

COMMAND SECURITY CORP
Form 10-Q
November 05, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

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 001-33525

COMMAND SECURITY CORPORATION

(Exact name of registrant as specified in its charter)

New York

14-1626307

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

512 Herndon Parkway, Suite A, Herndon, VA

20170

(Address of principal executive offices)

(Zip Code)

(703) 464-4735

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of outstanding shares of the registrant's common stock as of November 1, 2013 was 9,222,498.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

COMMAND SECURITY CORPORATION
 CONDENSED STATEMENTS OF INCOME
 (Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------|------------------|--------------|
| | September | September | September | September |
| | 30, | 30, | 30, | 30, |
| | 2013 | 2012 | 2013 | 2012 |
| Revenues | \$40,147,092 | \$38,164,921 | \$78,108,587 | \$73,806,600 |
| Cost of revenues | 34,295,951 | 32,689,640 | 67,644,188 | 63,708,001 |
| Gross profit | 5,851,141 | 5,475,281 | 10,464,399 | 10,098,599 |
| Operating expenses | | | | |
| General and administrative | 4,487,885 | 4,708,617 | 8,787,769 | 8,745,866 |
| Provision for doubtful accounts, net | 73,204 | 74,728 | 147,735 | 147,014 |
| | 4,561,089 | 4,783,345 | 8,935,504 | 8,892,880 |
| Operating income | 1,290,052 | 691,936 | 1,528,895 | 1,205,719 |
| Interest income | 3 | 44 | 24 | 85 |
| Interest expense | (46,834) | (28,002) | (100,925) | (62,461) |
| Equipment dispositions | - | 5,299 | (1,540) | 7,203 |
| Income before income taxes | 1,243,221 | 669,277 | 1,426,454 | 1,150,546 |
| Provision for income taxes | 610,000 | 340,000 | 760,000 | 590,000 |
| Net income | \$633,221 | \$329,277 | \$666,454 | \$560,546 |
| Net income per common share | | | | |
| Basic | \$0.07 | \$0.03 | \$0.07 | \$0.06 |
| Diluted | \$0.07 | \$0.03 | \$0.07 | \$0.06 |
| Weighted average number of common shares outstanding | | | | |
| Basic | 9,179,531 | 9,666,498 | 9,136,565 | 9,666,498 |
| Diluted | 9,268,333 | 9,666,498 | 9,330,651 | 9,666,498 |

See accompanying notes to condensed financial statements

COMMAND
SECURITY
CORPORATION
CONDENSED
BALANCE
SHEETS

| ASSETS | September 30, 2013 (Unaudited) | March 31, 2013 |
|--|---|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$775,764 | \$8,504 |
| Accounts receivable, net of allowance for doubtful accounts of \$880,890 and \$772,022, respectively | 27,100,877 | 28,460,654 |
| Prepaid expenses | 114,210 | 1,081,374 |
| Other assets | 1,814,416 | 2,851,398 |
| Total current assets | 29,805,267 | 32,401,930 |
| Furniture and equipment at cost, net | 599,700 | 669,533 |
| Other assets: | | |
| Intangible assets, net | 2,363,898 | 2,563,316 |
| Restricted cash | 83,112 | 83,088 |
| Other assets | 2,840,435 | 2,613,276 |
| Total other assets | 5,287,445 | 5,259,680 |
| Total assets | \$35,692,412 | \$38,331,143 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Checks issued in advance of deposits | \$568,492 | \$2,098,165 |
| Short-term borrowings | 7,540,693 | 8,482,331 |
| Accounts payable | 1,665,738 | 1,085,528 |
| Accrued expenses and other liabilities | 7,458,687 | 9,102,008 |
| Total current liabilities | 17,233,610 | 20,768,032 |
| Insurance reserves | 641,366 | 604,211 |
| Total liabilities | 17,874,976 | 21,372,243 |
| Stockholders' equity: | | |
| Preferred stock, Series A, \$.0001 par value | - | - |
| Common stock, \$.0001 par value | 1,098 | 1,085 |

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| | | |
|--|--------------|--------------|
| Treasury Stock | (2,885,579) | (2,885,579) |
| Additional paid-in capital | 17,190,610 | 16,998,541 |
| Accumulated earnings | 3,511,307 | 2,844,853 |
| Total stockholders' equity | 17,817,436 | 16,958,900 |
| | | |
| Total liabilities and stockholders' equity | \$35,692,412 | \$38,331,143 |

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION**CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****(Unaudited)**

| | Preferred Stock | Common Stock | Treasury Stock | Additional Paid In Capital | Accumulated Earnings |
|-------------------------------|--------------------|-----------------|-------------------|----------------------------------|-------------------------|
| Balance at March 31, 2012 | \$ - | \$ 1,074 | \$(1,788,505) | \$16,668,518 | \$ 2,348,533 |
| Stock compensation cost | | | | 156,448 | |
| Net income | | | | | 560,546 |
| Balance at September 30, 2012 | - | 1,074 | (1,788,505) | 16,824,966 | 2,909,079 |
| Options exercised | | 11 | | 138,773 | |
| Repurchase of shares | | | (1,097,074) | | |
| Stock compensation cost | | | | 34,802 | |
| Net loss | | | | | (64,226) |
| Balance at March 31, 2013 | - | 1,085 | (2,885,579) | 16,998,541 | 2,844,853 |
| Options exercised, net | | 13 | | 101,458 | |
| Stock compensation cost | | | | 90,611 | |
| Net income | | | | | 666,454 |
| Balance at September 30, 2013 | \$ - | \$ 1,098 | \$(2,885,579) | \$17,190,610 | \$ 3,511,307 |

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Six Months Ended September 30, | |
|---|-----------------------------------|-------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net income | \$666,454 | \$560,546 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 349,618 | 334,674 |
| Provision for doubtful accounts, net | 147,735 | 42,211 |
| Rent expense | 97,789 | - |
| (Gain)/Loss on Asset Dispositions | 1,540 | (7,203) |
| Stock based compensation costs | 90,611 | 156,448 |
| Insurance reserves | 37,155 | 324,393 |
| Deferred income taxes | (108,866) | (291,288) |
| Restricted cash | (24) | (46) |
| (Increase) decrease in receivables, prepaid expenses and other current assets | 1,356,782 | (1,932,130) |
| Increase in accounts payable and other current liabilities | 580,210 | 233,783 |
| Net cash provided by (used in) operating activities | 3,219,004 | (578,612) |
| Cash flows from investing activities: | | |
| Purchases of equipment | (81,904) | (119,953) |
| Collections on other receivables | - | 258,681 |
| Return of escrow funds related to prior business acquisition | - | 398,946 |
| Proceeds from equipment dispositions | - | 8,415 |
| Net cash provided by (used in) investing activities | (81,904) | 546,089 |
| Cash flows from financing activities: | | |
| Net repayments on short-term borrowings | (941,638) | (2,133,142) |
| (Decrease) increase in checks issued in advance of deposits | (1,529,673) | 999,312 |
| Proceeds from options exercises, net | 101,471 | - |
| Net cash used in financing activities | (2,369,840) | (1,133,830) |
| Net change in cash and cash equivalents | 767,260 | (1,166,353) |
| Cash and cash equivalents, beginning of period | 8,504 | 1,175,809 |
| Cash and cash equivalents, end of period | \$775,764 | \$9,456 |

See accompanying notes to condensed financial statements

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COMMAND SECURITY CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Supplemental Disclosures of Cash Flow Information

| Cash paid during the six months ended September 30 for: | 2013 | 2012 |
|---|-----------|----------|
| Interest | \$101,286 | \$62,758 |
| Income taxes | 505,484 | 370,650 |

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

The accompanying condensed financial statements presented herein have not been audited, and have been prepared in accordance with the instructions to Form 10-Q which do not include all of the information and note disclosures required by generally accepted accounting principles in the United States. These financial statements should be read in conjunction with our consolidated financial statements and notes thereto as of and for the fiscal year ended March 31, 2013. In this discussion, the words “Company,” “we,” “our,” “us” and terms of similar import should be deemed to refer to Command Security Corporation.

The condensed financial statements for the interim period shown in this report are not necessarily indicative of our results to be expected for any period after the date hereof, including for the fiscal year ending March 31, 2014 or for any other subsequent period. In the opinion of our management, the accompanying condensed financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation of the financial statements included in this quarterly report. All such adjustments are of a normal recurring nature.

1. Recent Accounting Pronouncements

In December 2011, the FASB issued updated authoritative guidance related to new disclosure requirements on offsetting financial assets and liabilities. The new rules require companies to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to a netting arrangement. The new guidance was effective as of the beginning of fiscal year 2014 and its adoption did not have any impact on our financial statement disclosures.

2. Short-Term Borrowings:

On February 12, 2009, we entered into a \$20.0 million credit facility (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”). This credit facility, which was amended in November 2012 (see below) matures in October 2016, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain certain financial ratios and is collateralized by customer accounts receivable and certain other assets of the Company as defined in the Credit Agreement.

The Credit Agreement provides for a letter of credit sub-line in an aggregate amount of up to \$3.0 million. The Credit Agreement also provides for interest to be calculated on the outstanding principal balance of the revolving loans at the prime rate (as defined in the Credit Agreement) plus 1.50%. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate (as defined in the Credit Agreement) plus 1.75%.

On November 6, 2012, we entered into a third amendment (the “Third Amendment”) to our Credit Agreement. The Third Amendment (i) allows the Company to repurchase up to an additional \$2.0 million of its common stock, subject to certain conditions, (ii) provides for the consent of Wells Fargo to the consolidation and relocation of the Company’s headquarters, and (iii) amends a financial covenant of the Credit Agreement for certain expenses associated with the consolidation and relocation of the Company’s headquarters which was completed on February 15, 2013.

As of September 30, 2013, the interest rate was 2.0% for LIBOR loans and revolving loans. At September 30, 2013, we had \$7.0 million in LIBOR loans outstanding, \$540,693 of revolving loans outstanding and \$172,540 outstanding under our letters of credit sub-line under the Credit Agreement, representing approximately 53% of the maximum borrowing capacity under the Credit Agreement based on our “eligible accounts receivable” (as defined under the Credit Agreement) as of such date.

We rely on our revolving loan from Wells Fargo, which contains a fixed charge covenant and various other financial and non-financial covenants. If we breach a covenant, Wells Fargo has the right to immediately request the repayment in full of all borrowings under the Credit Agreement, unless Wells Fargo waives the breach. For the six months ended September 30, 2013, we were in compliance with all covenants under the Credit Agreement.

We may obtain short-term financing to meet our annual property and casualty insurance needs. At September 30, 2013, we had no short-term insurance borrowings outstanding.

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

3. Other Assets:

| | September 30, 2013 | March 31, 2013 |
|---------------------------------|--------------------------|-------------------|
| Workers' compensation insurance | \$ 1,049,505 | \$ 1,973,129 |
| Other receivables | 6,000 | 8,912 |
| Security deposits | 210,922 | 203,075 |
| Deferred tax asset | 3,388,424 | 3,279,558 |
| | 4,654,851 | 5,464,674 |
| Current portion | (1,814,416) | (2,851,398) |
| Total non-current portion | \$ 2,840,435 | \$ 2,613,276 |

The other asset workers' compensation insurance represents the net amount of the payments made to cover the workers' compensation insurance premium against the actual premium due as well as the difference in the amount deposited to the loss fund less the estimated workers' compensation claims and reserves related to the historical loss claims as well as the estimates related to the incurred but not reported claims. There is no offsetting claim liability reported as the Company has determined that there is a sufficient amount deposited into the loss funds to cover the estimated claims reserve as well as the estimate related to the incurred but not reported claims.

4. Accrued Expenses and Other Liabilities:

| | September 30, 2013 | March 31, 2013 |
|------------------------------|--------------------------|-------------------|
| Payroll and related expenses | \$ 5,497,851 | \$ 6,875,575 |
| Taxes and fees payable | 1,234,252 | 825,933 |
| Accrued interest payable | 9,035 | 9,396 |
| Other | 717,549 | 1,391,104 |
| Total | \$ 7,458,687 | \$ 9,102,008 |

5. Insurance Reserves:

We have an insurance policy covering workers' compensation claims in states where we perform services. Estimated accrued liabilities are based on our historical loss experience and the ratio of claims paid to our historical payout profiles. Charges for estimated workers' compensation related losses incurred and included in cost of sales were \$770,042 and \$735,064 for the three months ended September 30, 2013 and 2012; and \$1,517,489 and \$1,425,103 for the six months ended September 30, 2013 and 2012, respectively.

The nature of our business also subjects us to claims or litigation alleging that we are liable for damages as a result of the conduct of our employees or others. We insure against such claims and suits through general liability policies with third-party insurance companies.

Our insurance coverage limits are currently \$1.0 million per occurrence for non-aviation related business (with additional excess umbrella policies of \$5.0 million and \$10.0 million, respectively) and \$30.0 million per occurrence for aviation related business. We retain the risk for the first \$25,000 for general liability non-aviation related operations, \$50,000 on airport wheelchair and electric cart operations, \$25,000 for damage to aircraft and \$100,000 for skycap operations. Estimated accrued liabilities are based on specific reserves in connection with existing claims as determined by third party risk management consultants and actuarial factors and the timing of reported claims. These are all factored into estimated losses incurred but not yet reported to us.

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Cumulative amounts estimated to be payable by us with respect to pending and potential claims for all years in which we are liable under our general liability retention and workers' compensation policies have been accrued as liabilities. Such accrued liabilities are necessarily based on estimates; accordingly, our ultimate liability may exceed or be less than the amounts accrued. The methods of making such estimates and establishing the resultant accrued liability are reviewed continually and any adjustments resulting therefrom are reflected in our current results of operations.

Workers' compensation annual costs are comprised of premiums as well as incurred losses as determined at the end of the coverage period, subject to minimum and maximum amounts. Workers' compensation insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported as provided by a third party. In estimating these accruals, we consider historical loss experience and make judgments about the expected levels of costs per claim. We believe our estimates of future liability are reasonable based upon our methodology; however, changes in health care costs, accident frequency and severity and other factors could materially affect the estimate for these liabilities. The Company continually monitors changes in claim type and incident and evaluates the workers' compensation insurance accrual, making necessary adjustments based on the evaluation of these qualitative data points.

6. Income per Share:

Under the requirements of FASB ASC 260-10, *Earnings Per Share*, the dilutive effect of our common shares that have not been issued, but that may be issued upon the exercise or conversion, as the case may be, of rights or options to acquire such common shares, is excluded from the calculation for basic earnings per share. Diluted earnings per share reflects the additional dilution that would result from the issuance of our common shares if such rights or options were exercised or converted, as the case may be, and is presented for the three and six months ended September 30, 2013 and 2012.

7. Contingencies:

The nature of our business is such that there is a significant volume of routine claims and lawsuits that are made against us, the vast majority of which never lead to the award of substantial damages. We maintain general liability and workers' compensation insurance coverage that we believe is appropriate to the relevant level of risk and potential liability that we face, relating to these matters. Some of the claims brought against us could result in significant payments; however, the exposure to us under general liability non-aviation related operations is limited to the first \$25,000 per occurrence, \$50,000 on airport wheelchair and electric cart operations, \$25,000 for damage to aircraft and \$100,000 for skycap operations. Any punitive damage award would not be covered by the general liability insurance policy. The only other potential impact would be on future premiums, which may be adversely affected by an unfavorable claims history.

In July 2012, the Service Employee International Union (SEIU) filed a suit in U.S. District Court – Northern District Court against the Company seeking the restoration of the collective bargaining agreement between SEIU and the Company following a majority vote of Aviation Safeguards employees in December 2011 to withdraw recognition of the union. A related lawsuit was filed on July 6, 2012 by the California Service Employees Health and Welfare Trust Fund in U.S. District Court Northern District Court seeking to maintain the payment of monthly health insurance contributions which were stopped by the Company following the termination of the collective bargaining agreement. The Company is conducting a vigorous defense of both cases.

In addition to such cases, we have been named as a defendant in several uninsured employment related claims that are pending before various courts, the Equal Employment Opportunities Commission or various state and local agencies. We have instituted policies to minimize these occurrences and monitor those that do occur. At this time, we are unable to determine the impact on the financial position and results of operations that these claims may have, should the investigations conclude that they are valid.

We have employment agreements with certain of our officers and key employees with terms up to three years. The agreements generally provide for annual salaries and for salary continuation for a specified number of months under certain circumstances, including a change in control of the Company. Approximately 24% of our workforce is subject to collective bargaining arrangements and all three of the currently active agreements are due to expire before March 31, 2014.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our condensed financial statements and the related notes contained in this quarterly report.

Forward Looking Statements

Certain of our statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations section of this quarterly report and, in particular, those under the heading "Outlook," contain forward-looking statements. The words "may," "will," "should," "expect," "anticipate," "believe," "plans," "intend" and "contingent" and the negative of these words or other variations on these words or comparable terminology typically identify such statements. These statements are based on our management's current expectations, estimates, forecasts and projections about the industry in which we operate generally, and other beliefs of and assumptions made by our management, some or many of which may be incorrect. In addition, other written or verbal statements that constitute forward-looking statements may be made by us or on our behalf. While our management believes these statements are accurate, our business is dependent upon general economic conditions and various conditions specific to the industries in which we operate. Moreover, we believe that the current business environment is more challenging and difficult than it has been in the past several years, if not longer. Many of our customers, particularly those that are primarily involved in the aviation industry, are currently experiencing substantial financial and business difficulties. If the business of any substantial customer or group of customers fails or is materially and adversely affected by the current economic environment or otherwise, they may seek to substantially reduce their expenditures for our services. Any loss of business from our substantial customers could cause our actual results to differ materially from the forward-looking statements that we have made in this quarterly report. Further, other factors, including, but not limited to, those relating to the shortage of qualified labor, competitive conditions and adverse changes in economic conditions of the various markets in which we operate, could adversely impact our business, operations and financial condition and cause our actual results to fail to meet our expectations, as expressed in the forward-looking statements that we have made in this quarterly report. These forward-looking statements are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that we may not be able to accurately predict. We undertake no obligation to update publicly any of these forward-looking statements, whether as a result of new information, future events or otherwise.

As provided for under the Private Securities Litigation Reform Act of 1995, we wish to caution shareholders and investors that the important factors under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission with respect to our fiscal year ended March 31, 2013 could cause our actual financial condition and results from operations to differ materially from our anticipated results or other expectations expressed in our forward-looking statements in this quarterly report.

Critical Accounting Policies and Estimates

Critical accounting policies are defined as those most important to the portrayal of a company's financial condition and results and that require the most difficult, subjective or complex judgments. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. The estimates that we make include allowances for doubtful accounts, depreciation and amortization, income tax assets and insurance reserves. Estimates are based on historical experience, where applicable or other assumptions that management believes are reasonable under the circumstances. We have identified the policies described below as our critical accounting policies. Due to the inherent uncertainty involved in making estimates, actual results may differ from those estimates under different assumptions or conditions.

Revenue Recognition

We record revenues as services are provided to our customers. Revenues consist primarily of aviation and security services, which are typically billed at hourly rates. These rates may vary depending on base, overtime and holiday time worked. Revenue for administrative services provided to other security companies are calculated as a percentage of the administrative service customer's revenue and are recognized when billings for the related security services are generated. Revenue is reported net of applicable taxes.

Accounts Receivable

We periodically evaluate the requirement for providing for billing adjustments and/or reflect the extent to which we will be able to collect our accounts receivable. We provide for billing adjustments where management determines that there is a likelihood of a significant adjustment for disputed billings. Criteria used by management to evaluate the adequacy of the allowance for doubtful accounts include, among others, the creditworthiness of the customer, current trends, prior payment performance, the age of the receivables and our overall historical loss experience. Individual accounts are charged off against the allowance as management deems them to be uncollectible.

Intangible Assets

Intangible assets are stated at cost and consist primarily of customer lists and borrowing costs which are amortized on a straight-line basis over a period of three to ten years, and goodwill, which is reviewed annually for impairment. The life assigned to acquired customer lists is based on management's estimate of our expected customer attrition rate. The attrition rate is estimated based on historical contract longevity and management's operating experience. We test for impairment annually or when events and circumstances warrant such a review, if earlier. Any potential impairment is evaluated based on anticipated undiscounted future cash flows and actual customer attrition in accordance with FASB ASC 360, *Property, Plant and Equipment*.

Insurance Reserves

General liability estimated accrued liabilities are calculated on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed utilizing historical claim trends. Projected settlements and incurred but not reported claims are estimated based on pending claims, historical trends and related data.

Workers' compensation annual costs are comprised of premiums as well as incurred losses as determined at the end of the coverage period, subject to minimum and maximum amounts. Workers' compensation insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported as provided by a third party. In estimating these accruals, we consider historical loss experience and make judgments about the expected levels of costs per claim. We believe our estimates of future liability are reasonable based upon our methodology; however, changes in health care costs, accident frequency and severity and other factors could materially affect the estimate for these liabilities. The Company continually monitors changes in claim type and incident and evaluates the workers' compensation insurance accrual, making necessary adjustments based on the evaluation of these qualitative data points.

Income Taxes

Income taxes are based on income (loss) for financial reporting purposes and reflect a current tax liability (asset) for the estimated taxes payable (recoverable) in the current year tax return and changes in deferred taxes. Deferred tax assets or liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

We recognize the effect of income tax positions only if those positions will more likely than not be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. In the event that interest and/or penalties are assessed in connection with our tax filings, interest will be recorded as interest expense and penalties as selling, general and administrative expense. We did not have any unrecognized tax benefits as of September 30, 2013 and 2012.

Stock Based Compensation

FASB ASC 718, Stock Compensation, requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at grant date and the recognition of the related expense over the period in which the share-based compensation vests. We use the modified-prospective transition method. Under the modified-prospective transition method, we recognize compensation expense in our financial statements issued subsequent to the date of adoption for all share-based payments granted, modified or settled. Non-cash charges of \$90,611 and \$156,448 for stock based compensation have been recorded for the six months ended September 30, 2013 and 2012, respectively.

Reclassifications

Certain amounts previously reported for prior periods have been reclassified to conform to the current year presentation in the accompanying condensed financial statements. Such reclassifications had no effect on the results of operations or shareholders' equity as previously recorded.

Overview

We principally provide uniformed security officers and aviation services to commercial, residential, financial, industrial, aviation and governmental customers through approximately 30 offices throughout the United States. In conjunction with providing these services, we assume responsibility for a variety of functions, including recruiting, hiring, training and supervising all operating personnel as well as paying such personnel and providing them with uniforms, benefits and workers' compensation insurance.

Our customer-focused mission is to provide the best personalized supervision and management attention necessary to deliver timely and efficient security solutions so that our customers can operate in safe environments without disruption or loss. Technology underpins our efficiency, accuracy and dependability. We rely on a sophisticated software system that integrates scheduling, payroll and billing functions.

Renewing and extending existing contracts and obtaining new contracts are crucial to our ability to generate revenues, earnings and cash flow. In addition, our growth strategy involves the acquisition and integration of complementary businesses in order to increase our scale within certain geographical areas, increase our market share in the markets in which we operate, gain market share in the markets in which we do not currently operate and improve our profitability. We intend to pursue suitable acquisition opportunities for contract security officer businesses. We frequently evaluate acquisition opportunities and, at any given time, may be in various stages of due diligence or preliminary discussions with respect to a number of potential acquisitions. However, we cannot assure you that we will identify any suitable acquisition candidates or, if identified, that we will be able to complete the acquisition of such candidates on favorable terms or at all.

The global security industry has grown we believe largely due to an increasing desire for security to combat crime and terrorism. In the United States, the demand for security-related products and central station monitoring services also has grown steadily. We believe that there is continued heightened attention to and demand for security due to worldwide events, and the ensuing threat, or perceived threat, of criminal and terrorist activities. For these reasons, we expect that security will continue to be a key area of focus both domestically in the United States and abroad.

Demand for security officer services is dependent upon a number of factors, including, among other things, demographic trends, general economic variables such as growth in the gross domestic product, unemployment rates, consumer spending levels, perceived and actual crime rates, government legislation, terrorism sensitivity, war/external conflicts and technology.

Results of Operations

Revenues

Our revenues increased by \$1,982,171, or 5.2%, to \$40,147,092 for the three months ended September 30, 2013 from \$38,164,921 in the corresponding period of the prior year. The increase in revenues for the three months ended September 30, 2013 was due mainly to: (i) expansion of services provided under a contract with a major transportation company of approximately \$600,000; (ii) the addition of new revenues from New York based medical care facilities of approximately \$1.3 million; (iii) expansion of aviation services with existing customers related to temporary construction related security services of approximately \$680,000 at both New York LaGuardia and Los Angeles LAX airports. This increase was partly offset by a \$550,000 reduction in revenues with airline customers at New York JFK and Los Angeles LAX airports.

Our revenues increased by \$4,301,987, or 5.8%, to \$78,108,587 for the six months ended September 30, 2013 from \$73,806,600 in the corresponding period of the prior year. The increase in revenues for the six months ended September 30, 2013 was due mainly to: (i) expansion of services provided under a contract with a major transportation company of approximately \$1.1 million; (ii) the addition of new revenues from New York based medical care facilities of approximately \$1.7 million; and (iii) expansion of aviation services with existing customers related to temporary construction related security services of approximately \$1.25 million at both New York LaGuardia and Los Angeles LAX airports; and (iv) a net increase of approximately \$500,000 in aviation related services with several domestic and international airlines operating at New York LaGuardia and Los Angeles LAX airports, partly offset by net reductions in security services revenues with several industrial, commercial and financial services businesses.

Gross Profit

Our gross profit increased \$375,860, or 6.9%, to \$5,851,141 (14.6% of revenues) for the three months ended September 30, 2013, from \$5,475,281 (14.3% of revenues) in the corresponding period of the prior year. The increase was due mainly to the overall increase in revenues partly offset by competitive pricing pressures.

Our gross profit increased \$365,800, or 3.6%, to \$10,464,399 (13.4% of revenues) for the six months ended September 30, 2013, from \$10,098,599 (13.7% of revenues) in the corresponding period of the prior year. The increase was due mainly to the overall increase in revenues and lower general liability self-insurance costs partly offset by competitive pricing pressures, increases in direct labor and related costs for training, new business start-up and transition costs.

General and Administrative Expenses

Our general and administrative expenses decreased by \$220,732, or 4.7%, to \$4,487,885 (11.2% of revenues) for the three months ended September 30, 2013, from \$4,708,617 (12.3% of revenues) in the corresponding period of the prior year. The decrease in general and administrative expenses for the three months ended September 30, 2013 was due mainly to: the absence of \$750,000 of relocation and restructuring costs recorded during the three months ended September 30, 2012, partly offset by (i) an approximate \$200,000 increase in legal defense costs incurred in connection with legal matters related to on-going suits filed against the Company by the Service Employees International Union (SEIU); (ii) an approximate \$150,000 increase in employment related claims settlements and associated legal costs; and (iii) increased consulting, temporary labor and facility related costs.

Our general and administrative expenses increased by \$41,903, or 0.5%, to \$8,787,769 (11.3% of revenues) for the six months ended September 30, 2013, from \$8,745,866 (11.8% of revenues) in the corresponding period of the prior year. The increase in general and administrative expenses for the six months ended September 30, 2013 was due mainly to: (i) an approximate \$500,000 increase in legal defense costs incurred in connection with legal matters related to on-going suits filed against the Company by the Service Employees International Union (SEIU); (ii) an approximate \$300,000 increase in employment related claims settlements and associated legal costs; and increased facilities and temporary labor costs. These increases were partly offset by the absence of \$750,000 of relocation and restructuring costs recorded during the six months ended September 30, 2012.

Provision for Doubtful Accounts

The provision for doubtful accounts for the three and six months ended September 30, 2013 was comparable to the corresponding periods of the prior year.

We periodically evaluate the requirement for providing for billing adjustments and/or credit losses on our accounts receivable. We provide for billing adjustments in cases where our management determines that there is a likelihood of a significant adjustment for disputed billings. Criteria used by management to evaluate the adequacy of the allowance for doubtful accounts include, among others, the creditworthiness of the customer, current trends, prior payment performance, the age of the receivables and our overall historical loss experience. Individual accounts are charged off against the allowance for doubtful accounts as our management deems them to be uncollectible. We do not know if bad debts will increase in future periods.

Interest Income

Interest income for the three and six months ended September 30, 2013 principally represents interest earned on cash balances.

Interest Expense

Interest expense increased by \$18,832, or 67%, to \$46,834 for the three months ended September 30, 2013, from \$28,002 in the corresponding period of the prior year. The increase in interest expense for the three months ended September 30, 2013 was due primarily to higher average outstanding borrowings under our credit agreement with Wells Fargo, described below.

Interest expense increased by \$38,464, or 62%, to \$100,925 for the six months ended September 30, 2013, from \$62,461 in the corresponding period of the prior year. The increase in interest expense for the six months ended September 30, 2013 was due primarily to higher average outstanding borrowings under our credit agreement with Wells Fargo, described below.

Asset Dispositions

Asset dispositions result primarily from the sale of vehicles, office equipment and security equipment in the ordinary course of business at prices above or below book value.

The gains and losses on asset dispositions for the three and six months ended September 30, 2013 and 2012 were primarily due to the disposition of transportation equipment.

Provision for income taxes

The provision for income taxes increased by \$270,000 and \$170,000 for the three and six months ended September 30, 2013, respectively, compared with the corresponding periods of the prior year due mainly to the increase in pre-tax earnings and the reduction in deferred tax assets resulting from the cancellation of stock options previously held by former employees.

Liquidity and Capital Resources

We maintain a commercial revolving loan arrangement, currently with Wells Fargo. We fund our payroll and operations primarily through borrowings under our \$20.0 million credit facility with Wells Fargo (the "Credit Agreement"), described below under "Wells Fargo Revolving Credit Facility."

We principally use short-term borrowings under our Credit Agreement to fund our accounts receivable. Our short-term borrowings have supported the increase in accounts receivable associated with our organic growth. We intend to continue to use short-term borrowings to support our working capital requirements.

We believe that our existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, capital expenditure and debt service requirements for the foreseeable future. However, we cannot assure you that this will be the case, and we may be required to obtain alternative or additional financing to maintain and expand our existing operations through the sale of our securities, an increase in the amount of available borrowings under our Credit Agreement, obtaining additional financing from other financial institutions or otherwise. The failure by us to obtain such financing, if needed, would have a material adverse effect upon our business, financial condition and results of operations.

Short-Term Borrowings:

On February 12, 2009, we entered into a \$20.0 million credit facility (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). This credit facility, which was amended in November 2012 (see below) matures in October 2016, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain certain financial ratios and is collateralized by customer accounts receivable and certain other assets of the Company as defined in the Credit Agreement.

The Credit Agreement provides for a letter of credit sub-line in an aggregate amount of up to \$3.0 million. The Credit Agreement also provides for interest to be calculated on the outstanding principal balance of the revolving loans at the prime rate (as defined in the Credit Agreement) plus 1.50%. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate (as defined in the Credit Agreement) plus 1.75%.

On November 6, 2012, we entered into a third amendment (the "Third Amendment") to our Credit Agreement. The Third Amendment (i) allows the Company to repurchase up to an additional \$2.0 million of its common stock, subject to certain conditions, (ii) provides for the consent of Wells Fargo to the consolidation and relocation of the Company's

headquarters and (iii) amends a financial covenant of the Credit Agreement for certain expenses associated with the consolidation and relocation of the Company's headquarters, which was completed on February 15, 2013.

As of September 30, 2013, the interest rate was 2.0% for LIBOR loans and revolving loans. At September 30, 2013, we had \$7.0 million in LIBOR loans outstanding, \$540,693 of revolving loans outstanding and \$172,540 outstanding under our letters of credit sub-line under the Credit Agreement, representing approximately 53% of the maximum borrowing capacity under the Credit Agreement based on our "eligible accounts receivable" (as defined under the Credit Agreement) as of such date.

We rely on our revolving loan from Wells Fargo, which contains a fixed charge covenant and various other financial and non-financial covenants. If we breach a covenant, Wells Fargo has the right to immediately request the repayment in full of all borrowings under the Credit Agreement, unless Wells Fargo waives the breach. For the six months ended September 30, 2013, we were in compliance with all covenants under the Credit Agreement.

We may obtain short-term financing to meet our annual property and casualty insurance needs. At September 30, 2013, we had no short-term insurance borrowings outstanding.

Investments and Capital Expenditures

We have no material commitments for capital expenditures at this time.

Working Capital

Our working capital increased by \$937,759, or 8.1%, to \$12,571,657 as of September 30, 2013, from \$11,633,898 as of March 31, 2013.

We had checks drawn in advance of future deposits of \$568,492 at September 30, 2013, compared with \$2,098,165 at March 31, 2013. Cash balances, book overdrafts and payroll and related expenses can fluctuate materially from day to day depending on such factors as collections, timing of billing and payroll dates, and are covered via advances from the revolving loan as checks are presented for payment.

Outlook

Strategic Initiatives

Our Board of Directors and management have initiated a number of strategic actions to improve the Company's performance. Craig P. Coy joined the Company as Chief Executive Officer on January 3, 2012. During the past year, we implemented strategic initiatives designed to further increase efficiencies across the organization and lower the overall cost structure. Key elements of the Company's on-going initiatives include:

- The consolidation of our corporate offices to a single office which was completed on February 15, 2013, and the streamlining of our management structure to integrate all of our functions into a common platform and to deploy resources more efficiently.
- The addition of Mr. Mark L. Sullivan, former Director of the United States Secret Service, to our Board of Directors which we expect will substantially increase our visibility in the security market.
- Renewed focus on operational performance, including managing overtime, to improve our operating margins and service delivery capabilities.
- The upgrade and renewal of the Company's enterprise operating platform to improve business processes, enhance on-line management capabilities and provide improved management visibility into key performance metrics.
- Strategic new hires in the finance, operations, and human resources departments to continue to bring needed talent into the Company.
- An on-going process to expand our sales and marketing team with the hiring of additional sales executives and talent to maximize our marketing opportunities.
- On-going reviews of our market position and product and service offerings to ensure that "best in breed" capabilities are brought to market.
- A focused effort to pursue federal security opportunities, including in connection with the Company's recently awarded General Services Administration (GSA) contract which enables the Company to respond to requests for proposals (RFP) and be awarded new business directly with U.S. Federal Government agencies.

These strategic initiatives may result in future costs related to severance and other employee-related matters, litigation risks and expenses and other costs. At this time we are unable to determine the scope of these potential costs.

Financial Results

Our future revenues will largely depend on our ability to gain additional business from new and existing customers in our security officer and aviation services divisions at acceptable margins, while minimizing terminations of contracts with existing customers. In addition, our growth strategy involves the acquisition and integration of complementary

businesses to increase our scale within certain geographical areas, capture market share in the markets in which we operate, enter new markets and improve our profitability. We intend to pursue acquisition opportunities for contract security officer businesses. Our ability to complete future acquisitions will depend on our ability to identify suitable acquisition candidates, negotiate acceptable terms for their acquisition and, if necessary, finance those acquisitions. Our security services division continues to experience organic growth over recent quarters and over the past few years, as demand for our security services has steadily increased. Our current focus is on increasing our revenues, as our sales and marketing team and branch managers' work to develop new business and retain profitable contracts. However, several of our airline and security services customers have reduced capacity within their systems, which typically results in reductions of service hours provided by us to such customers. Also, competition from other security services companies impacts our ability to gain or maintain sales, gross margins and/or employees. Since September 11, 2001, the Department of Homeland Security and the Transportation Security Administration have implemented numerous security measures that affect airline operations, including expanded cargo and baggage screening, and are likely to implement additional measures in the future. Additional measures taken to enhance either passenger or cargo security procedures in the future may increase the airline industry's demand for third party services provided by us. Additionally, our aviation services division is continually subject to such government regulation, which has adversely affected us in the past with the federalization of the pre-board screening services and the document verification process at several of our domestic airport locations.

Our gross profit margin during the six months ended September 30, 2013 and September 30, 2012 was 13.4% and 13.7% respectively. We expect our gross profit margin to average between 12.0% and 13.5% of revenue in fiscal 2014 based on current business conditions. We expect gross profit to remain under pressure due primarily to continued price competition, including competition from companies that have substantially greater financial and other resources than we have. However, we expect these effects will be moderated by continued operational efficiencies resulting from better management and leveraging of our cost structures, workflow process efficiencies associated with our integrated financial software system and higher contributions from our continuing new business development.

Our ongoing cost reduction program is expected to reduce certain of our operating and general and administrative expenses. Additional cost reduction opportunities are being identified and will be pursued as they are determined.

Our security services division generated approximately \$51.3 million or 66% of our total revenues in the three months ended September 30, 2013. We rely on a single major transportation company for a significant portion of our security services revenues. During the quarter ended September 30, 2013, this customer represented approximately 24% of our total revenues. As previously announced, our contract with this customer was scheduled to expire on May 31, 2013. Also as previously disclosed, this customer commenced and invited us to participate in a competitive bidding process for the continued performance of these as well as additional services. In connection with this process, the Company agreed to a three-month extension of the existing contract and recently agreed to further extend the period of performance through November 30, 2013, if necessary. We cannot assure you that we will be able to retain all or a substantial portion of our services with this customer beyond the contract extension date. The loss of this customer or any material reduction in service would materially and adversely affect our business, financial condition and results of operations.

Our aviation services division generated approximately \$26.8 million or 34% of our total revenues in the six months ended September 30, 2013. The aviation industry continues to face various financial and other challenges, including the cost of security and higher fuel prices. Additional bankruptcy filings by aviation and non-aviation customers could have a material adverse impact on our liquidity, financial condition and results of operations.

As noted earlier, on February 12, 2009, we entered into a \$20.0 million Credit Agreement with Wells Fargo, which was amended on November 6, 2012, as described above. As of the close of business on October 25, 2013, our total outstanding borrowings under the Credit Agreement were \$7.0 million, our cash balances totaled \$330,000 and our cash availability was approximately \$10.5 million, which we believe is sufficient to meet our needs for the foreseeable future barring any increase in reserves imposed by Wells Fargo. We believe that existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, planned capital expenditures and debt service requirements for the foreseeable future, barring any increase in reserves imposed by Wells Fargo. However, we cannot assure you that this will be the case, and we may be required to obtain alternative or additional financing to maintain and expand our existing operations through the sale of our securities, an increase in the amount of available borrowings under our Credit Agreement, obtaining additional financing from other financial institutions or otherwise. The financial markets generally, and the credit markets in particular, continue to be volatile, both in the United States and in other markets worldwide. The current market situation has resulted generally in substantial reductions in available loans to a broad spectrum of businesses, increased scrutiny by lenders of the credit-worthiness of borrowers, more restrictive covenants imposed by lenders upon borrowers under credit and similar agreements and, in some cases, increased interest rates under commercial and other loans. If we require alternative or additional financing at this or any other time, we cannot assure you that such financing will be available upon commercially acceptable terms or at all. If we fail to obtain additional financing when and if required by us, our business, financial condition and results of operations would be materially adversely affected.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

During the six months ended September 30, 2013, we did not hold a portfolio of securities instruments for either trading or speculative purposes. Periodically, we hold securities instruments for other than trading purposes. Due to the short-term nature of our investments, we believe that we have no material exposure to changes in the fair value as a result of market fluctuations.

We are exposed to market risk in connection with changes in interest rates, primarily in connection with outstanding balances under our revolving line of credit with Wells Fargo, which was entered into for purposes other than trading purposes. Based on our average outstanding balances during the six months ended September 30, 2013, a 1% change in the prime and/or LIBOR lending rates could impact our financial position and results of operations by approximately \$53,000 over the remainder of our fiscal year ending March 31, 2014. For additional information on the revolving line of credit with Wells Fargo, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources –Wells Fargo Revolving Credit Facility.”

Reference is made to Item 2 of Part I of this quarterly report, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Forward Looking Statements.”

Item 4. Controls and Procedures

We maintain “disclosure controls and procedures”, as such term is defined under Rule 13a-15(e) of the Securities Exchange Act of 1934, that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and our Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are effective at the reasonable assurance level.

An evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013. There have been no changes in our internal control over financial reporting that occurred during our second quarter of fiscal 2014 ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See our discussion under Note 7 “Contingencies” to the Notes to Condensed Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 1A. Risk Factors

There have been no changes to our risk factors from those disclosed in our Annual Report on Form 10-K for our fiscal year ended March 31, 2013.

Item 6. Exhibits

(a) Exhibits

Exhibit 3.1 By-laws of Command Security Corporation, as amended September 19, 2013 (Incorporated by reference to the Company’s Current Report on Form 8-K dated September 25, 2013.)

**Exhibit 10.1 Nonqualified Stock Option Cancellation Agreement, dated August 27, 2013, between the Company and Barry I. Regenstein.

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Filed Herewith

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SIGNATURES

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

COMMAND SECURITY CORPORATION

Date: November 5, 2013 By: /s/ Craig P. Coy
Craig P. Coy
Chief Executive Officer
(Principal Executive Officer)

/s/ N. Paul Brost
N. Paul Brost
Chief Financial Officer
(Principal Financial and Accounting Officer)