mission is to improve global air traffic efficiencies by connecting the world’s aviation professionals on a single aviation intelligence platform, making PASSUR an element in addressing the aviation industry’s system-wide inefficiencies. We make air travel more predictable, gate-to-gate, by using predictive analytics generated from our own big data, to mitigate constraints for airlines and their passengers.

PASSUR’s information solutions are used by the five largest North American airlines, major airlines in Europe, more than 60 airport customers, including 20 of the top 30 North American airports (with PASSUR solutions also used at the remaining 10 airports by one or more airline customers), over 100 business aviation organizations, and the U.S. government.

PASSUR provides data aggregation and consolidation, information, decision support, predictive analytics, collaborative solutions, and professional services. To enable this unique offering, PASSUR owns and operates the world’s largest commercial passive radar network, which updates flight tracks every 1 to 4.6 seconds. Our radar network powers 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.

Solutions offered by PASSUR help ensure flight completion (covering the entire flight life cycle from gate to gate), result in reductions in overall costs and carbon emissions, help to maximize revenue opportunities, improve operational efficiency and enhance the passenger experience. PASSUR’s commercial solutions enable aviation operators to optimize performance in today’s air traffic management system, while also achieving Next Generation Air Transportation System (“NextGen”) and Single European Sky ATM Research objectives.

PASSUR integrates data from multiple sources, including its independent network of surveillance sensors installed throughout North America (creating coast-to-coast coverage), Europe and Asia; government data; customer data; and data from third party partners. PASSUR’s sensors receive aircraft and drone signals in Mode A, C, S, and Automatic Dependent Surveillance-Broadcast (“ADS-B”), and provide position, altitude, beacon code, and tail number, among other information. PASSUR receives signals from aircraft that, when combined with its historical database of aircraft and airport behavior, including information recorded by its network over the last 15 years, allow 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 airports should perform.



## **2. Basis of Presentation and Significant Accounting Policies**

The consolidated financial information contained in this quarterly report on Form 10-Q represents interim 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, 2018, 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 July 31, 2019, and its consolidated results of operations for the three and nine months ended July 31, 2019, and 2018.

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 ended October 31, 2019.

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

### **Liquidity**

The Company's current liabilities, excluding deferred revenue, exceeded current assets by \$502,000 as of July 31, 2019. The note payable to a related party, G.S. Beckwith Gilbert, the Company's significant shareholder and Chairman, was \$7,700,000 at July 31, 2019, with a maturity of November 1, 2020. The Company's stockholders' equity was \$1,010,000 at July 31, 2019. The Company had a net loss of \$3,140,000 for the nine months ended July 31, 2019.

If the Company's business does not generate sufficient cash flows from operations to meet its operating cash requirements, the Company will attempt to obtain external financing on commercially reasonable terms. However, the Company has received a commitment from G.S. Beckwith Gilbert, dated September 11, 2019, that, if the Company, at any time, is unable to meet its obligations through September 11, 2020, G.S. Beckwith Gilbert will provide the Company with the necessary continuing financial support to meet such obligations. Such commitment for financial support may be in the form of additional advances or loans to the Company, and/or, if deemed necessary, the deferral of principal and/or interest payments due on the existing loans. The note payable is secured by the Company's assets.

### **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.

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's significant estimates include those related to revenue recognition, stock-based compensation, software development costs, the PASSUR Network and income taxes. Actual results could differ from those estimates.

### **Revenue Recognition Policy**

The Company recognizes revenue in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). The Company accounts for a customer contract when both parties have approved the contract and are committed to perform their respective obligations, each party's rights can be identified, payment terms can be identified, the contract has commercial substance, and it is probable the Company will collect substantially all of the consideration to which it is entitled.

The Company derives revenue primarily from subscription-based, real-time decision and solution information and professional services. Revenues are recognized when control of these services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for such services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of transaction price;
- Allocation of transaction price to performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company recognized revenue during the three and nine months ended July 31, 2019, of \$3,798,000 and \$11,088,000, respectively, under Topic 606, which was not materially different from what would have been recognized under Accounting Standards Codification ("ASC") Topic 605, *Revenue Recognition* ("Topic 605"). The Company recorded an addition to opening accumulated deficit and a reduction to deferred revenue of approximately \$66,000, respectively, as of November 1, 2018, due to the impact of adopting Topic 606.

#### **A. Nature of performance obligations**

##### *Subscription services revenue*

Subscription services revenue is comprised of cloud-based subscription fees that provide the customer the right to access the Company's software and receive support and updates, if any, for a period of time. The Company has determined such access represents a stand-ready service provided continually throughout the contract term. As such, control and satisfaction of this stand-ready performance obligation is deemed to occur over time. The Company's subscription contracts include a fixed amount of consideration that is recognized ratably over the non-cancellable contract term, beginning on the date that access is made available to the customer. The passage of time is deemed to be the most faithful depiction of the transfer of control of the services as the customer simultaneously receives and consumes the benefit provided by the Company's performance. Subscription contracts are generally one to three years in length, billed either monthly, quarterly or annually, typically in advance, which coincides with the terms of the agreement. The Company's subscription contracts do not have a significant financing component and customer invoices are typically due within 30 days. There is no significant variable consideration related to these arrangements. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether transfer of control to customers has occurred.

##### *Professional services revenue*

Professional services primarily consist of value assessments and customer training services. The obligation to provide professional services is generally satisfied over time, with the customer simultaneously receiving and consuming the benefits as the Company satisfies its performance obligations. For professional services, revenue is recognized by measuring progress toward the complete satisfaction of the Company's obligation. Progress for services that are contracted for a fixed price is generally measured based on hours incurred as a portion of total estimated hours, and as a practical expedient, progress for services that are contracted for time and materials is generally based on the amount the Company has the right to invoice. Professional services contracts are generally one year or less in length, billed either in advance, upon pre-defined milestones or as services are rendered. Payment for professional services is generally a fixed fee or a fee based on time and materials, which coincides with the terms of the agreement. The Company's professional service contracts do not have a significant financing component and customer invoices are typically due within 30 days.

##### *Material rights*

Contracts with customers may include material rights which are also performance obligations. Material rights primarily arise when the contract gives the customer the right to renew subscription services at a discounted price in the future. This may occur from time to time when the Company's contracts provide an implicit discount as the customer pays a nonrefundable up-front fee in connection with the initial services contract that it does not have to pay again in order to renew the service. These non-refundable up-front fees are not related to any promised service that the customer benefits from other than providing access to the subscription service. Revenue allocated to material rights is recognized when the customer exercises the right over the estimated renewal period of five years or when the right expires. If exercised by the customer, the amount previously deferred for the material right is included in the transaction price of the renewal contract and allocated to the services included in that contract. If expired, revenue is recognized as subscription services revenue in the period the right expired. If the up-front fees do not provide the customer with a material right, then the amount is included in the transaction price of the initial services contract and allocated to the performance obligations in that contract.

## Contracts with Multiple Performance Obligations

Some Company contracts with customers contain multiple distinct performance obligations. For these contracts, the transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The standalone selling price reflects the price the Company would charge for a specific service if it was sold separately in similar circumstances and to similar customers. The Company maximizes the use of directly observable transactions to determine the standalone selling prices for its performance obligations. For subscription services, the Company separately determines the standalone selling prices by type of solution and customer demographics. For professional services, the Company separately determines standalone selling price by type of services.

### Other policies and judgments

The commissions that the Company pays for obtaining a contract with a customer are conditional on future service provided by the employee. Therefore, since these costs are not incremental solely based on obtaining a contract, the Company does not defer any commission costs.

### B. Disaggregation

The disaggregation of revenue by customer and type of performance obligation is as follows:

	Three Months Ended July 31, 2019	Nine Months Ended July 31, 2019
<b>Revenue by type of customer:</b>		
Airlines	\$ 2,396,000	\$ 6,829,000
Airports	1,387,000	4,224,000
Other	15,000	35,000
<b>Total Revenue</b>	<b>\$ 3,798,000</b>	<b>\$ 11,088,000</b>
	Three Months Ended July 31, 2019	Nine Months Ended July 31, 2019
<b>Revenue by type of performance obligation:</b>		
Subscription services	\$ 3,693,000	\$ 10,918,000
Professional services	105,000	170,000
<b>Total Revenue</b>	<b>\$ 3,798,000</b>	<b>\$ 11,088,000</b>

### C. Contract Balances

The opening and closing balances of the Company's accounts receivable, unbilled receivables, and deferred revenues are as follows:

	Accounts Receivable	Unbilled Receivable	Deferred Revenue
<b>Balance at November 1, 2018</b>	\$ 1,175,000	\$ 12,000	\$ 3,191,000
<b>Balance at July 31, 2019</b>	\$ 1,251,000	\$ 42,000	\$ 3,865,000

The difference in the opening and closing balances of the Company's unbilled receivables and deferred revenues primarily results from the timing difference between the Company's performance and the customer's payment.

Deferred revenue includes amounts billed to customers for which the revenue recognition criteria has not yet been met. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from the Company's subscription services and, to a lesser extent, professional services. Deferred revenue is recognized as the Company satisfies its performance obligations. The Company generally invoices its customers in monthly, quarterly or annual installments for subscription services. Accordingly, the deferred revenue balance does not generally represent the total contract value of annual or multi-year, non-cancellable subscription arrangements. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent. The amount of revenue recognized during the three and nine months ended July 31, 2019 that was included in the deferred revenue balance at November 1, 2018 was \$159,000 and \$2,744,000, respectively.

Unbilled accounts receivable relate to the delivery of subscription and/or professional services for which the related billings will occur in a future period.

#### D. Transaction Price Allocated to the Remaining Performance Obligation

The following table discloses the aggregate amount of the transaction price allocated to the remaining performance obligations as of the end of the reporting period, and when the Company expects to recognize the revenue.

	<u>12 months or less</u>	<u>Greater than 12 months *</u>
Subscription services	\$ 6,159,000	\$ 1,654,000
Professional services	\$ 89,000	\$ -
Material rights	\$ 193,000	\$ 374,000

\*Approximately 95% of these amounts are expected to be recognized between 12 and 36 months from July 31, 2019.

The table above includes amounts billed and not yet recognized as revenue, as well as unrecognized future committed billings in customer contracts and excludes future billing amounts for which the customer has a termination for convenience right in their agreement.

#### Cost of Revenues

Costs associated with subscription and maintenance revenues consist primarily of direct labor, depreciation of PASSUR and Surface Multilateration (“SMLAT”) Network Systems (both collectively, the “PASSUR Network”), amortization of capitalized software development costs, communication costs, data feeds, 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 PASSUR 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.

#### Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax reform commonly referred to as the Tax Cuts and Jobs Act (“TCJA”). Under Accounting Standards Codification (“ASC”) 740, the effects of changes in tax rates and laws are recognized in the period which the new legislation is enacted. The TCJA made broad and complex changes to the U.S. tax code, including, but not limited to: (1) reduction of the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018; (2) changes to the rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (3) acceleration of expensing certain qualified property; (4) creation of a new limitation on deductible interest expense (i.e., 30% of tax adjusted EBITDA through 2021 and then 30% of tax adjusted EBIT thereafter); (5) elimination of the corporate alternative minimum tax; and (6) imposition of further limitations on the deductibility of executive compensation under IRC §162(m) for tax years beginning after December 31, 2017.

As the reduction in the U.S. federal corporate tax rate was administratively effective on January 1, 2018, our blended U.S. federal tax rate for the fiscal year ended October 31, 2018, was approximately 23.2%. The U.S. federal corporate tax rate for the fiscal year ended on and after October 31, 2019 is 21%. Given our full valuation allowance position, the Company did not record an income tax expense (benefit) in connection with the TCJA. The Company completed its accounting for the TCJA as of October 31, 2018.

The Company’s provision for income taxes consists of federal and state taxes, as applicable, in amounts necessary to align the Company’s year-to-date tax provision with the effective rate that it expects to achieve for the full year. For both the three and nine months ended July 31, 2019 and 2018, the Company did not record an income tax provision (benefit). The Company is projecting its annual effective tax rate for the nine months ended July 31, 2019 to be 0% as its net deferred tax assets are not realizable on a more-likely-than-not basis.

## 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 where 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 Company's accounts receivable balances included \$42,000 of unbilled receivables associated with contractually committed services provided to existing customers as of the nine months ended July 31, 2019, which will be invoiced subsequent to July 31, 2019. At October 31, 2018, the Company's accounts receivable balance included \$12,000 of unbilled receivables associated with contractually committed services provided to existing customers during the twelve months ended October 31, 2018.

The provision for doubtful accounts was \$159,000 as of July 31, 2019 and October 31, 2018, 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 the provision is adequate.

## PASSUR Network

The PASSUR Network is comprised of PASSUR and SMLAT Systems, which includes the direct production, shipping, and installation costs incurred for each PASSUR and SMLAT System, which are recorded at cost, net of accumulated depreciation. The Company capitalized \$61,000 of PASSUR Network costs for the nine months ended July 31, 2019. Additionally, the Company used \$8,000 and \$30,000 of PASSUR Network parts for repairs during the three and nine months ended July 31, 2019, respectively, and did not make any material purchases of parts during the period.

Depreciation expenses related to the Company-owned PASSUR Network were \$226,000 and \$642,000 for the three and nine months ended July 31, 2019, respectively. 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.

For the three and nine months ended July 31, 2018, the Company capitalized \$87,000 and \$212,000, respectively, of PASSUR Network costs. Additionally, the Company purchased parts for the PASSUR Network totaling \$48,000 and \$120,000 and used \$100 and \$11,000 of PASSUR Network parts for repairs during the three and nine months ended July 31, 2018, respectively.

Depreciation expenses related to the Company-owned PASSUR Network were \$213,000 and \$565,000 for the three and nine months ended July 31, 2018, respectively.

The net carrying balance of the PASSUR Network as of July 31, 2019, and October 31, 2018, was \$4,192,000 and \$4,801,000, respectively. Included in the net carrying balance as of July 31, 2019 and October 31, 2018, were parts and finished goods for the PASSUR Network totaling \$1,849,000 and \$1,892,000, respectively, which have not yet been installed. PASSUR Network assets which are not installed are carried at cost and not depreciated until installed.

During the third quarter of fiscal year 2018, in accordance with the Company's policy on long-lived assets, the Company determined it had an excess of non-critical PASSUR Network parts and supplies, which resulted in an increase of \$230,000 in the reserve to approximately \$270,000. Additionally, during the third quarter of fiscal year 2018, the Company determined that certain PASSUR Network assets were no longer likely to generate future revenue as a result of a change in a customer's requirements at a specific location, which resulted in an impairment charge and write-off of approximately \$510,000. This cost was recorded within "Cost of Revenues".

## Capitalized Software Development Costs

The Company follows the provisions of ASC 350-40, "Internal Use Software" ("ASC 350-40"). 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 \$634,000 and \$1,977,000 of software development costs during the three and nine months ended July 31, 2019, respectively. For the three and nine months ended July 31, 2018, the Company capitalized \$542,000 and \$1,844,000, respectively, of software development costs.

The Company amortized \$631,000 and \$1,743,000 of capitalized software development costs during the three and nine months ended July 31, 2019, respectively. For the three and nine months ended July 31, 2018, the Company amortized \$666,000 and \$1,766,000 of capitalized software development costs. The Company records amortization of the software on a straight-line basis over the estimated useful life of the software, typically over five years within "Cost of Revenues".

During the third quarter of fiscal year 2018, the Company reviewed the value of its capitalized software products and determined that one capitalized software product would no longer be marketed or made available for subscription sales as currently developed, which resulted in an impairment charge and write-off of the carrying amount of approximately \$736,000. These costs were recorded within "Cost of Revenues".

### **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.

During the third quarter of fiscal year 2018, the Company recorded approximately \$230,000, \$510,000 and \$736,000, a total of \$1,476,000, of costs associated with an increase in the provision for obsolete and slow moving PASSUR Network parts and supplies, an impairment charge and write-off of carrying amounts related to certain PASSUR Network systems, and capitalized software development costs, respectively. Please refer to footnotes above for further details.

### **Deferred Tax Asset**

Each reporting period, the Company assesses the realizability of its deferred tax assets to determine if it is more-likely-than-not that some portion, or all, of the deferred tax asset will be realized. The Company considers all available positive and negative evidence including the reversal of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operating results. The ultimate realization of a deferred tax asset is ultimately dependent on sufficient taxable income within the available carryback and/or carryforward periods to utilize the deductible temporary differences. Based on the weight of available evidence including recent financial operating results, the Company determined that its net deferred tax assets are not realizable on a more-likely-than-not basis and that a full valuation allowance is required against its net deferred tax assets.

At October 31, 2018, the Company had available federal net operating loss carryforwards of \$12,780,000, of which \$4,715,000 are indefinite lived and \$8,065,000 will expire in various tax years from fiscal year 2022 through fiscal year 2038.

### **Fair Value of Financial Instruments**

The recorded amounts of the Company's cash, receivables, and accounts payables 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 assets, their carrying values are reduced to estimated fair value.

## Net Loss per Share Information

Basic net loss 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.

On February 26, 2019, the Board of Directors of the Company (the "Board"), subject to shareholder approval, unanimously adopted the Company's 2019 Stock Incentive Plan (the "Plan"), to replace the Company's 2009 Stock Incentive Plan, as amended (the "2009 Plan"), which expired February 24, 2019. The Company's shareholders approved the Plan on April 9, 2019, and the Plan became effective upon the date of its adoption by the Board. The Plan allows for a cashless exercise of stock options awarded under the Plan. Shares used to calculate net loss per share are as follows:

	For the three months ended July 31,		For the nine months ended July 31,	
	2019	2018	2019	2018
Basic Weighted average shares outstanding	7,696,091	7,696,091	7,696,091	7,696,091
Effect of dilutive stock options	-	-	-	-
Diluted weighted average shares outstanding	7,696,091	7,696,091	7,696,091	7,696,091
Weighted average shares which are not included in the calculation of diluted net income per share because their impact is anti-dilutive. These shares consist of stock options.	1,704,500	1,632,000	1,704,500	1,632,000

## 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 the 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 \$150,000 and \$469,000 for the three and nine months ended July 31, 2019, respectively. Stock-based compensation expense was \$166,000 and \$508,000 for the three and nine months ended July 31, 2018, respectively. Stock-based compensation is primarily included in selling, general, and administrative expenses.

## Recent Accounting Pronouncements Adopted

In May 2014, the FASB issued Topic 606. Topic 606 supersedes the revenue recognition requirements in Topic 605, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, which requires the deferral of incremental costs of obtaining a contract with a customer.

On November 1, 2018, the Company adopted Topic 606 using the modified retrospective transition method which resulted in an adjustment to retained earnings for the cumulative effect of applying the standard to all contracts not completed as of the adoption date. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Revenue recognition remained substantially unchanged following adoption of Topic 606 and therefore the adoption of Topic 606 did not have a material impact on revenues. The primary impact of adopting Topic 606 relates to the accounting for nonrefundable up-front fees. The Company recognized revenue during the three and nine months ended July 31, 2019, of \$3,798,000 and \$11,088,000, respectively, under Topic 606, which was not materially different from what would have been recognized under Topic 605. The Company recorded an addition to opening accumulated deficit and a reduction to deferred revenue of approximately \$66,000, respectively, as of November 1, 2018, due to the impact of adopting Topic 606.

In May 2017, the FASB issued ASU 2017-09, “Compensation—Stock Compensation: Topic 718” — Scope of Modification Accounting (“ASU 2017-09”), to clarify when to account for a change in the terms or conditions of a share-based payment award as a modification. Under the new standard, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. The Company adopted this guidance during the quarter ended January 31, 2019, using the prospective method, with no material impact to its consolidated financial statements and related disclosures.

### **Recent Accounting Pronouncements Not Yet Adopted**

In February 2016, the FASB issued ASU 2016-02, which amends the ASC and creates Topic 842, Leases (“Topic 842”). Topic 842 will require lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under previous GAAP on the balance sheet with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. This guidance is effective for annual periods beginning after December 15, 2018. The Company will adopt the new lease accounting standard for annual periods beginning November 1, 2019, and has elected to apply the provisions of the standard on the date of adoption. Accordingly, the Company will not restate prior year comparative periods to report the impact of the new lease accounting standard for those periods. The Company anticipates that the adoption of the new lease accounting standard will result in the recognition of right-of-use assets and lease liabilities on its balance sheet at November 1, 2019, consisting primarily of the Company’s operating lease covering its corporate office and other facilities that expires through various dates through June 2023. The Company does not anticipate that the new lease accounting standard will materially impact its statement of operations or statement of cash flows in periods subsequent to adoption. The aforementioned impact related to the adoption of the new lease accounting standard are based on the Company’s assessment to date which is still ongoing.

### **3. Notes Payable – Related Party**

On January 28, 2019, the Company entered into a Fifth Debt Extension Agreement with G.S. Beckwith Gilbert, the Company’s Chairman and significant stockholder, effective January 28, 2019, pursuant to which the Company and Mr. Gilbert agreed to modify certain terms and conditions of the debt agreement with Mr. Gilbert (the “Past Gilbert Note”). The maturity date of the Past Gilbert Note was November 1, 2019, and the total amount of principal and interest due and owing as of January 28, 2019 under the Past Gilbert Note was \$7,122,000. Pursuant to the Fifth Debt Extension Agreement, the Company issued to Mr. Gilbert a new debt agreement, which has a principal amount of \$6,960,000 (the “Gilbert Note”), in exchange for the Past Gilbert Note, and agreed to pay Mr. Gilbert \$162,000 of interest which accrued under the Past Gilbert Note during the first quarter of fiscal year 2019, at the time and on the terms set forth in the Past Gilbert Note. The Gilbert Note bears a maturity date of November 1, 2020, with an annual interest rate of 9 3/4%. Interest payments are due by October 31<sup>st</sup> of each fiscal year. The Gilbert Note is secured by the Company’s assets. During the nine months ended July 31, 2019, and prior to January 28, 2019, Mr. Gilbert loaned the Company an additional \$1,650,000 (which amount is included in the outstanding principal amount of \$7,700,000 under the Gilbert Note). Additionally, subsequent to July 31, 2019, Mr. Gilbert loaned the Company an additional \$325,000. As of September 11, 2019, the principal amount of the loan outstanding to Mr. Gilbert was \$8,025,000. During the nine months ended July 31, 2019, the Company paid \$516,000 of interest incurred on the Gilbert Note through July 31, 2019.

The Company has evaluated its financial position as of July 31, 2019, including an operating loss of \$2,624,000 for the nine months ended July 31, 2019, and working capital deficit of \$3,981,000 as of July 31, 2019, and has requested and received a commitment from Mr. Gilbert, dated September 11, 2019, that, if the Company, at any time, is unable to meet its obligations through September 11, 2020, Mr. Gilbert will provide the Company with the necessary continuing financial support to meet such obligations. Such commitment for financial support may be in the form of additional advances or loans to the Company, and/or, if deemed necessary, the deferral of principal and/or interest payments due on the existing loans.

## **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 its 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 enable this unique offering, PASSUR® owns and operates the world's largest commercial passive radar network, which updates flight tracks every 1 to 4.6 seconds. Our radar network powers 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.

PASSUR's information solutions are used by the five largest North American airlines, major airlines in Europe, more than 60 airport customers, including 20 of the top 30 North American airports (with PASSUR solutions also used at the remaining 10 airports by one or more airline customers), over 100 business aviation organizations, as well as the U.S. government.

Our core business addresses some of aviation industry's most intractable and costly challenges, including, but not limited to, the underutilization of airspace and airport capacity, delays, cancellations, and diversions, among others. Several independent studies have estimated the annual direct costs of such inefficiencies to airlines in the United States at over \$8 billion annually, and worldwide direct cost at over \$30 billion annually.

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 carbon emissions, help to maximize revenue opportunities, improve operational efficiency, and enhance 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 based 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 the Company's 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.

For the three months ended July 31, 2019, total revenue increased 2% to \$3,798,000, compared with \$3,716,000 for the same period in fiscal year 2018. Loss from operations for the three months ended July 31, 2019 was \$894,000, compared to \$2,599,000 for the same period in fiscal year 2018. For the three months ended July 31, 2019, net loss was \$1,074,000, or \$0.14 per diluted share, compared to a net loss of \$2,677,000, or \$0.35 per diluted share, in the same period in fiscal year 2018.

For the nine months ended July 31, 2019, total revenue increased 3% to \$11,088,000, compared with \$10,731,000 for the same period in fiscal year 2018. Loss from operations for the nine months ended July 31, 2019 was \$2,624,000, compared to \$4,650,000 for the same period in fiscal year 2018. For the nine months ended July 31, 2019, net loss was \$3,140,000, or \$0.41 per diluted share, compared to a net loss of \$4,868,000, or \$0.63 per diluted share, in the same period in fiscal year 2018.

## **Results of Operations**

### **Revenues**

Management concentrates its efforts on the sale of business intelligence, predictive analytics, and decision support product applications, utilizing data enhanced by the PASSUR Network. Such efforts include the continued development of existing products, new product offerings and to a lesser extent, professional services.

For the three months ended July 31, 2019, total revenues increased by \$82,000, or 2%, to \$3,798,000, as compared with \$3,716,000 for the same period in 2018. The increase in total revenues was primarily due to an increase in subscription revenue of \$84,000, as compared with the same period in the prior year. The increase in subscription revenue was offset by a decrease in consulting and other revenue of \$2,000, as compared with the same period in the prior year.

For the nine months ended July 31, 2019, total revenues increased by \$357,000, or 3%, to \$11,088,000, as compared with \$10,731,000 for the same period in 2018. The increase in total revenues was primarily due to an increase in subscription revenue of \$366,000, or 4%, as compared with the same period in the prior year. This increase in subscription revenue was offset by a decrease in consulting and other revenue of \$9,000, as compared with the same period in the prior year.

The change in subscription revenue for both the three and nine months ended July 31, 2019 was primarily due to (i) new contracts for subscription services closed during fiscal year 2019, and (ii) net incremental revenue recognized during the periods in fiscal year 2019 related to new contracts closed during fiscal year 2018, partially offset by expired contracts during the three and nine months ended July 31, 2019, respectively.

The Company continues to enhance its wide selection of products and develop and deploy new software applications and solutions to better address customers' needs, all of which are easily delivered through web-based applications or as stand-alone professional services.

### **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, 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 PASSUR Network, which includes the production, shipment, and installation of these assets (currently largely installed by unaffiliated outside contractors), which are capitalized to the PASSUR Network; and (2) capitalized costs associated with software development and data center projects, (all referred to as "Capitalized Assets"). The labor and fringe benefit costs of Company employees involved in creating Capitalized Assets are capitalized, rather than expensed, and amortized, usually over five or seven years, as determined by their projected useful life. The Company does not break down its costs by product.

For the three months ended July 31, 2019, cost of revenues decreased \$1,771,000, or 45%, to \$2,138,000, as compared with \$3,908,000 for the same period in fiscal year 2018. The decrease in cost of revenues for the three months ended July 31, 2019, as compared to the prior year, was primarily attributable to an asset write-off and impairment charges during the third quarter of 2018 totaling approximately \$1,476,000, which was comprised of (i) an increase in the PASSUR Network parts and supplies reserve of approximately \$230,000; (ii) an impairment charge and write-off of certain PASSUR Network assets of approximately \$510,000, which assets were determined to no longer be likely to generate future revenue as a result of a change in a customer's requirements at a specific location; and (iii) an impairment charge and write-off of a capitalized software product of approximately \$736,000, which the Company determined it would no longer market for subscription sales as currently developed. Excluding the prior year charges detailed above, cost of revenues decreased \$295,000 compared with the same period in 2018, which was primarily attributable to a net decrease in personnel related costs of \$263,000, due to the outsourcing of some of our software development activities.

For the nine months ended July 31, 2019, cost of revenues decreased \$1,967,000, or 24%, to \$6,206,000, as compared with \$8,174,000 for the same period in fiscal year 2018. The decrease in cost of revenues for the nine months ended July 31, 2019, as compared to the prior year, was primarily attributable to an asset write-off and impairment charges taken in the third quarter of 2018 of \$1,476,000, as described above, and a net decrease in personnel related cost of \$514,000, due to the outsourcing of some of our software development activities.

Finally, as we continue to release product enhancements/new versions to our existing product offerings, and new product offerings, our amortization expenses associated with the historical software capitalization is anticipated to increase. As a result, we anticipate that our software capitalization and amortization expense, when netted, will not have a significant impact on our financial results.

## **Research and Development**

For the three months ended July 31, 2019, research and development expenses decreased \$8,000, or 5%, to \$143,000, as compared to \$151,000 for the same period in fiscal year 2018. The decrease in research and development expenses was primarily attributable to an increase in personnel related costs allocated to cost of revenues from research and development, as compared to prior year.

For the nine months ended July 31, 2019, research and development expenses decreased \$29,000, or 6%, to \$426,000, as compared to \$455,000 for the same period in fiscal year 2018. The decrease in research and development expenses was primarily attributable to an increase in personnel related costs allocated to cost of revenues from research and development, as compared to prior year.

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

## **Selling, General, and Administrative**

For the three months ended July 31, 2019, selling, general, and administrative expenses increased \$156,000, or 7%, to \$2,411,000, as compared to \$2,255,000 for the same period in fiscal year 2018. The increase in selling, general, and administrative expense for the three months ended July 31, 2019 was primarily due to an increase in professional and consulting expenses of \$92,000, and marketing expenses of \$84,000, as compared to the same period in fiscal year 2018. These increases were offset by a net decrease in various other accounts within selling, general and administrative expenses, as compared to the same period in fiscal year 2018.

For the nine months ended July 31, 2019, selling, general and administrative expenses increased \$327,000, or 5%, to \$7,079,000, as compared to \$6,752,000 for the same period in fiscal year 2018. The increase in selling, general, and administrative expense for the nine months ended July 31, 2019, was primarily due to an increase in professional and consulting expenses of \$317,000 and marketing expenses of \$74,000. This increase was partially offset by a decrease in depreciation expense and a net decrease in various other accounts within selling, general and administrative expenses, as compared to the same period in fiscal year 2018.

## **Loss from Operations**

For the three months ended July 31, 2019, loss from operations decreased \$1,705,000 to \$894,000, as compared with \$2,599,000 for the same period in fiscal year 2018. The improvement was primarily due to a decrease in operating expenses of \$1,623,000, or 26%, as well as an increase in revenue of \$82,000, or 2%, as compared to the same period in fiscal year 2018. For the nine months ended July 31, 2019, loss from operations decreased \$2,026,000 to \$2,624,000, as compared with \$4,650,000 for the same period in fiscal year 2018. The improvement was primarily due to a decrease in operating expenses of \$1,669,000, or 11%, as well as an increase in revenue of \$357,000, or 3%, as compared to the same period in fiscal year 2018. Included in the operating expenses for the three and nine months ended July 31, 2018, was \$1,476,000 of costs attributable to the asset write-off and impairment charges taken in the third quarter of 2018, as described above.

## Interest Expense – Related Party

Interest expense – related party increased \$102,000, or 130%, and \$302,000, or 141%, for the three and nine months ended July 31, 2019, respectively, as compared to the same periods in fiscal year 2018, due to the higher principal balance outstanding on the note in fiscal year 2019 and the interest rate increase on the outstanding note, as compared to the same period in fiscal year 2018.

## Net Loss

The Company had a net loss of \$1,074,000, or \$0.14 loss per diluted share, for the three months ended July 31, 2019, as compared to a net loss of \$2,677,000, or \$0.35 loss per diluted share, for the same period in 2018. The Company had a net loss of \$3,140,000, or \$0.41 loss per diluted share, for the nine months ended July 31, 2019, as compared to a net loss of \$4,868,000, or \$0.63 loss per diluted share, for the same period in 2018.

## Liquidity and Capital Resources

The Company's current liabilities exceeded its current assets, excluding deferred revenue, by \$502,000 as of July 31, 2019. The Company's stockholders' equity was \$1,010,000 as of July 31, 2019.

On January 28, 2019, the Company entered into a Fifth Debt Extension Agreement with G.S. Beckwith Gilbert, the Company's Chairman and significant stockholder, effective January 28, 2019, pursuant to which the Company and Mr. Gilbert agreed to modify certain terms and conditions of the debt agreement with Mr. Gilbert (the "Past Gilbert Note"). The maturity date of the Past Gilbert Note was November 1, 2019. The outstanding principal amount under the Past Gilbert Note was \$6,050,000 as of October 31, 2018, and the total amount of principal and interest due and owing as of January 28, 2019 under the Past Gilbert Note was \$7,122,000. Pursuant to the Fifth Debt Extension Agreement, the Company issued to Mr. Gilbert a new debt agreement, which has a principal amount of \$6,960,000 (the "Gilbert Note"), in exchange for the Past Gilbert Note, and agreed to pay Mr. Gilbert \$162,000 of interest which accrued under the Past Gilbert Note during the first quarter of fiscal year 2019, at the time and on the terms set forth in the Past Gilbert Note. The Gilbert Note bears a maturity date of November 1, 2020, with an annual interest rate of 9 3/4%. Interest payments are due on October 31st of each fiscal year. The Gilbert Note is secured by the Company's assets.

During the nine months ended July 31, 2019, the Company paid interest incurred on the Gilbert Note totaling \$516,000. During the nine months ended July 31, 2019, and prior to January 28, 2019, Mr. Gilbert loaned the Company an additional \$1,650,000 (which amount is included in the outstanding principal amount of \$7,700,000 under the Gilbert Note). Additionally, subsequent to July 31, 2019, Mr. Gilbert loaned the Company an additional \$325,000. As of September 11, 2019, the principal amount of the loan outstanding to Mr. Gilbert was \$8,025,000.

Management is addressing the Company's working capital deficiency by aggressively marketing the Company's PASSUR Network 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. Management believes that the continued development of its existing suite of software products and professional services, which address the wide array of needs of the aviation industry, will continue to lead to increased growth in the Company's customer-base and subscription-based revenues. However, there are no assurances that such growth will be achieved.

If the Company's business does not generate sufficient cash flows from operations to meet its operating cash requirements, the Company will attempt to obtain external financing on commercially reasonable terms. However, the Company has received a commitment from Mr. Gilbert, dated September 11, 2019, that, if the Company, at any time, is unable to meet its obligations through September 11, 2020, Mr. Gilbert will provide the Company with the necessary continuing financial support to meet such obligations. Such commitment for financial support may be in the form of additional advances or loans to the Company, and/or, if deemed necessary, the deferral of principal and/or interest payments due on the existing loans.

Net cash provided by operating activities was \$348,000 for the nine months ended July 31, 2019, and consisted of a net loss of \$3,140,000, depreciation and amortization of \$2,659,000, stock-based compensation expense of \$469,000, and deferred revenue of \$673,000, with the balance consisting of a decrease in accounts receivables and other assets and a net decrease in accounts payable, accrued expense, and operating liabilities, as compared to the same period in fiscal year 2018. Net cash provided by operating activities increased by \$190,000 for the nine months ended July 31, 2019, as compared to \$157,000 for the same period in 2018. Net cash used in investing activities was \$2,095,000 for the nine months ended July 31, 2019, which was expended for software development costs and additions to the PASSUR Network. Net cash provided by financing activities was \$1,650,000 for the nine months ended July 31, 2019, and consisted of proceeds from note payable – related party.

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, while strategically reinvesting back into the business as part of its long-term plans. 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 Company's information and decision support software products obtained from the PASSUR Network Systems and other sources and its professional services remains strong. As a result, the Company believes that future revenues will increase on an annualized basis. However, there are no guarantees that such annualized future revenue increases will occur. If revenues do not increase and the Company's cost-structure is not adjusted accordingly, losses may occur. The extent of such profits or losses will be dependent on sales volume achieved and the Company's ability to optimize its cost structures.

## **Off-Balance Sheet Arrangements**

None.

## **Critical Accounting Policies and Estimates**

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, 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, 2018. The Company had a change to its Revenue Recognition policy, as described below. 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, 2018, as such policies affect its reported financial results. The actual impact of these factors may differ under different assumptions or conditions.

## **Revenue Recognition**

The Company recognizes revenue in accordance with Topic 606. The Company accounts for a customer contract when both parties have approved the contract, both parties are committed to perform their respective obligations, each party's rights can be identified, payment terms can be identified, the contract has commercial substance, and it is probable the Company will collect substantially all of the consideration to which it is entitled.

The Company derives revenue primarily from subscription-based, real-time decision and solution information and professional services. Revenues are recognized when control of these services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for such services.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer;
- Identification of the performance obligations in the contract;
- Determination of transaction price;
- Allocation of transaction price to performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company recognized revenue during the three and nine months ended July 31, 2019, of \$3,798,000 and \$11,088,000, respectively, under Topic 606, which was not materially different from what would have been recognized under Topic 605. The Company recorded an addition to opening accumulated deficit and a reduction to deferred revenue of approximately \$66,000, respectively, as of November 1, 2018, due to the impact of adopting Topic 606.

### Subscription services revenue

Subscription services revenue is comprised of cloud-based subscription fees that provide the customer the right to access the Company's software and receive support and updates, if any, for a period of time. The Company has determined such access represents a stand-ready service provided continually throughout the contract term. As such, control and satisfaction of this stand-ready performance obligation is deemed to occur over time. The Company's subscription contracts include a fixed amount of consideration that is recognized ratably over the non-cancellable contract term, beginning on the date that access is made available to the customer. The passage of time is deemed to be the most faithful depiction of the transfer of control of the services as the customer simultaneously receives and consumes the benefit provided by the Company's performance. Subscription contracts are generally one to three years in length, billed either, monthly, quarterly or annually, typically in advance, which coincides with the terms of the agreement. The Company's subscription contracts do not have a significant financing component and customer invoices are typically due within 30 days. There is no significant variable consideration related to these arrangements. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether transfer of control to customers has occurred.

### Professional services revenue

Professional services primarily consist of value assessments and customer training services. Payment for professional services is generally a fixed fee or a fee based on time and materials. The obligation to provide professional services is generally satisfied over time, with the customer simultaneously receiving and consuming the benefits as the Company satisfies its performance obligations. For professional services, revenue is recognized by measuring progress toward the complete satisfaction of the Company's obligation. Progress for services that are contracted for a fixed price is generally measured based on hours incurred as a portion of total estimated hours, and as a practical expedient, progress for services that are contracted for time and materials is generally based on the amount the Company has the right to invoice. Professional services contracts are generally one year or less in length, billed either in advance, upon pre-defined milestones or as services are rendered, which coincides with the terms of agreement. The Company's professional service contracts do not have a significant financing component and customer invoices are typically due within 30 days.

### Material rights

Contracts with customers may include material rights which are also performance obligations. Material rights primarily arise when the contract gives the customer the right to renew subscription services at a discounted price in the future. This may occur from time to time when the Company's contracts provide an implicit discount as the customer pays a nonrefundable up-front fee in connection with the initial services contract that it does not have to pay again in order to renew the service. These non-refundable up-front fees are not related to any promised service that the customer benefits other than providing access to the subscription service. Revenue allocated to material rights is recognized when the customer exercises the right over the estimated renewal period of five years or when the right expires. If exercised by the customer, the amount previously deferred for the material right is included in the transaction price of the renewal contract and allocated to the services included in that contract. If expired, revenue is recognized as subscription services revenue in the period the right expired. If the up-front fees do not provide the customer with a material right, then the amount is included in the transaction price of the initial services contract and allocated to the performance obligations in that contract.

### Contracts with Multiple Performance Obligations

Some Company contracts with customers contain multiple distinct performance obligations. For these contracts, the transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The standalone selling price reflects the price the Company would charge for a specific service if it was sold separately in similar circumstances and to similar customers. The Company maximizes the use of directly observable transactions to determine the standalone selling prices for its performance obligations. For subscription services, the Company separately determines the standalone selling prices by type of solution and customer demographics. For professional services, the Company separately determines standalone selling price by type of service.

### Other policies and judgments

The commissions that the Company pays for obtaining a contract with a customer are conditional on future service provided by the employee. Therefore, since these costs are not incremental solely based on obtaining a contract, the Company does not defer any commission costs.

### **Recent Accounting Pronouncements**

In May 2014, the FASB issued Topic 606. Topic 606 supersedes the revenue recognition requirements in Topic 605, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, which requires the deferral of incremental costs of obtaining a contract with a customer.

On November 1, 2018, the Company adopted Topic 606 using the modified retrospective transition method which resulted in an adjustment to retained earnings for the cumulative effect of applying the standard to all contracts not completed as of the adoption date. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Revenue recognition remained substantially unchanged following adoption of Topic 606 and therefore the adoption of Topic 606 did not have a material impact on revenues. The primary impact of adopting Topic 606 relates to the accounting for nonrefundable up-front fees. The Company recognized revenue during the three and nine months ended July 31, 2019, of \$3,798,000 and \$11,088,000, respectively, under Topic 606, which was not materially different from what would have been recognized under Topic 605. The Company recorded an addition to opening accumulated deficit and a reduction to deferred revenue of approximately \$66,000, respectively, as of November 1, 2018, due to the impact of adopting Topic 606.

In May 2017, the FASB issued ASU 2017-09, “Compensation—Stock Compensation: Topic 718” — Scope of Modification Accounting (“ASU 2017-09”), to clarify when to account for a change in the terms or conditions of a share-based payment award as a modification. Under the new standard, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. The Company adopted this guidance during the quarter ended January 31, 2019, using the prospective method, with no material impact to its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, which amends the ASC and creates Topic 842, Leases (“Topic 842”). Topic 842 will require lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under previous GAAP on the balance sheet with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. This guidance is effective for annual periods beginning after December 15, 2018. The Company will adopt the new lease accounting standard for annual periods beginning November 1, 2019, and has elected to apply the provisions of the standard on the date of adoption. Accordingly, the Company will not restate prior year comparative periods to report the impact of the new lease accounting standard for those periods. The Company anticipates that the adoption of the new lease accounting standard will result in the recognition of right-of-use assets and lease liabilities on its balance sheet at November 1, 2019, consisting primarily of the Company’s operating lease covering its corporate office and other facilities that expires through various dates through June 2023. The Company does not anticipate that the new lease accounting standard will materially impact its statement of operations or statement of cash flows in periods subsequent to adoption. The aforementioned impact related to the adoption of the new lease accounting standard are based on the Company’s assessment to date which is still ongoing.

### **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 quarterly report on Form 10-Q, 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 SEC’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 quarterly report on Form 10-Q, 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 July 31, 2019.

## 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 1. Legal Proceedings.

The Company is not aware of any material pending legal proceedings to which the Company is a party or to which any of its properties are subject.

### Item 5. Other Information.

On September 11, 2019, G.S. Beckwith Gilbert, the Company's Chairman and significant stockholder, provided the Company with a commitment that if the Company, at any time, is unable to meet its obligations through September 11, 2020, Mr. Gilbert will provide the Company with the necessary continuing financial support to meet such obligations. A copy of the commitment is attached as Exhibit 10.5 to this Form 10-Q and incorporated by reference into this Item 5.

On September 6, 2019, the Board approved and adopted certain amendments to the Company's by-laws, effective immediately. The amended by-laws, among other things: (i) permit the Company's offices (including the headquarters) and the Company's Board and shareholder meetings to be in any locations approved by the Board; (ii) permit special meetings of the shareholders to be called by the Chairman, any Vice Chairman of the Board or the written demand of 10% of the outstanding shares entitled to vote at the meeting; (iii) permit special Board meetings to be called by the Chairman, any Vice Chairman, the President or written request of two directors; (iv) provide that the Chairman will preside at all Board and shareholder meetings and will be an ex officio member of all Board committees (unless otherwise provided in a resolution for a particular committee); (v) require that the Board, if it wishes to appoint a Chief Executive Officer, appoint the Chairman, any Vice Chairman or the President to the Chief Executive Officer position; (vi) require that the Board can amend the by-laws only by a 75% vote of the Board; and (vii) require that securities offers, sales or issuances by the Company be approved either by (a) a majority of the then-outstanding shares or (b) 75% of the Board.

The foregoing description of the amended by-laws is only a summary and is qualified in its entirety by reference to the complete text of the amendments to the by-laws, which are filed as Exhibit 3.2.1 to this Quarterly Report on Form 10-Q and incorporate herein by reference.



## Item 6. Exhibits.

3.1	<a href="#">The Company's composite Certificate of Incorporation, dated as of January 24, 1990, is incorporated by reference from our Annual Report on Form 10-K for the fiscal year ended October 31, 1989.</a>
3.1.1	<a href="#">The Company's Amendment No. 1, dated as of April 5, 2017, to the Certificate of Incorporation, dated as of January 24, 1990, is incorporated by reference from our Annual Report on Form 10-K for the fiscal year ended October 31, 2017.</a>
3.2	<a href="#">The Company's By-laws, dated as of May 16, 1988, are incorporated by reference from Exhibit 3-14 to our Annual Report on Form 10-K for the fiscal year ended October 31, 1998.</a>
3.2.1 *	<a href="#">Amendment to the Company's By-Laws, dated as of September 6, 2019.</a>
10.1	<a href="#">PASSUR Aerospace, Inc., 2019 Stock Incentive Plan, is incorporated by reference from Exhibit 10.1 to our Current Report on Form 8-K filed on April 15, 2019.</a>
10.2	<a href="#">Form of Award Agreement for PASSUR Aerospace, Inc., 2019 Stock Incentive Plan, is incorporated by reference from Exhibit 10.2 to our Current Report on Form 8-K filed on April 15, 2019.</a>
10.3	<a href="#">Debt Extension Agreement, dated as of January 28, 2019, by and between PASSUR Aerospace, Inc., and G.S. Beckwith Gilbert, is incorporated by reference from Exhibit 10.22 to our Annual Report on Form 10-K for the fiscal year ended October 31, 2018.</a>
10.4	<a href="#">Secure Promissory Note, dated as of January 28, 2019, from PASSUR Aerospace, Inc., as Borrower, to G.S. Beckwith Gilbert, as Lender, is incorporated by reference from Exhibit 10.23 to our Annual Report on Form 10-K for the fiscal year ended October 31, 2018.</a>
10.5 *	<a href="#">Commitment of G.S. Beckwith Gilbert, dated September 11, 2019.</a>
31.1 *	<a href="#">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.</a>
31.2 *	<a href="#">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.</a>
32.1 *	<a href="#">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.</a>
32.2 *	<a href="#">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.</a>
101.ins*	<a href="#">XBRL Instance</a>
101.xsd*	<a href="#">XBRL Schema</a>
101.cal*	<a href="#">XBRL Calculation</a>
101.def*	<a href="#">XBRL Definition</a>
101.lab*	<a href="#">XBRL Label</a>
101.pre*	<a href="#">XBRL Presentation</a>

\* Filed herewith.

## 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: September 11, 2019**

By: /s/ James T. Barry  
James T. Barry  
President and Chief Executive Officer  
(Principal Executive Officer)

**Dated: September 11, 2019**

By: /s/ Louis J. Petrucelly  
Louis J. Petrucelly  
Chief Financial Officer, Treasurer, and Secretary  
(Principal Financial and Accounting Officer)

**PROPOSED AMENDMENTS TO THE  
BY-LAWS  
OF  
PASSUR AEROSPACE, INC.**

1. Article I (“OFFICES”) is amended to read in its entirety as follows:

**“ARTICLE I – OFFICES**

The offices of the corporation, including its principal office, may be located at such places as the board of directors may from time to time determine.”

2. Article II, Section 1 (“PLACE OF MEETINGS”) is amended to read in its entirety as follows:

**“1. PLACE OF MEETINGS.**

Meetings of shareholders shall be held at such place as the board shall determine.”

3. Article II, Section 3 (“SPECIAL MEETINGS”) is amended to read in its entirety as follows:

**“3. SPECIAL MEETINGS.**

Special meetings of the shareholders may be called by the board or by the chairman of the board, any vice chairman or the president, and shall be called by any of them or the secretary upon receipt of the written request of (a) a majority of the board or (b) the holders of at least ten percent (10%) of all the outstanding shares of the Corporation’s capital stock entitled to vote at the meeting. Such request shall state the purpose or purposes of the proposed meeting. Business transacted at a special meeting shall be confined to the purposes stated in the notice.”

4. Article II, Section 10 (“VOTE OF SHAREHOLDERS”) is amended to read in its entirety as follows:

**“10. VOTE OF SHAREHOLDERS.**

Except as otherwise required by statute, by the certificate of incorporation or by Article XII of these by-laws:

- (a) directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election;
  - (b) all other corporate action shall be authorized by a majority of the votes cast.”
-

5. Article III, Section 7 (“RESIGNATION”) is amended to read in its entirety as follows:

“7. RESIGNATION.

A director may resign at any time by giving written notice to the board, the chairman of the board or the secretary of the corporation. Unless otherwise specified in the notice, the resignation shall take effect upon receipt thereof by the board, the chairman of the board or the secretary of the corporation, and the acceptance of the resignation shall not be necessary to make it effective.”

6. Article III, Section 10 (“PLACE AND TIME OF THE BOARD MEETINGS”) is amended to read in its entirety as follows:

“10. PLACE OF THE BOARD MEETINGS.

The board may hold its meetings at such place as it may from time to time determine.”

7. Clause (a) of Article III, Section 12 (“NOTICE OF MEETINGS OF THE BOARD, ADJOURNMENT”) is amended to read in its entirety as follows:

“12. NOTICE OF MEETINGS OF THE BOARD, ADJOURNMENT.

(a) Regular meetings of the board may be held without notice at such time and place as it shall from time to time determine. Special meetings of the board shall be held upon notice to the directors and may be called by the chairman of the board, any vice chairman or the president upon three days’ notice to each director either personally or by mail or by wire; special meetings shall be called by any of them or by the secretary in a like manner on written request of two directors. Notice of a meeting need not be given to any director who submits a waiver of notice whether before or after the meeting or who attends the meeting without protesting prior thereto or at its commencement, the lack of notice to him.”

8. Article III, Section 14 (“CHAIRMAN OF THE BOARD”) and Section 15 (“VICE CHAIRMEN OF THE BOARD”) each as set forth below are hereby inserted in the By-Laws immediately following Article III, Section 13 thereof:

“14. CHAIRMAN OF THE BOARD.

The board shall designate from among its members a chairman of the board, who may be, but who does not have to be, an officer of the corporation. The chairman of the board shall preside over all meetings of the board and of the shareholders and shall be an ex officio member of all committees of the board unless otherwise provided in the resolution for a particular committee. The chairman of the board shall exercise all powers and perform all duties incident to the office of chairman of the board and shall exercise such other powers and perform such other duties as may be prescribed from time to time by the board.

15. VICE CHAIRMEN OF THE BOARD.

The board may designate from among its members one or more vice chairmen of the board, each of whom may be, but does not have to be, an officer of the corporation. Each vice chairman of the board shall be an ex officio member of all committees of the board unless otherwise provided in the resolution for a particular committee. The vice chairman of the board shall exercise such powers and perform such duties as may be prescribed from time to time by the board.”

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9. The former Article III, Section 14 (“COMPENSATION”), Section 15 (“ACTION IN LIEU OF MEETING”) and Section 16 (“TELEPHONIC PARTICIPATION”) are hereby renumbered as Article III, Section 16 (“COMPENSATION”), Section 17 (“ACTION IN LIEU OF MEETING”) and SECTION 18 (“TELEPHONIC PARTICIPATION”), respectively.

10. Article IV, Section 1 (“OFFICES, ELECTION, TERM”) is amended to read in its entirety as follows:

“1. OFFICES, ELECTION, TERM.

(a) Unless otherwise provided for in the certificate of incorporation, the board may elect or appoint a chairman, one or more vice chairmen, a president, one or more executive vice-presidents, senior vice presidents and/or vice presidents, a secretary, and a treasurer, and such other officers as it may determine, who shall have such duties, powers and functions as provided herein; provided, that if the board wishes to appoint a chief executive officer of the corporation, it will designate the chairman, a vice chairman or president as the chief executive officer.

(b) The chief executive officer, or another officer designated by the board, shall have general responsibility for implementation of the corporation’s policies and for the management of the corporation’s business and affairs, in each case, as determined by the board and shall have any other duties that the board shall prescribe.”

(c) All officers shall be elected or appointed to hold office at the pleasure of the board.”

11. Clause (c) of Article IV, Section 2 (“REMOVAL, RESIGNATION, SALARY, ETC.”) shall be amended to read in its entirety as follows:

“(c) Any two or more offices may be held by the same person, except that the same person cannot hold (i) the offices of secretary and president or (ii) the offices of secretary and chief executive officer.”

12. Article IV, Section 3 (“PRESIDENT”) is amended to read in its entirety as follows:

“3. PRESIDENT.

The president shall perform such duties as may be assigned to him by these by-laws or by the board from time to time. The offices of president and chief executive officer may constitute two separate and distinct offices.”

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13. Article IV, Section 4 (“VICE PRESIDENTS”) is amended to read in its entirety as follows:

“4. VICE PRESIDENTS.

- (a) Executive Vice Presidents. Each executive vice president shall perform such duties as the chief executive officer, the president or the board shall prescribe.
- (b) Senior Vice Presidents. Each senior vice president shall perform such duties as the chief executive officer, the president or the board shall prescribe.
- (c) Vice Presidents. Each vice president shall perform such duties as the chief executive officer, the president or the board shall prescribe.”

14. Article IV, Section 7 (“TREASURER”) is amended to read in its entirety as follows:

“7. TREASURER.

The treasurer shall:

- (a) have the custody of the corporate funds and securities;
- (b) keep full and accurate accounts of receipts and disbursements in the corporate books;
- (c) deposit all money and other valuables in the name and to the credit of the corporation in such depositories as may be designated by the board;
- (d) disburse the funds of the corporation as may be ordered or authorized by the board and preserve proper vouchers for such disbursements;
- (e) render to the board, and the chief executive officer at the regular meetings of the board, or whenever they require it, an account of all his or her transactions as treasurer and of the financial condition of the corporation;
- (f) render a full financial report at the annual meeting of the shareholders if so requested;
- (g) be furnished by all corporate officers and agents at his or her request, with such reports and statements as he or she may require as to all financial transactions of the corporation;
- (h) perform such other duties as are given to him or her by these by-laws or as from time to time are assigned to him or her by the board, the chief executive officer or the president.”

15. Article IV, Section 8 (“ASSISTANT-TREASURER”) is amended to read in its entirety as follows:

“1. ASSISTANT-TREASURER.

During the absence or disability of the treasurer, the assistant treasurer, or if there are more than one, the one so designated by the chief executive officer or the board, shall have all the powers and functions of the treasurer.”

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16. The fourth line of Article XI (“INDEMNIFICATION”), Section (b)(i) is amended by deleting the word “corporation” and replacing it with the word “corporation.”

17. Article V, Section 1 (“CERTIFICATES”) is amended to read in its entirety as follows:

“1. CERTIFICATES.

The shares of the corporation shall be represented by certificates. They shall be numbered and entered in the corporation’s books as they are issued. They shall exhibit the holder’s name and the number of shares and shall bear the corporate seal and be signed by (i) the chief executive officer, president or a vice-president and (ii) the treasurer or secretary.”

18. Article XII (“BY-LAW CHANGES”) is amended to read in its entirety as follows:

“ARTICLE XII – BY-LAW CHANGES AND SECURITY ISSUANCE

AMENDMENT, REPEAL, ADOPTION, ELECTION OF DIRECTORS AND ISSUANCE OF NEW CAPITAL STOCK OR DEBT SECURITIES.

(a) Except as otherwise provided in the certificate of incorporation, Article XI(e) hereof or Article XII(c) hereof, the by-laws may be amended, repealed, or adopted by a vote of the holders of the shares entitled to vote in the election of any directors. By-laws may also be amended, repealed or adopted by a vote of 75% of the board, but any by-law adopted by the board may be amended by the shareholders entitled to vote thereon as hereinabove provided.

(b) If any by-law regulating an impending election of directors is adopted, amended, or repealed by the board, there shall be set forth in the notice of the next meeting of shareholders for the election of directors the by-law so adopted, amended, or repealed, together with a concise statement of the changes made.

(c) No capital stock of the corporation (including any founders’ shares, super-voting shares or the like), or any obligations, debt securities or other securities convertible into or exchangeable or exercisable for any capital stock, or warrants, options or other rights to acquire or purchase capital stock or securities of the corporation, shall be offered, sold or issued by the corporation unless such offer, sale or issuance is approved by (i) the affirmative vote of the holders of at least a majority of the then-outstanding shares of the corporation or (ii) 75% of the board.”

All other provisions of the By-Laws shall remain in full force and effect.

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Adopted and effective as of September 6, 2019.

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**Field Point Capital Management Company**  
**One Landmark Square, Suite 1900**  
**Stamford, CT 06901**

September 11, 2019  
PASSUR Aerospace, Inc.  
One Landmark Square, Suite 1900  
Stamford, CT 06901

As Chairman of the Board as well as the principal shareholder of PASSUR Aerospace, Inc. ("PASSUR Aerospace" or the "Company"), I make the following commitment to the Company with respect to the period from the date of this commitment through September 11, 2020.

Liquidity

I commit that if the Company at any time is unable to meet its obligations through September 11, 2020, that I will provide the necessary continuing financial support to the Company to ensure the Company's ability to operate as a going concern through the period ending September 11, 2020. Such continuing support may take the form of additional loans or advances to PASSUR Aerospace in addition to the deferral of principal and/or interest payments due on outstanding loans to PASSUR Aerospace as referred to above.

These commitments are not conditional and are irrevocable through the period ending September 11, 2020.

I, G.S. Beckwith Gilbert, having the financial wherewithal to enter into this irrevocable commitment, make the above commitments to the Company and its shareholders.

/s/ G.S. Beckwith Gilbert  
G.S. Beckwith Gilbert  
President

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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: September 11, 2019

By: /s/ James T. Barry  
James T. Barry  
Chief Executive Officer

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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, Louis J. Petrucelly, 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: September 11, 2019

By: /s/ Louis J. Petrucelly  
Louis J. Petrucelly  
Chief Financial Officer

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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, 2019, 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  
September 11, 2019

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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, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Louis J. Petrucelly, 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/ Louis J. Petrucelly  
Louis J. Petrucelly  
Chief Financial Officer  
September 11, 2019

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