

COMMAND SECURITY CORP
Form 10-Q
August 15, 2016

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 June 30, 2016

or

**.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 001-33525

COMMAND SECURITY CORPORATION

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(Exact name of registrant as specified in its charter)

New York

14-1626307

(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

512 Herndon Parkway, Suite A, Herndon, VA 20170
(Address of principal executive offices) (Zip Code)

(703) 464-4735

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The number of outstanding shares of the registrant's common stock as of July 29, 2016, was 9,792,618.

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

COMMAND SECURITY CORPORATION
CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	June 30, 2016	June 30, 2015
Revenues	\$36,336,208	\$ 33,661,061
Cost of revenues	31,787,201	28,842,040
Gross profit	4,549,007	4,819,021
Operating expenses		
General and administrative	4,094,912	4,114,681
Provision for doubtful accounts, net	(74,861)	160,638
	4,020,051	4,275,319
Operating income	528,956	543,702
Other expenses		
Interest expense	(53,985)	(32,050)
Income before income taxes and equity earnings (loss) in minority investment of unconsolidated affiliate	474,971	511,652
Equity earnings (loss) in minority investment of unconsolidated affiliate	(100,000)	61,500
Income before income taxes	374,971	573,152
Provision for income taxes	214,000	245,000
Net income	\$ 160,971	\$ 328,152
Income per share of common stock		
Basic	\$0.02	\$ 0.03

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Diluted	\$0.02	\$0.03
Weighted average number of common shares outstanding		
Basic	9,792,618	9,731,564
Diluted	10,156,337	9,982,556

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION**CONDENSED BALANCE SHEETS**

	June 30, 2016 (Unaudited)	March 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$507,620	\$1,486,854
Accounts receivable, net of allowance for doubtful accounts accounts of \$564,426 and \$650,226, respectively	25,669,735	21,890,623
Prepaid expenses	2,030,569	1,853,464
Other assets	2,373,928	2,184,465
Total current assets	30,581,852	27,415,406
 Furniture and equipment at cost, net	 239,638	 258,157
Other assets:		
Intangible assets, net	1,265,257	1,364,966
Minority investment in unconsolidated affiliate	2,595,291	2,695,291
Other assets	3,876,692	4,412,042
Total other assets	7,737,240	8,472,299
 Total assets	 \$38,558,730	 \$36,145,862
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks issued in advance of deposits	\$638,241	\$471,939
Short-term borrowings	8,816,418	7,011,743
Accounts payable	1,073,457	945,711
Accrued expenses and other liabilities	8,507,925	8,321,297
Total current liabilities	19,036,041	16,750,690
 Insurance reserves	 574,955	 612,462
Other non-current liabilities	700,000	700,000
Total liabilities	20,310,996	18,063,152
Stockholders' equity:		
Preferred stock, convertible Series A, \$.0001 par value	-	-
Common stock, \$.0001 par value	1,155	1,155
Treasury stock, at cost, 1,752,200 shares	(2,885,579)	(2,885,579)
Additional paid-in capital	18,414,648	18,410,595

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Accumulated earnings	2,717,510	2,556,539
Total stockholders' equity	18,247,734	18,082,710
Total liabilities and stockholders' equity	\$38,558,730	\$36,145,862

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid In Capital	Accumulated Earnings	Total
Balance at March 31, 2015	-	1,149	(2,885,579)	18,245,747	5,212,862	20,574,179
Repurchase of stock options				(14,034)		(14,034)
Stock compensation cost				35,907		35,907
Net income					328,152	328,152
Balance at June 30, 2015	-	1,149	(2,885,579)	18,267,620	5,541,014	20,924,204
Options exercised, net		6		75,089		75,095
Stock compensation cost				67,886		67,886
Net loss					(2,984,475)	(2,984,475)
Balance at March 31, 2016	-	1,155	(2,885,579)	18,410,595	2,556,539	18,082,710
Stock compensation cost				4,053		4,053
Net income					160,971	160,971
Balance at June 30, 2016	\$ -	\$ 1,155	\$ (2,885,579)	\$ 18,414,648	\$ 2,717,510	\$ 18,247,734

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 160,971	\$ 328,152
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	132,848	162,129
Provision for doubtful accounts, net	(74,861)	160,638
Equity earnings (loss) in minority investment of unconsolidated affiliate	100,000	(61,500)
Rent expense	(3,963)	(6,673)
Stock based compensation costs	4,053	35,907
Insurance reserves	(37,507)	52,503
Deferred income taxes	555,788	392
Change in receivables, prepaid expenses and other current assets	(4,091,256)	(821,057)
Change in accounts payable and other liabilities	318,337	1,485,046
Net cash provided by (used in) operating activities	(2,935,590)	1,335,537
Cash flows from investing activities:		
Purchases of equipment	(14,620)	(58,743)
Net cash used in investing activities	(14,620)	(58,743)
Cash flows from financing activities:		
Net (repayments)/advances on short-term borrowings	1,804,675	(1,774,447)
Change in checks issued in advance of deposits	166,301	(774,720)
Repurchase of stock options	-	(14,034)
Net cash provided by (used in) financing activities	1,970,976	(2,563,201)
Net change in cash and cash equivalents	(979,234)	(1,286,407)
Cash and cash equivalents, beginning of period	1,486,854	2,435,839
Cash and cash equivalents, end of period	\$ 507,620	\$ 1,149,432

Supplemental Disclosures of Cash Flow Information

Cash paid during the three months ended June 30 for:	2016	2015
Interest	\$50,640	\$23,792
Income taxes	6,390	5,450

See accompanying notes to condensed financial statements

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

The accompanying condensed financial statements presented herein have not been audited, and have been prepared in accordance with the instructions to Form 10-Q which do not include all of the information and note disclosures required by generally accepted accounting principles in the United States. These financial statements should be read in conjunction with our consolidated financial statements and notes thereto as of and for the fiscal year ended March 31, 2016. In this discussion, the words “Company,” “we,” “our,” “us” and terms of similar import should be deemed to refer to Command Security Corporation.

The condensed financial statements for the interim period shown in this report are not necessarily indicative of our results to be expected for any period after the date hereof, including for the fiscal year ending March 31, 2017 or for any other subsequent period. In the opinion of our management, the accompanying condensed financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation of the financial statements included in this quarterly report. All such adjustments are of a normal recurring nature.

1. 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. This standard may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is currently evaluating the impact of adopting ASU 2014-09 to determine the impact, if any, that it may have on our current practices.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes”. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities to be classified as non-current on the balance sheet. ASU 2015-17 is effective for the Company’s fiscal year ending March 31, 2018. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company is currently evaluating the impact of this guidance. Other than the reclassification of the current deferred tax asset to long term assets, the adoption of this guidance is not expected to have a material impact on the Company's financial position,

results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)", which requires lessees to recognize a lease liability and a right-to-use asset on the balance sheet for all leases, except certain short-term leases. ASU 2016-02 is effective beginning with the Company's fiscal year 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 2016-09 on its financial statements. The adoption of this guidance is expected to result in a significant increase in assets and liabilities on the Company's balance sheet.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting", which simplifies accounting and presentation of share-based payments, primarily relating to the recognition and classification of excess tax benefits, accounting for forfeitures and tax withholding requirements. ASU 2016-09 is effective beginning with the Company's fiscal year ending March 31, 2018, with early adoption permitted. The Company is currently evaluating the impact of ASU 2016-09 on its financial statements.

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

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 February 2016 (see below), matures in October 2016, contains customary affirmative and negative covenants, including, among other things, covenants requiring us to maintain certain financial ratios and is collateralized by customer accounts receivable and certain other assets of the Company as defined in the Credit Agreement.

The Credit Agreement provides for a letter of credit sub-line in an aggregate amount of up to \$3.0 million. The Credit Agreement also provides for interest to be calculated on the outstanding principal balance of the revolving loans at the prime rate (as defined in the Credit Agreement) plus 1.50%. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the LIBOR rate (as defined in the Credit Agreement) plus 1.75%.

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

On February 12, 2016, we entered into a sixth amendment (the “Sixth Amendment” to our Credit Agreement). The Sixth Amendment amends the Credit Agreement to replace the “Minimum Debt Service Coverage Ratio” covenant with a “Minimum Excess Availability” covenant that was effective as of December 31, 2015. If we breach a covenant, Wells Fargo has the right to immediately request the repayment in full of all borrowings under the Credit Agreement, unless Wells Fargo waives the breach. For the three months ended June 30, 2016, we were in compliance with all covenants under the Credit Agreement.

Under the Credit Agreement, as of June 30, 2016, the interest rate was 2.25% for LIBOR loans and 2.50% for revolving loans. At June 30, 2016, we had approximately \$0.5 million of cash on hand. We also had \$5.0 million in LIBOR loans outstanding, \$3.8 million of revolving loans outstanding and \$0.5 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 51% 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:

	June 30, 2016	March 31, 2016
Workers' compensation insurance	\$1,452,800	\$1,258,066
Other receivables	55,490	44,958
Security deposits	144,654	140,019
Deferred tax asset	4,597,676	5,153,464
	6,250,620	6,596,507
Current portion	(2,373,928)	(2,184,465)
Total non-current portion	\$3,876,692	\$4,412,042

The other asset workers' compensation insurance represents the net amount of the payments made to cover the workers' compensation insurance premium against the actual premium due as well as the difference in the amount deposited to the loss fund less the estimated workers' compensation claims and reserves related to the historical loss claims as well as the estimates related to the incurred but not reported claims. There is no offsetting claim liability reported as the Company has determined that there is a sufficient amount deposited into the loss funds to cover the estimated claims reserve as well as the estimate related to the incurred but not reported claims.

COMMAND SECURITY CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

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