

COMMAND SECURITY CORP
Form 10-Q
November 13, 2006

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 September 30, 2006

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)

Registrant's telephone number, including area code (845) 454-3703

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated Filer Non-accelerated Filer

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date: 10,137,970 (as of November 2, 2006).

COMMAND SECURITY CORPORATION
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Part I. Financial InformationItem 1. Financial StatementsCOMMAND SECURITY CORPORATIONCONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
Revenues	\$ 23,910,688	\$ 21,932,847	\$ 46,216,582	\$ 42,841,484
Cost of revenues	20,484,111	18,793,013	39,566,435	36,979,569
Gross profit	3,426,577	3,139,834	6,650,147	5,861,915
Operating expenses				
General and administrative	3,154,230	2,453,046	6,107,085	4,793,541
Provision for doubtful accounts, net	46,800	924,405	85,916	999,345
	3,201,030	3,377,451	6,193,001	5,792,886
Operating income (loss)	225,547	(237,617)	457,146	69,029
Interest income	68,912	58,396	126,932	109,188
Interest expense	(120,071)	(113,890)	(206,365)	(224,946)
Equipment dispositions	400	14,637	1,400	18,437
Income (loss) before income taxes	174,788	(278,474)	379,113	(28,292)
Provision for income taxes	—	—	—	—
Net income (loss)	\$ 174,788	\$ (278,474)	\$ 379,113	\$ (28,292)
Net income (loss) per common share				
Basic	\$.02	\$ (.03)	\$.04	\$.00
Diluted	\$.02	\$ n/a	\$.04	\$ n/a
Weighted average number of common shares outstanding				
Basic	10,137,970	8,401,932	10,137,970	8,090,905
Diluted	10,574,530	n/a	10,567,107	n/a

See accompanying notes to condensed financial statements.

COMMAND SECURITY CORPORATIONCONDENSED BALANCE SHEETS

(Unaudited)

ASSETS

	September 30, 2006	March 31, 2006
Current assets:		
Cash and cash equivalents	\$ 159,419	\$ 32,243
Accounts receivable, net of allowance for doubtful accounts of \$637,547 and \$332,892, respectively	15,524,702	13,804,100
Prepaid expenses	135,058	721,451
Other assets	1,850,221	2,291,135
Total current assets	17,669,400	16,848,929
Furniture and equipment at cost, net	494,880	405,179
Other assets:		
Intangible assets, net	815,797	79,450
Restricted cash	76,233	74,447
Other assets	667,697	705,294
Total other assets	1,559,727	859,191
Total assets	\$ 19,724,007	\$ 18,113,299

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Checks issued in advance of deposits	\$ 1,819,031	\$ 1,828,802
Current maturities of long-term debt	268,718	52,614
Current maturities of obligations under capital leases	31,196	38,680
Short-term borrowings	4,915,005	3,383,740
Accounts payable	528,686	939,526
Due to service companies	88,353	101,391
Accrued expenses and other liabilities	3,361,376	3,666,431
Total current liabilities	11,012,365	10,011,184
Insurance reserves	471,874	420,781
Long-term debt, due after one year	127,376	27,957
Obligations under capital leases, due after one year	18,040	28,680
Total liabilities	11,629,655	10,488,602
Stockholders' equity:		
Preferred stock, Series A, \$.0001 par value	—	—
Common stock, \$.0001 par value	1,014	1,014
Accumulated other comprehensive loss	(21,358)	—
Additional paid-in capital	13,775,211	13,663,311
Accumulated deficit	(5,660,515)	(6,039,628)

Total stockholders' equity	8,094,352	7,624,697
Total liabilities and stockholders' equity	\$ 19,724,007	\$ 18,113,299

See accompanying notes to condensed financial statements.

COMMAND SECURITY CORPORATIONCONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Preferred Stock	Common Stock	Accumulated Other Comprehensive Loss	Additional Paid-In Capital	Accumulated Deficit	
Balance at March 31, 2005	\$	-\$	778 \$	-\$	10,348,582 \$	(5,940,033)
Stock compensation cost				71,050		
Warrants exercised			97	1,188,129		
Net loss - six months ended September 30, 2005						(28,292)
Balance at September 30, 2005		—	875	—	11,607,761	(5,968,325)
Warrants exercised			139	1,729,250		
Stock compensation cost				326,300		
Net loss - six months ended March 31, 2006						(71,303)
Balance at March 31, 2006		—	1,014	—	13,663,311	(6,039,628)
Stock compensation cost				111,900		
Other comprehensive loss			(21,358)			
Net income - six months ended September 30, 2006						379,113
Balance at September 30, 2006	\$	-\$	1,014 \$	(21,358)\$	13,775,211 \$	(5,660,515)

See accompanying notes to condensed financial statements.

COMMAND SECURITY CORPORATIONCONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	September 30, 2006	September 30, 2005
Cash flow from operating activities:		
Net income (loss)	\$ 379,113	\$ (28,292)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	152,016	149,698
Provision for doubtful accounts, net	85,915	999,345
Gain on equipment dispositions	(1,400)	(18,437)
Stock compensation	111,900	71,050
Insurance reserves	102,184	(6,473)
Increase in receivables, prepaid expenses and other current assets	(909,854)	(1,152,888)
Decrease in accounts payable and other current liabilities	(780,024)	(2,444,422)
Net cash used in operating activities	(860,150)	(2,430,419)
Cash flows from investing activities:		
Purchases of equipment	(198,770)	(27,122)
Proceeds from equipment dispositions	1,400	9,895
Acquisition of business	(412,500)	—
Principal collections on notes receivable	115,803	—
Net cash used in investing activities	(494,067)	(17,227)
Cash flows from financing activities:		
Net advances on line-of-credit	1,544,627	527,728
(Decrease) increase in checks issued in advance of deposits	(9,771)	1,720,144
Proceeds from warrant exercises	—	1,188,226
Principal payments on other borrowings	(35,339)	(319,156)
Principal payments on capital lease obligations	(18,124)	(20,311)
Net cash provided by financing activities	1,481,393	3,096,631
Net change in cash and cash equivalents	127,176	648,985
Cash and cash equivalents, at beginning of period	32,243	2,511,050
Cash and cash equivalents, at end of period	\$ 159,419	\$ 3,160,035

See accompanying notes to condensed financial statements. (Continued)

COMMAND SECURITY CORPORATIONCONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

Supplemental Disclosures of Cash Flow Information

Cash paid during the six months ended September 30 for:	2006	2005
Interest	\$ 195,109	\$ 220,555
Income taxes	13,489	13,976

Supplemental Schedule of Non-Cash Investing and Financing Activities

For the six months ended September 30, 2006, the Company acquired a security services business for a purchase price of \$750,000. At the closing, the Company paid \$412,500 of the purchase price in cash and issued a note payable in the amount of \$337,500 for the remaining balance of the purchase price. This note payable amount has been excluded from acquisition of business and proceeds from long-term debt on the condensed statements of cash flows.

For the six months ended September 30, 2005, the Company purchased transportation equipment with direct installment and lease financing of \$63,098. This amount has been excluded from the purchases of equipment and proceeds from long-term debt on the condensed statements of cash flows.

The Company may obtain short-term financing to meet its insurance needs. For the six months ended September 30, 2005, \$106,895 was borrowed for this purpose. This borrowing has been excluded from the condensed statements of cash flows.

See accompanying notes to condensed financial statements.

COMMAND SECURITY CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

The unaudited financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These statements should be read in conjunction with the financial statements and notes thereto included in the Company's financial statements for the fiscal year ended March 31, 2006.

The financial statements for the interim period shown in this report are not necessarily indicative of results to be expected for the fiscal year ending March 31, 2007. In the opinion of management, the information contained herein reflects all adjustments necessary to summarize fairly the results of operations, financial position, stockholders' equity and cash flows as of, and for the periods, indicated therein. All such adjustments are of a normal recurring nature.

1. Short-Term Borrowings:

Until March 21, 2006, we were parties to a financing agreement (the "Agreement") with CIT that had a term of 3 years ending December 12, 2006 and provided for borrowings in an amount up to 85% of the Company's eligible accounts receivable, but in no event more than \$15,000,000. The Agreement also provided for advances against unbilled revenue (primarily monthly invoiced accounts) although this benefit was offset by a reserve against all outstanding payroll checks. The revolving loan bore interest at the prime rate, as defined, plus 1.25% per annum on the greater of: (i) \$5,000,000 or (ii) the average of the net balances owed by the Company to CIT in the loan account at the close of each day during such month. Costs to close the loan totaled \$279,963 and are being amortized over the three year life of the Agreement.

On March 22, 2006, the Company entered into an Amended and Restated Financing Agreement with CIT (the "Amended Agreement"), which provides for borrowings as noted above, but in no event more than \$12,000,000. The Amended Agreement provides for a letter of credit sub-line in an aggregate amount of up to \$1,500,000. Letters of credit are subject to a two percent (2%) per annum fee on the face amount of each letter of credit. The Amended Agreement provides that interest will be calculated on the outstanding principal balance of the revolving loans at the prime rate, as defined, plus .25% if EBITDA, as defined, is equal to or less than \$500,000 for the most recently completed fiscal quarter; otherwise, at the prime rate, as defined. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate, as defined, plus 2.75% if EBITDA, as defined, is equal to or less than \$500,000 for the most recently completed fiscal quarter; otherwise, at the LIBOR rate, as defined, plus 2.50%. As of September 30, 2006, the interest rate was 8.25% per annum.

At September 30, 2006, the Company had borrowed \$4,915,005 and had a \$70,000 letter of credit outstanding representing approximately 57% of its maximum borrowing capacity based on the definition of "eligible accounts receivable" under the terms of the Amended Agreement. However, as the business grows and produces new receivables, up to \$7,014,995 could additionally be available to borrow under the Amended Agreement.

The Company relies on its revolving loan from CIT which contains a fixed charge covenant and various other financial and non-financial covenants. If the Company breaches a covenant, CIT has the right to call the line unless CIT waives the breach. For the six months ended September 30, 2006, the Company was in compliance with all covenants under the agreement.

COMMAND SECURITY CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

2. Other Assets:

Other assets consist of the following:	September 30, 2006	March 31, 2006
Workers' compensation insurance	\$ 1,703,200	\$ 2,135,460
Note receivable	—	115,803
Other receivables	198,126	215,558
Security deposits	204,751	195,499
Deferred tax asset	333,845	333,845
Investments	77,996	264
	2,517,918	2,996,429
Current portion	(1,850,221)	(2,291,135)
Total non-current portion	\$ 667,697	\$ 705,294

3. Acquisition:

During June 2006, the Company closed on the purchase of the security guard business of Sterling Protective Group, Inc., a provider of security services primarily in Miami Dade and Broward counties in Florida. The purchase price for the business was \$750,000. At the closing, the Company paid \$412,500 of the purchase price in cash and issued a note payable in the amount of \$337,500 for the remaining balance of the purchase price. The note payable is due in three equal installments of \$112,500 payable six, twelve and eighteen months after the closing and bears interest at the rate of 7.75% per annum.

4. Accrued Expenses and Other Liabilities:

Accrued expenses and other liabilities consist of the following:

September 30, 2006	March 31, 2006
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