

COMMAND SECURITY CORP
Form 10-Q
February 12, 2010

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 December 31, 2009

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 0-18684

COMMAND SECURITY CORPORATION
(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of incorporation or organization)

14-1626307
(I.R.S. Employer Identification No.)

Lexington Park
LaGrangeville, New York
(Address of principal executive offices)

12540
(Zip Code)

(845) 454-3703
(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 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 February 5, 2010 was 10,872,098.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COMMAND SECURITY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Revenues	\$ 37,592,668	\$ 32,760,473	\$ 110,135,424	\$ 98,415,570
Cost of revenues	31,968,506	28,033,460	94,605,890	84,027,213
Gross profit	5,624,162	4,727,013	15,529,534	14,388,357
Operating expenses				
General and administrative	4,061,020	4,107,122	12,279,992	11,372,126
Provision for doubtful accounts, net	73,687	61,670	222,467	214,335
	4,134,707	4,168,792	12,502,459	11,586,461
Operating income	1,489,455	558,221	3,027,075	2,801,896
Interest income	672	9,966	1,711	25,759
Interest expense	(111,917)	(114,377)	(354,443)	(371,258)
Equipment dispositions	1,020	—	2,804	8,812
Income before income taxes	1,379,230	453,810	2,677,147	2,465,209
Provision for income taxes	649,700	205,000	1,226,700	1,060,000
Net income	\$ 729,530	\$ 248,810	\$ 1,450,447	\$ 1,405,209
Net income per common share				
Basic	\$.07	\$.02	\$.13	\$.13
Diluted	\$.07	\$.02	\$.13	\$.12
Weighted average number of common shares outstanding				
Basic	10,872,098	10,775,916	10,840,467	10,763,449
Diluted	11,119,264	11,349,993	11,219,977	11,390,625

See accompanying notes to condensed consolidated financial statements

COMMAND SECURITY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2009 (Unaudited)	March 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 176,870	\$ 177,011
Accounts receivable, net of allowance for doubtful accounts of \$1,086,364 and \$1,000,507, respectively	24,643,678	21,603,826
Prepaid expenses	2,531,784	2,256,238
Other assets	3,209,316	1,861,089
Total current assets	30,561,648	25,898,164
Furniture and equipment at cost, net	642,473	672,166
Other assets:		
Intangible assets, net	4,737,380	5,180,077
Restricted cash	82,769	82,636
Other assets	2,747,788	2,431,992
Total other assets	7,567,937	7,694,705
Total assets	\$ 38,772,058	\$ 34,265,035
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks issued in advance of deposits	\$ 1,800,777	\$ 1,149,038
Current maturities of obligations under capital leases	113,851	64,827
Short-term borrowings	13,854,382	11,006,134
Accounts payable	601,298	313,745
Accrued expenses and other liabilities	5,024,098	6,258,376
Total current liabilities	21,394,406	18,792,120
Insurance reserves	816,341	642,656
Obligations under capital leases, due after one year	73,009	108,691
Total liabilities	22,283,756	19,543,467
Stockholders' equity:		
Preferred stock, Series A, \$.0001 par value	—	—
Common stock, \$.0001 par value	1,087	1,080
Additional paid-in capital	16,213,165	16,045,620
Accumulated earnings (deficit)	406,326	(1,044,121)
Accumulated other comprehensive loss	(132,276)	(281,011)
Total stockholders' equity	16,488,302	14,721,568

Total liabilities and stockholders' equity	\$ 38,772,058	\$ 34,265,035
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See accompanying notes to condensed consolidated financial statements

COMMAND SECURITY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Preferred Stock	Common Stock	Accumulated Other Comprehensive Income (Loss)	Additional Paid-In Capital	Accumulated Earnings (Deficit)
Balance at March 31, 2008	\$ —	\$ 1,076	\$ (240,270)	\$ 15,924,947	\$ (2,326,004)
Options exercised		3		53,998	
Stock compensation cost				108,366	
Other comprehensive income (a)			109,194		
Net income – nine months ended December 31, 2008					1,405,209
Balance at December 31, 2008	—	1,079	(131,076)	16,087,311	(920,795)
Options exercised		1		10,078	
Stock compensation cost				63,731	
Other comprehensive loss (a)			(149,935)		
Tax effect associated with expired warrants				(115,500)	
Net loss – three months ended March 31, 2009					(123,326)
Balance at March 31, 2009	—	1,080	(281,011)	16,045,620	(1,044,121)
Options exercised		7		91,005	
Stock compensation cost				110,540	
Other comprehensive income (a)			148,735		
Tax effect associated with expired warrants				(34,000)	
Net income – nine months ended December 31, 2009					1,450,447

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Balance at December 31, 2009	\$	—	\$ 1,087	\$ (132,276)	\$ 16,213,165	\$ 406,326
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(a) – Represents unrealized gain (loss) on marketable securities.

See accompanying notes to condensed consolidated financial statements

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COMMAND SECURITY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended December 31,	
	2009	2008
Cash flow from operating activities:		
Net income	\$ 1,450,447	\$ 1,405,209
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	681,316	590,309
Tax effect associated with expired warrants	(34,000)	—
Provision for doubtful accounts, net	85,857	19,949
Gain on equipment dispositions	(2,804)	(8,812)
Stock based compensation costs	110,540	108,366
Insurance reserves	173,685	(85,341)
Deferred income taxes	(190,860)	(5,000)
Restricted cash	(133)	220,159
Increase in receivables, prepaid expenses and other current assets	(1,765,050)	(3,450,907)
Increase (decrease) in accounts payable and other current liabilities	(913,743)	527,409
Net cash used in operating activities	(404,745)	(678,659)
Cash flows from investing activities:		
Purchases of equipment	(108,307)	(111,250)
Proceeds from equipment dispositions	21,119	8,812
Acquisition of businesses	—	(1,358,438)
Net cash used in investing activities	(87,188)	(1,460,876)
Cash flows from financing activities:		
Net (repayments) advances on short-term borrowings	(145,368)	3,665,669
Increase (decrease) in checks issued in advance of deposits	651,739	(1,376,583)
Debt issuance costs	(10,944)	—
Proceeds from option exercises	91,012	53,998
Principal payments on other borrowings	—	(5,901)
Principal payments on capital lease obligations	(94,647)	(23,783)
Net cash provided by financing activities	491,792	2,313,400
Net change in cash and cash equivalents	(141)	173,865
Cash and cash equivalents, beginning of period	177,011	146,782
Cash and cash equivalents, end of period	\$ 176,870	\$ 320,647

See accompanying notes to condensed consolidated financial statements

COMMAND SECURITY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Supplemental Disclosures of Cash Flow Information

Cash paid during the nine months ended December 31 for:	2009	2008
Interest	\$ 360,516	\$ 374,138
Income taxes	437,274	1,165,926

Supplemental Schedule of Non-Cash Investing and Financing Activities

During the nine months ended December 31, 2009 and 2008, we purchased security equipment with lease financing of \$107,298 and \$177,736, respectively. These amounts have been excluded from the purchases of equipment on the condensed consolidated statements of cash flows presented.

The Company may obtain short-term financing to meet its insurance needs. For the nine months ended December 31, 2009, \$3,618,554 was borrowed for this purpose. These borrowings have been excluded from the condensed consolidated statements of cash flows presented.

See accompanying notes to condensed consolidated financial statements

COMMAND SECURITY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The accompanying condensed consolidated 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, 2009. 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 consolidated financial statements for the interim period shown in this report are not necessarily indicative of our results to be expected for the fiscal year ending March 31, 2010 or for any subsequent period. In the opinion of our management, the accompanying condensed consolidated 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. We have evaluated subsequent events through February 12, 2010, the filing date of this Form 10-Q. In preparing these financial statements, we evaluated the events and transactions that occurred from December 31, 2009 to February 12, 2010, the date these financial statements were issued.

1. Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (“FASB”) issued a new standard pertaining to subsequent events that defined the period after the balance sheet date during which a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which a company shall recognize events or transactions occurring after the balance sheet date in its financial statements. This standard also requires a company to disclose the date through which subsequent events have been evaluated for recognition or disclosure in the financial statements. We have reflected the recognition and disclosure requirements of this standard in this Form 10-Q.

On July 1, 2009, we adopted FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (“ASC”) 105-10 (formerly Statement of Financial Accounting Standards (“SFAS”) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162). ASC 105-10 establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied in preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. The adoption of this standard had no impact on our condensed consolidated financial statements.

In September 2006, the FASB issued FASB ASC 820-10, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. FASB ASC 820-10 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the FASB issued Staff Position (“FSP”) 157-2, “Effective Date of FASB Statement No. 157”, which delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed in the financial statements on a nonrecurring basis. The FSP partially defers the effective date of FASB ASC 820-10 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within the scope of this FSP. Although the adoption of FASB ASC 820-10, as applied to financial assets and financial liabilities, did not have a material effect on our consolidated financial position or results of operations, we are now required to provide additional disclosures as part of our financial statements. FASB ASC 820-10 establishes a

three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

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COMMAND SECURITY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

- Level 1, defined as observable inputs such as quoted prices in active markets for identical assets;
- Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3, defined as unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions.

In December 2007, the FASB issued FASB ASC 805, Business Combinations, which continues the evolution toward fair value reporting and significantly changes the accounting for acquisitions that close beginning in 2009, both at the acquisition date and in subsequent periods. FASB ASC 805 introduces new accounting concepts and valuation complexities and many of the changes have the potential to generate greater earnings volatility after the reported acquisition. FASB ASC 805 also requires that acquisition costs be expensed as incurred and restructuring costs be expensed in periods after the acquisition date. FASB ASC 805 will only affect our financial condition or results of operations to the extent we complete business combinations after the effective date.

2.

Short-Term Borrowings:

On April 12, 2007, we entered into an Amended and Restated Agreement (“the Amended Agreement”) with CIT Group/Business Credit, Inc. (“CIT”). Pursuant to the Amended Agreement, the aggregate line of credit under our revolving credit facility with CIT was increased from \$12,000,000 to \$16,000,000, and we were provided with a \$2,400,000 acquisition advance to fund the cash requirements associated with the acquisition of a security services business. The Amended Agreement also extended the maturity date of the credit facility to December 12, 2008, reduced fees and availability reserves and increased the letter of credit sub-line to an aggregate amount of up to \$3,000,000. The Amended Agreement provided for interest to be calculated on the outstanding principal balance of the revolving loans at the prime rate (as defined in the Amended Agreement) less .25% and for LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate (as defined in the Amended Agreement) plus 2.0%.

On October 10, 2008, we amended the Amended Agreement to extend the maturity date of the credit facility to December 31, 2008 and to reduce the written notice period required to terminate the Amended Agreement from 60 days to 30 days.

On November 24, 2008, we again amended the Amended Agreement to extend the maturity date of the credit facility to March 31, 2009. The amendment also provided for interest to be calculated on the outstanding principal balance of the revolving loans at prime rate (as defined in the Amended Agreement) plus 3.50%. For LIBOR loans, interest was calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate (as defined in the Amended Agreement) plus 3.50%. In addition, we agreed to pay CIT a fee in the amount of \$20,000 (the “Amendment Fee”) in consideration for the extension provided to us under this amendment. The Amendment Fee was payable as follows: (i) If the Obligations (as defined in the Amended Agreement) were paid in full on or before January 31, 2009, the entire Amendment Fee shall be forgiven; (ii) If the Obligations (as defined in the Amended Agreement) were not paid on or before January 31, 2009, a portion of the Amendment Fee in the amount of \$7,500 must be paid on or before February 1, 2009; (iii) If the Obligations (as defined in the Amended Agreement) were paid in full on or before February 27, 2009, then the unpaid balance of the Amendment Fee shall be forgiven; and (iv) If the Obligations (as defined in the Amended Agreement) were not paid on or before February 27, 2009, then the unpaid balance of the Amendment Fee must be paid on or before March 2, 2009.

COMMAND SECURITY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

On February 12, 2009, we entered into a new \$20,000,000 credit facility (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). This new credit facility, which matures in February 2012, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain certain financial ratios. This new facility replaced our existing \$16,000,000 revolving credit facility with CIT, and was used to refinance outstanding indebtedness under that facility, to pay fees and expenses in connection therewith and, thereafter, for working capital (including acquisitions), letters of credit and other general corporate purposes.

The Credit Agreement provides for a letter of credit sub-line in an aggregate amount of up to \$3,000,000. 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 2.75%.

As of December 31, 2009, the interest rates were 4.75% and 3.125% for revolving and LIBOR loans, respectively. Closing costs for the Credit Agreement totaled \$314,706 and are being amortized over the three year life of the Credit Agreement.

At December 31, 2009, we had borrowed \$360,766 in revolving loans, \$10,500,000 in LIBOR loans and had \$175,665 letters of credit outstanding under the Credit Agreement, representing approximately 63% 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 nine months ended December 31, 2009, we were in compliance with all covenants under the Credit Agreement.

The Company may obtain short-term financing to meet its insurance needs. For the nine months ended December 31, 2009, \$3,618,554 was borrowed for this purpose. At December 31, 2009, we had \$2,993,616 of short-term insurance borrowings outstanding.

COMMAND SECURITY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Other Assets:

Other assets consist of the following:	December 31, 2009	March 31, 2009
Workers' compensation insurance	\$ 3,021,081	\$ 1,775,027
Other receivables	55,888	33,845
Security deposits	194,430	202,874
Deferred tax asset	2,246,208	2,055,348
Other (a)	439,497	225,987
	5,957,104	4,293,081
Current portion	(3,209,316)	(1,861,089)
Total non-current portion	\$ 2,747,788	\$ 2,431,992

(a) Included in other assets are marketable securities. Our marketable equity securities were measured at fair value using quoted market prices. They were classified as Level 1, in accordance with the FASB ASC 820-10 hierarchy, as they trade in an active market for which closing stock prices are readily available. The fair value of investments included in other assets at December 31, 2009 and March 31, 2009 was \$293,477 and \$144,740, respectively, resulting in unrealized losses of \$132,276 and \$281,011, respectively. These investments in marketable equity securities primarily of companies in the airline industry have been in an unrealized loss position for more than twelve months and are classified as available-for-sale and reported in the condensed consolidated balance sheets at fair value. We review all investments for other-than-temporary impairment at least quarterly or as indicators of impairment exist. Indicators of impairment include the duration and severity of the decline in fair value as well as the intent and ability to hold the investment to allow for a recovery in the market value of the investment. In addition, we consider qualitative factors that include, but are not limited to: (i) the financial condition and business plans of the investee including its future earnings potential; (ii) the investee's credit rating; and (iii) the current and expected market and industry conditions in which the investee operates. If a decline in the fair value of an investment is deemed by management to be other-than-temporary, we write down the cost basis of the investment to fair value, and the amount of the write-down is included in net earnings. Such a determination is dependent on the facts and circumstances relating to each investment. Based on our evaluation of the near-term prospects of the issuers and our ability and intent to hold these investments for a reasonable period sufficient for a forecasted recovery of fair value, we do not consider these investments to be other-than-temporarily impaired at December 31, 2009.

4. Accrued Expenses and Other Liabilities:

Accrued expenses and other liabilities consist of the following:	December 31, 2009	March 31, 2009
Payroll and related expenses	\$ 2,579,468	\$ 4,666,079
Taxes and fees payable	2,118,829	1,260,174
Accrued interest payable	—	38,779
Other	325,801	293,344

Total	\$ 5,024,098	\$ 6,258,376
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COMMAND SECURITY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 \$694,932 and \$517,697, and \$2,147,242 and \$1,429,635 for the three and nine months ended December 31, 2009 and 2008, 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 \$7,000,000 per occurrence for non-aviation related business (with an additional excess umbrella policy of \$10,000,000) and \$30,000,000 per occurrence for aviation related business. We retain the risk for the first \$25,000 per occurrence on the non-aviation related policy which includes airport wheelchair and electric cart operations, and \$5,000 on the aviation related policy except for \$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.

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; thus, 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 current results of operations.

6. Net Income per Common 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 nine months ended December 31, 2009 and 2008.

7. Contingencies:

The nature of our business is such that there is a significant volume of routine claims and lawsuits that are issued against us, the vast majority of which never lead to substantial damages being awarded. We maintain general liability and workers' compensation insurance coverage that we believe is appropriate to the relevant level of risk and potential liability. Some of the claims brought against us could result in significant payments; however, the exposure to us under general liability is limited to the first \$25,000 per occurrence on the non-aviation, airport wheelchair and electric cart operations related claims and \$5,000 per occurrence on the aviation related claims except for \$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 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.

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 consolidated 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 "could" 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 as a result of a generally poor economic environment, and the relatively high price of oil and the corresponding substantial increase in their operating costs in particular. If the business of any substantial customer or group of customers fails or is materially and adversely affected by these factors, they may seek to substantially reduce their expenditures for our services. These factors 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 are difficult for us to 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, 2009 could cause our actual results and experience 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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We believe the following critical accounting policies affect the significant estimates and judgments used in the preparation of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Principles of Consolidation

The accompanying condensed consolidated financial statements include our accounts and accounts of our wholly-owned domestic subsidiaries. All significant intercompany accounts and transactions have been eliminated in our condensed consolidated financial statements.

Use of Estimates

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. 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 Receivables

We periodically evaluate the requirement for providing for billing adjustments and/or credit losses on 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 as uncollectible.

Intangible Assets

Intangible assets are stated at cost and consist primarily of customer lists and borrowing costs that are being amortized on a straight-line basis over three to ten years and goodwill which is reviewed annually for impairment. The life assigned to customer lists acquired is based on management's estimate of the 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 sooner. Any potential impairment is evaluated based on anticipated undiscounted future cash flows and actual customer attrition in accordance with FASB ASC 350, Intangibles-Goodwill and Other.

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 data.

Workers' compensation annual premiums are based on the incurred losses as determined at the end of the coverage period, subject to minimum and maximum premium. Estimated accrued liabilities are based on our historical loss experience and the ratio of claims paid to our historical payout profiles.

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. 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 in selling, general and administrative expense.

Stock Based Compensation

In December 2004, the FASB issued FASB ASC 718, Stock Compensation. FASB ASC 718 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 were required to adopt the provisions of FASB ASC 718 effective July 1, 2005 and use the modified-prospective transition method. Under the modified-prospective 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 after July 1, 2005. The adoption of FASB ASC 718 resulted in non-cash charges of \$110,540 and \$108,366 for stock compensation cost for the nine months ended December 31, 2009 and 2008, respectively.

Overview

We principally provide uniformed security officers and aviation services to commercial, residential, financial, industrial, aviation and governmental customers through over forty company offices in twenty-four states 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, fringe 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 use a sophisticated software system that integrates scheduling, payroll and billing functions, giving customers the benefit of customized programs using the personnel best suited to the job.

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, capture market share in the markets in which we operate and improve our profitability. We intend to pursue 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.

We expect that security will continue to be a key area of focus both domestically in the United States and internationally.

Results of Operations

Revenues

Our revenues increased \$4,832,195 and \$11,719,854, or 14.8% and 11.9%, for the three and nine months ended December 31, 2009, respectively, compared with the corresponding periods of the prior year. The increase in revenues for the three and nine months ended December 31, 2009 was due mainly to: (i) the commencement of security services during the first quarter of fiscal 2010 under a new contract to provide such services to a major transportation company at approximately 120 locations in twenty-one states throughout the eastern and western regions of the United States that generated additional aggregate revenues of approximately \$6,800,000 and \$16,700,000, respectively; (ii) expansion of security services provided to new and existing customers, including several of the nation's largest banks, a large grocery market distribution center in California, a company that provides merchandising and distribution services to a major grocery retailer in New Jersey, a world leader in electronic design automation, a worldwide innovative technology company and a major New York City based hospital resulting in

additional aggregate revenues of approximately \$1,500,000 and \$4,400,000, respectively; and (iii) the acquisition of two security services businesses in Florida in September 2008 that generated higher revenues of approximately \$1,300,000 for the nine months ended December 31, 2009. The increase in our revenues was partially offset by: (i) the loss of revenues associated with skycap, wheelchair, cargo, security and baggage handling services previously provided to Delta Air Lines (“Delta”) at John F. Kennedy International Airport (“JFK”) of approximately \$1,900,000 and \$3,700,000, respectively; (ii) reduced demand for our services from several of our airline customers that we believe is primarily related to trends in the aviation industry toward reduced capacity, which resulted in reductions of service hours that we provided to such carriers and a corresponding reduction of revenues from such carriers or an aggregate of approximately \$500,000 and \$3,500,000, respectively; and (iii) reductions in service hours for several of our security services customers which we believe is principally attributable to current economic conditions affecting their businesses.

Gross Profit

Our gross profit increased by \$897,149 and \$1,141,177, or 19.0% and 7.9% for the three and nine months ended December 31, 2009, respectively, compared with the corresponding periods of the prior year. The increase in gross profit for the three and nine months ended December 31, 2009 was due mainly to: (i) the commencement of security services during the first quarter of fiscal 2010 under a new contract to provide such services to a major transportation company throughout the eastern and western regions of the United States as described above; (ii) expanded security services provided to new and existing customers as described above and (iii) the acquisition of two security services businesses in Florida in September 2008. The increase in gross profit was partially offset by: (i) the loss of Delta skycap, wheelchair, cargo, security and baggage handling services at JFK as noted above; (ii) reductions of service hours for several of our airline and security services customers which we believe is primarily resulting from a downturn in their respective businesses; and (iii) higher workers' compensation reserves associated with increased potential future costs for certain existing claims.

General and Administrative Expenses

Our general and administrative expenses decreased by \$46,102, or 1.1%, for the three months ended December 31, 2009 and increased by \$907,866, or 8.0%, for the nine months ended December 31, 2009 compared with the corresponding periods of the prior year. The decrease in general and administrative expenses for the three months ended December 31, 2009 resulted mainly from the absence of an employment related claim which was settled in the prior year period partially offset by the increases noted below. The increase in general and administrative expenses for the nine months ended December 31, 2009 resulted primarily from higher: (i) administrative payroll and related costs of approximately \$650,000 associated primarily with expanded operations, including the acquisitions in Florida and new contract awards noted above, additional investment in our corporate staff including the hiring of our Chief Executive Officer; (ii) facility and related office costs; (iii) insurance related costs and (iv) amortization costs associated with the acquisitions in Florida in September 2008, noted above.

Provision for Doubtful Accounts

The provision for doubtful accounts increased by \$12,017 and \$8,132 for the three and nine months ended December 31, 2009, respectively, compared with the corresponding periods of the prior year. The increase in the provision for doubtful accounts for the three and nine months ended December 31, 2009 was due mainly to the timing and amounts of uncollectible accounts charged and/or credited to expense between the current and prior year periods.

We periodically evaluate the requirement for providing for billing adjustments and/or credit losses on our accounts receivable. We provide for billing adjustments 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 as management deems them as uncollectible. We do not know if bad debts will increase in future periods nor does our management believe that the increase during the nine months ended December 31, 2009 compared with the corresponding period of the prior year is necessarily indicative of a trend.

Interest Income

Interest income which principally represents interest earned on: (i) cash balances and (ii) trust funds for potential future workers' compensation claims, decreased for the three and nine months ended December 31, 2009 compared with the same periods of the prior year as a result of lower trust fund balances for potential future workers' compensation claims and a reduction in the rate at which interest accrues on such balances.

Interest Expense

Interest expense decreased by \$2,460 and \$16,815 for the three and nine months ended December 31, 2009, respectively, compared with the corresponding periods of the prior year. The decrease in interest expense for the three and nine months ended December 31, 2009 was due mainly to lower weighted average interest rates, partially offset by higher average outstanding borrowings, under our commercial revolving loan agreement and short-term insurance financing.

Equipment Dispositions

Equipment dispositions are a result of the sale of vehicles, office equipment and security equipment at prices above or below book value.

The gains on equipment dispositions for the three and nine months ended December 31, 2009 were primarily due to the disposition of transportation and security equipment at amounts in excess of their respective book values.

Provision for income taxes

Provision for income taxes increased by \$444,700 and \$166,700 for the three and nine months ended December 31, 2009, respectively, compared with the corresponding periods of the prior year due mainly to the increase in our pre-tax earnings for the three and nine months ended December 31, 2009 and by a higher effective tax rate in the current year period.

Liquidity and Capital Resources

We pay employees and administrative service clients on a weekly basis, while customers pay for services generally within 60 days after we bill them. We maintain a commercial revolving loan arrangement, currently with Wells Fargo, to fund our payroll and operations.

Our principal use of short-term borrowings is for carrying accounts receivable. Our short-term borrowings have supported the increase in accounts receivable associated with our ongoing expansion and organic growth, including our previously announced contract awards aggregating \$27,000,000 in annual revenues for services to be provided at approximately 120 locations in twenty-one states throughout the eastern and western regions of the United States. We intend to continue to use our 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 our credit facilities 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.

Wells Fargo Revolving Credit Facility

On February 12, 2009, we entered into a new \$20,000,000 credit facility with Wells Fargo (the "Credit Agreement"). This new credit facility, which matures in February 2012, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain certain financial ratios. This new facility replaced our existing \$16,000,000 revolving credit facility with CIT Group/Business Credit, Inc., and was used to refinance outstanding indebtedness under that facility, to pay fees and expenses in connection therewith and, thereafter, for working capital (including acquisitions), letters of credit and other general corporate purposes.

The Credit Agreement provides for a letter of credit sub-line in an aggregate amount of up to \$3,000,000. 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 2.75%.

As of December 31, 2009, the interest rates were 4.75% and 3.125% for revolving and LIBOR loans, respectively. Closing costs for the Credit Agreement totaled \$314,706 and are being amortized over the three year life of the Credit Agreement.

At December 31, 2009, we had borrowed \$360,766 in revolving loans, \$10,500,000 in LIBOR loans and had \$175,665 letters of credit outstanding representing approximately 63% 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 nine months ended December 31, 2009, we were in compliance with all covenants under the Credit Agreement.

Other Borrowings

During the nine months ended December 31, 2009, we increased our short-term borrowings principally to finance our insurance needs.

We have no additional lines of credit other than described above.

Investing

We have no present material commitments for capital expenditures.

Working Capital

Working capital increased by \$2,061,198 to \$9,167,242 as of December 31, 2009, from \$7,106,044 as of March 31, 2009.

We experienced checks issued in advance of deposits (defined as checks drawn in advance of future deposits) of \$1,800,777 at December 31, 2009, compared with \$1,149,038 at March 31, 2009. Cash balances and book overdrafts 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

Financial Results

Future revenues will be largely dependent upon our ability to gain additional business from new and existing customers in our security and aviation services divisions at acceptable margins while minimizing terminations of contracts with existing customers. Our security services division has started to experience both organic and transactional growth over recent quarters after a reduction over the past few years as contracts with unacceptable margins were cancelled. Our current focus is on increasing revenue while our sales and marketing team and branch managers work to develop new business and retain profitable contracts. The airline industry continues to increase its demand for third party services provided by us; however, several of our airline customers have continued to reduce capacity within their system, which results in reductions of service hours provided by us to such carriers. Additionally, our aviation services division is continually subject to government regulation, which has adversely affected us in the past with the federalization of the pre-board screening services and most recently with the ongoing federalization of the document verification process at several of our domestic airport locations.

Our gross profit margin increased during the three months ended December 31, 2009 to 15.0% of revenues compared with 14.4% for the corresponding period last year. During the nine months ended December 31, 2009, our gross profit margin decreased to 14.1% of revenues compared with 14.6% for the corresponding period last year. We expect our gross profit margins to average between 13.5% and 14.5% of revenue for fiscal 2010 based on current business conditions. We expect gross profit to remain under pressure due primarily to continued price competition. However, we expect these effects to be moderated by continued operational efficiencies resulting from better management and leveraging of our cost structures, improved workers' compensation experience ratings, workflow process efficiencies associated with our integrated financial software system and higher contributions from our continuing new business development.

As part of our cost reduction program, we have established target goals for cost reductions in each operating region throughout the company. The majority of such initiatives have been effected as of the end of our second fiscal quarter and are expected to lower operating and/or general and administrative expenses for both the remainder of fiscal 2010 and future periods. Additional cost reduction opportunities are being identified and will be pursued as they are determined.

The aviation services division represents approximately 51% of our total revenue, and Delta, at annual billings of approximately \$13,000,000 for fiscal 2010 has been the largest customer of our aviation division representing, for fiscal 2010, approximately 18% of the revenues from our aviation services division and 9% of our total revenues. We recently participated in a competitive bidding process for Delta's ongoing aviation services business at John F. Kennedy International Airport ("JFK"), where we operated under a contract with Delta that generated annual revenues of approximately \$9,000,000. On November 11, 2009, we received a letter from Delta in which it informed us that we were not the successful bidder, and consequently that Delta intends to transition the security and baggage handling services previously performed by us for Delta at JFK to a selected supplier and to Delta's own affiliate. We discontinued providing such services to Delta under this contract on December 15, 2009. We continue to provide services for Delta at several of its other airport locations throughout the United States, and expect to continue to do so for the foreseeable future. We also hope to expand our relationship with Delta to other airport locations, although no assurances can be given in this regard. 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, results of operations and financial condition.

As described above on February 12, 2009, we entered into a new \$20,000,000 Credit Agreement with Wells Fargo. As of the close of business on February 5, 2010, our cash availability was approximately \$5,500,000, 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 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, 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 our credit facilities or otherwise. The financial markets generally, and the credit markets in particular, are and have been experiencing substantial turbulence and turmoil, and extreme volatility, both in the United States and, increasingly, 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 nine months ended December 31, 2009, 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 nine months ended December 31, 2009, a 1% change in the prime and/or LIBOR lending rates could impact our financial position and results of operations by approximately \$25,000 over the remainder of our fiscal year ending March 31, 2010. 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 December 31, 2009. There have been no changes in our internal control over financial reporting that occurred during the third quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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, 2009.

Item 6. Exhibits

(a) Exhibits

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.

Exhibit 99.1 Press Release, dated February 11, 2010 announcing December 31, 2009 financial results.

Exhibit 99.2 Barry I. Regenstein Employment Agreement

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: February 12, 2010

By: /s/ Edward S. Fleury
Edward S. Fleury
Chief Executive Officer
(Principal Executive Officer)

/s/ Barry I. Regenstein
Barry I. Regenstein
President and Chief Financial Officer
(Principal Financial and Accounting Officer)