COMMAND SECURITY CORP
Form 10-K
June 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2016

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)*

Registrant's telephone number, including area code: **(703) 464-4735**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	NYSE MKT

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 Act). Yes ¨ No x

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant was $13,401,493 as of September 30, 2015. The closing price of the registrant's common stock on September 30, 2015, as reported on the NYSE MKT, was $1.84 per share.

In determining the market value of the voting or non-voting common equity held by non-affiliates of the registrant, securities of the registrant beneficially owned by the directors and officers of the registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

There were 9,792,618 outstanding shares of the registrant's common stock as of June 7, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 5, 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Parts II and III hereof from the registrant's definitive proxy statement relating to the registrant's 2016 Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission (the "SEC") within 120 days of the close of the registrant's fiscal year ended March 31, 2016.

Command Security Corporation

Annual Report on Form 10-K

For the Fiscal Year Ended March 31, 2016

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PART I

ITEM 1. BUSINESS.

General

Command Security Corporation (the "Company," or "we") was incorporated in New York in 1980 and principally provides uniformed security officers and aviation security services to commercial, financial, industrial, aviation and governmental customers throughout the United States. We provide our security services to our customers through Command Security, our security division, and our aviation security services through our Aviation Safeguards division. Recently, the Company commenced work on the U.S. Postal Service ("USPS") contract that had been delayed for over 15 months due to legal protests challenging the original award decision. This marks the start of a federal government line of business which eventually will include the Department of Homeland Security/Transportation Security Administration Screening Services Indefinite Delivery Indefinite Quantity contract award.

Command Security provides security services to governmental, quasi-governmental and financial institutions, healthcare facilities, colleges and universities, residential communities, commercial real estate, industrial, distribution, logistics and retail customers. Our security services include providing armed and unarmed uniformed security personnel for access control, loss prevention, mobile patrols, traffic control, security console/system operators and fire safety directors, as well as providing personnel for reception, concierge and front desk/doorman operations. The security services division generated approximately $72 million, or 54% of our total revenues for the fiscal year ended March 31, 2016.

Aviation Safeguards provides aviation security and passenger assistance services to more than 50 domestic and international airlines, airports, airport authorities and the general aviation community at approximately nine international airports. Our aviation security division provides a variety of uniformed services for domestic and international air carriers, including security for airlines, aircraft, passengers and cargo, baggage screening, wheelchair escort services, special escort services and skycap services. The aviation services division generated approximately $61 million, or 46% of our total revenues for the fiscal year ended March 31, 2016.

In March 2014, the Company made a 20% minority investment in Ocean Protection Services LLC, a Delaware limited liability company ("OPS") formed in February 2014. 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. The excess of the carrying value of the Company’s investment in OPS and the Company’s proportionate share of the net assets of OPS is largely attributable to goodwill. Since the Company’s initial investment, there have been no additional capital contributions made or distributions received.

The investment in OPS was an important strategic step for the Company and allowed us the opportunity to expand our service and product offerings into a new and emerging market that offers growth and the potential for margins in excess of what the company has historically achieved while also providing an entry into another important segment of the security services industry. The maritime security market also provides the Company excellent visibility into potential international opportunities which may allow the Company to leverage our core domestic experience and knowledge in coordination with our OPS partners. Further, the Company’s significant customer base and market awareness offers another avenue for OPS to potentially explore with critical infrastructure opportunities in the U.S. market.

Operations

As a licensed security company, our security services division deploys security officers to protect people and property; prevent the theft of property; and deter, observe, detect and report security threats for our customers. We conduct our security services principally by providing security officers and other personnel who are, depending on the particular customer requirements, uniformed or plain-clothed, armed or unarmed. Based on the customer requirements and/or our internal threat assessment, our security officers patrol in marked vehicles with radio communications; stand duty on the customer premises at stationary posts such as points of access, reception areas or surveillance monitors, and/or conduct foot patrols around the customer perimeter and other high-value areas. Our security officers maintain contact with their headquarters or supervisors via car radio, hand-held radios or cell phones. In addition to the more traditional tasks associated with access control and loss prevention, our security officers respond to and report emergency situations such as fires, natural disasters, work accidents and medical crises to the appropriate authorities. We provide security officer services to many of our customers, 24-hours per day and 365 days per year. Our security officers are deployed to provide facility security, access control, personnel security checks, traffic and parking control and to protect against fire, theft, sabotage and safety hazards. We also provide specialized vehicle patrol and inspection services as well as technical products such as access control, video monitoring and other devices through distribution arrangements. Our aviation services division provides a variety of uniformed personnel for security including aircraft and cargo security, access control, wheelchair and passenger escorts, skycaps and baggage handlers for domestic and international air carriers. 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 may 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.

To better integrate and manage our business, our operations are divided into General Security, Aviation Services and National Accounts. Each of these divisions is managed by a vice president/program manager who is responsible for developing and executing our business plan based on the demand, needs and competition in each of our specific markets. The division vice presidents and program managers are assisted by district managers who are responsible for local implementation of policies and procedures. While each divisional business plan is based on our overall corporate strategy, the primary mission of our divisional vice presidents is to staff, train and deploy their teams to provide the

necessary physical security and customer service solutions in a responsive fashion consistent with customer service expectations. They also are expected to manage the growth and profitability of their division's operations. We have approximately 28 offices and operate directly or through subcontractors throughout the United States, including in California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Washington, and West Virginia. We frequently establish offices close to our customers and delegate responsibility to our local managers to satisfy customer expectations. Our managers maintain ongoing relationships and contact with our customers in order to promptly and effectively anticipate and respond to the needs of customers and security officers. Our managers play an important role in maintaining service quality and assisting with sales and marketing efforts. Our sales and marketing efforts focus on customers located primarily in urban centers and other concentrated business districts in major metropolitan areas and select suburban areas with a high density of businesses.

We generally render our security services pursuant to a standard form security services agreement that specifies the personnel and/or equipment to be provided by us at one or more designated locations and the applicable payment rates, which typically are hourly rates per person. Our rates vary depending on whether our services are provided during normal business hours, overtime or during holidays, as well as the length of time for which we are being engaged. Our security services incorporate certain management functions, including threat assessments, personnel scheduling, compensation, outfitting, equipment, training and supervision. These security services agreements also provide our customers with flexibility by permitting reductions or expansions of the security force on relatively short notice by our customers. We are responsible for preventing the interruption of security services as a consequence of illness, vacations or resignations of our security officers.

To determine whether adequate security requirements have been established prior to commencing service for a customer, we conduct a threat assessment of the customer's site and prepare recommended changes to existing customer security programs or services. While we prepare site assessments and issue recommendations, the security plan and coverage levels are ultimately determined by our customers.

We are increasingly dependent on information technology networks and systems to process, transmit and store electronic information. In particular, we depend on our information technology infrastructure for electronic communications among our locations across the country and between our personnel and our customers and suppliers. Based on the level of contracted services, we use sophisticated electronic security and access control equipment, including computerized systems, video surveillance equipment and electronic accountability technology to monitor and log security officer patrols and generate user-friendly reports for customer and internal use.

We use technology to support efficiency, accuracy, and dependability in our administrative functions including finance and accounting. In addition, labor and operations management services such as scheduling, reporting, payroll, billing and training management are integrated through a third party vendor software platform.

Employee Recruitment and Training

We believe that the high quality of our security officers is essential to our ability to offer effective and reliable services to our customers. We encourage the retention of our security officers and seek to control our operating costs through effective management of the hiring process, including extensive candidate screening, training and development. We require all applicants for security officer positions to undergo a detailed pre-employment interview and a background investigation covering such areas as past employment, education, military service, medical history and, subject to applicable state laws, criminal and other background searches. Employees are selected based on a number of criteria including physical fitness, maturity, experience, personality, perceived stability and reliability, among others. We frequently conduct medical examinations and substance abuse testing on potential candidates, subject to applicable laws and regulations. Our security officers and other personnel supplied to our customers are

employees of our company, even though they may be stationed regularly at our customer's facilities.

We are committed to providing staff that not only meet all state and federal requirements for training, but also our own rigorous standards in specialized areas including: terrorism response, CPR, first-aid, fire safety, crowd and riot control, media interaction, public relations, crisis management and emergency situations. Additionally, we provide our employees with site-specific training to meet the needs of individual industries, facilities and customers.

We are an equal opportunity employer and make all employment-related decisions without regard to race, creed, color, national origin, sex, age, disability, marital status or sexual orientation.

Significant Customers

In the fiscal year ended March 31, 2016, the Company had six customers that represented approximately 45% of the Company's total revenue in the aggregate. Two of these customers represented 14% and 13% of total revenue, respectively. These customers include one domestic and one international airline, a major transportation company, a northeast U.S. based healthcare facility, and two airline consortiums. Any loss of business with these customers could have a material adverse effect on our business, financial condition and results of operation.

See "Notes to Financial Statements—Note 10 Concentrations of Credit Risk and Significant Customer."

Competition

The contract security officer segment of the security services business is highly competitive, labor intensive and substantially affected by the cost of labor and by the availability of qualified personnel. Our ability to provide the required number of competent, trained personnel in a timely manner is critical to retaining our business, containing payroll costs and avoiding undue insurance exposure. To meet these goals, we strive to successfully manage our human resource needs through manpower planning, quality control and risk management, while focusing on financial management and effective sales and marketing strategies.

Although most of our contracts may be terminated by us or by our customers at our or their discretion, we minimize customer attrition by adhering to basic performance standards in meeting essential customer requirements.

We believe that a customer's selection of a company to provide security services is based primarily on price, quality of services provided, scope of services performed, name recognition, recruiting, training, the extent and quality of security officer supervision and the ability to handle multiple worksites on a nationwide basis. It has become more common for our customers to select security service providers through competitive bid processes intended to procure quality services at lower prices. Some of our competitors may be willing to provide services at lower prices, accept a lower profit margin, or expend more capital in order to obtain or retain business. As we have expanded our operations, we have had to compete more frequently against larger national companies, such as Securitas North America, G4S Secure Solutions (USA), AlliedBarton Security and Guardsmark, LLC, all which have substantially greater financial and other resources, personnel and facilities than us. These competitors also offer a range of security and investigative services that are at least as extensive as, and directly competitive with, the services that we offer. In addition, we compete with many regional and local organizations that offer substantially all of the services that we offer to our customers and that may have better knowledge of the local conditions in their regions and increased local visibility, which may provide such companies with a competitive edge. Our management believes that we have been able to successfully compete on the basis of the quality of our services, our professional relationships and our reputation. Particularly with respect to certain of our markets, management believes we enjoy a favorable competitive position because of our emphasis on responsive customer service, supervision and training. However, we cannot assure you that we will be able to continue to effectively compete with other companies, particularly those having greater financial and other resources, personnel and facilities. See "Risk Factors—Competition."

Government Regulation

We are subject to a large number of city, county and state firearm, occupational licensing laws and regulations and prevailing wage requirements that apply to many of our employees including security officers and private investigators. In addition, many states have laws requiring training and registration of security officers, regulating the use of badges and uniforms, prescribing the use of identification cards or badges, and imposing minimum bond, surety or insurance standards. As required, we are licensed to provide private security services in each of the states in which we do business. We may incur penalties and fines as the result of our failure to comply with these laws and regulations including licensing irregularities or the misconduct of security officers from time to time in the ordinary course of our business. However, our management believes we are in material compliance with all applicable laws and regulations. See "Risk Factors—Regulation."

Employees

Our business is labor intensive and is consequently affected by the availability of qualified personnel and the cost of labor. Although the security services industry is characterized by high turnover, we have not experienced any material difficulty in hiring qualified security officers. In some cases, when labor has been in short supply, we have been required to pay higher wages and/or incur overtime charges. We have approximately 4,300 total employees including 3,500 full-time employees, the majority of whom are hourly service workers, and approximately 290 of whom serve as managers, administrative employees and executives in our 28 offices nationwide.

Approximately 69% of our employees do not belong to a labor union. The remaining 31% of our employees, including in particular, a number of employees based in our New York City security services office and at our airport offices at John F. Kennedy International and LaGuardia airports, are either subject to the Special & Superior Officers Benevolent Association bargaining arrangement which is set to expire March 31, 2017, or are subject to a recognition agreement with SEIU 32BJ. Many of our competitors' employees in New York City are also unionized. In the past, our employees at Los Angeles International Airport worked under a collective bargaining agreement with a local uncertified union**.** As a result of assuming the U. S. Postal Service contract, the Company is obligated to assume the financial terms of existing collective bargaining agreements that currently are in place in five locations and to negotiate in good faith to enter into new collective bargaining agreements as existing agreements expire. Our relations with our employees are satisfactory, and we have not experienced any work stoppages as a result of labor disputes.

Intellectual Property

We own the service marks "Command Security Corporation," and "CSC" for security officer, detective, private investigation services and security consulting services.

In April 2015, we applied for a word mark/service mark for CommandTrack and CommandTrack-Air, which encompasses tracking of security officers and personnel, as well as location and monitoring services for small vehicles such as carts and wheelchairs.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Annual Report on Form 10-K, you should carefully consider the following factors that could materially and adversely affect our business, financial condition and future operating results. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

Ongoing insurance and claims expenses could significantly affect our earnings.

We recently experienced an increase in the cost of revenues due to increased estimates of the final total cost of outstanding workers' compensation claims from prior years and from the acceleration in the recognition of workers' compensation costs. We can provide no assurance that costs associated with workers' compensation claims will decline in the future. In addition, we may not be successful in our efforts to mitigate future increases in workers' compensation costs or limit the frequency or severity of our workers' compensation claims, which could cause further increases in our workers' compensation costs. Future increases in workers' compensation costs, if incurred, could have a material adverse effect on our business, financial condition, and results of operations.

Loss of Customers

Our success depends in part upon retaining our large security and aviation services customers. See “Business—Significant Customers.” In general, security services companies such as ours face the risk of losing customers as a result of the expiration or termination of a contract, or as a result of a merger or acquisition or business failure involving our large customers, or the selection by such customers of another provider of security services. We generate a significant portion of our revenues from large security services and airline customers, some of which have in the past and may in the future experience substantial financial difficulties. We cannot assure you that we will be able to retain all or a substantial portion of our long-term or significant customers or develop relationships with new significant customers in the future.

Our standard customer contract may be terminated by either us or our customer on 30 days written notice at any time. In addition, we serve certain customers under month-to-month extensions of these written contracts. If we are not able to maintain our existing security service contracts or obtain additional security service contracts, our business, financial condition and results of operations will be adversely affected.

Significant Customers

We rely on a limited number of customers for a significant portion of our revenues. In the fiscal year ended March 31, 2016, the Company had six customers, who represented approximately 45% of the Company’s total revenue in the aggregate. Two of these customers represented 14% and 13% of total revenue, respectively. These customers include one domestic and one international airline, a major transportation company, a northeast U.S. based healthcare facility, and two airline consortiums. Any loss of business with these customers could have a material adverse effect on our business, financial condition and results of operation.

Acquisitions

Part of our growth strategy involves seeking to acquire other successful security services companies. Our acquisition strategy entails numerous risks. The pursuit of acquisition candidates is expensive and may not be successful. 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, in each case, before any attractive candidates are purchased by other parties, some of whom have substantially greater financial and other resources than we have. Whether or not any particular acquisition is successfully completed, each of these activities is expensive and

time consuming and would likely require our management to spend considerable time and effort to complete, which would detract from our management's ability to run our current business. Although we may spend considerable funds and efforts to pursue acquisitions, we may not be able to complete them.

Acquisitions could result in the occurrence of one or more of the following events:

- dilutive issuances of equity securities;
- incurrence of additional debt and contingent liabilities;
- increased amortization expenses related to intangible assets;
- difficulties in the assimilation of the operations, technologies, services and products of the acquired companies; and
- diversion of management's attention from our other business activities.

We cannot assure you that we will be able to complete acquisitions that we believe are necessary to complement our growth strategy on acceptable terms, or at all. Further, if we do not successfully integrate the operations of any companies that we have acquired or subsequently acquire, we may not achieve the potential benefits of such acquisitions.

We Hold a Minority Equity Investment in Ocean Protection Services LLC

We currently have a twenty percent minority interest in Ocean Protection Services LLC, a Delaware limited liability company ("OPS"). Although we are able to exercise some influence over OPS, we do not control OPS and therefore do not have the ability to direct OPS's business plan, assure quality control, or set the timing and pace of development. OPS is controlled by our partner, whose interests may not be aligned with ours or who may not share our goals for the business. Should we disagree with their direction for OPS, we may not have the ability to change the course of OPS's business.

We are Subject to Risks Associated with our Foreign Investment.

Ocean Protection Services, Ltd., the operating company of OPS, is located in the United Kingdom. As a result, OPS is subject to the risks inherent in doing business in the global market. These risks include, but are not limited to, adverse changes in economic and political conditions, fluctuation in exchange rates, compliance with labor laws and other foreign governmental laws and regulations, natural disasters, acts of war and terrorism, and other external factors over which we have no control. Because we hold a minority interest in OPS, we do not have complete oversight of its foreign operations and any deviation therein from our standard of services could draw negative publicity for us and our brand.

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Additional Financing

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 expenditures and debt service requirements for the foreseeable future. However, we cannot assure you that this will continue to be the case, and we may be required to obtain additional financing to maintain and expand our existing operations through the sale of our securities, an increase in borrowings under 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.

Credit and Security Agreement

Our Credit and Security Agreement contains covenants that impose operating and financial restrictions on us, which may prevent us from capitalizing on business opportunities and taking certain corporate actions. These restrictions may limit our ability to:

- guarantee additional indebtedness;
- pay dividends and make distributions;
- make certain investments;
- repurchase stock;
- incur liens;
- transfer or sell assets;
- enter into sale and leaseback transactions;
- merge or consolidate; and
- engage in a materially different line of business.

The limits set forth in these covenants may adversely affect our ability to finance future operations or capital needs.

Competition

Our assumptions regarding future operating results depend largely upon our ability to retain substantially all of our current customers and obtain new customers. Retention is affected by several factors including, but not limited to, regulatory limitations, the quality of the services that we provide, the quality and pricing of comparable services offered by competitors and continuity of our management and non-management personnel. The contract security officer industry is intensely competitive. There are several major national competitors with substantially greater

financial and other resources than we have and that, therefore, have the ability to provide more attractive service, cost and compensation incentives to customers and employees than we are able to provide. We also compete with smaller local and regional companies whose familiarity with local markets gives them a competitive advantage. There can be no assurance that we will continue to retain customer accounts at historic levels in an increasingly competitive market. In addition, there can be no assurance that we will be able to acquire new customer accounts and retain existing customer accounts on terms as favorable as those previously available, and if we are unable to do so our profitability will be adversely affected.

Cost Management

Our largest expenses are for payroll and related taxes and employee benefits. Most of our service contracts provide for fixed hourly billing rates, and some of our service contracts provide for payments of either fixed fees or fees that increase by only small amounts during the terms of such service contracts. Competitive pressures in the security and aviation services industries may prevent us from increasing our hourly billing rates on contract anniversary or renewal dates. Our profitability will be adversely affected if, due to inflation, collective bargaining or other causes, including increases in statutory payroll taxes, we are compelled to increase the wages, salaries and related benefits of our employees in amounts that exceed the amount that we can pass on to our customers through increased billing rates charged under our service contracts.

Our ability to realize financial expectations will be largely dependent upon management’s ability to maintain or increase gross margins, which in turn will be determined in large part by management's ability to control our expenses. However, to a significant extent, certain costs are not within the control of management, and margins may be adversely affected by a number of items, including litigation expenses, fees incurred in connection with extraordinary business transactions, inflation, labor unrest, increased payroll and related costs. Our business, financial condition and results of operations will be adversely affected if the costs associated with these items are greater than we anticipate.

The Litigation Environment in Which we Operate Poses a Significant Risk to our Business.

We are involved in a number of lawsuits related to employment issues. Judges and juries in the State of California have recently demonstrated a willingness to grant large verdicts to plaintiffs in connection with employment related cases. We use appropriate means to contest litigation threatened or filed against us, however, the litigation environment in the State of California poses a significant business risk.

The Cost and Exposure of Being a Public Company is Proportionately High for Small Companies like us and May Put us at a Competitive Disadvantage.

The rules and regulations promulgated by the Securities and Exchange Commission increase the scope, complexity, and cost of our corporate governance, reporting and disclosure practices. The necessary compliance costs, including costs related to internal controls and management's assessment of the effectiveness of internal controls, are proportionately higher for a company of our size. Additionally, the disclosures we make can represent a significant proportion of our business and such disclosure can put us at a competitive disadvantage to our competitors who do not make comparable disclosures.

Indemnification Obligations

In many cases, our security and aviation services contracts require us to indemnify our customers or may otherwise subject us to additional liability for events occurring on customer premises. While we maintain insurance programs that we believe provide appropriate coverage for certain liability risks, including personal injury, death and property damage, the laws of many states limit or prohibit insurance coverage for punitive damages arising from willful or grossly negligent conduct. Therefore, insurance may not be adequate to cover all potential claims or damages. If a plaintiff brings a successful claim against us for punitive damages in excess of our insurance coverage, we could incur substantial liabilities that would have a material adverse effect on our business, financial condition and results of operations.

Staffing

Our business involves the labor-intensive delivery of security and aviation services. We derive our revenues primarily from services rendered by our hourly employees. Our future performance depends in large part upon our ability to attract, train, motivate and retain our skilled operational and administrative staff. The loss of the services of, or the failure to recruit, the required complement of operational and administrative staff would have a material adverse effect on our business, financial condition and results of operations, including our ability to secure and complete security service contracts. Additionally, if we do not successfully manage our existing operational and administrative staff, we may not be able to achieve the anticipated gross margins, service quality, overtime levels and other performance measures that are important to our business, financial condition and results of operations.

Professional Reputation

We depend to a large extent on our relationships with our customers and our reputation for quality contract security services. Our customers' expectations and perception of the quality of our services are in large part determined by the satisfaction they derive from contact with our managers. A well-publicized security incident or breach at one or more of our customers' locations could result in a negative perception of our services, damage to our reputation and the loss of existing or potential customers, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in Accounting Standards and Taxation Requirements

New accounting standards or pronouncements that become applicable to us and our financial statements from time to time, and changes in the interpretation of existing standards and pronouncements, could have a significant effect on our reported results for the affected periods. We are also subject to income and various other taxes in the numerous jurisdictions where we generate revenues. Increases in income or other tax rates or bases could reduce our after-tax results from affected jurisdictions in which we operate.

Collective Bargaining Agreements and Organized Labor Action

Approximately 31% of our workforce is subject to either a collective bargaining arrangement, which is set to expire March 31, 2017, or a recognition agreement with SEIU 32BJ. If we are unable to renew such agreements on satisfactory terms, our labor costs could increase, which would negatively affect our business, financial condition and

results of operations. As a result of assuming the U. S. Postal Service contract, the Company is obligated to assume the financial terms of existing collective bargaining agreements that currently are in place in five locations and to negotiate in good faith to enter into new collective bargaining agreements.

The security industry has been the subject of campaigns to increase the number of unionized employees. In addition, strikes or work stoppages at our locations could impair our ability to provide required services to our customers, which would reduce our revenues and expose us to customer claims. Although we believe that our relations with our employees are satisfactory, we cannot assure you that organized labor action at one or more of our operating locations will not occur, or that any such activities, or any other labor difficulties at our operating locations, would not adversely affect our business, financial condition and results of operations.

Collection of Accounts Receivable

We extend credit to our customers primarily through the use of weekly or monthly billings generally due within 30 to 45 days of the invoice date. Any default in the payment of accounts receivable by one or more of our significant customers due to bankruptcy or otherwise could have a material adverse impact on our liquidity, results of operations and financial condition. See “Notes to Financial Statements—Note 10 Concentrations of Credit Risk and Significant Customer.”

Loss of Key Management Personnel

Our success depends to a significant extent upon the continuing efforts and abilities of our key executive officers and senior management personnel. We have programs in place that have been designed to motivate, reward and retain such employees, including cash bonus and equity incentive plans. The loss or unavailability of any such key executives or senior management personnel, due to retirement, resignation or otherwise could have a material adverse effect on our business, financial condition and results of operations if we are unable to attract and retain highly qualified replacement personnel on a timely basis, or at all.

Concentration of Stock Ownership

Although none of our directors and officers has any agreement relating to the manner in which they will vote their shares of our common stock, such parties together beneficially own shares representing approximately 37% of the outstanding common stock. Further, as of March 31, 2016, based on public filings, there are three other shareholders that combined own 31% of the Company’s outstanding shares. The concentration of ownership among these shareholders could give them the power to influence the outcome of substantially all matters subject to a vote of our shareholders, including mergers, consolidations and the sale of all or substantially all of our assets. Such decisions may conflict with the interests of our other shareholders. This beneficial ownership and potential effective control on

all matters relating to our business and operations could eliminate the possibility of other shareholders obtaining the necessary shareholder vote to affect any change in the course of our business if they disagree with these significant shareholders.

Stock Price Volatility

The stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. The market price of our common stock may also fluctuate as a result of variations in our operating results. Due to the nature of our business, the market price of our common stock may fall in response to a number of factors, some of which are beyond our control, including: announcements of competitive developments by others; changes in estimates of our financial performance or changes in recommendations by securities analysts; any loss by us of a major customer; additions or departures of key management or other personnel; future sales of our common or preferred stock; acquisitions or strategic alliances by us or our competitors; our historical and anticipated operating results; quarterly fluctuations in our financial and operating results; volume fluctuations; changes in market valuations of other companies that operate in our business markets or industry sector; and general market and economic conditions. Accordingly, market fluctuations, as well as general economic, political and market conditions such as recessions and interest rate changes, may negatively impact the market price of our common stock.

Our common stock trades on the NYSE MKT and has low trading volumes compared to other companies traded on the NYSE MKT. Securities with low trading volumes are subject to greater volatility in price. We cannot predict how our common stock will trade in the future or the effect that trading volumes will have on our common stock price.

Information Systems/Technology

We are increasingly dependent on information technology networks and systems, including the Internet, to process, transmit and store electronic information. In particular, we depend on our information technology infrastructure for electronic communications among our locations across the country and between our personnel and our customers and suppliers. Security breaches of this infrastructure can create disruptions, shutdowns or unauthorized disclosure of confidential information. If we are unable to prevent such breaches, our operations could be disrupted or we may suffer financial damage or loss because of lost or misappropriated information.

Changes in technologies that provide alternatives to security officer services or that decrease the number of security officers required to effectively perform their services may decrease our customers' demand for our security officer services. In addition, if such technologies become available generally for use in the industry, these technologies may be proprietary in nature and not be available for use by us in servicing our customers. Even if these technologies are available for use by us, we may not be able to successfully integrate such technologies into our business or we may be less successful in doing so than our competitors or new entrants in the industry. A decrease in the demand for our security officer services or our inability to effectively utilize such technologies may adversely affect our business, financial condition and results of operations.

Regulation

We are subject to a large number of city, county and state occupational licensing laws and regulations that apply to security officers. Any liability we may have from our failure to comply with these regulations may materially and adversely affect our business by restricting our operations and subjecting us to potential penalties. If the current regulation and federalization of pre-board screening and documentation verification services provided by us to airline customers is expanded into other areas such as general security and baggage handling at aviation facilities, our business, financial condition and results of operations could be materially adversely affected.

In addition, we are subject to, among other laws and regulations, comprehensive U.S. occupational health and safety laws and regulations. Such laws and regulations may become more stringent and result in necessary modifications to our current practices and facilities. Any or all of these laws and regulations could force us to incur additional costs that could adversely affect our business, financial condition and results of operations.

Our operations at certain domestic airport locations are subject to audits by the relevant state or local government authorities, in connection with their evaluation of whether certain of our sales and services at such airports are subject to a regulatory fee. In the event of a dispute with any such regulatory authority, we could be subject to claims for fees, including penalties and interest, which could adversely affect our business, financial condition and results of operations.

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the U.S. This legislation expands the availability of health care coverage to many uninsured individuals and in some cases expands coverage to those already insured. Provisions of this law have become and will become effective at various dates over the next several years and many of the regulations and guidance for the law have not been implemented. The changes required by this legislation could cause us to incur additional healthcare and other costs. The costs of these provisions are expected to be funded by a variety of taxes, fees and penalties. Some of the taxes and fees, as well as certain health care changes required by these acts, are expected to result, directly or indirectly, in increased health care costs for us. It remains difficult to predict the cost impact of health care reform. We cannot quantify the extent of any long-term impact from the legislation or any potential changes to the legislation. There is no assurance that we will be able to absorb and/or pass through the costs of complying with such legislation in a manner that will not adversely impact our results of operations.

Our current and future operations may be subject to additional regulation as a result of, among other factors, new statutes and regulations and changes in the manner in which existing statutes and regulations are interpreted.

Economic Downturn

During economic declines, some decisions to implement security programs and install systems may be deferred or cancelled. In other cases, customers may increase their purchases of security systems because they fear more inventory shrinkage and theft will occur due to increasing economic need. We are not able to accurately predict to what extent an economic slowdown will affect the demand for our services. If demand for our services decreases, our business, financial condition and results of operations will be adversely affected.

Catastrophic Events

We are exposed to potential claims resulting from the occurrence of catastrophic events, such as acts of terrorism, or based upon allegations that we failed to perform our services in accordance with contractual or industry standards. Our insurance coverage limits are currently $1.0 million per occurrence for non-aviation related business (with additional first and second layer excess liability 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 of general liability non-aviation related operations. The Aviation related deductible is $5,000 per occurrence, with the exception of $50,000 for airport wheelchair and electric cart operations, $25,000 for damage to aircraft and $100,000 for skycap operations. The Terrorism Risk Insurance Act of 2002 established a program within the United States Department of the Treasury, under which the federal government and the insurance industry, share the risk of loss from future "acts of terrorism," as defined in such Act. We currently maintain additional insurance coverage for losses arising from "acts of terrorism" under our non-aviation related business policy. In addition, terrorist attacks could have a material adverse impact on us by increasing our insurance premium costs, making adequate insurance coverage unavailable or by requiring us to incur additional personnel costs as a result of compliance with expanded security rules and regulations.

Strategic Initiatives

Any strategic initiatives that we may undertake may not achieve the benefits anticipated and could result in additional unanticipated costs, which could have a material adverse effect on our business, financial condition, cash flows, or results of operations. We regularly evaluate our existing operations, service capacity and business efficiencies and, as a result of such evaluations, we may undertake strategic initiatives within our businesses, including the recently completed consolidation of corporate offices and streamlining of our management structure. These strategic initiatives may not result in improvements in future financial performance. If we are unable to realize the benefits of any strategic initiatives or appropriately structure our businesses to meet market conditions, the strategic initiatives could have a material adverse effect on our business, financial condition, cash flows, or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of March 31, 2016, we did not own any real property. We occupy executive offices at 512 Herndon Parkway, Herndon, VA 20170, consisting of approximately 11,000 square feet. We also lease office space at the following locations under long-term operating or short-term month-to-month leases:

Location

1903 South Congress Avenue
Suite 150
Boynton, FL

5805 Blue Lagoon Drive
Suite 110
Miami, FL

8929 South Sepulveda Boulevard
Suite 300
Los Angeles, CA

409 Camino Del Rio South
Suite 100
San Diego, CA

Los Angeles World Airports
Terminal 2 & Tom Bradley International Terminal
Los Angeles, CA

890 Hillview Court, Suite 100
Milpitas, CA 95035

1630 S. Sunkist Street
Unit O
Anaheim, CA

Pittsburgh International Airport
1000 Airport Boulevard
Ticketing Level of the Landside Terminal Building
Pittsburgh, PA

Two International Plaza
Suite 242
Philadelphia, PA

780 Elkridge Landing Road
Suite 220
Linthicum Heights, MD

Baltimore-Washington International Airport
Baltimore, MD

21 Cummings Park
Suite 224

1767 Morris Avenue
Suite 101, First Floor
Union, NJ

100 Wells Street
#2AB
Hartford, CT

80-02 Kew Gardens Road
Suite 401
Kew Gardens, NY

17 Battery Place
Suite 223
New York, NY

388 Westchester Avenue
Port Chester, NY

52 Oswego Street
Baldwinsville, NY

JFK International Airport
175-01 Rockaway Boulevard
Jamaica, NY
(Idle facility no longer in use)

LaGuardia Airport
United Hangar #2
Rooms 328
Flushing, NY

2144 Doubleday Avenue
Ballston Spa, NY

669 Elmwood Avenue
Suite B-4
Providence, RI

Suite 208-L Wilson Building
3511 Silverside Road, Concord Plaza
Wilmington, DE

9730 South Western Avenue

Woburn, MA

1458 Main Street
Buffalo, NY 14209

95 Grasslands Road
Valhalla, NY

Evergreen Plaza Shopping Center
Suite 640
Evergreen Park, IL

2400 Herodian Way
Suite 152
Smyrna, GA 30080

We believe our existing properties are in good condition and are suitable for the conduct of our business.

ITEM 3. LEGAL PROCEEDINGS.

We are party to a variety of legal proceedings arising out of the conduct of our business. While the results of these proceedings cannot be predicted with certainty, management believes that, except as described below, the final outcome of these proceedings will not have a material effect on our business.

In March 2012, the California Service Employees Health and Welfare Trust Fund filed a suit in U.S. District Court for the Northern District of California against the Company 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 Court denied the plaintiffs' motion for summary judgment and granted partial summary judgment in favor of the Company. While the parties stipulated to a proposed judgment within recorded reserves, the plaintiffs' appealed the judgment before the Court had issued a final Order, pending the outcome of the companion case filed in July 2012. In that case, the Service Employee International Union (SEIU) filed a lawsuit in U.S. District Court for the Northern District of California 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 and both parties have subsequently filed appellate briefs. Oral arguments were held in March 2016 in the Ninth Circuit Court of Appeals. The appeal ruling is still pending. These cases involve a high degree of inherent uncertainty and, as such, the Company is unable to estimate the eventual amount of potential loss, if any, until developments in the case yield additional information sufficient to support a quantitative assessment of the range of reasonably probable loss. At this time it is not possible to predict the outcome of this appeal or the potential cost if the plaintiffs were to prevail, however, the potential cost to the Company could be material.

On April 29, 2014, the California Superior Court granted a plaintiff's motion (Leal v. Command Security Corporation) to certify a class consisting of all persons who were employed by the Company in a non-exempt security officer position within the State of California at any time since May 2, 2007, through the date of trial who agreed to and signed an on-duty meal period agreement at the time of their employment. The case is a certified class action involving allegations that the Company violated certain California state laws relating to on-duty meal and rest breaks. On November 12, 2015, the Company agreed to a maximum settlement amount of $2.0 million, including plaintiff's attorney fees and costs, administration costs, and certain other miscellaneous costs. As part of the settlement, the parties further agreed that (i) the final settlement will be subject to court approval; (ii) a minimum of 50% of the net proceeds will be distributed to the class; and (iii) the settlement will be paid in two installments, the first to be paid upon court approval of the final settlement agreement and the second to be paid no later than one year from final approval. The Company expects court approval within the next two to three months.

The Leal v. Command Security Corporation lawsuit is one of numerous class action lawsuits filed during the past year against security guard companies in California related to meal and rest break regulations. The Company aggressively defended its position in this case; however, given the current environment in California regarding similar lawsuits, the Company believes that settling this matter under these terms provides a favorable outcome. In addition, the Company considered its assessment of the cost to continue to defend the case through trial and a potential appeal in its decision to settle. While the parties have established a maximum settlement amount at $2.0 million, the Company recorded a $1.4 million provision in the quarter ended September 30, 2015. This provision is based on the terms of the settlement and historical statistical information as to the expected rate of participation in similar cases provided to the Company by claims administrators. In the event the rate of participation in the settlement by class members were to exceed current estimates the final settlement amount could increase to the maximum settlement amount. The settlement will be administered over the next one to two years.

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.

The nature of our business is such that there is a significant volume of routine claims and lawsuits against us, the vast majority of which do not 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. Some of the claims brought against us could result in significant payments; however, the exposure to us for general liability claims is limited to the deductibles under our insurance policies, as well as any amount in excess of the maximum coverage provided by such policies. Any punitive damage award would not be covered by our general liability insurance policy. Also, the premiums we pay under our insurance policies may be adversely affected by an unfavorable claims history.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Common Stock Trading Information

Shares of our common stock trade on the NYSE MKT, an exchange regulated market, under the ticker symbol “MOC.”

The following table sets forth, for the calendar periods indicated, the high and low sales price for our common stock as reflected on the NYSE MKT for each full quarterly period within the two most recent fiscal years.

Last Sales Price Period (1)	Common stock market price	
	Low	High
2016		
First Quarter	$ 1.85	$ 3.08
Second Quarter	1.34	2.10
Third Quarter	1.76	2.83
Fourth Quarter	1.92	2.61
2015		
First Quarter	$ 1.72	$ 2.03
Second Quarter	1.77	2.40
Third Quarter	1.70	2.29
Fourth Quarter	1.75	3.55

(1) Reflects fiscal years ended March 31, 2016 and 2015 as indicated.

The above quotations do not include retail mark-ups, markdowns or commissions and represent prices between dealers and may not represent actual transactions. The past performance of our common stock is not necessarily indicative of the price at which it may trade in the future.

As of May 26, 2016 there were approximately 1,200 holders of our common stock.

For certain information regarding our equity compensation plans, see “Item 12—Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

Dividends

To date, we have neither declared nor paid any cash dividends on shares of our common stock. Payment of dividends on our common stock, if any, will be within the discretion of our Board of Directors and will depend, among other factors, on the approval of our principal lender, our earnings and capital requirements and our operating and financial condition. At present, our anticipated capital requirements and growth plans are such that we intend to follow a policy of retaining earnings, if any, to finance our business operations and any growth in our business.

Common Stock Repurchases

On December 8, 2011, the Company’s Board of Directors authorized a stock repurchase program that initially allowed us to repurchase up to $2,000,000 of our common stock on the open market. In November 2012, the Company’s Board of Directors authorized an increase of up to $4,000,000 of our common stock to be repurchased. To date, the Company has repurchased $3,058,873 of the $4,000,000 authorized under the stock repurchase program. The ability of the Company to repurchase shares under the stock repurchase program is subject to the approval of Wells Fargo under the Credit Agreement. Common stock repurchases are recorded as treasury stock, at cost. The program does not have a prescribed expiration date. See “Notes to Financial Statements—Note 16 Issuer Purchases of Equity Securities.” No shares were purchased during the fiscal years ended March 31, 2016 and March 31, 2015.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and related notes thereto contained in this Annual Report. In this discussion, the words "Company", "we", "our" and "us" refer to Command Security Corporation.

FORWARD- LOOKING STATEMENTS

This section, Management's Discussion and Analysis of Financial Condition and Results of Operations, other sections of this Annual Report on Form 10-K and other reports and verbal statements made by our representatives from time to time may contain forward-looking statements that are based on our assumptions, expectations and projections about us and the security industry. These include statements regarding our expectations about revenues, our liquidity, or expenses and our continued growth, among others. You can identify these statements by forward-looking words such as “may,” “expect,” “anticipate,” “contemplate,” “believe,” “estimate,” “intends,” and “continue” or similar words. You should statements that contain these words carefully because they:

- discuss future expectations;
- contain projections of future results of operations or financial condition; and
- state other “forward-looking” information.

Such forward-looking statements by their nature involve a degree of risk and uncertainty. We caution you to not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report. We further caution you that a variety of factors, including but not limited to the factors described under Item 1A, “Risk Factors” and the following, could cause business conditions and our results to differ materially from what is contained in forward-looking statements:

- changes in general economic conditions in the United States and abroad;

- changes in the financial condition of our customers;
- legislation or regulatory environments, requirements or changes adversely affecting our business or the businesses in which our customers are engaged;
- cancellations and non-renewals of existing contracts;
- changes in our estimates of costs;
- war and/or terrorist attacks on facilities where services are or may be provided;
- outcomes of pending and future litigation;
- increasing competition by other companies;
- changes in interest rates;
- compliance with our loan covenants;
- changing interpretations of GAAP;
- the general volatility of the market price of our securities;
- the availability of qualified personnel;
- recoverability of claims against our customers and others by us and claims by third parties against us; and
- changes in estimates used in our critical accounting policies.

Other factors and assumptions not identified above were also involved in the formation of these forward-looking statements and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described above in connection with any forward-looking statements that may be made by us.

All forward-looking statements included herein attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We have based the forward-looking statements included in this Annual Report on information available to us on the date of this annual report and, except to the extent required by applicable laws and regulations, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this annual report or to reflect the occurrence of unanticipated events. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we make directly to you or through reports that we in the future may file with the Securities and Exchange Commission, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Our actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors including, but not limited to, those presented under "Risk Factors" included in Item 1A and elsewhere in this Annual 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. See "Notes to Financial Statements—Note 1 Business Description and Summary of Accounting Policies."

Revenue Recognition

We record revenues as services are provided to our customers. Revenues relate primarily to the provision 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 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 to be uncollectible.

Minority Investment in Unconsolidated Affiliate

The Company uses the equity method to account for its investment in 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. The Company reviews its investment accounted for under the equity method of accounting for impairment whenever events or changes in circumstances indicate a loss in the value of the investment may be other than temporary.

Intangible Assets

Intangible assets are stated at cost and consist primarily of customer lists that are being amortized on a straight-line basis over ten years and goodwill, which is reviewed annually for impairment. The life assigned to customer lists acquired 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 basis 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 as selling, general and administrative expense.

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 $103,793 and $203,215 for stock based compensation have been recorded for the fiscal years ended March 31, 2016 and 2015, respectively.

OVERVIEW

We principally provide uniformed security officers and aviation services to commercial, residential, financial, industrial, aviation and governmental customers through approximately 28 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, 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, 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 largely due to an increasing fear of 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 December 31, 2014, the Company received notification of the award of the U.S. Postal Service (“USPS”) contract under Solicitation No. 2B-14-A-0078 (the “USPS Contract”), valued at approximately $250 million over a ten year term of service. The USPS Contract provides for security services at 50 USPS locations in 18 states, Puerto Rico and the District of Columbia, valued at approximately $20 million per year, as well as the operation of the two USPS National Law Enforcement Communication Centers (NLECC) at Dulles International Airport, Virginia and in Ft. Worth, Texas, valued at approximately $5 million per year. The award includes a four year base contract and three two-year options.

On January 29, 2015 the Company announced that the USPS had issued a stay of the transition of the USPS Contract awarded to the Company pending the resolution of a dispute over the award of such contract. The USPS Contract at issue was disclosed in a press release issued by the Company on January 6, 2015, and in a Form 8-K filed by the Company with the Securities and Exchange Commission on January 12, 2015. 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 contract that was awarded to the Company.

In a decision dated June 15, 2015, the USPS Supplier Disagreement Resolution Officer found that the USPS Contract awarded to the Company represented the best value for the USPS. Accordingly, the Supplier Disagreement Resolution Officer denied the disagreement filed by ABM, and lifted the stay on the performance of the USPS Contract with the Company.

On June 23, 2015, ABM filed a protest with the Court of Federal Claims challenging the award of the USPS Contract to the Company, and the USPS expressed an intent to stay the transition of the USPS Contract awarded the Company pending resolution of the Court of Federal Claims protest filed by ABM. The Court of Federal Claims dismissed the protest filed by ABM on July 7, 2015 to allow for the USPS to take corrective action.

On November 20, 2015, the Company was notified by the USPS of its decision to confirm the award of the USPS Contract to the Company. On January 27, 2016, Universal Protection Service, LP (“Universal”), claiming to be ABM’s successor-in-interest, filed a complaint in the Court of Federal Claims challenging the award of the USPS Contract to the Company. On that same day, the Company filed a motion to intervene in the case. On January 28, 2016, the Company was notified that the USPS agreed to issue a stay of the transition of the USPS Contract pending resolution of the Court of Federal Claims protest filed by Universal. On February 8, 2016, the Company filed a motion to dismiss Universal’s complaint with the Court of Federal Claims.

On April 7, 2016, the Court of Federal Claims dismissed the protest filed by Universal and following this dismissal, the Company reinitiated activities to fully assume the USPS Contract in two phases. On June 6, 2016, the opportunity for any further appeal of the protest dismissal expired, and the Company commenced work at approximately half the locations and on June 13, 2016, commenced work at the remaining locations.

RESULTS OF OPERATIONS

Revenues

Our revenues decreased by $6.1 million, or 4.4%, to $133.1 million for the fiscal year ended March 31, 2016, from $139.2 million in the prior year. The decrease in revenues for the fiscal year ended March 31, 2016 was due mainly to a $2.9 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, a reduction of approximately $2.3 million in security related services from California based technology companies, a reduction in revenues from New York based healthcare facilities of approximately $1.9 million, other commercial and industrial customers decreased by $1.8 million, residential and retail customers decreased by $1.3 million, and revenues from various other customers decreased by $0.5 million. These decreases were partly offset by a net increase of approximately $4.6 million in revenues from aviation related services with several domestic and international airlines operating primarily at New York LaGuardia, New York JFK and Los Angeles LAX airports.

Workers' Compensation Costs

We have an insurance policy covering workers' compensation claims in states in which 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 revenues were $4.6 million and $2.6 million for the fiscal years ended March 31, 2016 and 2015, respectively.

This increase in workers' compensation costs during the fiscal year ended March 31, 2016, is primarily due to the following:

- Increased total estimated costs on prior year's claims — During recent months, workers' compensation insurance carriers from past years have reported increases in the estimated total cost of several ongoing claims dating back to the 2006 policy year. These policy years were previously estimated to be more fully developed, or closer to the estimated total future cost of these claims, than these recent increases in estimated total cost now suggests. The increases in the estimated total costs of these ongoing claims represents approximately $950,000 of the above-mentioned increase in workers' compensation costs.

- Improved claims management practices — Effective October 1, 2014, the Company changed from a carrier managed claims program to a third party administrator (TPA) managed program and changed its workers compensation

insurance carrier. Under the former carrier managed claims approach, the carriers controlled day-to-day claim management activities, including the estimation of total future claim costs, management and settlement strategies.

Under our current TPA managed program, the Company retains a greater level of influence and control over the planning and decisions regarding day-to-day management of claims, estimating total future costs, developing and managing settlement strategies and activities designed to lead to a more timely and efficient resolution of claims. An element of this initiative includes developing a more timely and accurate acknowledgement of the eventual total cost of each claim. Management believes these improved management practices and the TPA managed program will help to mitigate increases in workers' compensation costs in future years. However, these changes have led to an acceleration of the recognition of costs earlier in the life of a claim. The acceleration of the recognition of these costs represents approximately $500,000 of the above-mentioned increase in workers' compensation costs.

- During the fourth quarter of the year ended March 31, 2016, as a direct result of reported increases in estimated claims during recent quarters, the Company updated loss development factors used in the calculation of estimated workers' compensation liabilities. The result of the application of new estimated development factors increased current estimated liabilities by approximately $430,000.

We believe our estimates of future liability are reasonable based upon our methodology; however, changes in regulations, health care costs, accident frequency and severity and other factors could materially affect the estimates of 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.

Gross Profit

Our gross profit decreased by $4.4 million, or 22.7%, to $14.9 million (11.2% of revenues), for the fiscal year ended March 31, 2016, from $19.3 million (13.9% of revenues) for the fiscal year ended March 31, 2015. The decrease in gross profit was due mainly to the above-mentioned $2.0 million increase in workers' compensation expense, increased direct labor costs driven by regulatory and market driven increases in wages, increased overtime and employee turnover attributable to tightening labor markets particularly in the northeastern U.S. and revenue declines mentioned above. These revenue declines include approximately $1.1 million in gross profits from New York based healthcare facilities, approximately $1.0 million from a major transportation company, approximately $0.3 million from California based technology companies, and $1.1 million from various other industrial, commercial and residential customers. These decreases were partially offset by an increase of approximately $1.0 million in gross profits from aviation related services with several domestic and international airlines operating primarily at New York LaGuardia, New York JFK and Los Angeles LAX airports.

We have an insurance policy covering workers' compensation claims in states in which 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 $4.6 million and $2.6 million for the fiscal years ended March 31, 2016 and 2015, 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 first and second layer excess liability 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 of general liability non-aviation related operations. The Aviation related deductible is $5,000 per occurrence, with the exception of $50,000 for 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.

General and Administrative Expenses

Our general and administrative expenses decreased by $0.2 million, or 1.4%, to $17.3 million (13.0% of revenues) for the fiscal year ended March 31, 2016, from $17.5 million (12.6% of revenues) for the fiscal year ended March 31, 2015. The decrease in general and administrative expenses for the fiscal year ended March 31, 2016 was due mainly to a reduction of approximately $1.0 million in employee compensation and benefits costs partially offset by increases of approximately $0.5 million in legal fees and $0.3 million in consultant fees.

Litigation Settlement

On April 29, 2014, the California Superior Court granted a plaintiff's motion (Leal v. Command Security Corporation) to certify a class consisting of all persons who were employed by the Company in a non-exempt security officer position within the State of California at any time since May 2, 2007 through the date of trial who agreed to and signed an on-duty meal period agreement at the time of their employment. The case is a certified class action involving allegations that the Company violated certain California state laws relating to on-duty meal and rest breaks.

On November 12, 2015, the Company agreed to a maximum settlement amount of $2.0 million, including plaintiff's attorney fees and costs, administration costs, and certain other miscellaneous costs. As part of the settlement, the parties further agreed that (i) the final settlement will be subject to court approval; (ii) a minimum of 50% of the net

proceeds will be distributed to the class; and (iii) the settlement will be paid in two installments, the first to be paid upon court approval of the final settlement agreement and the second to be paid no later than one year from final approval.

This lawsuit is one of numerous class action lawsuits filed during the past year against security guard companies in California related to meal and rest break regulations. The Company aggressively defended its position in this case; however, given the current environment in California regarding similar lawsuits, the Company believes that settling this matter under these terms provides a favorable outcome. In addition, the Company considered its assessment of the cost to continue to defend the case through trial and a potential appeal in its decision to settle. While the parties have established a maximum settlement amount at $2.0 million, the Company recorded a $1.4 million provision in the quarter ended September 30, 2015. This provision is based on the terms of the settlement and historical statistical information as to the expected rate of participation in similar cases provided to the Company by claims administrators. In the event the rate of participation in the settlement by class members was to exceed current estimates, the final settlement amount could increase to the maximum settlement amount. The settlement will be administered over the next one to two years.

Provision for Doubtful Accounts

The provision for doubtful accounts for the year ended March 31, 2016, net of recoveries, increased by $0.6 million to net expense of $0.4 million as compared with $0.1 million of net recoveries in the corresponding period of the prior year. The increase in the net provision for doubtful accounts for the year ended March 31, 2016 related primarily to the absence of the recovery of approximately $0.3 million of specific accounts previously considered uncollectible and an increase in specific accounts currently considered uncollectible.

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 fiscal year ended March 31, 2016 compared with the same period of the prior year is necessarily indicative of a trend.

Interest Expense

Interest expense for the fiscal year ended March 31, 2016 increased by $5,800 to $160,874 from $155,074 in fiscal 2015. The increase in interest expense for the year ended March 31, 2016 was primarily due to higher 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 for the fiscal years ended March 31, 2016 and 2015 was $65,291 and $505,000, respectively. 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. The Company reviews its investment accounted for under the equity method of accounting for impairment whenever events or changes in circumstances indicate a loss in the value of the investment may be other than temporary.

During the past two fiscal years ended December 31, 2015 and 2014, OPS has experienced a decline in revenues and net income from continuing operations. Specifically, for the year ended December 31, 2015, revenues declined 16.1% from the year ended December 31, 2014, gross profits declined by 10.2% and net income from continuing operations declined by 31.4%. However, during the same periods, gross profit as a percent of revenues increased from 30.6% to 32.8%.

The decline in revenues has been driven by an overall reduction in world-wide shipping activity, reduced demand for security personnel as a result of declines in attempted and successful piracy attacks, lower insurance rates and lower oil prices allowing operators the option of longer routes through lower risk areas further leading to a decline in demand for security services. The maturing of this industry has also led to price competition further compressing revenues and margins.

In addition, during the past six months, OPS has pursued certain strategic growth opportunities that have resulted in increases in a variety of related costs including salaries and wages, legal, consulting, travel and financing costs.

The decline in revenues and increased operating costs has resulted in net losses for the past two quarters ending March 31, 2016, and accordingly, the Company has recorded its proportionate share of these losses totaling $71,013 for the

two quarters ended March 31, 2016, and income of $65,291 for the year ended March 31, 2016. Further, the Company believes that OPS will report net losses for the quarter ended June 30, 2016, also primarily driven by increased operating expenses related to strategic growth initiatives that are no longer believed to be viable or expected to materialize.

The combination of the above-mentioned decline in revenues and increased operating costs has resulted in short-term liquidity pressures that may impact OPS's ability to remain current in its obligations under its senior debt. However, the Company and OPS believe the core business will continue to generate gross profit margins reasonably consistent with historical results and further, there are initiatives underway to reduce operating expenses. While there can be no assurance that OPS will be able to increase revenues and/or net income from continuing operations in the foreseeable future or improve its liquidity outlook so as to avoid a default under its credit agreement, the Company believes there is a reasonable possibility to return OPS to more stable and predictable levels of profitability. Management has performed an impairment analysis as of March 31, 2016 and has concluded its investment in OPS is not impaired at this time. The Company will continue to closely monitor the operations of OPS and review its investment for impairment whenever events or changes in circumstances indicate a loss in the value of the investment may be other than temporary.

Provision for (Benefit from) Income Taxes

The provision for income taxes decreased by $2.6 million to a net tax benefit of $1.6 million for the fiscal year ended March 31, 2016 compared with a net tax provision of $1.0 million in the fiscal year ended March 31, 2015, primarily due to lower pre-tax earnings. The Company's effective income tax rate decreased by 5.6% to 38.2% for the fiscal year ended March 31, 2016 from 43.8% for the fiscal year ended March 31, 2015. Pretax income decreased by $6.5 million to pre-tax loss of $4.3 million in the fiscal year ended March 31, 2016 from pretax income of $2.2 million in the fiscal year ended March 31, 2015.

Earnings (Loss)

Our net loss for the fiscal year ended March 31, 2016 was $2.7 million as compared with net income of $1.3 million for the fiscal year ended March 31, 2015. The decrease in net income was primarily related to the aforementioned decrease in gross profits, lower bad debt recoveries and lower equity earnings in the minority investment of Ocean Protection Services LLC ("OPS").

LIQUIDITY AND CAPITAL RESOURCES

We pay approximately 82% of our employees on a bi-weekly basis with the remaining employees being paid on a weekly basis, while customers pay for services generally within 60 days from the invoice date. We maintain a

commercial revolving loan arrangement, currently with Wells Fargo Bank, National Association ("Wells Fargo"). We fund our payroll and operations primarily through borrowings under our $20.0 million credit facility with Wells Fargo (as amended, the "Credit Agreement"), described below under "Short Term Borrowings."

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

We believe that our existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, capital expenditures 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 Agreement with Wells Fargo which was most recently amended in February 2016 (see below), matures in October 2016, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain minimum excess availability levels, 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 was 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 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 March 31, 2016, is $531,250. 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%.

On November 13, 2015, we entered into a fifth amendment (the "Fifth Amendment") to our Credit Agreement. The Fifth Amendment amends a financial covenant of the Credit Agreement to allow for certain legal settlement costs associated with the Company's settlement of a class action lawsuit (Leal v. Command Security Corporation).

On February 12, 2016, we entered into a sixth amendment (the "Sixth Amendment") to our Credit Agreement. The Sixth Amendment amends the Credit Agreement to replace the "Minimum Debt Service Coverage Ratio" covenant with a "Minimum Excess Availability" covenant that is effective as of December 31, 2015.

Under the Credit Agreement, as of March 31, 2016, the interest rate was 2.25% for LIBOR loans and 2.5% for revolving loans. At March 31, 2016, we had $1.5 million of cash on hand. We also had $5.0 million in LIBOR loans and Over-advances outstanding, $2.0 million in revolving loans outstanding and $0.5 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 58.4% 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 fiscal year ended March 31, 2016, we were in compliance with all covenants under the Credit Agreement.

Cash Flows

The following table summarizes our cash flow activity for the fiscal years ended March 31, 2016 and 2015:

	2016	2015
Net cash provided by (used in) operating activities	$(1,276,588)	$3,400,606
Net cash used in investing activities	(56,117)	(145,866)

Net cash provided by (used in) financing activities	383,720	(4,289,328)

Investments and Capital Expenditures

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

Financing

The Company uses borrowings under its Credit Agreement to meet its working capital needs and may obtain short-term financing to meet its insurance needs. See “Short Term Borrowings” above.

Working Capital

Our working capital decreased by $3.0 million, or 21.9%, to $10.7 million as of March 31, 2016, from $13.7 million as of March 31, 2015.

There were checks issued in advance of deposits (defined as checks drawn in advance of future deposits) of $0.5 million as of March 31, 2016, compared with $1.2 million at March 31, 2015. 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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are currently material or reasonably likely to be material to our financial position or results of operations.

OUTLOOK

Strategic Initiatives

During the last few years the Company has pursued several initiatives to improve our competitive and strategic position. Significant progress has been made in rebuilding and strengthening our management team and improving the efficiency and functional effectiveness of our organization, systems and processes. In December 2014 we re-entered the U.S. federal government market with the award of the U.S. Postal Service ("USPS") contract which had been the subject of a long and challenging protest process. On April 7, 2016, the Court of Federal Claims dismissed the protest filed by Universal Protective Services ("Universal") on January 27, 2016. Following the dismissal of Universal's claim, the Company reinitiated activities to fully assume the USPS Contract in two phases. On June 6, 2016, the Company commenced work at approximately half the locations and on June 13, 2016, commenced work at the remaining locations.

Also consistent with the Company's initiative to compete for larger contract opportunities, the Company commenced work on a new multi-state security services contract with a large on-line retailer in April 2016. With a stronger foundation and a more effective organization, the Company is currently engaged in a corporate-wide campaign with four basic focus areas:

- Improved performance through better systems, procedures and training;
- Profitable top line revenue growth through identification of larger bid and proposal opportunities including new Federal and/or international opportunities and potential acquisitions;
- Dedicated marketing and sales efforts in specific industry sectors that complement our core capabilities, geography and operational expertise; and,
- Attention to details and discipline that will drive operating efficiencies, and enhance enterprise value.

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. We continue to pursue complementary acquisition opportunities to leverage our management structure and deliver accretive earnings with acceptable collection terms. Our focus on larger, long term contract opportunities provides another path to add significant additional revenue similar to that of the U.S. Postal Service contract, the recently announced TSA Indefinite Delivery Indefinite Quantity Award, and other commercial and federal contract opportunities. 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 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, intense competition from other security services companies impacts our ability to gain or maintain sales, gross margins and/or employees. During recent years, 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 decreased during the fiscal year ended March 31, 2016 to 11.2% of revenues, compared with 13.9% for fiscal 2015. 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.

In the fiscal year ended March 31, 2016, the Company had six customers that represented approximately 45% of the Company's total revenue in the aggregate. Two of these customers represented 14% and 13% of total revenue, respectively. These customers include one domestic and one international airline, a major transportation company, a northeast U.S. based healthcare facility and two airline consortiums. There is no assurance that we will not lose additional contracts with these 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.

For the fiscal year ended March 31, 2016, our security services division generated approximately $72 million or 54% of our total revenues and our aviation services division generated approximately $61 million or 46% of our total revenues.

As noted earlier, on February 12, 2009, we entered into a $20.0 million Credit Agreement with Wells Fargo, as described above. As of the close of business on June 16, 2016, our cash availability plus cash on hand was approximately $8.4 million, which we believe is sufficient to meet our needs for the foreseeable future barring any increase in reserves imposed by Wells Fargo. We believe that existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, planned capital expenditures and debt service requirements for the foreseeable future, barring any increase in reserves imposed by Wells Fargo. However, we cannot assure you that this will continue to 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The information required by this item is incorporated herein by reference to the financial statements and schedule listed in Item 15 (a)(1) and (a)(2) of Part IV of this Form 10-K Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) *Evaluation of Disclosure Controls and Procedures.*

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures as of March 31, 2016 have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls 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.

(b) *Management's Report on Internal Control Over Financial Reporting.*

(a) Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act.

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2016 based on the framework in *Internal Control—Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of March 31, 2016 and for the period then ended.

This Annual Report does not include an attestation report of our registered independent public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

(b) There has been no change in our internal control over financial reporting identified in an evaluation thereof that occurred during the fourth quarter of fiscal 2016 that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item 10 will be set forth in our Proxy Statement for our 2016 Annual Meeting of Stockholders which is expected to be filed with the SEC within 120 days of the close of the our fiscal year ended March 31, 2016 (the “2016 Proxy Statement”) under the captions “Proposal One: Election of Directors,” “Information Concerning Executive Officers,” and “Board Meetings and Committees,” and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item 11 will be set forth in the 2016 Proxy Statement under the captions “Executive Compensation” and “Compensation Discussion and Analysis,” and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item 12 will be set forth in the 2016 Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Executive Compensation-Equity Compensation Plan Information,” and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item 13 will be set forth in the 2016 Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Board Meetings and Committees,” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item 14 will be set forth in the 2016 Proxy Statement under the caption “Proposal Two: Ratification of Appointment of Independent Registered Public Accountants,” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a)

	Page Number from this Form 10-K
(1) *Financial Statements:*	
Report of Independent Registered Public Accounting Firm	F-1
Balance Sheets - March 31, 2016 and 2015	F-2
Statements of Operations - years ended March 31, 2016 and 2015	F-3
Statements of Changes in Stockholders' Equity - years ended March 31, 2016 and 2015	F-4
Statements of Cash Flows - years ended March 31, 2016 and 2015	F-5
Notes to Financial Statements	F-7
(2) *Financial Statement Schedules:*	
Schedule II - Valuation and Qualifying Accounts	F-20

Schedules not listed above have been omitted as not applicable, immaterial or disclosed in the Financial Statements or notes thereto.

(3) *Exhibits:*

A list of exhibits filed or furnished with this report on Form 10-K (or incorporated by reference to exhibits previously filed or furnished by us) is provided in the Exhibit Index on pages 24-25 of this report.

SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on our behalf by the undersigned, thereunto duly authorized.

COMMAND SECURITY CORPORATION

Date: June 27, 2016

By: /s/ Craig P. Coy
Craig P. Coy
Chief Executive Officer

KNOWN BY ALL PERSONS BY THESE PRESENTS, that the individuals whose signatures appear below hereby constitute and appoint Craig P. Coy and N. Paul Brost, and each of them severally, as his or her true and lawful attorneys-in-fact and agents with full power of substitution and re-substitution for him or her and in his or her name, place and stead in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do or perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or of his substitute or substitutes, may lawfully do to cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Thomas P. Kikis Thomas P. Kikis	Chairman of the Board	June 27, 2016
/s/ Craig P. Coy Craig P. Coy	Director and Chief Executive Officer (Principal Executive Officer)	June 27, 2016
/s/ N. Paul Brost N. Paul Brost	Chief Financial Officer (Principal Accounting Officer)	June 27, 2016
/s/ James P. Heffernan James P. Heffernan	Director	June 27, 2016
/s/ Janet L. Steinmayer	Director	June 27, 2016

Janet L. Steinmayer

/s/ Mark Sullivan	Director	June 27, 2016
Mark Sullivan		

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COMMAND SECURITY CORPORATION

EXHIBIT INDEX

Exhibit No.	**Exhibit Description**	
3.1	Amended and Restated Articles of Incorporation	Incorporated by reference to Exhibit of Incorporation 3.3 of the Form 10-K for the fiscal year ended March 31, 1993.
3.2	By-Laws, as amended	Incorporated by reference to Exhibit 3.1 on Form 8-K filed September 25, 2013.
3.4	Certificate of Amendment of Certificate of Incorporation	Incorporated by reference to Exhibit 3.4 on Form 10-K for the fiscal year ended March 31, 2010.
4.1	Specimen Stock Certificate	Incorporated by reference to Exhibit 4.A to Amendment #1 to Registrant's Registration Statement on Form S-18, file number 33, 35007-NY.
4.2	Specimen Series A Preferred Stock Certificate	Incorporated by reference to Exhibit 4.2 of Registration Statement on Form S-1 filed October 27, 1993.
10.1	Agreement for Purchase and Sale of Assets dated June 13, 2006, for the acquisition of Sterling Protective Group, Inc.	Incorporated by reference to Exhibit 10.6 of the Form 8-K filed June 13, 2006.
10.2	Stock Purchase Agreement dated April 12, 2007, for the acquisition of Brown Security Industries, Inc.	Incorporated by reference to Exhibit 10.2 of the Form 8-K filed April 12, 2007.
10.3	Amended and Restated Plan of Merger dated April 12, 2007, for the acquisition of Brown Security Industries, Inc.	Incorporated by reference to Exhibit 10.3 of the Form 8-K filed April 12, 2007.
10.4	Wells Fargo Business Credit, Credit and Security Agreement dated February 12, 2009	Incorporated by reference to Exhibit 10.1 of the Form 10-Q filed February 17, 2009.
10.5	Second Amendment to Wells Fargo Business Credit and Security Agreement dated as of October 18, 2011	Incorporated by reference to Exhibit 10.1 of the Form 8-K filed October 18, 2011.
*10.6	2000 Stock Option Plan	Incorporated by reference to Exhibit 99.25 of the Form 10-K for the fiscal year ended March 31, 2001 filed July 3, 2001.
*10.7	2005 Stock Incentive Plan	Incorporated by reference to Exhibit 99.5 of the Form 10-K for the fiscal year ended March 31, 2006 filed June 28, 2006.
*10.8	2009 Omnibus Equity Incentive Plan	Incorporated by reference to Exhibit A of the 2009 Proxy Statement filed July 29, 2009.
*10.9	Craig P. Coy Employment Agreement	Incorporated by reference to Exhibit 10.13 of the Form 10-K for the fiscal year ended March 31, 2012.
*10.10	Scott Landry Employment Offer Letter dated October 1, 2012	Incorporated by reference to Exhibit 10.1 of the Form 8-K filed October 4, 2012.
10.11		

	Third Amendment to Credit and Security Agreement dated as of November 6, 2012, between Command Security Corporation and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1 of the Form 8-K filed November 8, 2012.
*10.12	N. Paul Brost Employment Offer Letter dated January 11, 2013	Incorporated by reference to Exhibit 10.1 of the Form 8-K filed January 17, 2013.
*10.13	Coy Employment Agreement Extension dated December 23, 2014	Incorporated by reference to Exhibit 10.1 of the Form 8-K filed December 29, 2014
10.14	Award of the U.S. Postal Service contract No. 2BEMPS-15-B-0029 under Solicitation No. 2B-14-A-0078	Filed herewith.
10.15	Fifth Amendment to Credit and Security Agreement dated as of November 13, 2015, between Command Security Corporation and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1 of the Form 10-Q filed November 16, 2015
10.16	Sixth Amendment to Credit and Security Agreement dated as of February 12, 2016, between Command Security Corporation and Wells Fargo Bank, National Association	Incorporated by reference to Exhibit 10.1 of the Form 10-Q filed February 16, 2016
11.1	Computation of Income (Loss) Per Share of Common Stock	Incorporated by reference to Note 8 of the Financial Statements filed with this Annual Report on Form 10-K.
31.1	Certifications Pursuant to Rule 13(a)-14(a)/15(d)-14(a)	Filed herewith.
31.2	Certifications Pursuant to Rule 13(a)-14(a)/15(d)-14(a)	Filed herewith.
32.1	Section 1350 Certifications	Filed herewith.
32.2	Section 1350 Certifications	Filed herewith.
99.1	Press Release dated June 27, 2016 announcing March 31, 2016 fourth quarter and fiscal year results	Filed herewith.

101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.

* Management contract or compensatory plan or arrangement.

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Report of Independent Registered

Public Accounting Firm

To the Board of Directors and Stockholders of Command Security Corporation

We have audited the accompanying balance sheets of Command Security Corporation as of March 31, 2016 and 2015, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended March 31, 2016. Our audits of the basic financial statements included the financial statement schedule II – Valuation and Qualifying Accounts. Command Security Corporation’s management is responsible for these financial statements and financial statement schedule. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Command Security Corporation as of March 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ D'Arcangelo & Co., LLP

June 27, 2016
Poughkeepsie, New York

Command Security Corporation

Balance Sheets

March 31, 2016 and 2015

	March 31, 2016	March 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$1,486,854	$2,435,839
Accounts receivable, net of allowance for doubtful accounts accounts of $650,226 and $614,105, respectively	21,890,623	21,712,036
Prepaid expenses	1,853,464	1,653,404
Other assets	2,184,465	3,283,195
Total current assets	27,415,406	29,084,474
Furniture and equipment at cost, net	258,157	383,860
Other Assets:		
Intangible assets, net	1,364,966	1,763,805
Minority investment in unconsolidated affiliate	2,695,291	2,630,000
Other assets	4,412,042	2,725,016
Total other assets	8,472,299	7,118,821
Total assets	$36,145,862	$36,587,155
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks issued in advance of deposits	$471,939	$1,161,023
Short-term borrowings	7,011,743	6,000,000
Accounts payable	945,711	620,282
Accrued expenses and other liabilities	8,321,297	7,647,102
Total current liabilities	16,750,690	15,428,407
Insurance reserves	612,462	584,569
Other non-current liabilities	700,000	-
Total liabilities	18,063,152	16,012,976
Commitments and contingencies (Notes 12 and 13)		
Stockholders' equity:		
Preferred stock, convertible Series A, $.0001 par value	-	-
	1,155	1,149

Common stock, $.0001 par value per share, 50,000,000 shares authorized, 11,544,818 and 9,792,618 shares issued and outstanding, respectively, at March 31, 2016 and 11,483,764 and 9,731,564 shares issued and outstanding, respectively, at March 31, 2015		
Treasury stock, at cost, 1,752,200 shares	(2,885,579)	(2,885,579)
Additional paid-in capital	18,410,595	18,245,747
Accumulated earnings	2,556,539	5,212,862
Total stockholders' equity	18,082,710	20,574,179
Total liabilities and stockholders' equity	$36,145,862	$36,587,155

See accompanying Notes to Financial Statements

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Command Security Corporation

Statements of Operations

Years Ended March 31, 2016 and 2015

	2016	2015
Revenues	$133,101,689	$139,185,400
Cost of revenues	118,200,363	119,907,591
Gross profit	14,901,326	19,277,809
Operating expenses		
General and administrative	17,275,314	17,519,531
Litigation settlement	1,400,000	-
Provision for doubtful accounts, net	426,752	(130,059)
	19,102,066	17,389,472
Operating income (loss)	(4,200,740)	1,888,337
Other expenses		
Interest expense	(160,874)	(155,074)
Income (loss) before income taxes and equity earnings in minority investment of unconsolidated affiliate	(4,361,614)	1,733,263
Equity earnings from minority investment of unconsolidated affiliate	65,291	505,000
Income (loss) before income taxes	(4,296,323)	2,238,263
Provision for (benefit from) income taxes	(1,640,000)	980,000
Net income (loss)	$(2,656,323)	$1,258,263
Income (loss) per share of common stock		
Basic	$(0.27)	$0.13
Diluted	$(0.27)	$0.13
Weighted average number of common shares outstanding		
Basic	9,771,578	9,637,594
Diluted	9,771,578	9,919,654

See accompanying Notes to Financial Statements

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Command Security Corporation

Statements of Changes in Stockholders' Equity

Years Ended March 31, 2016 and 2015

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid In Capital	Accumulated Earnings	Total
Balance at March 31, 2014	$ -	$ 1,126	$(2,885,579)	$ 17,685,815	$ 3,954,599	$ 18,755,961
Options exercised, net		23		280,895		280,918
Stock compensation cost				203,215		203,215
Stock based compensation tax benefits				75,822		75,822
Net income					1,258,263	1,258,263
Balance at March 31, 2015	-	1,149	(2,885,579)	18,245,747	5,212,862	20,574,179
Options exercised, net		6		75,089		75,095
Repurchase of stock options				(14,034)		(14,034)
Stock compensation cost				103,793		103,793
Net loss					(2,656,323)	(2,656,323)
Balance at March 31, 2016	$ -	$ 1,155	$(2,885,579)	$ 18,410,595	$ 2,556,539	$ 18,082,710

See accompanying Notes to Financial Statements

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Command Security Corporation

Statements of Cash Flows

Years Ended March 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Net income (loss)	(2,656,323)	$1,258,263
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	577,025	642,700
Provision for doubtful accounts, net	426,752	(130,059)
Equity earnings in minority investment of unconsolidated affiliate	(65,291)	(505,000)
Rent expense	(15,036)	(21,038)
(Gain) loss on asset dispositions	3,632	(3,098)
Stock based compensation costs	103,793	203,215
Insurance reserves	27,893	(88,592)
Deferred income taxes	(1,913,562)	37,226
Restricted cash	-	83,118
Changes in operating assets and liabilities:		
Accounts receivable	(605,339)	3,746,475
Prepaid expenses	(200,060)	(44,107)
Other assets	1,325,267	(122,204)
Change in accounts payable and other liabilities	1,014,661	(1,656,293)
Change in other long term liabilities	700,000	-
Net cash provided by (used in) operating activities	(1,276,588)	3,400,606
Cash flows from investing activities:		
Purchases of equipment	(58,532)	(145,866)
Proceeds from equipment dispositions	2,415	-
Net cash used in investing activities	(56,117)	(145,866)
Cash flows from financing activities:		
Net (repayments)/advances on short-term borrowings	1,011,743	(4,511,360)
Change in checks issued in advance of deposits	(689,084)	(58,886)
Repurchase of stock options	(14,034)	-
Proceeds from option exercises, net	75,095	280,918
Net cash provided by (used in) financing activities	383,720	(4,289,328)
Net change in cash and cash equivalents	(948,985)	(1,034,588)
Cash and cash equivalents, beginning of period	2,435,839	3,470,427
Cash and cash equivalents, end of period	$1,486,854	$2,435,839

See accompanying Notes to Financial Statements

Command Security Corporation

Statements of Cash Flows, Continued

Years Ended March 31, 2016 and 2015

1. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid during the years for:

	2016	2015
Interest	$152,486	$161,551
Income taxes	535,616	1,060,050

See accompanying Notes to Financial Statements

Command Security Corporation

Notes to Financial Statements

March 31, 2016 and 2015

1. Business Description and Summary of Accounting Policies

The following is a description of the principal business activities and significant accounting policies employed by Command Security Corporation. In this discussion, the words "Company", "we", "our" and "us" refer to Command Security Corporation.

Principal Business Activities

We are a security services company which principally provides uniformed security officers and aviation security services to commercial, financial, industrial, aviation and governmental customers throughout the United States. We provide our security services to our customers through Command Security, our security division, and our aviation security services through our Aviation Safeguards division. The Company has operations in California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Texas, Virginia, Washington, and West Virginia.

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 our management believes are reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, our actual results may differ from those estimates under different assumptions or conditions.

Revenue Recognition

We record revenue as services are provided to our customers. Revenue relates primarily to the provision 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.

Cash and Cash Equivalents

We define cash and cash equivalents as operating cash (non-restricted) and highly liquid investments with maturities of ninety (90) days or less at the date of purchase. The carrying amounts of our cash equivalents approximate their fair values.

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. 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. The Company reviews its investment accounted for under the equity method of accounting for impairment whenever events or changes in circumstances indicate a loss in the value of the investment may be other than temporary.

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is generally recorded using the straight-line method over estimated useful lives of the equipment ranging from three to seven years.

Command Security Corporation

Notes to Financial Statements, Continued March 31, 2016 and 2015

Intangible Assets

Intangible assets are stated at cost and consist primarily of customer lists that are being amortized on a straight-line basis over a period of ten years, and goodwill, which is reviewed annually for impairment. The life assigned to customer lists acquired 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.

The Company is self-insured up to certain stop loss amounts for worker's compensation claims. The Company has purchased stop loss coverage that insures individual claims that exceed $500,000. Additionally, the Company has purchased stop loss coverage that insures claims in the aggregate that exceed $6.2 million and $6.5 million for the policy years ended September 30, 2016 and 2015 respectively.

The Company’s workers’ compensation insurance premiums (including loss fund deposits, surcharges, assessments, broker’s fees and excluding loss fund handling charges) were $3.25 million and $3.34 million for the policy years ended September 30, 2016 and 2015, respectively. Related loss handling charges for the policy year ended September 30, 2016 as of March 31, 2016 were $44,826, as compared with loss handling charges of $79,750 for the full policy year ended September 30, 2015. The Company utilizes the services of a third party administrator to manage workers’ compensation claims for the policy year ended September 30, 2016.

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 March 31, 2016 and 2015.

Income (Loss) per Share

Under the requirements of FASB ASC 260, *Earnings per Share*, the dilutive effect of potential common shares, if any, is excluded from the calculation for basic earnings per share. Diluted earnings per share are presented for the fiscal years ended March 31, 2016 and 2015 because of the effect the assumed issuance of common shares would have if the outstanding stock options were exercised.

For the fiscal year ended March 31, 2016, the Company reported a net loss and, accordingly, potential common shares that would cause dilution, such as employee stock options, have been excluded from the diluted share count because their inclusion would have been anti-dilutive.

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.

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, prepaid expenses, checks issued in advance of deposits, accounts payable and accrued expenses are reasonable estimates of the fair values because of their short-term maturity. The fair value of the Company's long-term debt is based on the borrowing rates currently available to the Company for loans and leases with similar terms and average maturities.

Command Security Corporation

Notes to Financial Statements, Continued March 31, 2016 and 2015

FASB ASC 820, *Fair Value Measurements and Disclosures*, 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 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- 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.

Recent Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued, *ASU 2014-09 (Topic 606) Revenue from Contracts with Customers*. The guidance substantially converges final standards on revenue recognition between the FASB and IASB providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. In July 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”, which deferred the effective date of ASU No. 2014-09 by one year, making it effective for the interim reporting periods within the annual reporting period beginning after December 15, 2017, or beginning with the Company’s fiscal year 2019. This standard may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is currently evaluating the impact of adopting ASU 2014-09 to determine the impact, if any, that it may have on our current practices.

In April 2015, the FASB issued ASU No. 2015-03, “Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs.” This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This pronouncement is effective for fiscal and interim periods beginning after December 15, 2015. Other than requiring a different presentation within the balance sheet, the adoption of this ASU is not expected to have a material impact on our financial statements.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes”. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities to be classified as non-current on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company is currently evaluating the impact of this guidance. Other than the reclassification of the current deferred tax asset to long term assets, the adoption of this guidance is not expected to have a material impact on the Company's financial position, results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which requires lessees to recognize a lease liability and a right-to-use asset on the balance sheet for all leases, except certain short-term leases. ASU 2016-02 is effective beginning with the Company’s fiscal year 2020, with early adoption permitted, and must be implemented using a modified retrospective approach for all leases existing at, or entered into after the beginning of the earliest comparative period that is presented in the financial statements. The Company is currently evaluating the impact of ASU 2016-09 on its financial statements. The adoption of this guidance is expected to result in a significant increase in assets and liabilities on the Company’s balance sheet.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting”, which simplifies accounting and presentation of share-based payments, primarily relating to the recognition and classification of excess tax benefits, accounting for forfeitures and tax withholding requirements. ASU 2016-09 is effective beginning with the Company’s fiscal year 2018, with early adoption permitted and different permitted adoption methods for each provision of the standard. The Company is currently evaluating the impact of ASU 2016-09 on its financial statements.

2. Furniture and Equipment

Furniture and equipment at March 31, 2016 and 2015 consist of the following:

	2016	2015
Transportation equipment	$232,954	$232,954
Security equipment	1,347,003	1,306,403
Office furniture and equipment	2,774,658	2,790,607
	4,354,615	4,329,964
Accumulated depreciation	(4,096,458)	(3,946,104)
Total	$258,157	$383,860

Depreciation expense for the fiscal years ended March 31, 2016 and 2015 was $178,186 and $243,349, respectively.

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Command Security Corporation

Notes to Financial Statements, Continued March 31, 2016 and 2015

3. Intangible Assets

Intangible assets at March 31, 2016 and 2015 consist of the following:

	2016	2015
Customer Lists	$4,274,915	$4,274,915
Goodwill	895,258	895,258
	5,170,173	5,170,173
Accumulated amortization	(3,805,207)	(3,406,368)
Total	$1,364,966	$1,763,805

Included in intangible assets for the fiscal years ended March 31, 2016 and 2015 is goodwill of $895,258 that is not subject to amortization. Amortization expense for the fiscal years ended March 31, 2016 and 2015 was $398,839 and $399,351, respectively. Amortization expense for the years ending March 31, 2017, 2018, and 2019 for the intangible assets noted above will be $336,384 $106,680 and $26,644 respectively.

4. 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. In connection with the investment, the Company may acquire additional ownership interest in OPS in the future. The excess of the carrying value of the Company's investment in OPS and the Company's proportionate share of the net assets of OPS is largely attributable to goodwill. Since the Company's initial investment, there have been no additional capital contributions made or distributions received.

Our investment in OPS which is included in Minority investment in unconsolidated affiliate in our balance sheet consists of the following:

Capital contributions	$2,125,000
Cumulative share of income	570,291
Cumulative share of distributions	-
Investment balance - March 31, 2016	$2,695,291

The following summarizes the combined assets, liabilities and equity, and combined results of operations of our equity method investment in OPS as of December 31, 2015 and December 31, 2014:

	December 31, 2015	December 31, 2014
Current assets	$ 2,415,252	$ 3,992,357
Goodwill	10,441,941	10,663,390
Other non-current assets	236,066	324,221
Total assets	$ 13,093,259	$ 14,979,968
Current liabilities	$ 4,349,785	$ 4,237,190
Non-current liabilities	4,459,298	7,487,404
Shareholders' equity	4,284,176	3,255,374
Total liabilities and shareholders' equity	$ 13,093,259	$ 14,979,968

Condensed statement of operations for the year ended December 31, 2015 and the period March 14, 2014 through December 31, 2014:

	2015	2014
Net operating revenues	$12,571,572	$14,975,913
Gross profit	$4,117,222	$4,586,547
Operating expenses	$2,638,364	$2,244,054
Net income from continuing operations	$1,086,486	$1,584,174

Command Security Corporation

Notes to Financial Statements, Continued March 31, 2016 and 2015

During the past two fiscal years ended December 31, 2015 and 2014, OPS has experienced a decline in revenues and net income from continuing operations. Specifically, for the year ended December 31, 2015, revenues declined 16.1% from the year ended December 31, 2014, gross profits declined by 10.2% and net income from continuing operations declined by 31.4%. However, during the same periods, gross profit as a percent of revenues increased from 30.6% to 32.8%.

The decline in revenues has been driven by an overall reduction in world-wide shipping activity, reduced demand for security personnel as a result of declines in attempted and successful piracy attacks, lower insurance rates and lower oil prices allowing operators the option of longer routes through lower risk areas further leading to a decline in demand for security services. The maturing of this industry has also led to price competition further compressing revenues and margins.

In addition, during the past six months, OPS has pursued certain strategic growth opportunities that have resulted in increases in a variety of related costs including salaries and wages, legal, consulting, travel and financing costs.

The decline in revenues and increased operating costs has resulted in net losses for the past two quarters ending March 31, 2016, and accordingly, the Company has recorded its proportionate share of these losses totaling $71,013 for the two quarters ended March 31, 2016, and income of $65,291 for the year ended March 31, 2016. Further, the Company believes that OPS will report net losses for the quarter ended June 30, 2016, also primarily driven by increased operating expenses related to strategic growth initiatives that are no longer believed to be viable or expected to materialize.

The combination of the above-mentioned decline in revenues and increased operating costs has resulted in short-term liquidity pressures that may impact OPS's ability to remain current in its obligations under its senior debt. However, the Company and OPS believe the core business will continue to generate gross profit margins reasonably consistent with historical results and further, there are initiatives underway to reduce operating expenses. While there can be no assurance that OPS will be able to increase revenues and/or net income from continuing operations in the foreseeable future or improve its liquidity outlook so as to avoid a default under its credit agreement, the Company believes there is a reasonable possibility to return OPS to more stable and predictable levels of profitability. Management has performed an impairment analysis as of March 31, 2016 and has concluded its investment in OPS is not impaired at this time. The Company will continue to closely monitor the operations of OPS and review its investment for impairment whenever events or changes in circumstances indicate a loss in the value of the investment may be other than temporary.

5. Other Assets

Other assets at March 31, 2016 and 2015 consist of the following:

	March 31, 2016	March 31, 2015
Workers' compensation insurance	$1,258,066	$2,603,209
Other receivables	44,958	6,000
Security deposits	140,019	159,100
Deferred tax asset	5,153,464	3,239,902
	6,596,507	6,008,211
Current portion	(2,184,465)	(3,283,195)
Total non-current portion	$4,412,042	$2,725,016

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.

6. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at March 31, 2016 and 2015 consist of the following:

	March 31, 2016	March 31, 2015
Payroll and related expenses	$5,530,554	$5,610,224
Taxes and fees payable	320,333	314,911
Accrued interest payable	4,756	1,921
Other	2,465,654	1,720,046
Total	$8,321,297	$7,647,102

7. Borrowings

Short-term borrowings at March 31, 2016 and 2015 consist of the following:

	March 31, 2016	March 31, 2015
Line of credit	$7,011,743	$6,000,000

On February 12, 2009, we entered into a $20.0 million, credit facility (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”) which was most recently amended in February 2016 (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.

Command Security Corporation

Notes to Financial Statements, Continued March 31, 2016 and 2015

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 provided 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 was 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 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 March 31, 2016, is $531,250. 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%.

On November 13, 2015, we entered into a fifth amendment (the “Fifth Amendment”) to our Credit Agreement. The Fifth Amendment amends a financial covenant of the Credit Agreement to allow for certain legal settlement costs associated with the Company’s settlement of a class action lawsuit (Leal v. Command Security Corporation).

On February 12, 2016, we entered into a sixth amendment (the “Sixth Amendment” to our Credit Agreement). The Sixth Amendment amends the Credit Agreement to replace the “Minimum Debt Service Coverage Ratio” covenant with a “Minimum Excess Availability” covenant that is effective as of December 31, 2015.

Under the Credit Agreement, as of March 31, 2016, the interest rate was 2.25% for LIBOR loans and 2.5% for revolving loans. As of March 31, 2016, we had $1.5 million of cash on hand. We also had $5.0 million in LIBOR loans and Over-advances outstanding, $2.0 million of revolving loans outstanding and $0.5 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 58.4% 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.

Under the Credit Agreement, as of March 31, 2015, the interest rate was 2.0% for LIBOR loans and revolving loans. At March 31, 2015, we had $2.4 million of cash on hand. We also had $6.0 million in LIBOR loans and Over-advances outstanding, no revolving loans outstanding and $0.12 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 45.8% 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.

8. Income (Loss) per Share

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 $103,793 and $203,215 for stock based compensation have been recorded for the years ended March 31, 2016 and 2015, respectively.

The following is a reconciliation of the numerators and the denominators of the basic and diluted per-share computations for net income (loss) for the fiscal years ended March 31, 2016 and 2015:

	Income (Loss) (Numerator)	Shares (Denominator)	Per-Share Amount
Year ended March 31, 2016			
Basic and diluted EPS	$ (2,656,323)	9,771,578	$ (0.27)
Year ended March 31, 2015			
Basic EPS	$ 1,258,263	9,637,594	$ 0.13
Effect of dilutive shares:			
Options issued September 2005, October 2010, June 2011, September 2011, January 2012, April 2012, August 2012, November 2012, January 2013, June 2013, July 2013, July 2014 and December 2014		282,060	
Diluted EPS	$ 1,258,263	9,919,654	$ 0.13

For the fiscal year ended March 31, 2016, the Company reported a net loss and, accordingly, potential common shares that would cause dilution, such as employee stock options, have been excluded from the diluted share count because their inclusion would have been anti-dilutive. For the fiscal year ended March 31, 2016, the fully diluted shares would have been 10,020,208.

Command Security Corporation

Notes to Financial Statements, Continued March 31, 2016 and 2015

9. Retirement Plans

In November 1999, we adopted a qualified retirement plan providing for elective employee deferrals and discretionary employer contributions to non-highly compensated participants. The plan was amended to allow for employer matching of elective deferrals, for certain employees working under a specific customer contracts, as defined. Our expense under this plan for the fiscal years ended March 31, 2016 and 2015 was $217,716 and $206,017, respectively.

10. Concentrations of Credit Risk and Significant Customers

Geographic concentrations of credit risk with respect to trade receivables are primarily in the New York Metropolitan area with approximately 43% of total receivables as of March 31, 2016 and 2015, and in California with approximately 30% and 31% of total receivables as of March 31, 2016 and 2015, respectively. The remaining trade receivables consist of a large number of customers dispersed across many different geographic regions. During the fiscal years ended March 31, 2016 and 2015 we generated 45% and 34%, respectively, of our revenue from aviation and related services. Accounts receivable due from the commercial airline industry comprised 55% and 46% of net receivables as of March 31, 2016 and 2015. Our remaining customers are not concentrated in any specific industry. In the fiscal year ended March 31, 2016, the Company had six customers who represented approximately 45% of the Company’s total revenue in the aggregate. Two of these customers represented 14% and 13% of total revenue, respectively. These customers include one domestic and one international airline, a major transportation company, a northeast U.S. based healthcare facility, and two airline consortiums. In the fiscal year ended March 31, 2015, the Company had six customers who represented approximately 40% of the Company’s total revenue in the aggregate, with two of those customers representing 15% and 10% of total revenue, respectively. These customers included two domestic and one international airline, a major transportation company, a northeast U.S. based healthcare facility and a California based high-technology company. We maintain our cash in bank deposit accounts, which at times may exceed federally insured limits. We have not experienced any losses in such accounts. Company management believes the risk of loss associated with these accounts to be remote.

11. 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 $4.6 million and $2.6 million, for the fiscal years ended March 31, 2016 and 2015, 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 first and second layer excess liability 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 of general liability non-aviation related operations. The aviation related deductible is $5,000 per occurrence, with the exception of $50,000 for 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.

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Notes to Financial Statements, Continued March 31, 2016 and 2015

12. 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. The aviation related deductible is $5,000 per occurrence, with the exception of $50,000 for 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 March 2012, the California Service Employees Health and Welfare Trust Fund filed a suit in U.S. District Court for the Northern District of California against the Company 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 Court denied the plaintiffs' motion for summary judgment and granted partial summary judgment in favor of the Company. While the parties stipulated to a proposed judgment within recorded reserves, the plaintiffs' appealed the judgment before the Judge had issued a final Order, pending the outcome of the companion case filed in July 2012. In that case, the Service Employee International Union (SEIU) filed a lawsuit in U.S. District Court for the Northern District of California 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 and both parties have subsequently filed appellate briefs. Oral arguments were held in March 2016 in the Ninth Circuit Court of Appeals. The appeal ruling is still pending. These cases involve a high degree of inherent uncertainty and, as such, the Company is unable to estimate the eventual amount of potential loss, if any, until developments in the case yield additional information sufficient to support a quantitative assessment of the range of reasonably probable loss. At this time it is not possible to predict the outcome of this appeal or the potential cost if the plaintiffs were to prevail, however, the potential cost to the company could be material.

On April 29, 2014, the California Superior Court granted a plaintiff's motion (Leal v. Command Security Corporation) to certify a class consisting of all persons who were employed by the Company in a non-exempt security officer position within the State of California at any time since May 2, 2007 through the date of trial who agreed to and signed an on-duty meal period agreement at the time of their employment. The case is a certified class action involving allegations that the Company violated certain California state laws relating to on-duty meal and rest breaks. On November 12, 2015, the Company agreed to a maximum settlement amount of $2.0 million, including plaintiff's attorney fees and costs, administration costs, and certain other miscellaneous costs. As part of the settlement, the parties further agreed that (i) the final settlement will be subject to court approval; (ii) a minimum of 50% of the net proceeds will be distributed to the class; and (iii) the settlement will be paid in two installments, the first to be paid upon court approval of the final settlement agreement and the second to be paid no later than one year from final approval. The Company expects court approval within the next two to three months.

The Leal v. Command Security Corporation lawsuit is one of numerous class action lawsuits filed during the past year against security guard companies in California related to meal and rest break regulations. The Company aggressively defended its position in this case; however, given the current environment in California regarding similar lawsuits, the Company believes that settling this matter under these terms provides a favorable outcome. In addition, the Company considered its assessment of the cost to continue to defend the case through trial and a potential appeal in its decision to settle. While the parties have established a maximum settlement amount at $2.0 million, the Company recorded a $1.4 million provision in the quarter ended September 30, 2015. We record legal costs associated with loss contingencies as expenses in the period in which they are incurred. This provision is based on the terms of the settlement and historical statistical information as to the expected rate of participation in similar cases provided to the Company by claims administrators. In the event the rate of participation in the settlement by class members were to exceed current estimates the final settlement amount could increase to the maximum settlement amount. The settlement will be administered over the next one to two years.

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

We have employment agreements with certain of our officers and key employees with terms which range from one to three years. The agreements generally provide for annual salaries and for salary continuation for a specified number of months under certain circumstances, including a change in control of the Company. Approximately 30% of our workforce is subject to a collective bargaining agreement which is set to expire on March 31, 2017, or a recognition agreement with SEIU 32BJ.

13. Commitments

Leases

We are obligated under various operating lease agreements for office space, equipment and auto rentals. Rent expense under operating lease agreements approximated $2.39 million and $2.29 million, for the fiscal years ended March 31, 2016 and 2015, respectively.

There are no future minimum payments under long-term non-cancelable capital lease agreements. The future minimum payments under long-term non-cancelable operating lease agreements are as follows:

	Operating Leases
Year ending: March 31, 2017	$1,477,239
March 31, 2018	1,309,477
March 31, 2019	1,009,036
March 31, 2020	593,371
March 31, 2021	481,867
Thereafter	1,265,354
Total	$6,136,344

14. Stock Option Plans and Warrants

In November 2000, the Company's Board of Directors and stockholders approved the adoption of a qualified stock option plan. Under the stock option plan, substantially all employees are eligible to receive options to purchase up to an aggregate of 500,000 shares at an exercise price that cannot be less than the fair market value of the shares on the date the options are granted. In May 2010, options to purchase 205,000 shares of the Company’s common stock were issued. No options may be granted under this plan after 2010. During the fiscal years ended March 31, 2016 and 2015, no options were exercised under this plan. The remaining 55,600 outstanding options are exercisable at any time before May 26, 2020 at $2.40 per share.

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Notes to Financial Statements, Continued March 31, 2016 and 2015

In September 2005, the Company's Board of Directors and stockholders approved the adoption of a qualified stock incentive plan. Under the stock incentive plan, substantially all employees of and consultants to, the Company, are eligible to receive options to purchase up to an aggregate of 1,000,000 shares of the Company's common stock at an exercise price that cannot be less than the fair market value of the shares on the date the options are granted. In September and April 2007, options to purchase 80,000 and 65,000 shares of the Company's common stock were issued. No options may be granted under this plan after July 29, 2015. During the fiscal year ended March 31, 2016, the company received proceeds of $75,095 in connection with the exercise of stock options to purchase 61,054 shares of the Company's common stock at an exercise price of $1.23. During the fiscal year ended March 31, 2015, the company received proceeds of $252,353 in connection with the exercise of stock options to purchase 208,031 shares of the Company's common stock at an exercise price of $1.21 per share and 500 shares of the Company's stock at $1.23 per share. The vested outstanding options are exercisable as follows:

Options Outstanding	Exercise Price	Expiration Date
10,000	2.67	September 19, 2016
15,000	3.00	April 11, 2017
10,000	3.19	September 19, 2017
13,753	3.36	September 17, 2018
500,000	3.37	September 28, 2018
14,233	3.08	December 30, 2018

In September 2009, the Company's Board of Directors and stockholders approved the adoption of a qualified stock incentive plan. Under the stock incentive plan, substantially all employees of and consultants to, the Company, are eligible to receive options to purchase up to an aggregate of 2,250,000 shares of the Company's common stock at an exercise price that cannot be less than the fair market value of the shares on the date the options are granted. In April, May, July and October 2010, options to purchase 116,283, 120,000, 31,624 and 74,616 shares of the Company's common stock were issued, respectively. In March, June and September 2011, options to purchase 169,683, 109,553 and 120,000 shares of the Company's common stock were issued. In January, April, August and November 2012, options to purchase 928,817 shares of the Company's common stock were issued. In June and July 2013, options to purchase 120,000 shares of the Company's common stock were issued. In July and December 2014, options to purchase 370,000 shares of the Company's common stock were issued. During the fiscal year ended March 31, 2015, the Company received proceeds of $28,587 in connection with the exercise of stock options to purchase 17,867 shares of the Company's common stock at an exercise price of $1.60 per share. The vested outstanding options are exercisable as follows:

Expiration Date

Options Outstanding	Exercise Price	
18,425	$ 3.08	December 30, 2018
35,000	2.40	May 26, 2020
50,000	2.01	October 20, 2020
50,000	1.50	June 8, 2021
95,000	1.42	September 12, 2021
240,000	1.64	January 2, 2022
180,000	2.30	January 2, 2022
180,000	3.00	January 2, 2022
95,000	1.28	April 4, 2022
159,490	1.52	November 26, 2022
165,000	1.91	January 16, 2023
70,000	1.61	June 2, 2023
50,000	1.43	July 21, 2023
120,000	1.80	July 16, 2024
120,000	3.25	December 15, 2024
30,000	1.92	December 15, 2024
100,000	1.79	December 22, 2024
50,000	1.65	August 16, 2025

Certain of the option and warrant agreements contain anti-dilution adjustment clauses.

A summary of activity related to all Company stock option activity for the years ended March 31, 2016 and 2015, is as follows:

	Options Exercise Price	Number of Shares
Outstanding at March 31, 2014	$1.21 - $3.37	2,337,606
Issued	$1.79 - $3.25	370,000
Exercised	$1.21 - $1.60	(226,398)
Outstanding at March 31, 2015	$1.21 - $3.37	2,481,208
Issued	$1.65	50,000
Exercised	$1.23	(61,054)
Repurchased	$1.52	(28,643)
Forfeited	1.21 – 2.40	(15,010)
Outstanding at March 31, 2016	$1.28 - $3.37	2,426,501

At March 31, 2016 there were 2,426,501 options outstanding exercisable at prices ranging from $1.28 to $3.37 and 2,623,666 shares reserved for issuance under all stock arrangements. At March 31, 2016, there was $28,585 of total unrecognized compensation expense from stock-based compensation granted under the plans, which is related to non-vested options. The compensation expense is expected to be recognized over a weighted average vesting period of approximately 20 months.

Significant option groups outstanding and exercisable at March 31, 2016 and the related weighted average exercise price and life information are as follows:

Range of Exercise Price	Options Outstanding	Weighted Average Options Exercisable	Weighted Average Exercise Price	Remaining Life (years)
$1.28 - $3.37	2,426,501	2,365,876	$ 2.31	5.6

The total intrinsic value of options outstanding as of March 31, 2016 was approximately $843,000.

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Notes to Financial Statements, Continued March 31, 2016 and 2015

The weighted average estimated value of stock options granted during fiscal 2016 was $0.46. The weighted average estimated values of stock options granted during fiscal 2015 were $0.25 to $0.57. The weighted average assumptions used in the Black-Scholes option-pricing model were as follows:

	2016	2015
Risk-free interest rate	1.37%	1.64 - 1.70 %
Years until exercise	5.00	5.00
Volatility	28.7%	30.5 – 33.2%
Dividend yield	0.00%	0.00 %
Termination rate	n/a	n/a

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 vest. The Company uses the modified-prospective transition method. Under the modified-prospective method, the Company recognizes compensation expense in the financial statements for all share-based payments granted, modified or settled.

The Company recorded total stock based compensation costs of $103,793 and $203,215 for the fiscal years ended March 31, 2016 and 2015, respectively.

15. Income Taxes

Net provision for (benefit from) income taxes for the fiscal years ended March 31 consists of the following:

	2016	2015
Current:		
Federal	$182,479	$776,890
State and local	91,083	165,890

	273,562	942,780
Deferred:		
Federal	(1,560,459)	30,670
State and local	(353,103)	6,550
	(1,913,562)	37,220
Net provision for (benefit from) income taxes	$(1,640,000)	$980,000

The differences (expressed as a percentage of pretax income (loss)) between the statutory federal income tax rate and the effective income tax rate as reflected in the accompanying statements of operations are as follows:

	2016	2015
Statutory federal income tax rate	34.0%	34.0%
State and local income taxes	7.3 %	7.3 %
Permanent differences	(2.9)%	8.1 %
Minority investment in unconsolidated affiliate	1.1 %	(5.2)%
Other	(1.3)%	(0.4)%
Effective tax rate	38.2%	43.8%

The Company is unable to determine if the earnings from the minority investment in the unconsolidated affiliate are permanently invested outside of the United States. Therefore, the Company has recognized income taxes and the related foreign tax credits on the foreign operations of these earnings. The earnings on the foreign operations of the minority investment in the unconsolidated affiliate will become taxable in the United States only to the extent that distributions are received by the Company.

The permanent differences in our reconciliation of the effective tax rate for the years ended March 31, 2016 and 2015 are as follows:

	2016		2015	
Amortization of Customer Lists	$219,471	(2.1)%	$219,471	4.0%
Other non-deductible expenses	75,879	(0.8)%	217,052	4.0%
Deferred tax charge — expired stock options	-	(0.0)%	2,940	0.1%
Total	$295,350	(2.9)%	$439,463	8.1%

The permanent difference for amortization of customer lists arose through the acquisition of a business structured as a stock purchase. The Company amortizes the value of these customer lists for financial statement purposes, but is not allowed to deduct amortization of the customer lists for tax purposes. Other nondeductible expenses include meals, entertainment and penalties.

The deferred tax charge reverses deferred tax assets established when the stock options were expensed. The Company records an expense for financial statement purposes for the fair value of the options over the vesting period of the options, net of deferred taxes. For tax purposes, the Company is unable to deduct the expense related to the stock options unless, and until, the stock options are exercised. The tax deductibility is calculated as the difference between the option exercise price and the fair value of the stock on the date of exercise. When the tax deductible amount is less than the amount originally expensed for financial statement purposes, the difference must be expensed through a charge to deferred tax expense.

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Notes to Financial Statements, Continued March 31, 2016 and 2015

The significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	2016	2015
Current deferred tax assets:		
Accrued expenses	$324,338	$420,606
Litigation settlement	288,820	-
Accounts receivable	268,283	253,380
Net current deferred tax assets	$881,441	$673,986
Non-current deferred tax assets (liabilities):		
Workers' compensation reserve	$3,083,094	$1,589,460
Employee stock compensation	444,842	414,390
Intangible assets	325,532	312,457
Litigation settlement	288,820	-
Insurance reserves	252,702	241,192
Accrued expenses	66,230	144,254
Capital loss carry-forward	54,672	54,672
Minority investment in unconsolidated affiliate	(93,400)	-
Equipment	(95,797)	(135,837)
Net non-current deferred tax assets	$4,326,695	$2,620,588
Allowance for deferred tax asset related to capital loss carry-forward	(54,672)	(54,672)
Total deferred tax assets	$5,153,464	$3,239,902

As of March 31, 2016, we have fully reserved for a capital loss carry-forward in the amount of $132,500 which the company no longer expects will reverse before the carry-forward is due to expire unused in fiscal 2017.

Fiscal years 2013 through 2016 remain subject to examination by federal and state taxing authorities with certain states having open tax years beginning in fiscal 2012.

16. Issuer Purchases of Equity Securities

Under active stock repurchase programs, we may repurchase up to $4,000,000 of our common stock on the open market. Common stock repurchases are recorded as treasury stock, at cost. Shares repurchased during December 2011 have been retired. Shares repurchased during February 2012 and December 2012 are being held in treasury. The program does not have a prescribed expiration date.

During the fiscal years ended March 31, 2016 and 2015 the Company did not repurchase any shares under these programs. The number and average price of shares purchased to date under these programs is as set forth in the table below:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Amount Purchased as part of Publicly Announced Program	Maximum Amount that may yet be Purchased under the Program
December 8 - 16, 2011	136,600	$ 1.52	$ 208,363	$ 1,791,637
February 13 - 21, 2012	1,075,000	$ 1.64	$ 1,975,353	$ 24,647
December 1 - 31, 2012	677,200	$ 1.60	$ 3,058,873	$ 941,127
	1,888,800	$ 1.62		

Command Security Corporation

Notes to Financial Statements, Continued March 31, 2016 and 2015

Schedule II

COMMAND SECURITY CORPORATION

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Additions (Reductions) Charged or Credited to Expenses	Additions to/(Deductions from) Reserve	Balance at End of Period
Year ended March 31, 2016: Deducted from asset accounts: Allowance for doubtful accounts receivable - current maturities	$ 614,105	$ 426,752	$ (390,631)	$ 650,226
Year ended March 31, 2015: Deducted from asset accounts: Allowance for doubtful accounts receivable - current maturities	$ 627,711	$ (130,059)	$ 116,453	$ 614,105

See Report of Independent Registered Public Accounting Firm

End of Filing