# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

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

For the quarterly period ended September 30, 2017

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**<br>*(State or other jurisdiction of incorporation or organization)* | **14-1626307**<br>*(I.R.S. Employer Identification No.)* |
| 512 Herndon Parkway, Suite A, Herndon, VA<br>*(Address of principal executive offices)* | 20170<br>*(Zip Code)* |

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No **[ ]**

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

| | | | |
|---|---|---|---|
| Large accelerated filer **[ ]** | Accelerated filer **[ ]** | Non-accelerated filer **[ ]** | Smaller reporting company [X]<br>Emerging Growth Company **[ ]** |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. **[ ]**

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

The number of outstanding shares of the registrant's common stock as of November 2, 2017 was 9,848,186.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**COMMAND SECURITY CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**(Unaudited)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Revenues | $ 49,741,358 | $ 42,406,405 | $ 93,544,080 | $ 78,742,613 |
| Cost of revenues | 44,274,539 | 37,246,290 | 83,024,090 | 69,033,491 |
| Gross profit | 5,466,819 | 5,160,115 | 10,519,990 | 9,709,122 |
| Operating expenses | | | | |
| General and administrative | 4,808,355 | 4,388,408 | 9,586,559 | 8,483,320 |
| Provision for (recoveries of) doubtful accounts, net | (120,106) | (33,052) | (117,618) | (107,913) |
| | 4,688,249 | 4,355,356 | 9,468,941 | 8,375,407 |
| Operating income | 778,570 | 804,759 | 1,051,049 | 1,333,715 |
| Other expenses | | | | |
| Interest expense | 130,480 | 86,786 | 222,408 | 140,771 |
| Income before income taxes and equity loss in minority investment of unconsolidated affiliate | 648,090 | 717,973 | 828,641 | 1,192,944 |
| Equity loss in minority investment of unconsolidated affiliate | (29,700) | (30,000) | (54,900) | (130,000) |
| Income before income taxes | 618,390 | 687,973 | 773,741 | 1,062,944 |
| Provision for income taxes | 276,000 | 251,000 | 360,000 | 465,000 |
| Net income | $ 342,390 | $ 436,973 | $ 413,741 | $ 597,944 |
| Income per share of common stock | | | | |
| Basic | $ 0.03 | $ 0.04 | $ 0.04 | $ 0.06 |
| Diluted | $ 0.03 | $ 0.04 | $ 0.04 | $ 0.06 |
| Weighted average number of common shares outstanding | | | | |
| Basic | 9,864,133 | 9,815,458 | 9,855,172 | 9,804,100 |
| Diluted | 10,496,588 | 10,233,226 | 10,449,746 | 10,196,323 |

*See accompanying notes to condensed consolidated financial statements*

**COMMAND SECURITY CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2017 (Unaudited) | March 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 924,209 | $ 1,042,291 |
| Accounts receivable, net of allowance for doubtful accounts of $345,591 and $542,489, respectively | 39,251,453 | 29,189,233 |
| Prepaid expenses | 1,772,793 | 1,784,990 |
| Other assets | 1,429,728 | 2,821,172 |
| Total current assets | 43,378,183 | 34,837,686 |
| Furniture and equipment at cost, net | 93,256 | 146,345 |
| Other assets: | | |
| Intangible assets, net | 958,081 | 1,028,582 |
| Minority investment in unconsolidated affiliate | 458,391 | 513,291 |
| Other assets | 4,720,501 | 5,253,946 |
| Total other assets | 6,136,973 | 6,795,819 |
| Total assets | $ 49,608,412 | $ 41,779,850 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Checks issued in advance of deposits | $ 588,663 | $ 583,201 |
| Short-term borrowings | 19,741,669 | 12,228,679 |
| Accounts payable | 958,572 | 1,215,591 |
| Accrued expenses and other liabilities | 11,338,848 | 11,503,474 |
| Total current liabilities | 32,627,752 | 25,530,945 |
| Insurance reserves | 541,236 | 366,323 |
| Total liabilities | 33,168,988 | 25,897,268 |
| Stockholders' equity: | | |
| Preferred stock, convertible Series A, $.0001 par value | - | - |
| Common stock, $.0001 par value per share | 1,160 | 1,160 |
| Treasury stock, at cost, 1,752,200 shares | (2,885,579) | (2,885,579) |
| Additional paid-in capital | 18,678,152 | 18,535,051 |
| Accumulated earnings | 645,691 | 231,950 |
| Total stockholders' equity | 16,439,424 | 15,882,582 |
| Total liabilities and stockholders' equity | $ 49,608,412 | $ 41,779,850 |

*See accompanying notes to condensed consolidated financial statements*

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

| | Preferred Stock | Common Stock | Treasury Stock | Additional Paid In Capital | Accumulated Earnings | Total |
|---|---|---|---|---|---|---|
| Balance at March 31, 2016 | - | 1,155 | (2,885,579) | 18,410,595 | 2,556,539 | 18,082,710 |
| Options exercised, net | | 5 | | 85,772 | | 85,777 |
| Stock based compensation tax benefit | | | | 10,584 | | 10,584 |
| Stock compensation cost | | | | 8,104 | | 8,104 |
| Net income | | | | | 597,944 | 597,944 |
| Balance at September 30, 2016 | - | 1,160 | (2,885,579) | 18,515,055 | 3,154,483 | 18,785,119 |
| Options exercised, net | | | | 10,186 | | 10,186 |
| Stock compensation cost | | | | 9,810 | | 9,810 |
| Net loss | | | | | (2,922,533) | (2,922,533) |
| Balance at March 31, 2017 | - | 1,160 | (2,885,579) | 18,535,051 | 231,950 | 15,882,582 |
| Stock compensation cost | | | | 143,101 | | 143,101 |
| Net income | | | | | 413,741 | 413,741 |
| Balance at September 30, 2017 | $ - | $ 1,160 | $(2,885,579) | $ 18,678,152 | $ 645,691 | $16,439,424 |

*See accompanying notes to condensed consolidated financial statements*

**COMMAND SECURITY CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | Six Months Ended September 30, | |
|---|---|---|
| | **2017** | **2016** |
| Cash flows from operating activities: | | |
| Net income | $ 413,741 | $ 597,944 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 118,673 | 238,432 |
| Provision for doubtful accounts, net | (117,618) | (107,913) |
| Equity loss in minority investment of unconsolidated affiliate | 54,900 | 130,000 |
| Rent expense | (4,229) | 11,821 |
| Stock based compensation costs | 143,101 | 8,104 |
| Insurance reserves | 174,913 | (142,910) |
| Deferred income taxes | 517,496 | 440,590 |
| Change in receivables, prepaid expenses and other current assets | (8,525,013) | (8,586,332) |
| Change in accounts payable and other liabilities | (417,416) | 1,345,206 |
| **Net cash used in operating activities** | (7,641,452) | (6,065,058) |
| | | |
| Cash flows from investing activities: | | |
| Proceeds from equipment dispositions | 4,918 | - |
| **Net cash provided by investing activities** | 4,918 | - |
| | | |
| Cash flows from financing activities: | | |
| Net advances on short-term borrowings | 7,512,990 | 4,963,519 |
| Change in checks issued in advance of deposits | 5,462 | 39,974 |
| Proceeds from option exercises, net | - | 96,361 |
| **Net cash provided by financing activities** | 7,518,452 | 5,099,854 |
| | | |
| Net change in cash and cash equivalents | (118,082) | (965,204) |
| | | |
| Cash and cash equivalents, beginning of period | 1,042,291 | 1,486,854 |
| | | |
| Cash and cash equivalents, end of period | $ 924,209 | $ 521,650 |

Supplemental Disclosures of Cash Flow Information

| Cash paid during the six months ended September 30 for: | 2017 | 2016 |
|---|---|---|
| Interest | $ 187,459 | $ 132,823 |
| Income taxes | 8,150 | 6,390 |

*See accompanying notes to condensed consolidated financial statements*

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

The accompanying condensed consolidated financial statements presented herein have not been audited, and have been prepared in accordance with the instructions to Form 10-Q which do not include all of the information and note disclosures required by generally accepted accounting principles in the United States. These financial statements should be read in conjunction with our consolidated financial statements and notes thereto as of and for the fiscal year ended March 31, 2017. In this discussion, the words “Company,” “we,” “our,” “us” and terms of similar import should be deemed to refer to Command Security Corporation and its consolidated subsidiary.

The condensed consolidated financial statements for the interim period shown in this report are not necessarily indicative of our results to be expected for any period after the date hereof, including for the fiscal year ending March 31, 2018, or for any other subsequent period. The condensed consolidated financial statements include the consolidated accounts of the Company with all intercompany transactions eliminated. In the opinion of our management, the accompanying condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation of the financial statements included in this quarterly report. All such adjustments are of a normal recurring nature.

1. Recently Issued Accounting Standards

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 Company’s fiscal year ending March 31, 2019. Subsequently, the FASB also issued a series of amendments to the new revenue standards. The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The new revenue standards are not expected to have a material impact on the amount and timing of revenue recognized in the Company’s consolidated 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. The Company adopted this standard during the quarter ended June 30, 2017, and applied the new standard retrospectively. Other than the reclassification of the current deferred tax asset to long term assets, the adoption of this guidance did not 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 ending March 31, 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 2016-02 on its consolidated 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, with no material impact on the statements of operations. However, the ultimate impact of adopting ASU 2016-02 will depend on the Company’s lease portfolio as of the adoption date.

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 for the Company’s fiscal year ending March 31, 2018. Previously, excess tax benefits or deficiencies from the Company’s equity awards were recorded as additional paid-in capital in its balance sheets. Upon adoption during the first quarter of the Company’s fiscal year ending March 31, 2018, the Company began recording any excess tax benefits or deficiencies from its equity awards in its statements of income in the reporting periods in which the benefit or deficiency is realized. As a result, the Company’s income tax expense and associated effective tax rate are impacted by fluctuations in stock price between the grant dates and exercise dates of equity awards. The amendments also allow for a one-time accounting policy election to either account for forfeitures as they occur or to estimate forfeitures as required by current guidance. The Company elected to account for forfeitures as they occur. The adoption of this accounting policy did not have a material impact on the Company’s financial position, results of operations or cash flows.

In August 2016, the FASB issued new guidance on cash flow statement presentation ASU 2016-15, *Statement of Cash Flows (Topic 230); Classification of Certain Cash Receipts and Cash Payments*. This ASU addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new guidance is effective beginning with the Company’s fiscal year ending March 31, 2019, with early adoption permitted. The adoption of ASU 2016-15 is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 “*Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*”, which eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for annual or any interim goodwill tests in fiscal years beginning after December 15, 2019. The adoption is not expected to have a material impact on the consolidated financial statements.

2. Short-Term Borrowings:

On February 12, 2009, we entered into a $20.0 million credit facility (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”). This credit facility, which was most recently amended in March 2017 (see below) and matures March 31, 2020, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain certain financial ratios and is collateralized by customer accounts receivable and certain other assets of the Company as defined in the Credit Agreement.

The Credit Agreement provides for a letter of credit sub-line in an aggregate amount of up to $1.5 million. The Credit Agreement also provides for interest to be calculated on the outstanding principal balance of the revolving loans at the prime rate (as defined in the Credit Agreement) plus 1.50%. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate (as defined in the Credit Agreement) plus 1.75%.

On March 30, 2017, we entered into an eighth amendment (the “Eighth Amendment”) to our Credit Agreement. The Eighth Amendment extended the Credit Agreement from March 31, 2017 to March 31, 2020, increased the revolving line of credit from $20.0 million to $27.5 million, amended the terms of the “Minimum Excess Availability” covenant and redefined the term “Borrowing Base”.

Under the Credit Agreement, as of September 30, 2017, the interest rate was 3.0% for LIBOR loans and 3.125% for revolving loans, an increase from 2.375% and 2.625%, respectively, as of September 30, 2016. At September 30, 2017, we had approximately $0.9 million of cash on hand. We also had $10.0 million in LIBOR loans outstanding, $9.7 million of revolving loans outstanding and $0.3 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 85% 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. As of the close of business October 31, 2017, we had $11.0 million in LIBOR loans outstanding, $2.3 million of revolving loans outstanding and $0.3 million outstanding under our letters of credit sub-line under the Credit Agreement, representing approximately 70% 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.

3. Other Assets:

| | September 30, 2017 | March 31, 2017 |
|---|---|---|
| Workers’ compensation insurance | $ 1,422,494 | $ 2,804,341 |
| Deferred tax asset | 4,598,278 | 5,115,775 |
| Security deposits | 122,223 | 138,171 |
| Other receivables | 7,234 | 16,831 |
| | 6,150,229 | 8,075,118 |
| Current portion | (1,429,728) | (2,821,172) |
| Total non-current portion | $ 4,720,501 | $ 5,253,946 |

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 claims incurred but not reported. 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 claims incurred but not reported.

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 LLC") which at that time owned 100% of a holding company, OPS Acquisitions, Ltd ("OPSA Ltd"), which in turn owns 100% of the operating company, Ocean Protection Services, Ltd. ("OPS 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 LLC for a purchase price of $2.125 million. The excess of the carrying value of the Company's investment in OPS LLC and the proportionate share of the underlying net assets of OPS Ltd. is largely attributable to goodwill. Since the Company's initial investment, there have been no additional capital contributions made or distributions received.

On September 7, 2016, the majority owner of OPS LLC consented to a restructuring transaction wherein 70% of its investment in OPSA Ltd. was transferred to a group comprising former management and owners of OPS Ltd. and the holder of the senior debt of OPSA Ltd. On September 21, 2016, the majority owner of OPS LLC transferred its 80% interest in OPS LLC to the Company resulting in the Company owning 100% of OPS LLC. No cash consideration was paid by the Company and no liabilities were undertaken by the Company in connection with the OPS LLC transfer to the Company. As a result, OPS LLC became a wholly-owned subsidiary of the Company thereby indirectly increasing the Company's interest in OPSA Ltd. (and OPS Ltd.) from 20% to 30%.

During the quarter and year ended March 31, 2017, the Company performed an impairment analysis of its investment in OPSA and concluded the investment to be impaired and, accordingly, recorded a $2.1 million impairment charge in the year ended March 31, 2017.

The following summarizes the condensed consolidated statements of operations of OPSA Ltd. for the six months ended:

| | September 30, 2017 | | September 30, 2016 | |
|---|---|---|---|---|
| Net operating revenues | $ | 2,190,529 | $ | 4,289,676 |
| Gross profit | $ | 518,571 | $ | 1,401,201 |
| Operating loss | $ | (336,625) | $ | (274,727) |
| Net loss from continuing operations | $ | (163,208) | $ | (642,546) |

5. Accrued Expenses and Other Liabilities:

| | September 30, 2017 | | March 31, 2017 | |
|---|---|---|---|---|
| Payroll and related expenses | $ | 8,537,979 | $ | 8,076,807 |
| Taxes and fees payable | | 223,480 | | 325,763 |
| Accrued interest payable | | 48,456 | | 13,508 |
| Other | | 2,528,933 | | 3,087,396 |
| Total | $ | 11,338,848 | $ | 11,503,474 |

6. Insurance Reserves:

We have insurance policies 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 $517,404 and $800,667 for the three months ended September 30, 2017 and 2016, respectively, and $1,243,822 and $1,771,780 for the six months ended September 30, 2017 and 2016, 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.

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 these estimates. 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.

7. Earnings per Share:

Under the requirements of FASB ASC 260-10, *Earnings Per Share*, the dilutive effect of our common shares that have not been issued, but that may be issued upon the exercise or conversion, as the case may be, of rights or options to acquire such common shares, is excluded from the calculation for basic earnings per share. Diluted earnings per share reflects the additional dilution that would result from the issuance of our common shares if such rights or options were exercised or converted, as the case may be, and is presented for the three and six months ended September 30, 2017 and 2016.

8. 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.

We have been named or could be named as a defendant in uninsured employment related claims including claims related to wages and related benefits 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 such claims are valid. The impact of these claims could have a material adverse effect on the Company's financial position or results of operations.

We have employment agreements with certain of our officers and key employees with varying terms. 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 60% of our workforce is not subject to a labor union. The remaining 40% of our workforce, 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 subject to collective bargaining agreements. Three of the agreements, covering approximately 18% of our employees, expired on October 31, 2016, March 31, 2017 and June 28, 2017. We are currently involved in negotiations to renew the expired agreements. The remaining eight agreements are set to expire in September 2018 and thereafter.

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

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

**Forward Looking Statements**

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

As provided for under the Private Securities Litigation Reform Act of 1995, we wish to caution shareholders and investors that the important factors under the heading "Risk Factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission with respect to our fiscal year ended March 31, 2017, could cause our actual financial condition and results from operations to differ materially from our anticipated results or other expectations expressed in our forward-looking statements in this quarterly report.

**Critical Accounting Policies and Estimates**

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

*Revenue Recognition*

We record revenues as services are provided to our customers. Revenues consist primarily of aviation and security services, which are typically billed at hourly rates. These rates may vary depending on base, overtime and holiday time worked. Revenue is reported net of applicable taxes.

*Accounts Receivable*

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

*Minority Investment in Unconsolidated Affiliate*

The Company uses the equity method to account for its investment in OPSA. 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 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.

*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 September 30, 2017 and 2016.

*Stock Based Compensation*

FASB ASC 718, Stock Compensation, requires all share-based payments to employees, including grants of stock options and Restricted Stock Units 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 $143,101 and $8,104 for stock based compensation have been recorded for the six months ended September 30, 2017 and 2016, respectively.

During the three months ended September 30, 2017, the Company issued 285,000 shares of restricted stock units (RSUs) to its board of directors, executive officers and certain other employees pursuant to the Company's Amended and Restated 2009 Omnibus Equity Incentive Plan (Plan). These RSUs were valued based on the fair value at $3.24 per share, the closing price of the Company's common stock on July 21, 2017. The RSUs vest ratably over 36 months or earlier in certain circumstances as described in the Plan. The valuation of restricted stock units with only a service condition or a service and performance condition requires no significant assumptions as the fair value for these types of equity awards is based solely on the fair value of the Company's stock price on the date of grant.

*Reclassifications*

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

**Overview**

We principally provide uniformed security officers and aviation services to commercial, residential, financial, industrial, aviation and governmental customers through approximately 18 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.

**Results of Operations**

***Revenues***

Our revenues increased by $7.3 million, or 17.3%, to $49.7 million for the three months ended September 30, 2017, from $42.4 million in the corresponding period of the prior year. The increase in revenues was due mainly to the commencement of work under new contracts with a large on-line retailer and its web services division in June and July 2017. These increases were partly offset by reductions in revenues from a major transportation company of approximately $1.3 million following the Company's decision to terminate its relationship with this customer effective August 31, 2017.

Our revenues increased by $14.8 million, or 18.8%, to $93.5 million for the six months ended September 30, 2017 from $78.7 million in the corresponding period of the prior year. The increase in revenues for the six months ended September 30, 2017 was due mainly to the commencement of work under the contracts with the USPS in June 2016 and the commencement of work under new contracts with a large on-line retailer and its web services division in June and July 2017. These increases were partly offset by reductions in revenues from various residential, retail, financial, technology and aviation customers and reductions in revenues from a major transportation company following the Company's decision to terminate its relationship with this customer effective August 31, 2017.

***Gross Profit***

Our gross profit increased by $0.3 million, or 5.9%, to $5.5 million (11.0% of revenues) for the three months ended September 30, 2017, from $5.2 million (12.2% of revenues) in the corresponding period of the prior year. The increase in gross profit was due mainly to the above-mentioned changes in revenue and a decrease in workers compensation expense of approximately $0.4 million. The increase was partly offset by increased labor costs including training, overtime and subcontractor costs related to the commencement of the above-mentioned new contracts and a decrease in profits from a large international airline following a reduction in the scope of services with this customer as well as increased labor costs and overall price reductions driven by competitive pressures.

Our gross profit increased by $0.8 million, or 8.4%, to $10.5 million (11.2% of revenues) for the six months ended September 30, 2017, from $9.7 million, (12.3% of revenues) in the corresponding period of the prior year. The increase in gross profit was due mainly to the commencement of work under the contracts with the USPS and the large on-line retailer as discussed above and a decrease in workers' compensation expense of approximately $0.8 million. These increases were partly offset by increased labor costs including training, overtime and subcontractor costs related to the commencement of the above-mentioned new contracts and a decrease in profits from a large international airline following a reduction in scope of services with this customer as well as increased labor costs and overall price reductions driven by competitive pressures. Cost of sales for the six months ended September 30, 2017, includes approximately $90,000 of startup costs incurred in connection with and prior to the commencement of work under the above-mentioned new contracts.

***General and Administrative Expenses***

Our general and administrative expenses increased by $0.4 million, or 9.6%, to $4.8 million (9.7% of revenues) for the three months ended September 30, 2017, from $4.4 million (10.3% of revenues) in the corresponding period of the prior year. The increase in general and administrative expenses was driven primarily by increased non-cash stock compensation costs of $120,824, severance costs, increased general and administrative salaries and wages directly related to increases in revenues, partly offset by lower amortization and legal costs.

Our general and administrative expenses increased by $1.1 million, or 13.0%, to $9.6 million (10.2% of revenues) for the six months ended September 30, 2017, from $8.5 million (10.8% of revenues) in the corresponding period of the prior year. The increase in general and administrative expenses for the six months ended September 30, 2017 was driven primarily by increased non-cash stock compensation costs of approximately $135,000, severance costs, increased general and administrative salaries and wages directly associated with the above-mentioned new business, partly offset by lower legal costs, and amortization costs. In addition, general and administrative costs for the six months ended September 30 2017, includes approximately $0.3 million of startup costs incurred in connection with and prior to the commencement of work on the above-mentioned new contracts.

***Provision for Doubtful Accounts***

The provision for doubtful accounts for the three months ended September 30, 2017, net of recoveries, decreased by $87,054 to net recoveries of $120,106 as compared with net recoveries of $33,052 in the corresponding period of the prior year. The decrease in the net provision for doubtful accounts was primarily due to recoveries of specific accounts previously deemed uncollectible.

The provision for doubtful accounts for the six months ended September 30, 2017, net of recoveries, decreased by $9,705 to net recoveries of $117,618 as compared with net recoveries of $107,913 in the corresponding period of the prior year. The decrease in the net provision for doubtful accounts for the six months ended September 30, 2017 was driven primarily by recoveries of specific accounts previously deemed uncollectible.

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

***Interest Expense***

Interest expense increased by $43,694, or 50%, to $130,480 for the three months ended September 30, 2017, from $86,786 in the corresponding period of the prior year. The increase in interest expense for the three months ended September 30, 2017 was due mainly to higher average interest rates under our credit agreement with Wells Fargo, described below, and higher average outstanding borrowings in support of increased revenues.

Interest expense increased by $81,637, or 58%, to $222,408 for the six months ended September 30, 2017, from $140,771 in the corresponding period of the prior year. The increase in interest expense for the six months ended September 30, 2017 was due primarily to higher average outstanding borrowings in support of increased revenues and higher interest rates under our credit agreement with Wells Fargo, described below.

***Equity Earnings (Loss) in Minority Investment of Unconsolidated Affiliate***

The Company uses the equity method to account for its investment in OPS Acquisitions Ltd. ("OPSA"). 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.

The Company's proportionate share of the net loss of OPSA for the three months ended September 30, 2017 was $29,700 as compared with net loss of $30,000 in the corresponding period of the prior year.

The Company's proportionate share of the net loss of OPSA for the six months ended September 30, 2017 was $54,900 as compared with net loss of $130,000 in the corresponding period of the prior year. The decrease in the company's proportionate share of net loss of OPSA was due primarily to the absence of approximately $767,000 of costs incurred in connection with certain strategic growth initiatives, partly offset by an increase in ownership percentage and decreases in revenues, gross profits and operating income driven by a decrease in total missions.

***Provision for income taxes***

The provision for income taxes increased by $25,000 to $276,000 for the three months ended September 30, 2017 compared with $251,000 in the corresponding period of the prior year. The Company's effective tax rate increased by 8.1% to 44.6% for the three months ended September 30, 2017 compared with 36.5% in the corresponding period of the prior year. The difference between the Company's effective tax rate of 44.6% for the three months ended September 30, 2017 and the Company's statutory tax rate of approximately 41% is primarily attributable to the Company's proportionate share of the net loss of OPSA and certain expenses that are not deductible for income tax purposes.

The provision for income taxes decreased by $105,000 to $360,000 for the six months ended September 30, 2017 compared to $465,000 in the corresponding period of the prior year. The Company's effective tax rate increased by 2.8% to 46.5% for the six months ended September 30, 2017 compared with 43.7% in the corresponding period of the prior year. The difference between the Company's effective tax rate of 46.5% for the six months ended September 30, 2017 and the Company's statutory tax rate of approximately 41% is primarily attributable to the Company's proportionate share of the net loss of OPSA and certain expenses that are not deductible for income tax purposes.

**Liquidity and Capital Resources**

We pay approximately 85% 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 $27.5 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 expenditure and debt service requirements for the foreseeable future. However, we cannot assure you that this will continue to be the case. We may be required to obtain alternative or additional financing to maintain and expand our existing operations through the sale of our securities, an increase in the amount of available borrowings under our Credit Agreement, obtaining additional financing from other financial institutions, or otherwise. The failure by us to obtain such financing, if needed, would have a material adverse effect upon our business, financial condition and results of operations.

Short-Term Borrowings:

On February 12, 2009, we entered into a $20.0 million credit facility (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). This credit facility, which was most recently amended in March 2017 (see below) and matures March 31, 2020, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain certain financial ratios and is collateralized by customer accounts receivable and certain other assets of the Company as defined in the Credit Agreement.

The Credit Agreement provides for a letter of credit sub-line in an aggregate amount of up to $1.5 million. The Credit Agreement also provides for interest to be calculated on the outstanding principal balance of the revolving loans at the prime rate (as defined in the Credit Agreement) plus 1.50%. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate (as defined in the Credit Agreement) plus 1.75%.

On March 30, 2017, we entered into an eighth amendment (the "Eighth Amendment") to our Credit Agreement. The Eighth Amendment extended the Credit Agreement from March 31, 2017 to March 31, 2020, increased the revolving line of credit from $20.0 million to $27.5 million, amended the terms of the "Minimum Excess Availability" covenant and redefined the term "Borrowing Base".

Under the Credit Agreement, as of September 30, 2017, the interest rate was 3.0% for LIBOR loans and 3.125% for revolving loans. At September 30, 2017, we had approximately $0.9 million of cash on hand. We also had $10.0 million in LIBOR loans outstanding, $9.7 million of revolving loans outstanding and $0.3 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 85% 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. As of the close of business October 31, 2017, we had $11.0 million in LIBOR loans outstanding, $2.3 million of revolving loans outstanding and $0.3 million outstanding under our letters of credit sub-line under the Credit Agreement, representing approximately 70% 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.

Investments and Capital Expenditures

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

Working Capital

Our working capital increased by $1.4 million, or 15.5%, to $10.8 million as of September 30, 2017, from $9.3 million as of March 31, 2017.

We had checks drawn in advance of future deposits of $0.6 million at September 30, 2017 and March 31, 2017. Cash balances, book overdrafts and payroll and related expenses can fluctuate materially from day to day depending on such factors as collections and timing of payroll payments.

## Outlook

Operating 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. The Company re-entered the U.S. federal government market with the commencement of work on the U.S. Postal Service (USPS) contract in June 2016. 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 in the Southeast region and in June 2017 we commenced work with this customer in the Northeast/Mid-west region of the country. The Company also recently announced a new contract to provide physical security for data centers for the web services segment of the major on-line retailer which commenced in July 2017. In addition, the Company announced on October 2, 2017 the award of a five year contract with the Department of State to provide armed security at the U.S. Embassy in Honduras which will open another line of security services. We expect to continue to pursue similar large contract opportunities in multiple end markets.

With a stronger foundation and a more effective organization, the Company remains 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. In addition, our growth strategy involves the acquisition and integration of complementary businesses to increase our scale within certain geographical areas, capture market share in the markets in which we operate, enter new markets and improve our profitability. We intend to pursue acquisition opportunities for contract security officer businesses. Our ability to complete future acquisitions will depend on our ability to identify suitable acquisition candidates, negotiate acceptable terms for their acquisition and, if necessary, finance those acquisitions. Our security services division continues to experience organic growth over recent quarters as demand for our security services has steadily increased. Our current focus is on increasing our revenues, as our sales and marketing team and branch managers' work to develop new business and retain profitable contracts. 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 during the six months ended September 30, 2017 was 11.2%. During the three months ended September 30, 2017, our gross profit margin was under pressure from the combination of startup costs related to new business and the decision by the company to terminate its relationship with a major transportation company. We expect our gross profit margin to remain under pressure due primarily to continued price competition, including competition from companies that have substantially greater financial and other resources than we have. However, we expect these effects will be moderated by continued operational efficiencies resulting from better management and leveraging of our cost structures, workflow process efficiencies associated with our integrated financial software system and higher contributions from our continuing new business development.

Our security services division generated approximately $63.7 million or 68% of our total revenues in the six months ended September 30, 2017. Our aviation services division generated approximately $29.8 million or 32% of our total revenues in the six months ended September 30, 2017.

In the six months ended September 30, 2017, the Company had six customers who, in the aggregate, represented approximately 59% of the Company's revenues, with two of those customers representing 19% and 14% of total revenues, respectively. These customers include three major transportation & logistics customers, one domestic and one international airline and a northeast U.S. based healthcare facility. Any loss of business with these customers could have a material adverse effect on our business, financial condition and results of operation. The contract with one of these customers was terminated during the six months ended September 30, 2017. The remaining five customers, in the aggregate, represent approximately 50% of the Company's revenues.

As noted earlier, on February 12, 2009, we entered into a $20.0 million Credit Agreement with Wells Fargo, which was most recently amended in March 2017, as described above. As of the close of business October 31, 2017, we had $11.0 million in LIBOR loans outstanding, $2.3 million of revolving loans outstanding and $0.3 million outstanding under our letters of credit sub-line under the Credit Agreement, representing approximately 70% 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, which we believe is sufficient to meet our needs for the foreseeable future barring any increase in reserves imposed by Wells Fargo. We believe that existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, planned capital expenditures and debt service requirements for the foreseeable future, barring any increase in reserves imposed by Wells Fargo. However, we cannot assure you that this will be the case, and we may be required to obtain alternative or additional financing to maintain and expand our existing operations through the sale of our securities, an increase in the amount of available borrowings under our Credit Agreement, obtaining additional financing from other financial institutions or otherwise. The financial markets generally, and the credit markets in particular, continue to be volatile, both in the United States and in other markets worldwide. The current market situation has resulted generally in substantial reductions in available loans to a broad spectrum of businesses, increased scrutiny by lenders of the credit-worthiness of borrowers, more restrictive covenants imposed by lenders upon borrowers under credit and similar agreements and, in some cases, increased interest rates under commercial and other loans. If we require alternative or additional financing at this or any other time, we cannot assure you that such financing will be available upon commercially acceptable terms or at all. If we fail to obtain additional financing when and if required by us, our business, financial condition and results of operations would be materially adversely affected.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

During the six months ended September 30, 2017, we did not hold a portfolio of securities instruments for either trading or speculative purposes. Periodically, we hold securities instruments for other than trading purposes. Due to the short-term nature of our investments, we believe that we have no material exposure to changes in the fair value as a result of market fluctuations.

We are exposed to market risk in connection with changes in interest rates, primarily in connection with outstanding balances under our revolving line of credit with Wells Fargo, which was entered into for purposes other than trading purposes. Based on our average outstanding balances during the six months ended September 30, 2017, a 1% change in the prime and/or LIBOR lending rates could impact our financial position and results of operations by approximately $80,000 over the remainder of our fiscal year ending March 31, 2018. For additional information on the revolving line of credit with Wells Fargo, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources – Short Term Borrowings."

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

**Item 4. Controls and Procedures**

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

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

An evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation and subject to the foregoing, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2017. There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

**Item 1.** **Legal Proceedings**

See our discussion under Note 8 “Contingencies” to the Notes to Condensed Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

**Item 1A.** **Risk Factors**

There have been no material changes to our risk factors from those disclosed in our Annual Report on Form 10-K for our fiscal year ended March 31, 2017.

**Item 6.** **Exhibits**

Exhibit 10.1*† Form of Restricted Stock Unit Award Agreement for Executives pursuant to the Command Security Corporation Amended and Restated 2009 Omnibus Equity Incentive Plan.

Exhibit 10.2*† Form of Restricted Stock Unit Award Agreement for Non-Employee Directors pursuant to the Command Security Corporation Amended and Restated 2009 Omnibus Equity Incentive Plan.

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

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

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

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

Exhibit 99.1* Press Release dated November 9, 2017.

Exhibit 101* The following materials from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 are formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Statements of Income for the three and six months ended September 30, 2017 and September 30, 2016, (ii) Condensed Consolidated Balance Sheets as of September 30, 2017 and March 31, 2017, (iii) Condensed Consolidated Statements of Changes in Stockholders’ Equity for the six months ended September 30, 2017 and September 30, 2016, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2017 and September 30, 2016, and (v) Notes to the Unaudited Condensed Consolidated Financial Statements.

*Filed herewith
**Furnished herewith
† Management contract or compensatory plan or arrangement

## SIGNATURES

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

**COMMAND SECURITY CORPORATION**

Date: November 9, 2017

By: */s/ Craig P. Coy*
Craig P. Coy
Chief Executive Officer
(Principal Executive Officer)

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

**COMMAND SECURITY CORPORATION**
**AMENDED AND RESTATED 2009 OMNIBUS EQUITY INCENTIVE PLAN**
**RESTRICTED STOCK UNIT AWARD AGREEMENT**

Command Security Corporation, a New York corporation (the "Company"), pursuant its Amended and Restated 2009 Omnibus Equity Incentive Plan (as amended from time to time, the "Plan"), hereby grants to the participant (the "Participant") identified in this Restricted Stock Unit Award Agreement (this " Agreement") an award (the "Award") consisting of that number of restricted stock units ("RSUs") identified below. This Award is subject to the terms and conditions of the Plan, which are incorporated herein by reference. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Plan. In the event of any conflict between this Agreement and the Plan, the terms of the Plan shall govern. This Award is a Restricted Stock Unit as defined in the Plan.

**Participant:**

**Grant Date:**

**Vesting Commencement Date:**

**RSUs:**

**Vesting Schedule:** Subject to Sections 2 and 5 of this Agreement, the RSUs will vest over thirty six (36) months in equal monthly installments on the Vesting Commencement Date and on the first day of each of the thirty five (35) subsequent months.

This Award is subject to the following provisions:

Section 1. Acceptance and Acknowledgements. **To be eligible to receive this Award, the Participant must execute, by signature or electronic means, this Agreement within ninety (90) days after the Grant Date. If the Participant fails to deliver the signed copy of this Agreement within such ninety (90) day period, the Award shall be automatically forfeited without consideration.** The Participant acknowledges receipt of this Agreement, the Plan and the prospectus for the Plan, and understands and agrees to the terms set forth in this Agreement and the Plan. By signing (electronically or otherwise) this Agreement, the Participant accepts the Award and agrees to be bound by the terms and conditions of this Agreement, the Plan and any other conditions established by the Company in connection with Awards issued under the Plan, and the Participant further acknowledges and agrees that this Award does not confer any legal or equitable right (other than those rights constituting the Award itself) against the Company or its Affiliates directly or indirectly, or give rise to any cause of action at law or in equity against the Company or its Affiliates. By signing (electronically or otherwise) this Agreement, the Participant further consents to receive any documents related to participation in the Plan and the Award by electronic delivery and to participate in the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company.

Section 2. Vesting Criteria. This Award shall vest over thirty-six (36) months in equal monthly installments on the Vesting Commencement Date and on the first day of each of the thirty five (35) subsequent months, subject to the Participant's continuous service with the Company or its Affiliate through the applicable vesting date, except as otherwise provided in the Agreement.

Section 3. Distribution of Shares upon Vesting; Withholding Taxes . No later than March 15 of the year following the year in which the respective RSUs vest, the Company will deliver either (i) a number of Common Shares to the Participant equal to the number of RSUs that vested in the immediately preceding calendar year in accordance with Section 2, or (ii) at the Company's election, an amount in cash (or a combination of cash and Common Shares) having a value equal to the value of the RSUs that vested in the immediately preceding calendar year in accordance with Section 2. The Participant shall remain personally responsible for the payment of all taxes related to the distribution of Common Shares, cash or combination of cash and Common Shares. The Company shall have the right (but not the obligation) to deduct from the Award an amount equal to any income, social or other taxes of any kind required by law to be withheld in connection with the settlement of the RSUs or other securities pursuant to this Agreement.

Section 4. Dividend Distributions. Subject to the restrictions, limitations and conditions described in the Plan, dividend equivalents payable on the RSUs will be accrued on the Participant's behalf at the time that cash dividends are otherwise paid to owners of Common Shares. Accrued dividend equivalent balances will be subject to the same restrictions and vesting schedule applicable to the RSUs and will be paid to the Participant with the distribution of the Common Shares (or cash or combination of cash and Common Shares, as applicable) in accordance with Section 2.

Section 5. Provisions upon Termination of Employment. In accordance with Section 9(c) of the Plan, all unvested RSUs shall terminate and be forfeited upon the Participant's termination of employment or service with the Company for any reason.

Section 6. Tax Acknowledgements. The Participant acknowledges that there may be adverse tax consequences upon the vesting, delivery or settlement of the Award, whether in Common Shares, cash or a combination of cash and Common Shares, or disposition of any Common Shares acquired in respect of vested RSUs, and that the Participant has been advised to consult a tax advisor prior to such vesting, settlement or disposition. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or his or her acquisition of Common Shares, cash or a combination of cash and Common Shares or the sale of any Common Shares acquired in respect of vested RSUs.

Section 7. Adjustments. The number of RSUs subject to this Award may be adjusted in any manner as contemplated by Section 12 of the Plan.

Section 8. Miscellaneous.

8.1 Amendments. This Award of RSUs is documented by the records of the Committee or its delegate which shall be the final determinant of the number of Common Shares granted and the conditions of this Agreement. The Committee may amend or modify this Award in any manner to the extent that the Committee would have had the authority under the Plan initially to grant such Award, provided that no such amendment or modification shall materially diminish the Participant's rights under this Agreement without his or her consent. Except as in accordance with the two immediately preceding sentences and Section 8.2, this Agreement may be amended, modified or supplemented only by an instrument in writing signed by both parties hereto.

8.2 Discretionary Nature of Plan. By accepting this Award, the Participant agrees that the granting of the Award is at the discretion of the Committee and that acceptance of this Award is no guarantee that future Awards will be granted under the Plan or any other equity incentive plan maintained from time to time by the Company. Notwithstanding anything in this Agreement or the Plan to the contrary, this Award may be amended by the Company without the Participant's consent, including, but not limited to, modifications to any of the rights granted to the Participant under this Agreement, at such time and in such manner as the Company may consider necessary or desirable to reflect changes in law. The Participant understands that the Company may amend, resubmit, alter, change, suspend, cancel, or discontinue the Plan at any time.

8.3 Entire Agreement. The Participant acknowledges that as of the Grant Date, this Agreement and the Plan set forth the entire understanding between the Participant and the Company regarding the acquisition of the RSUs and the underlying Common Shares and supersede all prior oral and written agreements on that subject. Notwithstanding the foregoing, to the extent that the Participant has signed any restrictive covenant agreements with the Company or any of its Affiliates (including, but not limited to, any confidentiality, intellectual property rights assignment, non-competition, non-solicitation and non-disparagement agreements), such restrictive covenant agreements shall remain in full force and effect.

8.4. Severability. The invalidity or unenforceability of any provision of the Plan or this Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Agreement, and each provision of the Plan and this Agreement shall be severable and enforceable to the extent permitted by law.

8.5 Compliance with Section 409A of the Code. This Agreement is intended to comply with or be exempt from Section 409A of the Code and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes or penalties under Section 409A of the Code. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A of the Code and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A of the Code. Notwithstanding any provision of this Agreement or the Plan to the contrary, to the extent that the Committee determines that any portion of the Award granted hereunder is subject to Section 409A of the Code and fails to comply with the requirements thereof, the Committee reserves the right to amend, restructure, terminate or replace such portion of the Award in order to cause it to either not be subject to Section 409A of the Code or to comply with the applicable provisions of such section.

8.6 No Impact on other Benefits. The value of the Award is not part of the Participant's normal or expected compensation for purposes of calculating any severance, retirement, welfare, insurance or similar employee benefit.

8.7 Governing Law. This Agreement shall be construed in accordance with and governed by the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State, without regard to any conflict of law rule or principle that would give effect to the laws of another jurisdiction.

8.8 Interpretation. The Participant accepts this Award subject to all the terms and provisions of the Plan and this Agreement. The undersigned Participant hereby accepts as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan and this Agreement.

8.9 <u>Counterparts</u>. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

* * * *

The undersigned hereby acknowledges, accepts and agrees to all terms and provisions of the foregoing Agreement and the Plan. **THE GRANT OF THIS AWARD IS SUBJECT TO THE TERMS AND CONDITIONS OF THE COMPANY'S AMENDED AND RESTATED 2009 OMNIBUS EQUITY INCENTIVE PLAN.**

**A signed copy of this Agreement must be returned to the Company (including through electronic means, as may be directed by the Company) within ninety (90) days following the Grant Date. If the Participant fails to deliver the signed copy of this Agreement within such ninety (90) day period, the Award shall be automatically forfeited without consideration, and this Agreement shall be null, void and of no further force or effect.**

______________________________
PARTICIPANT

______________________________
DATE

**COMMAND SECURITY CORPORATION**

BY: __________________________
NAME:
TITLE:

DATE: __________________________

**COMMAND SECURITY CORPORATION**
**AMENDED AND RESTATED 2009 OMNIBUS EQUITY INCENTIVE PLAN**
**RESTRICTED STOCK UNIT AWARD AGREEMENT**

Command Security Corporation, a New York corporation (the "Company"), pursuant its Amended and Restated 2009 Omnibus Equity Incentive Plan (as amended from time to time, the "Plan"), hereby grants to the participant (the "Participant") identified in this Restricted Stock Unit Award Agreement (this " Agreement") an award (the "Award") consisting of that number of restricted stock units ("RSUs") identified below. This Award is subject to the terms and conditions of the Plan, which are incorporated herein by reference. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Plan. In the event of any conflict between this Agreement and the Plan, the terms of the Plan shall govern. This Award is a Restricted Stock Unit as defined in the Plan.

**Participant:**

**Grant Date:**

**Vesting Commencement Date:**

**RSUs:**

**Vesting Schedule:** Subject to Sections 2 and 5 of this Agreement, the RSUs will vest over thirty six (36) months in equal monthly installments on the Vesting Commencement Date and on the first day of each of the thirty five (35) subsequent months.

This Award is subject to the following provisions:

Section 1. Acceptance and Acknowledgements. **To be eligible to receive this Award, the Participant must execute, by signature or electronic means, this Agreement within ninety (90) days after the Grant Date. If the Participant fails to deliver the signed copy of this Agreement within such ninety (90) day period, the Award shall be automatically forfeited without consideration.** The Participant acknowledges receipt of this Agreement, the Plan and the prospectus for the Plan, and understands and agrees to the terms set forth in this Agreement and the Plan. By signing (electronically or otherwise) this Agreement, the Participant accepts the Award and agrees to be bound by the terms and conditions of this Agreement, the Plan and any other conditions established by the Company in connection with Awards issued under the Plan, and the Participant further acknowledges and agrees that this Award does not confer any legal or equitable right (other than those rights constituting the Award itself) against the Company or its Affiliates directly or indirectly, or give rise to any cause of action at law or in equity against the Company or its Affiliates. By signing (electronically or otherwise) this Agreement, the Participant further consents to receive any documents related to participation in the Plan and the Award by electronic delivery and to participate in the Plan through an online or electronic system established and maintained by the Company or another third party designated by the Company.

Section 2. Vesting Criteria. This Award shall vest over thirty-six (36) months in equal monthly installments on the Vesting Commencement Date and on the first day of each of the thirty five (35) subsequent months, subject to the Participant's continuous service with the Company or its Affiliate through the applicable vesting date, except as otherwise provided in the Agreement.

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Section 3. Distribution of Shares upon Vesting; Withholding Taxes . On the earlier to occur of (i) the date of the consummation of a Change in Control and (ii) the date that is six (6) months following the date of the Participant's termination of service with the Company for any reason, the Company will deliver either (A) a number of Common Shares to the Participant equal to the number of RSUs that have vested in accordance with Section 2, or (B) at the Company's election, an amount in cash (or a combination of cash and Common Shares) having a value equal to the value of the RSUs that have vested in accordance with Section 2. The Participant shall remain personally responsible for the payment of all taxes related to the distribution of Common Shares, cash or combination of cash and Common Shares.

Section 4. Dividend Distributions. Subject to the restrictions, limitations and conditions described in the Plan, dividend equivalents payable on the RSUs will be accrued on the Participant's behalf at the time that cash dividends are otherwise paid to owners of Common Shares. Accrued dividend equivalent balances will be subject to the same restrictions and vesting schedule applicable to the RSUs and will be paid to the Participant with the distribution of the Common Shares (or cash or combination of cash and Common Shares, as applicable) in accordance with Section 2.

Section 5. Provisions upon Termination of Service. In accordance with Section 9(c) of the Plan, all unvested RSUs shall terminate and be forfeited upon the Participant's termination of service with the Company for any reason.

Section 6. Tax Acknowledgements. The Participant acknowledges that there may be adverse tax consequences upon the vesting, delivery or settlement of the Award, whether in Common Shares, cash or a combination of cash and Common Shares, or disposition of any Common Shares acquired in respect of vested RSUs, and that the Participant has been advised to consult a tax advisor prior to such vesting, settlement or disposition. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or his or her acquisition of Common Shares, cash or a combination of cash and Common Shares or the sale of any Common Shares acquired in respect of vested RSUs.

Section 7. Adjustments. The number of RSUs subject to this Award may be adjusted in any manner as contemplated by Section 12 of the Plan.

Section 8. Miscellaneous.

8.1 Amendments. This Award of RSUs is documented by the records of the Committee or its delegate which shall be the final determinant of the number of Common Shares granted and the conditions of this Agreement. The Committee may amend or modify this Award in any manner to the extent that the Committee would have had the authority under the Plan initially to grant such Award, provided that no such amendment or modification shall materially diminish the Participant's rights under this Agreement without his or her consent. Except as in accordance with the two immediately preceding sentences and Section 8.2, this Agreement may be amended, modified or supplemented only by an instrument in writing signed by both parties hereto.

8.2 Discretionary Nature of Plan. By accepting this Award, the Participant agrees that the granting of the Award is at the discretion of the Committee and that acceptance of this Award is no guarantee that future Awards will be granted under the Plan or any other equity incentive plan maintained from time to time by the Company. Notwithstanding anything in this Agreement or the Plan to the contrary, this Award may be amended by the Company without the Participant's consent, including, but not limited to, modifications to any of the rights granted to the Participant under this Agreement, at such time and in such manner as the Company may consider necessary or desirable to reflect changes in law. The Participant understands that the Company may amend, resubmit, alter, change, suspend, cancel, or discontinue the Plan at any time.

8.3 Entire Agreement. The Participant acknowledges that as of the Grant Date, this Agreement and the Plan set forth the entire understanding between the Participant and the Company regarding the acquisition of the RSUs and the underlying Common Shares and supersede all prior oral and written agreements on that subject. Notwithstanding the foregoing, to the extent that the Participant has signed any restrictive covenant agreements with the Company or any of its Affiliates (including, but not limited to, any confidentiality, intellectual property rights assignment, non-competition, non-solicitation and non-disparagement agreements), such restrictive covenant agreements shall remain in full force and effect.

8.4. Severability. The invalidity or unenforceability of any provision of the Plan or this Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Agreement, and each provision of the Plan and this Agreement shall be severable and enforceable to the extent permitted by law.

8.5 Compliance with Section 409A of the Code. This Agreement is intended to comply with or be exempt from Section 409A of the Code and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes or penalties under Section 409A of the Code. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A of the Code and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Participant on account of non-compliance with Section 409A of the Code. Notwithstanding any provision of this Agreement or the Plan to the contrary, to the extent that the Committee determines that any portion of the Award granted hereunder is subject to Section 409A of the Code and fails to comply with the requirements thereof, the Committee reserves the right to amend, restructure, terminate or replace such portion of the Award in order to cause it to either not be subject to Section 409A of the Code or to comply with the applicable provisions of such section.

8.6 No Impact on other Benefits. The value of the Award is not part of the Participant's normal or expected compensation for purposes of calculating any severance, retirement, welfare, insurance or similar employee benefit.

8.7 Governing Law. This Agreement shall be construed in accordance with and governed by the internal laws of the State of New York applicable to agreements made and to be performed entirely within such State, without regard to any conflict of law rule or principle that would give effect to the laws of another jurisdiction.

8.8 Interpretation. The Participant accepts this Award subject to all the terms and provisions of the Plan and this Agreement. The undersigned Participant hereby accepts as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Plan and this Agreement.

8.9 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

* * * *

The undersigned hereby acknowledges, accepts and agrees to all terms and provisions of the foregoing Agreement and the Plan. **THE GRANT OF THIS AWARD IS SUBJECT TO THE TERMS AND CONDITIONS OF THE COMPANY'S AMENDED AND RESTATED 2009 OMNIBUS EQUITY INCENTIVE PLAN.**

**A signed copy of this Agreement must be returned to the Company (including through electronic means, as may be directed by the Company) within ninety (90) days following the Grant Date. If the Participant fails to deliver the signed copy of this Agreement within such ninety (90) day period, the Award shall be automatically forfeited without consideration, and this Agreement shall be null, void and of no further force or effect.**

______________________________
PARTICIPANT

______________________________
DATE

**COMMAND SECURITY CORPORATION**

BY: __________________________
NAME:
TITLE:

DATE __________________________

**Exhibit 31.1**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Craig P. Coy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Command Security Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2017

*/s/ Craig P. Coy*
Craig P. Coy
Chief Executive Officer

**Exhibit 31.2**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, N. Paul Brost, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Command Security Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant is made known to me by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 9, 2017

*/s/ N. Paul Brost*
N. Paul Brost
Chief Financial Officer

**Exhibit 32.1**

**Certification Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the accompanying Quarterly Report on Command Security Corporation (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Craig P. Coy, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2017

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

**Exhibit 32.2**

**Certification Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the accompanying Quarterly Report on Command Security Corporation (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, N. Paul Brost, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2017

By: */s/ N. Paul Brost*
N. Paul Brost
Chief Financial Officer

**Company Contact:**
N. Paul Brost
Chief Financial Officer
Command Security Corporation
703-464-4735

**COMMAND SECURITY CORPORATION**
**REPORTS FINANCIAL RESULTS FOR THE SECOND FISCAL QUARTER ENDED SEPTEMBER 30, 2017**

**Quarterly Revenues Increase 17% from Prior Year**

Herndon, VA***November 9, 2017***Command Security Corporation (NYSE MKT: MOC) today reported its financial results for its second fiscal quarter ended September 30, 2017.

Revenues for the three months ended September 30, 2017 increased by $7.3 million or 17.3% to $49.7 million as compared with $42.4 million for the three months ended September 30, 2016. Gross profit for the three months ended September 30, 2017 was $5.5 million (11.0% of revenues) compared with $5.2 million (12.2% of revenues) for the three months ended September 30, 2016. Operating income for the three months ended September 30, 2017 was $0.8 million (1.6% of revenues) compared with operating income of $0.8 million (1.9% of revenues) for the three months ended September 30, 2016.

Revenues for the six months ended September 30, 2017 increased by $14.8 million or 18.8% to $93.5 million as compared with $78.7 million for the six months ended September 30, 2016. Gross profit for the six months ended September 30, 2017 was $10.5 million (11.2% of revenues) compared with $9.7 million (12.3% of revenues) for the six months ended September 30, 2016. Operating income for the six months ended September 30, 2017 was $1.1 million (1.1% of revenues) compared with operating income of $1.3 million (1.7% of revenues) for the six months ended September 30, 2016. Operating income for the six months ended September 30, 2017 includes approximately $0.4 million of start-up costs related to the revenue growth described below.

The increases in revenues for the three and six months ended September 30, 2017, as compared with the same period of the prior year, were primarily driven by the commencement of work under new contracts with a large on-line retailer and its web services division. These increases were partly offset by reductions in revenues from a major transportation company and various other residential and retail customers.

The increases in gross profits for the three and six months ended September 30, 2017, as compared with the same periods of the prior year, were primarily driven by the above-mentioned increases in revenues and a decrease in workers compensation expense. These increases were partly offset by increased labor costs including training, overtime, subcontractor costs and other start-up costs in connection with the commencement of work under the contracts with the large online retailer, and an increase in aviation services labor costs combined with a reduction in the scope of services with a large international airline. Start-up costs incurred in connection with new revenue growth included in cost of sales during the six months ended September 30, 2017 was approximately $90,000.

General and administrative expenses for the three months ended September 30, 2017 increased by 9.7% or $0.4 million, to $4.8 million (9.7% of revenues) as compared to $4.4 million (10.3% of revenues) in the corresponding period of the prior year. The increase in general and administrative expenses was driven primarily by increased non-cash stock compensation costs, severance costs, increased general and administrative salaries directly related to increases in revenues, partly offset by lower amortization and legal costs.

General and administrative expenses for the six months ended September 30, 2017 increased by 13.0% or $1.1 million, to $9.6 million (10.2% of revenues) as compared to $8.5 million (10.8% of revenues) in the corresponding period of the prior year. The increase in general and administrative expenses consisted primarily of employee compensation and contract start-up costs in support of increasing revenues, non-cash stock compensation costs and severance costs, partly offset by lower legal and labor settlement costs and amortization. Start-up costs incurred in connection with new revenue growth and included in general and administrative costs in the six months ended September 30, 2017, were approximately $0.3 million. Excluding non-cash stock compensation costs, severance costs and start-up costs, general and administrative costs in the quarter ended September 30, 2017 increased by 5.3% and as a percentage of revenues decreased to 9.6% of revenues.

The decrease in net income for the three and six months ended September 30, 2017, as compared with the corresponding period of the prior year was due mainly to the above-mentioned increase in general and administrative costs, including the above-mentioned start-up costs incurred in connection with new revenue growth, non-cash stock compensation costs, and increased interest expense partly offset by the increase in gross profits attributable to the increased revenues, a reduction in the loss from our minority investment in Ocean Protection Services and a lower overall effective income tax rate.

Craig P. Coy, Chief Executive Officer of Command Security, said, “We realized another quarter of positive revenue growth and we are continuing our efforts to identify significant new business opportunities and markets. Recently we announced a new contract with the U.S. Department of State in Honduras and we believe this is the first of several other similar opportunities that may follow. The combination of new business growth with significant start-up costs and the continued tightening of the labor market have necessitated the need to increase our efforts and resources dedicated to recruiting and staffing. As we fully integrate approximately $40 million of new business wins during the past few months we anticipate a positive impact on our continuing ability to grow revenues and improve overall profitability. Our management team and our dedicated workforce are proud of the service we provide every day."

About Command Security Corporation

Command Security Corporation and its Aviation Safeguards division provide uniformed security officers and aviation security services to commercial, financial, industrial, aviation and governmental customers throughout the United States. As our credo states "*Securing All You Value*," we safeguard against theft, fraud, fire, intrusion, vandalism and the many other threats that our customers are facing today. By partnering with each customer, we design programs customized to meet their specific security needs and address their particular concerns. We bring years of expertise, including sophisticated systems for hiring, training, supervision and oversight, backed by cutting-edge technology, to every situation that our customers face involving security. Our mission is to enable our customers to operate their businesses without disruption or loss, and to create safe environments for their employees. For more information concerning our company, please refer to our website at www.commandsecurity.com.

Forward-Looking Statements

This announcement by the Company contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 about the Company that are based on management's assumptions, expectations and projections about the Company. Such forward-looking statements by their nature involve a degree of risk and uncertainty. The Company cautions that actual results of the Company could differ materially from those projected in the forward-looking statements as a result of various factors, including but not limited to the factors described under the heading "Risk Factors" in the Company's most recent Annual Report on Form 10-K for the fiscal year ended March 31, 2017 filed with the U.S. Securities and Exchange Commission (the "SEC"), and such other risks disclosed from time to time in the Company's periodic and other reports filed with the SEC. You should consider the areas of risk described above in connection with any forward-looking statements that may be made by the Company. The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures the Company makes in proxy statements, quarterly reports on Form 10-Q, annual reports on Form 10-K and current reports on Form 8-K filed with the SEC.

**COMMAND SECURITY CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

| Income Statement Highlights | Three Months Ended September 30, (Unaudited) | | Six Months Ended September 30, (Unaudited) | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | $ 49,741,358 | $ 42,406,405 | $ 93,544,080 | $ 78,742,613 |
| Gross profit | 5,466,819 | 5,160,115 | 10,519,990 | 9,709,122 |
| General and administrative | 4,808,355 | 4,388,408 | 9,586,559 | 8,483,320 |
| Operating income | 778,570 | 804,759 | 1,051,049 | 1,333,715 |
| Equity loss in minority investment of unconsolidated affiliate | (29,700) | (30,000) | (54,900) | (130,000) |
| Provision for income taxes | 276,000 | 251,000 | 360,000 | 465,000 |
| Net income | 342,390 | 436,973 | 413,741 | 597,944 |
| Net income per common share: | | | | |
| Basic | 0.03 | 0.04 | 0.04 | 0.06 |
| Diluted | 0.03 | 0.04 | 0.04 | 0.06 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 9,864,133 | 9,815,458 | 9,855,172 | 9,804,100 |
| Diluted | 10,496,588 | 10,233,226 | 10,449,746 | 10,196,323 |

**COMMAND SECURITY CORPORATION**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| Balance Sheet Highlights | September 30, 2017 (Unaudited) | March 31, 2017 |
|---|---|---|
| Cash and cash equivalents | $ 924,209 | $ 1,042,291 |
| Accounts receivable, net | 39,251,453 | 29,189,233 |
| Total current assets | 43,378,183 | 34,837,686 |
| Total assets | 49,608,412 | 41,779,850 |
| Short-term debt | 19,741,669 | 12,228,679 |
| Total current liabilities | 32,627,752 | 25,530,945 |
| Total liabilities | 33,168,988 | 25,897,268 |
| Stockholders’ equity | 16,439,424 | 15,882,582 |
| Total liabilities and stockholders’ equity | 49,608,412 | 41,779,850 |