COMMAND SECURITY CORP
Form 10-Q
February 17, 2015

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 December 31, 2014

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 x

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

The number of outstanding shares of the registrant's common stock as of January 31, 2015, was 9,731,564.

Table of Contents

		Page
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements	
	Condensed Statements of Income - three and nine months ended December 31, 2014 and 2013 (unaudited)	3
	Condensed Balance Sheets - December 31, 2014 (unaudited) and March 31, 2014	4
	Condensed Statements of Changes in Stockholders' Equity - nine months ended December 31, 2014 and 2013 (unaudited)	5
	Condensed Statements of Cash Flows - nine months ended December 31, 2014 and 2013 (unaudited)	6-7
	Notes to Condensed Financial Statements	8-10
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	18
Item 4.	Controls and Procedures	18
PART II.	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	19
Item 1A.	Risk Factors	19
Item 6.	Exhibits	19
SIGNATURES		20
Exhibit 31.1	Certification of Craig P. Coy	
Exhibit 31.2	Certification of N. Paul Brost	
Exhibit 32.1	§1350 Certification of Craig P. Coy	
Exhibit 32.2	§1350 Certification of N. Paul Brost	

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

COMMAND SECURITY CORPORATION
CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Revenues	$34,516,424	$40,439,437	$106,501,072	$118,548,024
Cost of revenues	29,519,594	34,853,644	91,280,719	102,497,832
Gross profit	4,996,830	5,585,793	15,220,353	16,050,192
Operating expenses				
General and administrative	4,606,262	4,285,709	13,191,477	13,073,478
Provision for doubtful accounts, net	31,421	171,250	(24,020)	318,985
	4,637,683	4,456,959	13,167,457	13,392,463
Operating income	359,147	1,128,834	2,052,896	2,657,729
Other expenses				
Interest expense	(33,087)	(38,114)	(121,794)	(140,555)
Income before income taxes and equity earnings in minority investment of unconcolidated affiliate	326,060	1,090,720	1,931,102	2,517,174
Equity earnings in minority investment of unconsolidated affiliate	125,000	-	370,000	-
Income before income taxes	451,060	1,090,720	2,301,102	2,517,174
Provision for income taxes	243,000	510,000	1,043,000	1,270,000
Net income	$208,060	$580,720	$1,258,102	$1,247,174
Income per share of common stock				
Basic	$0.02	$0.06	$0.13	$0.14
Diluted	$0.02	$0.06	$0.13	$0.13

Weighted average number of common shares outstanding				
Basic	9,718,870	9,263,606	9,606,271	9,178,912
Diluted	9,952,518	9,572,228	9,868,139	9,411,176

See accompanying notes to condensed financial statements

3

COMMAND SECURITY CORPORATION

CONDENSED BALANCE SHEETS

	December 31, 2014 (Unaudited)	March 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,893,975	$ 3,470,427
Accounts receivable, net of allowance for doubtful accounts accounts of $693,449 and $627,711, respectively	23,899,837	25,328,451
Prepaid expenses	753,337	1,533,475
Other assets	2,918,112	3,176,585
Total current assets	29,465,261	33,508,938
Furniture and equipment at cost, net	438,860	478,245
Other Assets:		
Intangible assets, net	1,863,514	2,163,156
Restricted cash	-	83,118
Minority investment in unconsolidated affiliate	2,495,000	2,125,000
Other assets	2,922,431	2,746,649
Total other assets	7,280,945	7,117,923
Total assets	$ 37,185,066	$ 41,105,106
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks issued in advance of deposits	$ 414,736	$ 1,219,909
Short-term borrowings	7,000,000	10,511,360
Accounts payable	1,676,986	1,234,307
Accrued expenses and other liabilities	6,832,352	8,710,408
Total current liabilities	15,924,074	21,675,984
Insurance reserves	817,592	673,161
Total liabilities	16,741,666	22,349,145
Stockholders' equity:		
Preferred stock, convertible Series A, $.0001 par value	-	-
Common stock, $.0001 par value	1,147	1,126
Treasury stock	(2,885,579)	(2,885,579)
Additional paid-in capital	18,115,131	17,685,815
Accumulated earnings	5,212,701	3,954,599

Total stockholders’ equity	20,443,400	18,755,961
Total liabilities and stockholders’ equity	$ 37,185,066	$41,105,106

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	Total
Balance at March 31, 2013	$ -	$ 1,085	$ (2,885,579)	$ 16,998,541	$ 2,844,853	$ 16,958,900
Options exercised, net		20		194,098		194,118
Stock compensation cost				121,487		121,487
Net income					1,247,174	1,247,174
Balance at December 31, 2013	-	1,105	(2,885,579)	17,314,126	4,092,027	18,521,679 -
Options exercised, net		21		340,814		340,835
Stock compensation cost				30,875		30,875
Net loss					(137,428)	(137,428)
Balance at March 31, 2014	-	1,126	(2,885,579)	17,685,815	3,954,599	18,755,961 -
Options exercised, net		21		265,527		265,548
Stock compensation cost				163,789		163,789
Net income					1,258,102	1,258,102
Balance at December 31, 2014	$ -	$ 1,147	$ (2,885,579)	$ 18,115,131	$ 5,212,701	$ 20,443,400

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$1,258,102	$1,247,174
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	480,207	515,424
Provision for doubtful accounts, net	(24,020)	318,985
Equity earnings in minority investment of unconsolidated affiliate	(370,000)	-
Rent expense	(38,937)	144,863
Gain/(loss) on asset dispositions	(2,500)	1,540
Stock based compensation costs	163,789	121,487
Insurance reserves	144,431	12,129
Deferred income taxes	(347,295)	(109,306)
Restricted cash	83,117	(28)
Decrease in receivables, prepaid expenses and other current assets	2,662,760	288,048
Increase/(decrease) in accounts payable and other liabilities	(1,396,440)	1,019,566
Net cash provided by operating activities	2,613,214	3,559,882
Cash flows from investing activities:		
Purchases of equipment	(138,681)	(85,694)
Net cash used in investing activities	(138,681)	(85,694)
Cash flows from financing activities:		
Net repayments on short-term borrowings	(3,511,359)	(684,470)
Decrease in checks issued in advance of deposits	(805,174)	(1,628,271)
Proceeds from option exercises	265,548	194,118
Net cash used in financing activities	(4,050,985)	(2,118,623)
Net change in cash and cash equivalents	(1,576,452)	1,355,565
Cash and cash equivalents, beginning of period	3,470,427	8,504
Cash and cash equivalents, end of period	$1,893,975	$1,364,069

See accompanying notes to condensed financial statements

6

COMMAND SECURITY CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Supplemental Disclosures of Cash Flow Information

Cash paid during the nine months ended December 31 for:	2014	2013
Interest	$123,427	$143,107
Income taxes	787,500	1,244,370

Supplemental Schedule of Non-Cash Investing and Financing Activities

The Company may obtain short-term premium financing to assist with meeting its annual property and casualty insurance needs. For the nine months ended December 31, 2013, $1,018,091 was financed for this purpose. There was no such financing obtained during the nine months ended December 31, 2014. These insurance premium financings have been excluded from the condensed statements of cash flows presented.

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, 2014. 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, 2015 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. 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 most recently amended in June 2014 (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 June 30, 2014, we entered into a fourth amendment (the “Fourth Amendment”) to our Credit Agreement. The Fourth Amendment (i) extends the date through which the Company may repurchase up to $2.0 million of its common stock, subject to certain conditions, to March 31, 2015; and (ii) provides for a Permitted Over-advance Amount (as defined in the Credit Agreement) in the amount of $2.125 million which shall be reduced by the amount of $265,625 on the first day of each fiscal quarter beginning October 1, 2014. The balance of the Permitted Over-Advance as of December 31, 2014, is $1,859,375. Interest on the Permitted Over-advance Amount is calculated on the outstanding balance of the Over-advance at the LIBOR rate (as defined in the Credit Agreement) plus 2.00%.

Under the Credit Agreement, as of December 31, 2014, the interest rate was 2.0% for LIBOR loans and revolving loans. At December 31, 2014, we had $1.9 million of cash on hand. We also had $7.0 million in LIBOR loans and Over-advances outstanding, no revolving loans outstanding and $219,473 outstanding under our letters of credit sub-line under the Credit Agreement, representing 44% of the maximum borrowing capacity under the Credit Agreement based on our “eligible accounts receivable” (as defined in 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, 2014, 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 December 31, 2014, we had no short-term insurance borrowings outstanding.

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

2. Other Assets:

	December 31, 2014	March 31, 2014
Workers' compensation insurance	$ 2,040,270	$ 2,441,236
Other receivables	6,000	6,000
Security deposits	169,850	198,870
Deferred tax asset	3,624,423	3,277,128
	5,840,543	5,923,234
Current portion	(2,918,112)	(3,176,585)
Total non-current portion	$ 2,922,431	$ 2,746,649

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.

3. Minority Investment in Unconsolidated Affiliate

In March 2014, the Company made a 20% minority investment in Ocean Protection Services LLC, a Delaware limited liability company ("OPS"). OPS owns 100% of Ocean Protection Services, Ltd., a UK based company specializing in maritime security, risk management and risk analysis. The Company purchased 2,000 Class A Common Units of OPS for a purchase price of $2.125 million and funded the purchase price through borrowings under the Company's existing line of credit. In connection with the investment, the Company may acquire additional ownership interest in OPS in the future.

4. Accrued Expenses and Other Liabilities:

	December 31, 2014	March 31, 2014
Payroll and related expenses	$ 5,126,256	$ 6,857,040
Taxes and fees payable	971,215	994,996
Accrued interest payable	3,368	5,000
Other	731,513	853,372
Total	$ 6,832,352	$ 8,710,408

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 $650,070 and $796,107 for the three months ended December 31, 2014 and 2013, respectively; and $2,020,035 and $2,313,595 for the nine months ended December 31, 2014 and 2013, 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.

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.

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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 nine months ended December 31, 2014 and 2013.

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. On February 20, 2014, the U.S. District Court, Central District of California, ruled in favor of the Company and granted our motion for summary judgment in full, denied the plaintiffs' motion for summary judgment and terminated the case. The plaintiffs filed their Notice of Appeal to the U.S. Court of Appeals for the Ninth Circuit on March 18, 2014. The appellate briefs have been filed, and the Court of Appeals for the Ninth Circuit has not yet set a date for oral argument. 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. Venue was subsequently transferred to the U.S. District Court for the Central District of California. On July 31, 2014 the U.S. District Court – Central District Court denied the plaintiff's motion for summary judgment and granted partial summary judgment in favor of the Company

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. 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 11% of our workforce is subject to collective bargaining arrangements. Two of the previously three active agreements have expired. There is currently one active agreement which is in an extension period and is under renegotiation.

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 “conti 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, 2014 and the risk factors set forth herein, could cause our actual 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 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.

Minority Investment in Unconsolidated Affiliate

The Company uses the equity method to account for its investment in Ocean Protection Services, LLC (“OPS”). Equity method investments are recorded at original cost and adjusted periodically to recognize: (i) our proportionate share of investees’ net income or losses after the date of the investment; (ii) additional contributions made or distributions received; and (iii) impairment losses resulting from adjustments to net realizable value.

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 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 are more likely than not of being 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 December 31, 2014 and 2013.

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 $163,789 and $121,487 for stock based compensation have been recorded for the nine months ended December 31, 2014 and 2013, respectively.

Overview

We principally provide uniformed security officers and aviation services to commercial, residential, financial, industrial, aviation and governmental customers through approximately 25 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.

Recent Developments

On January 6, 2015, the Company announced the award of two contracts with the U. S. Postal Service ("USPS"). The term of the award is 4 years, with three two-year options to extend, which may be exercised by USPS at any time. The first contract, pursuant to which the Company is contemplated to provide security services at 50 USPS locations in 18 states, Puerto Rico and the District of Columbia, is valued at approximately $20.0 million in revenue per year. The second contract entails the operation of the USPS National Law Enforcement Communication Centers at Dulles, Virginia and Ft. Worth, Texas and contemplates revenue generation of approximately $5.0 million in revenue per year.

On January 27, 2015, the Company was notified by the USPS that ABM Security Services ("ABM") had lodged a protest with the USPS seeking to overturn the contracts that were awarded to the Company. The Company learned that the USPS had previously denied ABM's protest ruling that ABM's grounds for its protest are all without merit. ABM has appealed USPS's ruling. On January 29, 2015, the USPS issued a stay of the transition of the two contracts pending the resolution of the dispute.

The Company strongly disagrees with ABM's assertion that the contracts were improperly awarded to the Company, and intends to vigorously defend its rights with respect to the contracts awarded to it. The Company cannot determine how long the stay of the transition of the contracts to the Company will remain in effect or predict the outcome of the dispute, including whether the transition will occur.

Results of Operations

Revenues

Our revenues decreased by $5,923,013, or 14.6%, to $34,516,424 for the three months ended December 31, 2014 from $40,439,437 in the corresponding period of the prior year. The decrease in revenues for the three months ended December 31, 2014 was due mainly to a $5.4 million reduction in revenues from a major transportation company following the loss of the Western region services contract with this customer effective May 31, 2014. In addition, revenues from temporary aviation related construction security services declined by approximately $0.4 million and revenues from other commercial and industrial properties decreased by $0.3 million. These decreases were partly offset by increases in revenues from aviation services and healthcare facilities.

Our revenues decreased by $12,046,952, or 10.2%, to $106,501,072 for the nine months ended December 31, 2014 from $118,548,024 in the corresponding period of the prior year. The decrease in revenues for the nine months ended December 31, 2014 was due to an $11.9 million reduction in revenues from a major transportation company following the loss of the Western region services contract with this customer effective May 31, 2014. In addition, revenues declined from temporary aviation-related construction security services by $1.0 million, from a state government in the northeastern United States by $1.0 million, and from other commercial and industrial customers by $1.0 million.

These decreases were partly offset by increases in revenues from several airlines of $1.0 million, from healthcare facilities in the northeastern United States of $1.2 million and from financial services companies of $0.7 million.

<u>Gross Profit</u>

Our gross profit decreased by $588,963, or 10.5%, to $4,996,830 (14.5% of revenues) for the three months ended December 31, 2014, from $5,585,793 (13.8% of revenues) in the corresponding period of the prior year. The decrease was due mainly to the above-mentioned reduction in revenues from a major transportation company and the temporary aviation related construction security services. These decreases were partly offset by increases in aviation services.

Our gross profit decreased by $829,839, or 5.2%, to $15,220,353 (14.3% of revenues) for the nine months ended December 31, 2014, from $16,050,192 (13.5% of revenues) in the corresponding period of the prior year. The decrease was due mainly to the above-mentioned reduction in revenues from a major transportation company partly offset by increases in aviation services, services to healthcare facilities and financial services companies.

General and Administrative Expenses

Our general and administrative expenses increased by $320,553, or 7.5%, to $4,606,262 (13.3% of revenues) for the three months ended December 31, 2014, from $4,285,709 (10.6% of revenues) in the corresponding period of the prior year. The increase in general and administrative expenses for the three months ended December 31, 2014, was driven primarily by increased legal costs, labor settlements, and business development costs.

Our general and administrative expenses increased by $117,999, or 0.9%, to $13,191,477 (12.4% of revenues) for the nine months ended December 31, 2014, from $13,073,478 (11.0% of revenues) in the corresponding period of the prior year. The increase in general and administrative expenses for the nine months ended December 31, 2014 was driven primarily by higher employee compensation and benefits costs, partly offset by lower legal and labor settlement costs.

Provision for Doubtful Accounts

The provision for doubtful accounts for the three months ended December 31, 2014, net of recoveries, decreased by $139,829 to net expense of $31,421 as compared with $171,250 of net expense in the corresponding period of the prior year.

The provision for doubtful accounts for the nine months ended December 31, 2014, net of recoveries, decreased by $343,005 to net recoveries of $24,020 as compared with $318,985 of net expense in the corresponding period of the prior year. The decrease in the net provision for doubtful accounts for the nine months ended December 31, 2014 related primarily to the recovery of approximately $212,000 previously considered to be uncollectible.

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 Expense

Interest expense decreased by $5,027, or 13.2%, to $33,087 for the three months ended December 31, 2014, from $38,114 in the corresponding period of the prior year. The decrease in interest expense for the three months ended December 31, 2014 was due to lower average outstanding borrowings under our credit agreement with Wells Fargo, described below.

Interest expense decreased by $18,761, or 13.3%, to $121,794 for the nine months ended December 31, 2014, from $140,555 in the corresponding period of the prior year. The decrease in interest expense for the nine months ended December 31, 2014 was due to lower average outstanding borrowings under our credit agreement with Wells Fargo, described below.

Equity Earnings in Minority Investment of Unconsolidated Affiliate

The Company uses the equity method to account for its investment in OPS. The Company's proportionate share of net income of OPS for the three and nine months ended December 31, 2014 was $125,000 and $370,000, respectively. There were no equity earnings in the same periods of the prior year.

Provision for income taxes

The provision for income taxes decreased by $267,000 to $243,000 for the three months ended December 31, 2014 compared with $510,000 in the corresponding period of the prior year due to lower pre-tax earnings. The Company's effective tax rate for the three months ended December 31, 2014 was 53.9% as compared with 46.8% in the corresponding period of the prior year due to an increase in certain non-deductible costs.

The provision for income taxes decreased by $227,000 to $1,043,000 for the nine months ended December 31, 2014 compared with $1,270,000 in the corresponding period of the prior year primarily due to lower pre-tax earnings and a reduction of permanent tax differences resulting from the cancellation of stock options previously held by former employees. The Company's effective tax rate decreased by 5.2% to 45.3% for the nine months ended December 31, 2014 compared with 50.5% in the corresponding period of the prior year primarily due to a reduction of permanent tax differences 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 provide funding for our payroll and operations primarily through borrowings under our $20.0 million credit facility with Wells Fargo (the "Credit Agreement"), described below under "Short Term Borrowings."

We principally use short-term borrowings under our Credit Agreement to fund our accounts receivable. 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 most recently amended in June 2014 (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 June 30, 2014, we entered into a fourth amendment (the "Fourth Amendment") to our Credit Agreement. The Fourth Amendment (i) extends the date through which the Company may repurchase up to $2.0 million of its common stock, subject to certain conditions, to March 31, 2015; and (ii) provides for a Permitted Over-advance Amount (as defined in the Credit Agreement) in the amount of $2,125,000 which shall be reduced by the amount of $265,625 on the first day of each fiscal quarter beginning October 1, 2014. The balance of the Permitted Over-Advance as of December 31, 2014, is $1,859,375. Interest on the Permitted Over-advance Amount is calculated on the outstanding balance of the Over-advance at the LIBOR rate (as defined in the Credit Agreement) plus 2.00%.

Under the Credit Agreement, as of December 31, 2014, the interest rate was 2.0% for LIBOR loans and revolving loans. At December 31, 2014, we had $1.9 million of cash on hand. We also had $7.0 million in LIBOR loans and Over-advances outstanding, no revolving loans outstanding and $219,473 outstanding under our letters of credit sub-line under the Credit Agreement, representing 44% of the maximum borrowing capacity under the Credit Agreement based on our “eligible accounts receivable” (as defined in 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, 2014, 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 December 31, 2014, 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 $1,708,232, or 14.4%, to $13,541,187 as of December 31, 2014, from $11,832,954 as of March 31, 2014.

We had checks drawn in advance of future deposits of $414,736 at December 31, 2014, compared with $1,219,909 at March 31, 2014. 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 three years, we have identified and 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:

- Streamlining of our management structure to integrate all of our functions into a common platform and deploy resources more efficiently.
- 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 so as to provide "best in class" capabilities are brought to market
- Identification of new technology offerings to enhance our capabilities and augment our service offerings.

As discussed above, on January 6, 2015, the Company announced the award of two contracts with the U. S. Postal Service ("USPS"). The term of the award is 4 years, with three two-year options to extend, which may be exercised by USPS at any time. The first contract, pursuant to which the Company is contemplated to provide security services at 50 USPS locations in 18 states, Puerto Rico and the District of Columbia, is valued at approximately $20.0 million in revenue per year. The second contract entails the operation of the USPS National Law Enforcement Communication Centers at Dulles, Virginia and Ft. Worth, Texas and contemplates revenue generation of approximately $5.0 million in revenue per year.

On January 27, 2015, the Company was notified by the USPS that ABM Security Services ("ABM") had lodged a protest with the USPS seeking to overturn the contracts that were awarded to the Company. The Company learned that the USPS had previously denied ABM's protest ruling that ABM's grounds for its protest are all without merit. ABM has appealed USPS's ruling. On January 29, 2015, the USPS issued a stay of the transition of the two contracts pending the resolution of the dispute.

The Company strongly disagrees with ABM’s assertion that the contracts were improperly awarded to the Company, and intends to vigorously defend its rights with respect to the contracts awarded to it. The Company cannot determine how long the stay of the transition of the contracts to the Company will remain in effect or predict the outcome of the dispute, including whether the transition will occur.

On October 24, 2014, the Company announced an exclusive teaming agreement with iRobot Corporation to explore next-generation staff augmentation through a trial program with various customers.

An important part of our strategic plan includes identifying strengths and challenges in our current capabilities and market concentration and re-focusing our strategic efforts on customers, capabilities and markets that provide opportunity for optimal growth. We seek to grow our business with clients that value our services and capabilities and limit business with clients that fail to meet operational and financial standards. Additionally, as we sharpen our focus on our existing domestic general security and aviation markets, we continue to consider opportunities to expand into new markets and capabilities that complement our existing business with both domestic and international opportunities. Our minority investment in OPS provides an opportunity to expand internationally into the complementary maritime security business, resulted from the implementation of this strategy.

These strategic initiatives may result in future costs related to new business development expenses, 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 nine months ended December 31, 2014 and December 31, 2013 was 14.0% and 13.5% of revenues, respectively. We expect our gross profit margins to average between 12.5% and 13.5% of revenue in fiscal 2015 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 security services division generated approximately $65.0 million or 61% of our total revenues in the nine months ended December 31, 2014. We rely on a single major transportation company for a significant portion of our security services revenues. During the nine months ended December 31, 2014, this customer represented approximately 16.1% of our total revenues. During fiscal year 2014, this customer represented approximately 25% of our total revenues. As previously announced, the Company was not awarded the follow-on contract for the Western Region of this major transportation company and the existing contract for the Western Region expired on May 31, 2014. Annual revenues under the Western Region contract for the year ended March 31, 2014, were $20.4 million or 13% of total revenues. There is no assurance that we will not lose additional contracts with this or other significant customers in the future, the loss of which may have a material adverse effect on our business, results of operations and financial condition.

Our aviation services division generated approximately $42.0 million or 39%, of our total revenues in the nine months ended December 31, 2014. 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 most recently amended on June 30, 2014, as described above. As of the close of business on January 30, 2015, our total outstanding borrowings under the Credit Agreement were approximately $7.0 million and our total availability was approximately $8.6 million, including amounts available under the Permitted Over-advance as per the amended Credit Agreement, 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 nine months ended December 31, 2014, 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, 2014, a 1% change in the prime and/or LIBOR lending rates could impact our financial position and results of operations by approximately $16,000 over the remainder of our fiscal year ending March 31, 2015. 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 – Short Term Borrowings."

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 (the "Exchange Act"), 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, 2014.
There have been no changes in our internal control over financial reporting that occurred during our third quarter of fiscal 2015 ended December 31, 2014 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

We have incurred and may incur additional significant costs, which we may not be able to recover, in connection with a stay of the transition of the contracts awarded to us by the United States Postal Service.

On December 31, 2014, we were awarded two contracts by the United States Postal Service (“USPS”) for security services with an estimated aggregate value of approximately $250 million over ten years. The contracts have an initial four year term and three, two-year options.

On January 27, 2015, the Company was notified by the USPS that ABM Security Services (“ABM”) had lodged a protest with the USPS seeking to overturn the contracts that were awarded to the Company. On January 29, 2015, the USPS issued a stay of the transition of the two contracts pending the resolution of a dispute over the award of such contracts to us. As a result, we will not begin work on the contracts unless and until the stay is lifted. We have incurred and may incur start-up costs and other expenses in connection with the award of the contracts from the USPS, including the acquisition of equipment and hiring and training of personnel.   In addition, we may incur significant costs and expenses, including legal fees, in connection with the stay of the transition of the contracts to us. It is not clear to what extent, if or when we may recover any of the costs incurred in connection with the contracts or the stay of the transition of the contracts. Furthermore, we cannot determine how long the stay of the transition of the contracts to us will remain in effect or predict the outcome of the dispute, including whether the transition will occur. If the contracts are terminated, we cannot predict the amount, if any, of the start-up costs that we may be able to recover.

Except for the foregoing, there have been no material changes to our risk factors from those disclosed in our Annual Report on Form 10-K for our fiscal year ended March 31, 2014.

Item 6. Exhibits

Exhibits

(a)

Exhibit 10.1 Craig P. Coy Employment Agreement Extension dated December 23, 2014 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 23, 2014).

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 17, 2015.

Exhibit 101* The following materials from our Quarterly Report on Form 10-Q for the quarter ended December 31, 2014 are formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Statements of Income for the three and nine months ended December 31, 2014 and December 31, 2013, (ii) Condensed Balance Sheets as of December 31, 2014 and March 31, 2014, (iii) Condensed Statements of Changes in Stockholders' Equity for the nine months ended December 31, 2014 and December 31, 2013, (iv) Condensed Statements of Cash Flows for the nine months ended December 31, 2014 and December 31, 2013, and (v) Notes to the Unaudited Condensed Financial Statements.

*Filed herewith
**Furnished herewith

SIGNATURES

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

COMMAND SECURITY CORPORATION

Date: February 17, 2015 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)