

COMMAND SECURITY CORP
Form 10-K
June 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2018

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

*(State or other jurisdiction of
incorporation or organization)*

14-1626307

*(I.R.S. Employer
Identification No.)*

512 Herndon Parkway, Suite A, Herndon, VA 20170

(Address of principal executive offices) (Zip Code)

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

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

| Title of each class | Name of each exchange on which registered |
|--|---|
| Common Stock, par value \$0.0001 per share | NYSE American |

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

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

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

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

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

[X]

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
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 Act). Yes No

The aggregate market value of the registrant’s voting and non-voting common equity held by non-affiliates of the registrant was \$22,280,124 as of September 29, 2017. The closing price of the registrant’s common stock on September 29, 2017, as reported on the NYSE American, was \$3.04 per share.

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

There were 10,134,662 outstanding shares of the registrant’s common stock as of June 6, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement relating to the registrant’s 2018 Annual Meeting of Shareholders to be filed hereafter are incorporated by reference into Part III of this Annual Report on Form 10-K.

Command Security Corporation

Annual Report on Form 10-K

For the Fiscal Year Ended March 31, 2018

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PART I

ITEM 1. BUSINESS.

General

Command Security Corporation (the “Company,” or “we”) was incorporated in New York in 1980 and principally provides uniformed security officers and aviation security services to commercial, financial, industrial, aviation and governmental customers throughout the United States. We provide our security services to our customers through Command Security, our security division, and our aviation security services through our Aviation Safeguards division.

Command Security provides security services to governmental, quasi-governmental and financial institutions, healthcare facilities, colleges and universities, residential communities, commercial real estate, industrial, distribution, logistics and retail customers. Our security services include providing armed and unarmed uniformed security personnel for access control, loss prevention, mobile patrols, traffic control, security console/system operators and fire safety directors, as well as providing personnel for reception, concierge and front desk/doorman operations. Command Security generated approximately \$128 million, or 68% of our total revenues for the fiscal year ended March 31, 2018.

Aviation Safeguards, a division of Command Security Corporation, provides aviation security and passenger assistance services to approximately 150 domestic and international airlines, airports, airport authorities and the general aviation community at approximately nine international airports. Our aviation security division provides a variety of uniformed services for domestic and international air carriers, including security for airlines, aircraft, passengers and cargo, baggage screening, wheelchair escort services, special escort services and skycap services. The aviation services division generated approximately \$60 million, or 32% of our total revenues for the fiscal year ended March 31, 2018.

In June 2016, the Company commenced work with the U.S. Postal Service (“USPS”), marking the start of the Company’s federal government line of business. This recent expansion has led to work with the U.S. Department of State, which commenced in February 2018. We believe this new line of business could eventually expand to include work with the Department of Homeland Security, the Transportation Security Administration, the Department of Defense and the Department of Justice.

Operations

As a licensed security company, our security services division deploys security officers to protect people and property, prevent the theft of property, and deter, observe, detect and report security threats for our customers. We conduct our security services principally by providing security officers and other personnel who are, depending on the particular customer requirements, uniformed or plain-clothed, armed or unarmed. Based on specific customer requirements and/or our internal threat assessment, our security officers patrol in marked vehicles with radio communication; stand duty on the customer premises at stationary posts such as points of access, reception areas or surveillance monitors, and/or conduct foot patrols around the customer perimeter and other high-value areas. Our security officers maintain contact with their headquarters or supervisors via car radio, hand-held radios or cell phones. In addition to the more traditional tasks associated with access control and loss prevention, our security officers respond to and report emergency situations such as fires, natural disasters, work accidents and medical crises to the appropriate authorities. We provide security officer services to many of our customers, 24-hours per day and 365 days per year. Our security officers are deployed to provide facility security, access control, personnel security checks, traffic and parking control and to protect against fire, theft, sabotage and safety hazards. We also provide specialized vehicle patrol and inspection services as well as technical products such as access control, video monitoring and other devices through distribution arrangements. Our aviation services division provides a variety of uniformed personnel for security including aircraft and cargo security, access control, wheelchair and passenger escorts, skycaps and baggage handlers for domestic and international air carriers. Since September 11, 2001, the Department of Homeland Security and the Transportation Security Administration have implemented numerous security measures that affect airline operations, including expanded cargo and baggage screening, and may implement additional measures in the future. Additional measures taken to enhance either passenger or cargo security procedures in the future may increase the airline industry's demand for third party services provided by us.

To better integrate and manage our business, our operations are divided into General Security, Aviation Services and National Accounts. Each of these divisions is managed by a vice president or program manager who is responsible for developing and executing our business plan based on the demand, needs and competition in each of our specific markets. The division vice presidents and program managers are assisted by district managers who are responsible for local implementation of policies and procedures. While each divisional business plan is based on our overall corporate strategy, the primary mission of our divisional vice presidents is to staff, train and deploy their teams to provide the necessary physical security and customer service solutions in a responsive fashion consistent with customer service expectations. They also are expected to manage the growth and profitability of their division's operations. We have approximately 19 offices and operate directly or through subcontractors throughout the United States and Central America, including in Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia, Wisconsin, Puerto Rico and Honduras. We frequently establish offices close to our customers and delegate responsibility to our local managers to satisfy customer expectations. Our managers maintain ongoing relationships and contact with our customers in order to promptly and effectively anticipate and respond to the needs of customers and security officers. Our managers play an important role in maintaining service quality and assisting with sales and marketing efforts. Our sales and marketing efforts focus on customers located primarily in urban centers and other concentrated business districts in major metropolitan areas and select suburban areas with a high density of businesses.

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

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

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

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

Employee Recruitment and Training

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

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

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

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

Significant Customers

We rely on a limited number of customers for a significant portion of our revenues. In the fiscal year ended March 31, 2018, the Company had six customers, who represented approximately 60% of the Company's total revenues. These six customers included one domestic and one international airline, the USPS, a large transportation company, an online retailer and web services provider and a northeast U.S. based healthcare facility. Two of these six customers represented 24% and 14% of total revenue, respectively, for the fiscal year ended March 31, 2018. The contract with the large transportation company was terminated effective August 31, 2017. In addition, the scope of work with the large online retailer representing 18% of total revenues, was terminated effective May 31, 2018. Total revenues from the remaining five largest customers represent approximately 37% of the Company's total revenues for the fiscal year ended March 31, 2018. While the Company's cost structure is highly variable and largely identifiable to the delivery of services for any specific contract, any loss of business with these customers could have a material adverse effect on our business, financial condition and results of operation.

See "Notes to Financial Statements—Note 11 Concentrations of Credit Risk and Significant Customers."

Competition

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

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

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

Government Regulation

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

Employees

Our business is labor intensive and is consequently affected by the availability of qualified personnel and the cost of labor. Although the security services industry is characterized by high turnover, we have not experienced any material difficulty in hiring qualified security officers. In some cases, when labor has been in short supply, we have been required to pay higher wages and/or incur overtime charges. As of March 31, 2018, we had approximately 4,900 total employees including 4,000 full-time employees, the majority of whom are hourly service workers, and approximately 190 of whom serve as managers, administrative employees and executives in our 19 offices nationwide.

Approximately 60% of our workforce is not subject to collective bargaining agreements. The remaining 40% of our workforce, including in particular, a number of employees based in our New York City security services office and at John F. Kennedy International and LaGuardia airports are subject to collective bargaining agreements. Two of the agreements, covering approximately 8% of our employees, expired on March 31, 2017 and June 28, 2017. We are currently involved in negotiations to renew the expired agreements. The remaining nine agreements, covering approximately 32% of our employees, are set to expire in September 2018 and thereafter.

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.

Intellectual Property

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

In July 2016, we were granted word mark/service mark protection by the United States Patent and Trademark Office for “CommandTrack” and “CommandTrack-Air,” which encompass tracking of security officers and personnel, as well as location and monitoring services for small vehicles such as carts and wheelchairs.

ITEM 1A. RISK FACTORS

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

Workers’ Compensation and General Liability Claims

Ongoing insurance and claims expenses could significantly affect our earnings. We can provide no assurance that costs associated with workers’ compensation claims will not increase in the future. In addition, we may not be successful in our efforts to mitigate future increases in workers’ compensation costs or limit the frequency or severity

of our workers' compensation claims, which could cause further increases in our workers' compensation costs. Future increases in workers' compensation costs, if incurred, could have a material adverse effect on our business, financial condition, and results of operations.

Loss of Customers

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

Our standard customer contract may be terminated by either the Company or our customer on 30 to 90 days written notice at any time. In addition, we serve certain customers under month-to-month extensions of these written contracts. If we are not able to maintain our existing security service contracts or obtain additional security service contracts, our business, financial condition and results of operations will be adversely affected.

Significant Customers

We rely on a limited number of customers for a significant portion of our revenues. In the fiscal year ended March 31, 2018, the Company had six customers, who represented approximately 60% of the Company’s total revenues. These six customers included one domestic and one international airline, the USPS, a large transportation company, an online retailer and web services provider and a northeast U.S. based healthcare facility. Two of these six customers represented 24% and 14% of total revenue, respectively, for the fiscal year ended March 31, 2018. The contract with the large transportation company was terminated effective August 31, 2017. In addition, the scope of work with the large online retailer, representing 18% of total revenues, was terminated effective May 31, 2018. Total revenues from the remaining five largest customers represent approximately 37% of the Company’s total revenues for the fiscal year ended March 31, 2018. While the Company’s cost structure is highly variable and largely identifiable to the delivery of services for any specific contract, any loss of business with these customers could have a material adverse effect on our business, financial condition and results of operation.

Acquisitions

Part of our growth strategy involves seeking to acquire other successful security services companies. Our acquisition strategy entails numerous risks. The pursuit of acquisition candidates is expensive and may not be successful. Our ability to complete future acquisitions will depend on our ability to identify suitable acquisition candidates, negotiate acceptable terms for their acquisition and, if necessary, finance those acquisitions, in each case, before any attractive

candidates are purchased by other parties, some of whom have substantially greater financial and other resources than we have. Whether or not any particular acquisition is successfully completed, each of these activities is expensive and time consuming and would likely require our management to spend considerable time and effort to complete, which would detract from our management's ability to run our current business. Although we may spend considerable funds and efforts to pursue acquisitions, we may not be able to complete them.

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

dilutive issuances of equity securities;

incurrence of additional debt and contingent liabilities;

increased amortization expenses related to intangible assets;

difficulties in the assimilation of the operations, technologies, services and products of the acquired companies; and

diversion of management's attention from our other business activities.

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

We are Subject to Risks Associated with our Foreign Operations.

We perform security services in Honduras and may expand our business into other foreign countries in the future. As a result, we are subject to the risks inherent in doing business in the global market. These risks include, but are not limited to, adverse changes in economic and political conditions, fluctuation in exchange rates, compliance with labor laws and other foreign governmental laws and regulations, natural disasters, acts of war and terrorism, and other external factors over which we have no control.

Additional Financing

We believe that our existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, capital expenditures and debt service requirements for the foreseeable future. However, we cannot assure you that this will continue to be the case, and we may be required to obtain additional financing to maintain and expand our existing operations through the sale of our securities, an increase in borrowings under our credit facilities or otherwise. The failure by us to obtain such financing, if needed, would have a material adverse effect upon our business, financial condition and results of operations.

Credit and Security Agreement

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

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

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

Competition

Our assumptions regarding future operating results depend largely upon our ability to retain substantially all of our current customers and obtain new customers. Retention is affected by several factors including, but not limited to, regulatory limitations, the quality of the services that we provide, the quality and pricing of comparable services offered by competitors and continuity of our management and non-management personnel. The contract security officer industry is intensely competitive. There are several major national competitors with substantially greater financial and other resources than we have and that, therefore, have the ability to provide more attractive service, cost and compensation incentives to customers and employees than we are able to provide. We also compete with smaller local and regional companies whose familiarity with local markets gives them a competitive advantage. There can be no assurance that we will continue to retain customer accounts at historic levels in an increasingly competitive market. In addition, there can be no assurance that we will be able to acquire new customer accounts and retain existing customer accounts on terms as favorable as those previously available, and if we are unable to do so our profitability will be adversely affected.

Cost Management

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

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

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

We are involved in a number of lawsuits related to employment issues. Judges and juries have recently demonstrated a willingness to grant large verdicts to plaintiffs in connection with employment related cases. We use appropriate means to contest litigation threatened or filed against us. Litigation is always subject to many uncertainties and outcomes that are not predictable. Even when not merited, the defense of these lawsuits may divert our management's attention and we may incur significant expenses in defending these lawsuits. In addition, we may be required to pay damage awards or settlements or become subject to injunctions or other equitable remedies, which could have a

material adverse effect on our business, financial condition, results of operations or liquidity.

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

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

Indemnification Obligations

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

Staffing

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

Professional Reputation

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

Changes in Accounting Standards and Taxation Requirements

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

Collective Bargaining Agreements with Employees

Approximately 40% of our workforce is subject to collective bargaining agreements. If we are unable to renew such agreements on satisfactory terms, our labor costs could increase, which would negatively affect our business, financial condition and results of operations.

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

Collection of Accounts Receivable

We extend credit to our customers primarily through the use of weekly or monthly billings generally due within 30 to 60 days of the invoice date. Any default in the payment of accounts receivable by one or more of our significant customers due to bankruptcy or otherwise could have a material adverse impact on our liquidity, results of operations and financial condition. See “Notes to Financial Statements—Note 11 Concentrations of Credit Risk and Significant Customers.”

Loss of Key Management Personnel

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

Concentration of Stock Ownership

Although none of our directors and officers has any agreement relating to the manner in which they will vote their shares of our common stock, such parties together own shares representing approximately 25% of the Company’s outstanding common stock. Further, as of March 31, 2018, based on public filings, there are two other shareholders that combined own approximately 34% of the Company’s outstanding common stock. The concentration of ownership among these shareholders could give them the power to influence the outcome of substantially all matters subject to a vote of our shareholders, including mergers, consolidations and the sale of all or substantially all of our assets. Such decisions may conflict with the interests of our other shareholders. This beneficial ownership and potential effective control on all matters relating to our business and operations could eliminate the possibility of other shareholders obtaining the necessary shareholder vote to affect any change in the course of our business if they disagree with these significant shareholders.

Stock Price Volatility

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

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

Information Systems/Technology

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

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

Regulation

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

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

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

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were signed into law in the U.S. This legislation expanded the availability of health care coverage for many uninsured individuals and in some cases expanded coverage for those already insured. In light of the change in presidential administrations, in areas where the Secretary of Health and Human Services has discretion to modify legislation, we expect a different coverage and enforcement regimen, to the extent permitted by law. These differences in enforcement and coverage are unclear at this time, as are the financial implications of whatever changes may be implemented. New legislation or changes in existing legislation could cause us to incur additional healthcare and other costs. The costs of these provisions are expected to be funded by a variety of taxes, fees and penalties. Some of the taxes and fees, as well as certain health care changes required by these acts, have resulted, directly or indirectly, in increased health care costs for us. We cannot quantify the extent of any long-term impact from the legislation or any potential changes to the legislation. There is no assurance that we will be able to absorb and/or pass through the costs of complying with such legislation in a manner that will not adversely impact our results of operations.

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

Economic Downturn

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

Catastrophic Events

We are exposed to potential claims resulting from the occurrence of catastrophic events, such as acts of terrorism, or based upon allegations that we failed to perform our services in accordance with contractual or industry standards. Our insurance coverage limits are currently \$1.0 million per occurrence for non-aviation related business (with additional first and second layer excess liability policies of \$5.0 million and \$10.0 million, respectively) and \$30.0 million per occurrence for aviation related business. We retain the risk for the first \$25,000 of general liability non-aviation related operations. The Aviation related deductible is \$5,000 per occurrence, with the exception of \$50,000 for airport wheelchair and electric cart operations, \$25,000 for damage to aircraft and \$100,000 for skycap operations. The Terrorism Risk Insurance Act of 2002 established a program within the United States Department of the Treasury, under which the federal government and the insurance industry, share the risk of loss from future “acts of terrorism,” as defined in such Act. We currently maintain additional insurance coverage for losses arising from “acts of terrorism” under our non-aviation related business policy. In addition, terrorist attacks could have a material adverse impact on us by increasing our insurance premium costs, making adequate insurance coverage unavailable or by requiring us to incur additional personnel costs as a result of compliance with expanded security rules and regulations.

Strategic Initiatives

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of March 31, 2018, we did not own any real property. We occupy executive offices at 512 Herndon Parkway, Herndon, VA 20170, consisting of approximately 13,000 square feet. We also lease office space at the following

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locations under long-term operating or short-term month-to-month leases:

5805 Blue Lagoon Drive
Suite 110
Miami, FL

1767 Morris Avenue
Suite 101, First Floor
Union, NJ

8929 South Sepulveda Boulevard
Suite 300
Los Angeles, CA

Two International Plaza
Suite 300
Philadelphia, PA

411 Camino Del Rio South
Suite 105
San Diego, CA

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

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

17 Battery Place
Suite 223
New York, NY

890 Hillview Court, Suite 100
Milpitas, CA 95035

2400 Herodian Way
Suite 152
Smyrna, GA

8840 Warner Ave, Suite 301
Fountain Valley, CA

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

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

669 Elmwood Avenue
Suite B-4
Providence, RI

21 Cummings Park
Suite 224
Woburn, MA

1458 Main Street
Buffalo, NY

Baltimore-Washington International Airport
Baltimore, MD

Edificio Torre San Carlos
Tegucigalpa, Honduras

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

ITEM 3. LEGAL PROCEEDINGS.

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

The nature of our business is such that claims and lawsuits are regularly filed against the Company, 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.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

PART II**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Common Stock Trading Information**

Shares of our common stock trade on the NYSE American, an exchange regulated market, under the ticker symbol "MOC."

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

| Last Sales Price Period (1) | Common stock market price | |
|-----------------------------|---------------------------|--------|
| | Low | High |
| 2018 | | |
| First Quarter | \$2.41 | \$3.41 |
| Second Quarter | 2.70 | 3.43 |
| Third Quarter | 2.81 | 3.37 |
| Fourth Quarter | 2.85 | 3.25 |
| 2017 | | |
| First Quarter | \$2.15 | \$5.73 |
| Second Quarter | 2.58 | 4.15 |
| Third Quarter | 2.49 | 3.40 |
| Fourth Quarter | 2.41 | 3.18 |

(1) Reflects fiscal years ended March 31, 2018 and 2017 as indicated.

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

As of May 17, 2018 there were approximately 1,500 holders of our common stock.

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

Dividends

To date, we have neither declared nor paid any cash dividends on shares of our common stock. Payment of dividends on our common stock, if any, will be within the discretion of our Board of Directors and will depend, among other factors, on the approval of our principal lender, our earnings and capital requirements and our operating and financial condition. The Credit Agreement with our primary lender, Wells Fargo Bank, N.A., currently prohibits the declaration or payment of cash dividends on any class of the Company’s stock. At present, our anticipated capital requirements and growth plans are such that we intend to follow a policy of retaining earnings, if any, to finance our business operations and any growth in our business.

Common Stock Repurchases

On December 8, 2011, the Company’s Board of Directors authorized a stock repurchase program that initially allowed us to repurchase up to \$2,000,000 of our common stock on the open market. In November 2012, the Company’s Board of Directors authorized an increase of up to \$4,000,000 of our common stock to be repurchased. To date, the Company has repurchased \$3,058,873 of the \$4,000,000 authorized under the stock repurchase program. The ability of the Company to repurchase shares under the stock repurchase program is subject to the approval of Wells Fargo under the Credit Agreement. Common stock repurchases are recorded as treasury stock, at cost. The program does not have a prescribed expiration date. See “Notes to Financial Statements—Note 17 Issuer Purchases of Equity Securities.” No shares were purchased during the fiscal years ended March 31, 2018 and March 31, 2017.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

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

FORWARD- LOOKING STATEMENTS

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

discuss future expectations;

contain projections of future results of operations or financial condition; and

state other "forward-looking" information.

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

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

changes in the financial condition of our customers;

legislation or regulatory environments, requirements or changes adversely affecting our business or the businesses in which our customers are engaged;

cancellations and non-renewals of existing contracts;

changes in our estimates of costs;

war and/or terrorist attacks on facilities where services are or may be provided;

outcomes of pending and future litigation;

increasing competition by other companies;

changes in interest rates;

compliance with our loan covenants;

changing interpretations of GAAP;

the general volatility of the market price of our securities;

the availability of qualified personnel;

recoverability of claims against our customers and others by us and claims by third parties against us; and

changes in estimates used in our critical accounting policies.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES.

Critical accounting policies are defined as those most important to the portrayal of a company’s financial condition and results and that require the most difficult, subjective or complex judgments. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. The estimates that we make include allowances for doubtful accounts, depreciation and amortization, income tax assets and insurance reserves. Estimates are based on historical experience, where applicable or other assumptions that management believes are reasonable under the circumstances. We have identified the policies described below as our critical accounting policies. Due to the inherent uncertainty involved in making estimates, actual results may differ from those estimates under different assumptions or conditions. See “Notes to Consolidated Financial Statements—Note 1 Business Description and Summary of Accounting Policies.”

Revenue Recognition

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

Accounts Receivable

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

Minority Investment in Unconsolidated Affiliate

The Company including its consolidated subsidiary, OPS LLC, 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. OPSA has continued to experience a long-term decline in revenues and net income from continuing operations, which in turn has resulted in a continued reduction in its liquidity and its inability to meet its obligations of under its senior credit agreement. OPSA's advisors and consultants have advised that OPSA is technically insolvent and has advised OPSA management to commence liquidation of OPSA including its wholly-owned operating subsidiary. As a result, the Company has determined that its investment in OPS LLC is permanently impaired and, as such, has recorded a \$0.4 million non-cash charge during the quarter ended March 31, 2018 in order to reduce the fair value of the Company's investment in OPS LLC to zero. This charge was reported as an impairment of an equity method investment in the consolidated statements of operations.

Intangible Assets

Intangible assets are stated at cost and consist primarily of customer lists that are being amortized on a straight-line basis over ten years and goodwill, which is reviewed annually for impairment. The life assigned to customer lists acquired is based on management's estimate of our expected customer attrition rate. The attrition rate is estimated based on historical contract longevity and management's operating experience. We test for impairment annually or when events and circumstances warrant such a review, if earlier. Any potential impairment is evaluated based on anticipated undiscounted future cash flows and actual customer attrition in accordance with FASB ASC 360, *Property, Plant and Equipment*.

Insurance Reserves

General liability estimated accrued liabilities are calculated on an undiscounted basis based on actual claim data and estimates of incurred but not reported claims developed utilizing historical claim trends. Projected settlements and incurred but not reported claims are estimated based on pending claims, historical trends and related data.

Workers' compensation annual costs are comprised of premiums as well as incurred losses as determined at the end of the coverage period, subject to minimum and maximum amounts. Workers' compensation insurance claims and reserves include accruals of estimated settlements for known claims, as well as accruals of estimates for claims incurred but not yet reported. In estimating these accruals, we consider historical loss experience and make judgments about the expected levels of costs per claim. We believe our estimates of future liability are reasonable based upon our methodology; however, changes in health care costs, accident frequency and severity and other factors could materially affect the estimate for these liabilities. The Company continually monitors changes in claim type and incident and evaluates the workers' compensation insurance accrual, making necessary adjustments based on the evaluation of these qualitative data points.

Income Taxes

Income taxes are based on income (loss) for financial reporting purposes and reflect a current tax liability (asset) for the estimated taxes payable (recoverable) in the current year tax return and changes in deferred taxes. Deferred tax assets or liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. In the event that interest and/or penalties are assessed in connection with our tax filings, interest will be recorded as interest expense and penalties as selling, general and administrative expense.

Stock Based Compensation

FASB ASC 718, *Stock Compensation*, requires all share-based payments to employees, including grants of employee stock options 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. Non-cash charges of approximately \$323,000 and \$18,000 for stock based compensation have been recorded for the fiscal years ended March 31, 2018 and 2017, respectively.

Reclassifications

Certain amounts previously reported for prior periods have been reclassified to conform to the current year presentation in the accompanying consolidated 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 19 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 \$25.8 million, or 15.9%, to \$188 million for the fiscal year ended March 31, 2018, from \$162.2 million in the prior year. The increase in revenues for the fiscal year ended March 31, 2018 was due mainly to the commencement of work for a large online retailer and its web services division in June and July 2017, and the commencement of work for the USPS in June 2016. These increases were partly offset by reductions in revenues from a major transportation company of approximately \$12 million following the Company's decision to terminate its relationship with this customer effective August 31, 2017.

Workers' Compensation Costs

We have an insurance policy covering workers' compensation claims in states in which we perform services. Estimated accrued liabilities are based on our historical loss experience and the ratio of claims paid to our historical payout profiles. Charges for estimated workers' compensation related losses incurred and included in cost of revenues were \$2.2 million and \$3.1 million for the fiscal years ended March 31, 2018 and 2017, respectively. The decrease in workers' compensation expense is primarily due to a lower quantity and lower average value of actual incurred claims.

We believe our estimates of future liability are reasonable based upon our methodology; however, changes in regulations, health care costs, accident frequency and severity and other factors could materially affect the estimates of these liabilities. The Company continually monitors changes in claim type and incident and evaluates the workers' compensation insurance accrual, making necessary adjustments based on the evaluation of these qualitative data points.

Gross Profit

Our gross profit increased by \$1.9 million, or 10.4%, to \$20.2 million (10.7% of revenues), for the fiscal year ended March 31, 2018, from \$18.3 million (11.3% of revenues) for the fiscal year ended March 31, 2017. The increase in gross profit was due mainly to the commencement of work under new contracts with a large online retailer as discussed above, a reduction in overhead costs associated with the above mentioned terminated contract and a decrease in workers' compensation insurance expense. 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 fiscal year ended March 31, 2018 includes approximately \$90,000 of startup costs incurred in connection with and prior to the commencement of work under the above-mentioned new contracts.

The nature of our business also subjects us to claims or litigation alleging that we are liable for damages as a result of the conduct of our employees or others. We insure against such claims and suits through general liability policies with third-party insurance companies. Our insurance coverage limits are currently \$1.0 million per occurrence for non-aviation related business (with additional first and second layer excess liability policies of \$5.0 million and \$10.0 million, respectively) and \$30.0 million per occurrence for aviation related business. We retain the risk for the first \$25,000 of general liability non-aviation related operations. The Aviation related deductible is \$5,000 per occurrence, with the exception of \$50,000 for airport wheelchair and electric cart operations, \$25,000 for damage to aircraft and \$100,000 for skycap operations. Estimated accrued liabilities are based on specific reserves in connection with existing claims as determined by third party risk management consultants and actuarial factors and the timing of reported claims. These are all factored into estimated losses incurred but not yet reported to us.

General and Administrative Expenses

Our general and administrative expenses increased by \$0.4 million, or 2.2%, to \$18.7 million (9.9% of revenues) for the fiscal year ended March 31, 2018, from \$18.3 million (11.3% of revenues) for the fiscal year ended March 31, 2017. The increase in general and administrative expenses for the fiscal year ended March 31, 2018 was attributable primarily to an increase in non-cash stock compensation costs of approximately \$304,698, severance costs, increased general and administrative salaries and wages directly associated with the above-mentioned new business, partly offset by lower legal expenses, labor settlement and amortization costs. In addition, general and administrative costs for the fiscal year ended March 31, 2018 includes approximately \$450,000 of startup costs incurred in connection with and prior to the commencement of new work described above under "Revenues."

Provision for Doubtful Accounts

The provision for doubtful accounts for the year ended March 31, 2018 increased by \$60,339 to net recoveries of \$78,208 as compared with net recoveries of \$138,547 in the corresponding period of the prior year. The increase in the net provision for doubtful accounts for the year ended March 31, 2018 was driven primarily by an increase in past due accounts partially offset by an increase in 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 where our management determines that there is a likelihood of a significant adjustment for disputed billings. Criteria used by management to evaluate the adequacy of the allowance for doubtful accounts include, among others, the creditworthiness of the customer, current trends, prior payment performance, the age of the receivables and our overall historical loss experience. Individual accounts are charged off against the allowance as management deems them as uncollectible. We do not know if bad debts will increase in future periods nor does our management believe that the decrease during the fiscal year ended March 31, 2018 compared with the same period of the prior year is necessarily indicative of a trend.

Interest Expense

Interest expense for the fiscal year ended March 31, 2018 increased by \$245,102 to \$551,226 from \$306,124 in the fiscal year ended March 31, 2017. The increase in interest expense for the year ended March 31, 2018 was primarily due to higher average outstanding borrowings in support of higher 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 OPSA. The Company's proportionate share of net loss for the fiscal years ended March 31, 2018 and 2017 was \$141,200 and \$82,000, respectively. Equity method investments are recorded at original cost and adjusted periodically to recognize: (i) our proportionate share of investees' net income or losses after the date of the investment; (ii) additional contributions made or distributions received; and (iii) impairment losses resulting from adjustments to net realizable value. The Company reviews its investment accounted for under the equity method of accounting for impairment whenever events or changes in circumstances indicate a loss in the value of the investment may be other than temporary.

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

The decline in revenues and certain increased operating costs has resulted in net operating losses for the year ending March 31, 2018, and accordingly, the Company has recorded its proportionate share of these losses totaling \$141,200.

During the past year, OPSA has continued to experience a long-term decline in revenues and net income from continuing operations, which in turn has resulted in a continued reduction in its liquidity and its inability to meet its obligations of under its senior credit agreement. OPSA's advisors and consultants have advised that OPSA is technically insolvent and has advised OPSA management to commence liquidation of OPSA including its wholly-owned operating subsidiary. As a result, the Company has determined that its investment in OPS LLC is permanently impaired and, as such, has recorded a \$0.4 million non-cash charge during the quarter ended March 31, 2018 in order to reduce the fair value of the Company's investment in OPS LLC to zero. This charge was reported as an impairment of an equity method investment in the consolidated statements of operations.

Provision for (Benefit from) Income Taxes

The provision for income taxes increased by \$2.0 million to \$1.9 for the fiscal year ended March 31, 2018 compared with a net tax benefit of \$0.06 million in the fiscal year ended March 31, 2017. The Company's effective income tax rate increased by 399.5% to 401.9% for the fiscal year ended March 31, 2018 from 2.4% for the fiscal year ended March 31, 2017. Pretax income increased by \$2.9 million to \$0.5 million in the fiscal year ended March 31, 2018 from a pretax loss of \$2.4 million in the fiscal year ended March 31, 2017. The difference between the Company's effective tax rate of 401.9% for the fiscal year ended March 31, 2018 and the Company's statutory tax rate of approximately 30.8% is primarily attributable to a \$1.55 million non-cash charge to adjust for the decline in the value of deferred tax assets resulting from the reduction in the federal corporate income tax rate, a \$0.4 million non-cash charge to record the permanent impairment of the Company's investment in OPSA, the Company's proportionate share of the net loss of OPSA, higher pre-tax earnings, and permanent tax differences related to the exercise of stock options.

Earnings (Loss)

Our net loss for the fiscal year ended March 31, 2018 was \$1.4 million as compared with net loss of \$2.3 million for the fiscal year ended March 31, 2017. The decrease in net loss was primarily related to the aforementioned increase in gross profits, partly offset by an increase in the provision for income taxes resulting primarily from the \$1.55 million non-cash charge noted above, an increase in general and administrative expenses, lower bad debt recoveries, an increase in interest expense, the impairment of the minority investment in OPS LLC and lower equity earnings in the minority investment in OPS LLC.

LIQUIDITY AND CAPITAL RESOURCES

We pay approximately 80% 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 \$35.0 million credit facility with Wells Fargo (as amended, the “Credit Agreement”), described below under “Short Term Borrowings.”

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

We believe that our existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, capital expenditures and debt service requirements for the foreseeable future. However, we cannot assure you that this will be the case, and we may be required to obtain alternative or additional financing to maintain and expand our existing operations through the sale of our securities, an increase in the amount of available borrowings under our Credit Agreement, obtaining additional financing from other financial institutions or otherwise. The failure by us to obtain such financing, if needed, would have a material adverse effect upon our business, financial condition and results of operations.

Short-Term Borrowings

On February 12, 2009, we entered into a \$20.0 million credit facility (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”). This credit facility, which was most recently amended in March 2018 (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 floating 90 day LIBOR rate plus 1.75%. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the floating 30 day LIBOR rate plus 1.75%.

On March 14, 2018, we entered into a ninth amendment (the “Ninth Amendment”) to our Credit Agreement. The Ninth Amendment increased the revolving line of credit from \$27.5 million to \$35 million.

Under the Credit Agreement, as of March 31, 2018, the interest rate was 3.5% for LIBOR loans and 4.125% for revolving loans. At March 31, 2018, we had approximately \$1.2 million of cash on hand. We also had \$14.0 million in LIBOR loans outstanding, \$4.2 million of revolving loans outstanding and \$0.3 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 84.4% of the maximum borrowing capacity under the Credit Agreement based on our “eligible accounts receivable” (as defined in the Credit Agreement) as of such date. As of the close of business May 31, 2018, we had total short term borrowings, net of cash, of approximately \$16.2 million, 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.

We rely on our revolving loan from Wells Fargo which contains a fixed charge covenant and various other financial and non-financial covenants. If we breach a covenant, Wells Fargo has the right to immediately request the repayment in full of all borrowings under the Credit Agreement, unless Wells Fargo waives the breach. For the fiscal year ended March 31, 2018, we were in compliance with all covenants under the Credit Agreement.

Cash Flows

The following table summarizes our cash flow activity for the fiscal years ended March 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---------------|---------------|
| Net cash used in operating activities | \$(6,205,504) | \$(5,868,913) |
| Net cash used in investing activities | (535,505) | (10,394) |
| Net cash provided by financing activities | 6,910,633 | 5,434,744 |

Investments and Capital Expenditures

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

Financing

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

Working Capital

Our working capital increased by \$1.5 million or 15.9%, to \$10.8 million as of March 31, 2018, from \$9.3 million as of March 31, 2017.

There were checks issued in advance of deposits (defined as checks drawn in advance of future deposits) of \$1.2 million as of March 31, 2018, compared with \$0.6 million at March 31, 2017. Cash balances and book overdrafts can fluctuate materially from day to day depending on such factors as collections, timing of billing and payroll dates, and are covered via advances from the revolving loan as checks are presented for payment.

Off-Balance Sheet Arrangements

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

OUTLOOK

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. Despite the recent loss of a significant scope of work with a major customer, we expect to continue to pursue similar large opportunities in multiple end markets. These large service agreements provide significant opportunities to leverage operating and administrative costs.

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. We may pursue complementary acquisition opportunities to leverage our management structure and deliver accretive earnings with acceptable collection terms. Our focus on larger, long-term service agreements provides another path to add significant additional revenue similar to that of the U.S. Postal Service contract, the TSA Indefinite Delivery Indefinite Quantity Award, and other commercial and federal contract opportunities. Our ability to complete future acquisitions will depend on our ability to identify suitable acquisition candidates, negotiate acceptable terms for their acquisition and, if necessary, finance those acquisitions. Our current focus is on increasing our revenues, as our sales and marketing team and branch managers' work to develop new business and retain profitable contracts. Also, intense competition from other security services companies impacts our ability to gain or maintain sales, gross margins and/or employees. During recent years, the Department of Homeland Security and the Transportation Security Administration have implemented numerous security measures that affect airline operations, including expanded cargo and baggage screening, and are likely to implement additional measures in the future. Additional measures taken to enhance either passenger or cargo security procedures in the future may increase the airline industry's demand for third party services provided by us. Additionally, our aviation services division is continually subject to such government regulation, which has adversely affected us in the past with the federalization of the pre-board screening services and the document verification process at several of our domestic airport locations.

Our gross profit margin decreased during the fiscal year ended March 31, 2018 to 10.7% of revenues, compared with 11.3% for fiscal 2017. We expect gross profit to remain under pressure due primarily to continued price competition, including competition from companies that have substantially greater financial and other resources than we have. However, we expect these effects will be moderated by continued operational efficiencies resulting from better management and leveraging of our cost structures, workflow process efficiencies associated with our integrated financial software system and higher contributions from our continuing new business development.

For the fiscal year ended March 31, 2018, our security services division generated approximately \$128 million or 68% of our total revenues and our aviation services division generated approximately \$60 million or 32% of our total revenues.

As noted earlier, on February 12, 2009, we entered into a \$20.0 million credit facility with Wells Fargo, as described above, which was recently increased to \$35.0 million in March 2018. As of the close of business on May 31, 2018, our cash availability is approximately \$7.6 million, which we believe is sufficient to meet our needs for the foreseeable future barring any increase in reserves imposed by Wells Fargo. We believe that existing funds, cash generated from operations, and existing sources of and access to financing are adequate to satisfy our working capital, planned capital expenditures and debt service requirements for the foreseeable future, barring any increase in reserves imposed by Wells Fargo. However, we cannot assure you that this will continue to be the case, and we may be required to obtain alternative or additional financing to maintain and expand our existing operations through the sale of our securities, an increase in the amount of available borrowings under our Credit Agreement, obtaining additional financing from other financial institutions or otherwise. The financial markets generally, and the credit markets in particular, continue to be volatile, both in the United States and in other markets worldwide. The current market situation has resulted generally in substantial reductions in available loans to a broad spectrum of businesses, increased scrutiny by lenders of the credit-worthiness of borrowers, more restrictive covenants imposed by lenders upon borrowers under credit and similar agreements and, in some cases, increased interest rates under commercial and other loans. If we require alternative or additional financing at this or any other time, we cannot assure you that such financing will be available upon commercially acceptable terms or at all. If we fail to obtain additional financing when and if required by us, our business, financial condition and results of operations would be materially adversely affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures as of March 31, 2018 have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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

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

Under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 31, 2018 based on the framework in *Internal Control—Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation our management concluded that our internal control over financial reporting was effective as of March 31, 2018 and for the period then ended.

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

- (b) There has been no change in our internal control over financial reporting identified in an evaluation thereof that occurred during the fourth quarter of fiscal 2018 that materially affected or is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item 10 will be set forth in our Proxy Statement for our 2018 Annual Meeting of Stockholders which is expected to be filed with the SEC within 120 days of the close of the our fiscal year ended March 31, 2018 (the “2018 Proxy Statement”) under the captions “Proposal One: Election of Directors,” “Information Concerning Executive Officers,” and “Board Meetings and Committees,” and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item 11 will be set forth in the 2017 Proxy Statement under the captions “Executive Compensation” and “Compensation Discussion and Analysis,” and is incorporated herein by reference.

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

The information required by this Item 12 will be set forth in the 2018 Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Executive Compensation-Equity Compensation Plan Information,” and is incorporated herein by reference.

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

The information required by this Item 13 will be set forth in the 2018 Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Board Meetings and Committees,” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item 14 will be set forth in the 2018 Proxy Statement under the caption “Proposal Two: Ratification of Appointment of Independent Registered Public Accountants,” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE.

(a)

Page Number
from
this Form
10-K

(1) *Financial Statements:*

| | |
|---|-----|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-1 |
| <u>Consolidated Balance Sheets - March 31, 2018 and 2017</u> | F-2 |
| <u>Consolidated Statements of Operations - years ended March 31, 2018 and 2017</u> | F-3 |
| <u>Consolidated Statements of Changes in Stockholders' Equity - years ended March 31, 2018 and 2017</u> | F-4 |
| <u>Consolidated Statements of Cash Flows - years ended March 31, 2018 and 2017</u> | F-5 |
| <u>Notes to Consolidated Financial Statements</u> | F-7 |

(2) *Financial Statement Schedule:*

| | |
|--|------|
| <u>Schedule II - Valuation and Qualifying Accounts</u> | F-26 |
|--|------|

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

(3) *Exhibits:*

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

SIGNATURES

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

**COMMAND
SECURITY
CORPORATION**

Date: June 11, 2018

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

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

| Signature | Title | Date |
|---|---|---------------|
| <i>/s/ Thomas P. Kikis</i> Thomas P. Kikis | Chairman of the Board | June 11, 2018 |
| <i>/s/ Craig P. Coy</i> Craig P. Coy | Director and Chief Executive Officer (Principal Executive Officer) | June 11, 2018 |
| <i>/s/ N. Paul Brost</i> N. Paul Brost | Chief Financial Officer (Principal Accounting Officer) | June 11, 2018 |
| <i>/s/ James P. Heffernan</i> James P. Heffernan | Director | June 11, 2018 |

/s/ Mark Sullivan Director June 11, 2018
Mark Sullivan

/s/ Jerry L. Johnson Director June 11, 2018
Jerry L. Johnson

COMMAND SECURITY CORPORATION

EXHIBIT INDEX

| Exhibit No. | Exhibit Description | |
|--------------------|--|---|
| 3.1 | Amended and Restated Articles of Incorporation | Incorporated by reference to Exhibit of Incorporation 3.3 of the Form 10-K for the fiscal year ended March 31, 1993. |
| 3.2 | <u>By-Laws, as amended</u> | Incorporated by reference to Exhibit 3.1 on Form 8-K filed September 25, 2013. |
| 3.4 | <u>Certificate of Amendment of Certificate of Incorporation</u> | Incorporated by reference to Exhibit 3.4 on Form 10-K for the fiscal year ended March 31, 2010. |
| 4.1 | Specimen Stock Certificate | Incorporated by reference to Exhibit 4.A to Amendment #1 to Registrant's Registration Statement on Form S-18, file number 33, 35007-NY. |
| 4.2 | Specimen Series A Preferred Stock Certificate | Incorporated by reference to Exhibit 4.2 of Registration Statement on Form S-1 filed October 27, 1993. |
| 10.1 | <u>Agreement for Purchase and Sale of Assets dated June 13, 2006, for the acquisition of Sterling Protective Group, Inc.</u> | Incorporated by reference to Exhibit 10.6 of the Form 8-K filed June 13, 2006. |
| 10.2 | <u>Stock Purchase Agreement dated April 12, 2007, for the acquisition of Brown Security Industries, Inc.</u> | Incorporated by reference to Exhibit 10.2 of the Form 8-K filed April 12, 2007. |
| 10.3 | <u>Amended and Restated Plan of Merger dated April 12, 2007, for the acquisition of Brown Security Industries, Inc.</u> | Incorporated by reference to Exhibit 10.3 of the Form 8-K filed April 12, 2007. |
| 10.4 | <u>Wells Fargo Business Credit, Credit and Security Agreement dated February 12, 2009</u> | Incorporated by reference to Exhibit 10.1 of the Form 10-Q filed February 17, 2009. |
| 10.5 | <u>Second Amendment to Wells Fargo Business Credit and Security Agreement dated as of October 18, 2011</u> | Incorporated by reference to Exhibit 10.1 of the Form 8-K filed October 18, 2011. |
| *10.6 | <u>2000 Stock Option Plan</u> | Incorporated by reference to Exhibit 99.25 of the Form 10-K for the fiscal year ended March 31, 2001 filed July 3, 2001. |
| *10.7 | <u>2005 Stock Incentive Plan</u> | Incorporated by reference to Exhibit 99.5 of the Form 10-K for the fiscal year ended March 31, 2006 filed June 28, 2006. |
| *10.8 | <u>2009 Omnibus Equity Incentive Plan</u> | Incorporated by reference to Exhibit A of the 2009 Proxy Statement filed July 29, 2009. |
| *10.9 | <u>Craig P. Coy Employment Agreement</u> | Incorporated by reference to Exhibit 10.13 of the Form 10-K for the fiscal year ended March 31, 2012. |
| *10.10 | <u>Scott Landry Employment Offer Letter dated October 1, 2012</u> | Incorporated by reference to Exhibit 10.1 of the Form 8-K filed October 4, 2012. |
| 10.11 | <u>Third Amendment to Credit and Security Agreement dated as of November 6, 2012, between Command Security</u> | Incorporated by reference to Exhibit 10.1 of the Form 8-K filed November 8, 2012. |

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|---------|---|--|
| *10.12 | <u>Corporation and Wells Fargo Bank, National Association N. Paul Brost Employment Offer Letter dated January 11, 2013</u> | Incorporated by reference to Exhibit 10.1 of the Form 8-K filed January 17, 2013. |
| *10.13 | <u>Coy Employment Agreement Extension dated December 23, 2014</u> | Incorporated by reference to Exhibit 10.1 of the Form 8-K filed December 29, 2014 |
| 10.14 | <u>Award of the U.S. Postal Service contract No. 2BEMPS-15-B-0029 under Solicitation No. 2B-14-A-0078 Fifth Amendment to Credit and Security Agreement dated as of November 13, 2015, between Command Security Corporation and Wells Fargo Bank, National Association</u> | Incorporated by reference to Exhibit 10.14 of the Form 10-K filed June 27, 2016 |
| 10.15 | <u>Sixth Amendment to Credit and Security Agreement dated as of February 12, 2016, between Command Security Corporation and Wells Fargo Bank, National Association</u> | Incorporated by reference to Exhibit 10.1 of the Form 10-Q filed November 16, 2015 |
| 10.16 | <u>Seventh Amendment to Credit and Security Agreement dated as of October 12, 2016, between Command Security Corporation and Wells Fargo Bank, National Association</u> | Incorporated by reference to Exhibit 10.1 of the Form 10-Q filed February 16, 2016 |
| 10.17 | <u>Eighth Amendment to Credit and Security Agreement dated as of March 30, 2017, between Command Security Corporation and Wells Fargo Bank, National Association</u> | Incorporated by reference to exhibit 10.1 of the Form 8-K filed October 17, 2016 |
| 10.18 | <u>Ninth Amendment to Credit and Security Agreement dated as of March 14, 2018, between Command Security Corporation and Wells Fargo Bank, National Association</u> | Incorporated by reference to Exhibit 10.1 of the Form 8-K filed April 5, 2017 |
| 10.19 | <u>Computation of Income (Loss) Per Share of Common Stock</u> | Incorporated by reference to Exhibit 10.1 of Form 8-K filed March 19, 2018. |
| 11.1 | <u>Certifications Pursuant to Rule 13(a)-14(a)/15(d)-14(a)</u> | Incorporated by reference to Note 9 of the Consolidated Financial Statements filed with this Annual Report on Form 10-K. |
| 31.1 | <u>Certifications Pursuant to Rule 13(a)-14(a)/15(d)-14(a)</u> | Filed herewith. |
| 31.2 | <u>Certifications Pursuant to Rule 13(a)-14(a)/15(d)-14(a)</u> | Filed herewith. |
| 32.1 | <u>Section 1350 Certifications</u> | Filed herewith. |
| 32.2 | <u>Section 1350 Certifications</u> | Filed herewith. |
| 99.1 | <u>Press Release dated June 11, 2018 announcing March 31, 2018 fourth quarter and fiscal year results</u> | Filed herewith. |
| 101.INS | XBRL Instance Document | Filed herewith. |
| 101.SCH | XBRL Taxonomy Extension Schema Document | Filed herewith. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | Filed herewith. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | Filed herewith. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | Filed herewith. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | Filed herewith. |

* Management contract or compensatory plan or arrangement.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Command Security Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Command Security Corporation (the “Company”) as of March 31, 2018 and 2017, and the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for each of the years in the two-year period ended March 31, 2018, the related notes, and the financial statement schedule in Item 15(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended March 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by

management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ D'Arcangelo & Co., LLP

We have served as the Company's auditor since 1996.
Poughkeepsie, New York
June 11, 2018

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Command Security Corporation

Consolidated Balance Sheets

March 31, 2018 and 2017

| | March 31, 2018 | March 31, 2017 |
|--|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,211,915 | \$ 1,042,291 |
| Accounts receivable, net of allowance for doubtful accounts of \$335,192 and \$542,489, respectively | 36,831,394 | 29,189,233 |
| Prepaid expenses | 1,933,500 | 1,784,990 |
| Other assets | 3,321,345 | 2,821,172 |
| Total current assets | 43,298,154 | 34,837,686 |
| Furniture and equipment at cost, net | 559,976 | 146,345 |
| Other assets: | | |
| Intangible assets, net | 921,902 | 1,028,582 |
| Minority investment in unconsolidated affiliate | - | 513,291 |
| Other assets | 3,508,469 | 5,253,946 |
| Total other assets | 4,430,371 | 6,795,819 |
| Total assets | \$48,288,501 | \$41,779,850 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Checks issued in advance of deposits | \$ 1,167,097 | \$ 583,201 |
| Short-term borrowings | 18,234,089 | 12,228,679 |
| Accounts payable | 1,354,817 | 1,786,412 |
| Accrued and other liabilities | 11,753,423 | 10,932,653 |
| Total current liabilities | 32,509,426 | 25,530,945 |
| Insurance reserves | 582,481 | 366,323 |
| Other non-current liabilities | 46,601 | - |
| Total liabilities | 33,138,508 | 25,897,268 |
| Stockholders' equity: | | |
| Preferred stock, convertible Series A, \$.0001 par value | - | - |
| Common stock, \$.0001 par value per share, 50,000,000 shares authorized, 11,714,308 and 10,127,651 shares issued and outstanding, respectively, at March 31, 2018 and 11,600,386 and 9,848,186 shares issued and outstanding, respectively, at March 31, | 1,172 | 1,160 |

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2017

| | | |
|--|--------------|--------------|
| Treasury stock, at cost, 1,584,418 shares and 1,752,200 shares, respectively | (2,609,881) | (2,885,579) |
| Additional paid-in capital | 18,958,453 | 18,535,051 |
| Accumulated earnings (deficit) | (1,199,751) | 231,950 |
| Total stockholders' equity | 15,149,993 | 15,882,582 |
| Total liabilities and stockholders' equity | \$48,288,501 | \$41,779,850 |

See accompanying Notes to Consolidated Financial Statements

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Command Security Corporation

Consolidated Statements of Operations

Years Ended March 31, 2018 and 2017

| | 2018 | 2017 |
|--|----------------|----------------|
| Revenues | \$ 187,962,056 | \$ 162,179,249 |
| Cost of revenues | 167,800,629 | 143,910,434 |
| Gross profit | 20,161,427 | 18,268,815 |
| Operating expenses | | |
| General and administrative | 18,700,819 | 18,299,827 |
| Provision for (recoveries of) doubtful accounts, net | (78,208) | (138,547) |
| | 18,622,611 | 18,161,280 |
| Operating income | 1,538,816 | 107,535 |
| Other expenses | | |
| Interest expense | (551,226) | (306,124) |
| Income (loss) before income taxes and equity loss in minority investment of unconsolidated affiliate | 987,590 | (198,589) |
| Equity loss in minority investment of unconsolidated affiliate | (141,200) | (82,000) |
| Impairment of equity method minority investment of unconsolidated affiliate | (372,091) | (2,100,000) |
| Income (loss) before income taxes | 474,299 | (2,380,589) |
| Provision for (benefit from) income taxes | 1,906,000 | (56,000) |
| Net loss | \$(1,431,701) | \$(2,324,589) |
| Loss per share of common stock | | |
| Basic | \$(0.14) | \$(0.24) |
| Diluted | \$(0.14) | \$(0.24) |
| Weighted average number of common shares outstanding | | |
| Basic | 9,949,652 | 9,824,763 |
| Diluted | 9,949,652 | 9,824,763 |

See accompanying Notes to Consolidated Financial Statements

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Command Security Corporation

Consolidated Statements of Changes in Stockholders' Equity

Years Ended March 31, 2018 and 2017

| | Preferred Stock | Common Stock | Treasury Stock | Additional Paid In Capital | Accumulated Earnings / (Deficit) | Total |
|--|--------------------|-----------------|-------------------|----------------------------------|--|--------------|
| Balance at March 31, 2016 | - | 1,155 | (2,885,579) | 18,410,595 | 2,556,539 | 18,082,710 |
| Options exercised, net | | 5 | | 95,964 | | 95,969 |
| Stock based compensation tax benefits | | | | 10,577 | | 10,577 |
| Stock compensation cost | | | | 17,915 | | 17,915 |
| Net loss | | | | | (2,324,589) | (2,324,589) |
| Balance at March 31, 2017 | - | 1,160 | (2,885,579) | 18,535,051 | 231,950 | 15,882,582 |
| Options exercised, net | | 12 | | 173,150 | | 173,162 |
| Issuance of treasury stock | | | 238,791 | (17,190) | | 221,601 |
| Issuance of restricted stock units | | | 36,907 | (55,171) | | (18,264) |
| Stock compensation cost | | | | 322,613 | | 322,613 |
| Net loss | | | | | (1,431,701) | (1,431,701) |
| Balance at March 31, 2018 | \$ - | \$ 1,172 | \$(2,609,881) | \$18,958,453 | \$(1,199,751) | \$15,149,993 |

See accompanying Notes to Consolidated Financial Statements

Command Security Corporation

Consolidated Statements of Cash Flows

Years Ended March 31, 2018 and 2017

| | 2018 | 2017 |
|---|---------------|---------------|
| Cash flows from operating activities: | | |
| Net loss | \$(1,431,701) | \$(2,324,589) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 217,454 | 458,590 |
| Provision for (recoveries of) doubtful accounts | (78,209) | (138,547) |
| Equity loss in minority investment of unconsolidated affiliate | 141,200 | 82,000 |
| Impairment of equity method minority investment of unconsolidated affiliate | 372,091 | 2,100,000 |
| Rent expense | 22,860 | 24,298 |
| Stock based compensation costs | 322,613 | 17,915 |
| Insurance reserves | 216,158 | (246,139) |
| Deferred income taxes | 1,733,734 | 37,689 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (7,563,952) | (7,160,063) |
| Prepaid expenses | (148,510) | 68,474 |
| Other assets | (477,329) | (1,516,300) |
| Change in accounts payable and other liabilities | 421,486 | 3,427,759 |
| Change in other long term liabilities | 46,601 | (700,000) |
| Net cash used in operating activities | (6,205,504) | (5,868,913) |
| Cash flows from investing activities: | | |
| Purchases of equipment | (535,505) | (10,394) |
| Net cash used in investing activities | (535,505) | (10,394) |
| Cash flows from financing activities: | | |
| Net advances on short-term borrowings | 6,005,410 | 5,216,936 |
| Change in checks issued in advance of deposits | 583,895 | 111,262 |
| Proceeds from option exercises, net | 339,592 | 106,546 |
| Tax withholding related to net share settlements of restricted stock units | (18,264) | - |
| Net cash provided by financing activities | 6,910,633 | 5,434,744 |
| Net change in cash and cash equivalents | 169,624 | (444,563) |
| Cash and cash equivalents, beginning of period | 1,042,291 | 1,486,854 |
| Cash and cash equivalents, end of period | \$1,211,915 | \$1,042,291 |

See accompanying Notes to Consolidated Financial Statements

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Command Security Corporation

Consolidated Statements of Cash Flows, Continued

Years Ended March 31, 2018 and 2017

1. SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

Cash paid during the years for:

| | 2018 | 2017 |
|--------------|-----------|-----------|
| Interest | \$501,389 | \$297,373 |
| Income taxes | 13,427 | 10,180 |

See accompanying Notes to Consolidated Financial Statements

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Command Security Corporation

Notes to Consolidated Financial Statements

March 31, 2018 and 2017

1. Business Description and Summary of Accounting Policies

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

Principal Business Activities

We are a security services company which principally provides uniformed security officers and aviation security services to commercial, financial, industrial, aviation and governmental customers throughout the United States and Central America. We provide our security services to our customers through Command Security, our security division, and our aviation security services through our Aviation Safeguards division. The Company has operations in Alabama, Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia, Washington, West Virginia, Wisconsin, Puerto Rico and Honduras.

Principles of Consolidation

The consolidated financial statements include the accounts of Command Security Corporation and its consolidated subsidiaries. All intercompany balances and transactions are eliminated upon consolidation. The Company’s revenues and expenses transacted in foreign currencies are translated based on the monthly average exchange rate for the month in which each transaction occurred. Realized gains and losses on foreign currency transactions are recorded in general and administrative expenses on the Company’s consolidated statements of operations. Amounts recorded as foreign currency exchange gains and losses were not material for the fiscal year ended March 31, 2018. Assets and liabilities of the Company denominated in foreign currencies are translated at the exchange rate in effect as of the balance sheet date. Amounts recorded as a result of translation adjustments are not material as of March 31, 2018 and therefore we did not present the translation adjustments as a separate component of accumulated other comprehensive income in the stockholders’ equity section of the consolidated balance sheets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. The estimates that we make include allowances for doubtful accounts, depreciation and amortization, income tax assets and insurance reserves. Estimates are based on historical experience, where applicable or other assumptions that our management believes are reasonable under the circumstances. Due to the inherent uncertainty involved in making estimates, our actual results may differ from those estimates under different assumptions or conditions.

Revenue Recognition

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Minority Investment in Unconsolidated Affiliate

The Company including its consolidated subsidiary, OPS LLC, 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. During the past year, OPSA has continued to experience a long-term decline in revenues and net income from continuing operations, which in turn has resulted in a continued reduction in its liquidity and its inability to meet its obligations of under its senior credit agreement. OPSA's advisors and consultants have advised that OPSA is technically insolvent and has advised OPSA management to commence liquidation of OPSA including its wholly-owned operating subsidiary. As a result, the Company has determined that its investment in OPS LLC is permanently impaired and, as such, has recorded a \$0.4 million non-cash charge during the quarter ended March 31, 2018 in order to reduce the fair value of the Company's investment in OPS LLC to zero. This charge was reported as an impairment of an equity method investment in the consolidated statements of operations

Furniture and Equipment

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

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

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. In estimating these accruals, we consider historical loss experience and make judgments about the expected levels of costs per claim. We believe our estimates of future liability are reasonable based upon our methodology; however, changes in health care costs, accident frequency and severity and other factors could materially affect the estimate for these liabilities. The Company continually monitors changes in claim type and incident and evaluates the workers' compensation insurance accrual, making necessary adjustments based on the evaluation of these qualitative data points.

The Company is self-insured up to certain stop loss amounts for worker's compensation claims. The Company has purchased stop loss coverage that insures individual claims that exceed \$500,000. Additionally, the Company has purchased stop loss coverage that insures claims in the aggregate that exceed \$7.7 million and \$6.5 million for the policy years ended September 30, 2018 and 2017 respectively.

The Company's workers' compensation insurance premiums (including loss fund deposits, surcharges, assessments, broker's fees and excluding loss fund handling charges) were \$3.44 million and \$3.27 million for the policy years ended September 30, 2018 and 2017, respectively. Related loss handling charges for the policy year ended September 30, 2018 as of March 31, 2018 were approximately \$50,000 as compared with loss handling charges of approximately \$75,000 for the full policy year ended September 30, 2017. Since October 1, 2015, the Company has utilized the services of a third party administrator to manage workers' compensation claims.

Income Taxes

Income taxes are based on income (loss) for financial reporting purposes and reflect a current tax liability (asset) for the estimated taxes payable (recoverable) in the current year tax return and changes in deferred taxes. Deferred tax assets or liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. In the event that interest and/or penalties are assessed in connection with our tax filings, interest will be recorded as interest expense and penalties as selling, general and administrative expense. We did not have any unrecognized tax benefits as of March 31, 2018 and 2017.

Income (Loss) per Share

Under the requirements of FASB ASC 260, *Earnings per Share*, the dilutive effect of potential common shares, if any, is excluded from the calculation for basic earnings per share. Diluted earnings per share are presented for the fiscal years ended March 31, 2018 and 2017 because of the effect the assumed issuance of common shares would have if the outstanding stock options were exercised.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

For the fiscal years ended March 31, 2018 and 2017, the Company reported net loss and, accordingly, potential common shares that would cause dilution, such as employee stock options and restricted stock units, have been excluded from the diluted share count because their inclusion would have been anti-dilutive.

Stock-Based Compensation

FASB ASC 718, *Stock Compensation*, requires all share-based payments to employees, including grants of employee stock options 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.

Fair Value of Financial Instruments

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

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Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability between a willing buyer and seller in an orderly transaction, it establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. FASB ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1, defined as observable inputs such as quoted prices in active markets for identical assets;

Level 2, defined as observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3, defined as unobservable inputs in which little or no market data exists; therefore requiring an entity to develop its own assumptions.

Reclassifications

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

Recent Accounting Pronouncements

In May 2014, the FASB and the International Accounting Standards Board (IASB) issued, ASU 2014-09 (*Topic 606*) *Revenue from Contracts with Customers*. The guidance substantially converges final standards on revenue recognition between the FASB and IASB providing a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. In July 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (*Topic 606*): Deferral of the Effective Date", which deferred the effective date of ASU No. 2014-09 by one year, making it effective for the 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. Based on the Company's evaluation process and review of our contracts with customers, the timing and amount of revenue recognized based on ASU 2014-09 is consistent with our revenue recognition policy under previous guidance. We adopted the new standard effective April 1, 2018, using the modified retrospective approach and will expand our consolidated financial statement disclosures in order to comply with the ASU. We have determined the adoption of ASU 2014-09 will not have a material impact on our results of operations, cash flows or financial condition.

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 effective April 1, 2017 and applied the new standard retrospectively. Other than the reclassification of the current deferred tax asset in the amount of approximately \$1.2 million to long term assets as of March 31, 2017, 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 on a prospective basis 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.

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Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

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. Furniture and Equipment

Furniture and equipment at March 31, 2018 and 2017 consist of the following:

| | 2018 | 2017 |
|--------------------------------|-------------|-------------|
| Transportation equipment | \$453,069 | \$232,954 |
| Security equipment | 1,630,210 | 1,347,003 |
| Office furniture and equipment | 2,800,605 | 2,785,052 |
| | 4,883,884 | 4,365,009 |
| Accumulated depreciation | (4,323,908) | (4,218,664) |
| Total | \$559,976 | \$146,345 |

Depreciation expense for the fiscal years ended March 31, 2018 and 2017 was \$110,774 and \$122,206, respectively.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

3. Intangible Assets

Intangible assets at March 31, 2018 and 2017 consist of the following:

| | 2018 | 2017 |
|--------------------------|-------------|-------------|
| Customer Lists | \$4,274,915 | \$4,274,915 |
| Goodwill | 895,258 | 895,258 |
| | 5,170,173 | 5,170,173 |
| Accumulated amortization | (4,248,271) | (4,141,591) |
| Total | \$921,902 | \$1,028,582 |

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

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

The decline in revenues and certain increased operating costs have resulted in net operating losses for the years ended March 31, 2018 and 2017, and accordingly, the Company has recorded its proportionate share of these losses totaling \$141,200 and \$82,000, respectively.

During the past year, OPSA has continued to experience a long-term decline in revenues and net income from continuing operations, which in turn has resulted in a continued reduction in its liquidity and its inability to meet its obligations under its senior credit agreement. OPSA's advisors and consultants have advised that OPSA is technically insolvent and has advised OPSA management to commence liquidation of OPSA including its wholly-owned operating subsidiary. As a result, the Company has determined that its investment in OPS LLC is permanently impaired and, as such, has recorded a \$0.4 million non-cash charge during the quarter ended March 31, 2018 in order to reduce the fair value of the Company's investment in OPS LLC to zero. The Company had previously recorded a \$2.1 million non-cash impairment charge during the fiscal year ended March 31, 2017. These charges were reported as impairment of an equity method investment in the consolidated statements of operations.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

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

| | March 31, 2018 | March 31, 2017 |
|--|-------------------|-------------------|
| Capital contributions | \$2,125,000 | \$2,125,000 |
| Cumulative share of income | 347,091 | 488,291 |
| Impairment of equity method investment | (2,472,091) | (2,100,000) |
| Investment balance | \$- | \$513,291 |

The following summarizes the combined assets, liabilities and equity, and combined results of operations of our equity method investment in OPSA as of December 31, 2017 and December 31, 2016:

| | December 31, 2017 | December 31, 2016 |
|--|----------------------|----------------------|
| Current assets | \$1,037,657 | \$1,492,360 |
| Goodwill | 10,883,611 | 9,941,946 |
| Other non-current assets | 32,714 | 97,340 |
| Total assets | \$11,953,982 | \$11,531,646 |
| Current liabilities | \$3,897,336 | \$6,411,313 |
| Non-current liabilities | 5,815,353 | 1,430,819 |
| Shareholders' equity | 2,241,293 | 3,689,514 |
| Total liabilities and shareholders' equity | \$11,953,982 | \$11,531,646 |

Condensed consolidated statement of operations for the year ended December 31, 2017 and December 31, 2016:

| | 2017 | 2016 |
|-------------------------------------|-------------|-------------|
| Net operating revenues | \$4,109,421 | \$8,948,531 |
| Gross profit | \$1,001,494 | \$2,812,742 |
| Operating income (loss) | \$(701,196) | \$826,821 |
| Net loss from continuing operations | \$(494,667) | \$(368,194) |

5. Fair Value Measurements

The Company is required to measure certain assets such as goodwill; intangibles, not subject to amortization; and long-lived assets with carrying values which may be in excess of their implied fair value or not fully recoverable based upon estimated future cash flows on a non-recurring basis.

Asset groups containing values measured, and presented on a non-recurring fair value basis at March 31, 2017 are as follows:

| Description | Value | Level 3 | Impairment |
|--------------------------|-----------|-----------|-------------|
| Equity Method Investment | \$513,291 | \$513,291 | \$2,100,000 |

The significant inputs used in the fair value measurements for Level 3 assets measured at fair value on a non-recurring basis are disclosed in Note 4.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

6. Other Assets

Other assets at March 31, 2018 and 2017 consist of the following:

| | March 31, 2018 | March 31, 2017 |
|---------------------------------|-------------------|-------------------|
| Workers' compensation insurance | \$3,321,345 | \$2,804,341 |
| Other receivables | - | 16,831 |
| Security deposits | 126,428 | 138,171 |
| Deferred tax asset | 3,382,041 | 5,115,775 |
| | 6,829,814 | 8,075,118 |
| Current portion | (3,321,345) | (2,821,172) |
| Total non-current portion | \$3,508,469 | \$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 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.

7. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at March 31, 2018 and 2017 consist of the following:

| | March 31, 2018 | March 31, 2017 |
|--|-------------------|-------------------|
|--|-------------------|-------------------|

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| | | |
|------------------------------|--------------|--------------|
| Payroll and related expenses | \$10,117,671 | \$8,076,807 |
| Taxes and fees payable | 324,823 | 325,763 |
| Accrued interest payable | 63,401 | 13,508 |
| Other | 1,247,528 | 2,516,575 |
| Total | \$11,753,423 | \$10,932,653 |

8. Borrowings

Short-term borrowings at March 31, 2018 and 2017 consist of the following:

| | March 31, 2018 | March 31, 2017 |
|----------------|-------------------|-------------------|
| Line of credit | \$18,234,089 | \$12,228,679 |

On February 12, 2009, we entered into a \$20.0 million, credit facility (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”) which was most recently amended in March 2018 (see below), matures in March 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.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

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 floating 90 day LIBOR rate plus 1.75%. For LIBOR loans, interest will be calculated on the outstanding principal balance of the LIBOR loans at the floating 30 day LIBOR rate 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”.

On March 14, 2018, we entered into a ninth amendment (the “Ninth Amendment”) to our Credit Agreement. The Ninth Amendment increased the revolving line of credit from \$27.5 million to \$35 million.

Under the Credit Agreement, as of March 31, 2018, the interest rate was 3.5% for LIBOR loans and 4.125% for revolving loans. At March 31, 2018, we had approximately \$1.2 million of cash on hand. We also had \$14.0 million in LIBOR loans outstanding, \$4.2 million of revolving loans outstanding and \$0.3 million outstanding under our letters of credit sub-line under the Credit Agreement, representing 81% 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.

9. Income (Loss) per Share

FASB ASC 718, *Stock Compensation*, requires all share-based payments to employees, including grants of employee 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. Non-cash charges of approximately \$323,000 and \$18,000 for stock based compensation have been recorded for the years ended March 31, 2018 and 2017, respectively.

The following is a reconciliation of the numerators and the denominators of the basic and diluted per-share computations for net loss for the fiscal years ended March 31, 2018 and 2017:

| | Loss (Numerator) | Shares (Denominator) | Per-Share Amount |
|---------------------------|---------------------|-------------------------|---------------------|
| Year ended March 31, 2018 | | | |
| Basic and diluted EPS | \$(1,431,701) | 9,949,652 | \$ (0.14) |
| Year ended March 31, 2017 | | | |
| Basic and diluted EPS | \$(2,324,589) | 9,824,763 | \$ (0.24) |

For the fiscal years ended March 31, 2018 and 2017, the Company reported net loss and, accordingly, potential common shares that would cause dilution, such as employee stock options and restricted stock units, have been excluded from the diluted share count because their inclusion would have been anti-dilutive. For the fiscal years ended March 31, 2018 and 2017, the fully diluted shares would have been 10,520,962 and 10,216,594, respectively.

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Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

10. Retirement Plans

In November 1999, we adopted a qualified retirement plan providing for elective employee deferrals and discretionary employer contributions to non-highly compensated participants. The plan allows for employer contributions for certain employees working under specific customer contracts, as defined. On January 1, 2018, the Company amended its qualified retirement plan to create a 'safe harbor' plan. The safe harbor plan eliminates the requirement for non-discrimination testing that would otherwise be required under the Internal Revenue Code (the "Code"). To comply with the safe harbor provisions of the Code, the company matches 100% of the first 4% of employee contributions and the employer match vests immediately. This plan is offered to all eligible employees, including those classified as "highly compensated" under the Code. Our expense under this plan for the fiscal years ended March 31, 2018 and 2017 was approximately \$840,000 and \$640,000, respectively.

11. Concentrations of Credit Risk and Significant Customers

Geographic concentrations of credit risk with respect to trade receivables are primarily in the New York Metropolitan area with approximately 24% and 30% of total receivables as of March 31, 2018 and 2017, in California with approximately 10% and 14% of total receivables as of March 31, 2018 and 2017, and in Virginia with approximately 12% and 3% of total receivables as of March 31, 2018 and 2017, respectively. The remaining trade receivables consist of a large number of customers dispersed across many different geographic regions. During the fiscal years ended March 31, 2018 and 2017 we generated 32% and 36%, respectively, of our revenue from aviation and related services. Accounts receivable due from the commercial airline industry comprised 19% and 21% of net receivables as of March 31, 2018 and 2017. Our remaining customers are not concentrated in any specific industry. We rely on a limited number of customers for a significant portion of our revenues. In the fiscal year ended March 31, 2018, the Company had six customers, who represented approximately 60% of the Company's total revenues. These six customers include one domestic and one international airline, the U.S. Postal Service ("USPS"), a large transportation company, an online retailer and web services provider and a northeast U.S. based healthcare facility. Two of these six customers represented 24% and 14% of total revenue, respectively. The contract with the large transportation company was terminated effective August 31, 2017. In addition, the scope of work with the large on-line retailer, representing 18% of total revenues, was terminated effective May 31, 2018. Total revenues from the remaining five largest customers represent approximately 37% of the Company's total revenues for the fiscal year ended March 31, 2018. While the Company's cost structure is highly variable and largely identifiable to the delivery of services for any specific contract, any loss of business with these customers could have a material adverse effect on our business, financial condition and results of operation. In the fiscal year ended March 31, 2017, the Company had six customers who represented approximately 52% of the Company's total revenue in the aggregate, with two of those customers representing 13% of total revenue, respectively. These customers included one domestic and one international airline, the U.S. Postal Service, a transportation company, an online retailer and web services provider and a northeast U.S. based healthcare

facility. We maintain our cash in bank deposit accounts, which at times may exceed federally insured limits. We have not experienced any losses in such accounts. Company management believes the risk of loss associated with these accounts to be remote.

12. Insurance Reserves

We have an insurance policy covering workers' compensation claims in states where we perform services. Estimated accrued liabilities are based on our historical loss experience and the ratio of claims paid to our historical payout profiles. Charges for estimated workers' compensation related losses incurred and included in cost of sales were \$2.2 million and \$3.1 million, for the fiscal years ended March 31, 2018 and 2017, 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.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

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

We have employment agreements with certain of our officers and key employees with 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 John F. Kennedy International and LaGuardia airports are subject to collective bargaining agreements. Two of the agreements, covering approximately 8% of our employees, expired on March 31, 2017 and June 28, 2017. We are currently involved in negotiations to renew the expired agreements. The remaining nine agreements are set to expire in September 2018 and thereafter.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

14. Commitments

Leases

We are obligated under various operating lease agreements for office space, equipment and auto rentals. Rent expense under operating lease agreements approximated \$2.3 million and \$2.5 million, for the fiscal years ended March 31, 2018 and 2017, respectively.

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

| | Operating Leases |
|----------------|---------------------|
| March 31, 2019 | \$1,446,000 |
| March 31, 2020 | 951,000 |
| March 31, 2021 | 637,000 |
| March 31, 2022 | 530,000 |
| March 31, 2023 | 434,000 |
| Thereafter | 554,000 |
| Total | \$4,552,000 |

15. Stock Based Compensation

FASB ASC 718, *Stock Compensation*, requires all share-based payments to employees, including grants of employee 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 vest.

In November 2000, the Company's Board of Directors and stockholders approved the adoption of a qualified stock option plan. Under the stock option plan, substantially all employees are eligible to receive options to purchase up to an aggregate of 500,000 shares at an exercise price that cannot be less than the fair market value of the shares on the date the options are granted. In May 2010, options to purchase 205,000 shares of the Company's common stock were issued. No options may be granted under this plan after 2010. During the fiscal year ended March 31, 2017, 4,200 options were forfeited. During the fiscal years ended March 31, 2018 and 2017, no options were exercised under this plan. During the fiscal year ended March 31, 2018, 1,200 options were forfeited. The remaining 50,200 outstanding options are exercisable at any time before May 26, 2020 at \$2.40 per share.

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Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

In September 2005, the Company's Board of Directors and stockholders approved the adoption of a qualified stock incentive plan. Under the stock incentive plan, substantially all employees of and consultants to, the Company, are eligible to receive options to purchase up to an aggregate of 1,000,000 shares of the Company's common stock at an exercise price that cannot be less than the fair market value of the shares on the date the options are granted. In September and April 2007, options to purchase 80,000 and 65,000 shares of the Company's common stock were issued. No options may be granted under this plan after July 29, 2015. During the fiscal year ended March 31, 2017, the company received proceeds of approximately \$27,000 in connection with the exercise of stock options to purchase 10,000 shares of the Company's common stock at an exercise price of \$2.67 per share. During fiscal year ended March 31, 2018, 25,000 options expired. The vested outstanding options are exercisable as follows:

| Options Outstanding | Exercise Price | Expiration Date |
|---------------------|----------------|--------------------|
| 13,753 | \$ 3.36 | September 17, 2018 |
| 500,000 | 3.37 | September 28, 2018 |
| 14,233 | 3.08 | December 30, 2018 |

In September 2009, the Company's Board of Directors and stockholders approved the adoption of a qualified stock incentive plan. Under the stock incentive plan, substantially all employees of and consultants to, the Company, are eligible to receive options to purchase up to an aggregate of 2,250,000 shares of the Company's common stock at an exercise price that cannot be less than the fair market value of the shares on the date the options are granted. In April, May, July and October 2010, options to purchase 116,283, 120,000, 31,624 and 74,616 shares of the Company's common stock were issued, respectively. In March, June and September 2011, options to purchase 169,683, 109,553 and 120,000 shares of the Company's common stock were issued. In January, April, August and November 2012, options to purchase 928,817 shares of the Company's common stock were issued. In June and July 2013, options to purchase 120,000 shares of the Company's common stock were issued. In July and December 2014, options to purchase 370,000 shares of the Company's common stock were issued. During the fiscal year ended March 31, 2017, the Company received proceeds of approximately \$69,000 in connection with the exercise of stock options to purchase 45,568 shares of the Company's common stock at an exercise price of \$1.52 per share. In September 2017, the Company's Board of Directors and stockholders approved the amendment and restatement of the plan. The amendment increased the number of common shares available for issuance by 1,750,000 shares to 4,000,000 shares and extended the term of the plan through September 14, 2027. During the fiscal year ended March 31, 2018, the Company received proceeds of approximately \$395,000 in connection with the exercise of stock options to purchase 258,922 shares of the Company's common stock. The vested outstanding options are exercisable as follows:

| Options Outstanding | Exercise Price | Expiration Date |
|---------------------|----------------|-----------------|
|---------------------|----------------|-----------------|

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| | | |
|---------|---------|--------------------|
| 18,425 | \$ 3.08 | December 30, 2018 |
| 35,000 | 2.40 | May 26, 2020 |
| 50,000 | 2.01 | October 20, 2020 |
| 70,000 | 1.42 | September 12, 2021 |
| 240,000 | 1.64 | January 2, 2022 |
| 180,000 | 2.30 | January 2, 2022 |
| 180,000 | 3.00 | January 2, 2022 |
| 70,000 | 1.28 | April 4, 2022 |
| 165,000 | 1.91 | January 16, 2023 |
| 60,000 | 1.61 | June 2, 2023 |
| 50,000 | 1.43 | July 21, 2023 |
| 85,000 | 1.80 | July 16, 2024 |
| 80,000 | 3.25 | December 15, 2024 |
| 30,000 | 1.92 | December 15, 2024 |
| 100,000 | 1.79 | December 22, 2024 |
| 33,000 | 1.65 | August 16, 2025 |
| 50,000 | 2.66 | March 6, 2027 |

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Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

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

A summary of activity related to all Company stock option activity for the years ended March 31, 2018 and 2017, is as follows:

| | Options Exercise Price | Number of Shares |
|-------------------------------|------------------------------|---------------------|
| Outstanding at March 31, 2016 | \$1.28 - 3.37 | 2,426,501 |
| Issued | \$2.66 | 50,000 |
| Exercised | \$1.52 – 2.67 | (55,568) |
| Forfeited | \$2.40 | (4,200) |
| Outstanding at March 31, 2017 | \$1.28 - 3.37 | 2,416,733 |
| Exercised | \$1.28 – 1.80 | (258,922) |
| Forfeited | \$2.40 – 3.25 | (66,200) |
| Outstanding at March 31, 2018 | \$1.28 - 3.37 | 2,091,611 |

At March 31, 2018 there were 2,074,611 options outstanding and exercisable at prices ranging from \$1.28 to \$3.37 and 4,005,994 shares reserved for issuance under all stock arrangements. At March 31, 2018, there was \$2,885 of total unrecognized compensation expense from stock-based compensation granted under the plans, which is related to non-vested options. The compensation expense is expected to be recognized over a weighted average vesting period of approximately 3 months.

Significant option groups outstanding and exercisable at March 31, 2018 and the related weighted average exercise price and life information are as follows:

| Range of | Options | Options | Weighted Average Exercise | Remaining |
|----------|---------|---------|---------------------------------|-----------|
|----------|---------|---------|---------------------------------|-----------|

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| Exercise Price | Outstanding | Exercisable | Price | Life (years) |
|-----------------|-------------|-------------|---------|--------------|
| \$1.28 - \$3.25 | 2,091,611 | 2,074,611 | \$ 2.41 | 3.6 |

The total intrinsic value of options outstanding as of March 31, 2018 was approximately \$1,544,791.

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Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

No stock options were granted during the fiscal year ended March 31, 2018. The weighted average estimated value of stock options granted during the fiscal year ended March 31, 2017 was \$1.30. The weighted average assumptions used in the Black-Scholes option-pricing model were as follows:

| | 2018 | 2017 |
|-------------------------|------|--------|
| Risk-free interest rate | n/a | 2.02 % |
| Years until exercise | n/a | 5.00 |
| Volatility | n/a | 55.3 % |
| Dividend yield | n/a | 0.00 % |
| Termination rate | n/a | n/a |

During the fiscal year ended March 31, 2018, Restricted Stock Units (“RSUs”) totaling 285,000 were awarded.

The following table summarizes the RSUs outstanding at March 31, 2018 and activity for the fiscal year then ended.

| | Restricted Stock Units | Weighted Average Award Date Fair Value |
|------------------------------|------------------------------|--|
| Non-vested at March 31, 2017 | 0 | n/a |
| Awarded | 285,000 | \$ 3.24 |
| Vested | (78,750) | \$ 3.24 |
| Non-vested at March 31, 2018 | 206,250 | \$ 3.24 |

The fair value of restricted stock units is based on the closing stock price of an unrestricted share of the Company’s common stock on the date of award. Each vested restricted stock unit is convertible into one share of the Company’s common stock. The non-vested restricted stock units outstanding at March 31, 2018 will vest monthly through fiscal year 2021. At March 31, 2018, there was \$668,250 of total unrecognized compensation expense from unvested restricted stock units. The compensation expense is to be recognized over a remaining vesting period of 27 months.

The Company recorded total stock based compensation costs of \$322,613 and \$17,915 for the fiscal years ended March 31, 2018 and 2017, respectively. The Company recognized a tax benefit related to stock based compensation of approximately \$122,000 and \$7,300 for the fiscal years ended March 31, 2018 and 2017, respectively. The tax benefit recognized on options exercised during the fiscal years ended March 31, 2018 and 2017 was approximately \$143,000 and \$23,700, respectively. A tax benefit of approximately \$39,000 was recognized on RSUs issued during the fiscal year ended March 31, 2018. As a result of the prospective adoption of ASU 2016-09, the Company recognized an excess benefit of approximately \$104,000 during the fiscal year ended March 31, 2018.

16. Income Taxes

On December 22, 2017, the United States government (“U.S.”) enacted significant changes to the U.S. tax law following the passage and signing of H.R.1, “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” (the “Tax Act”) (previously known as “The Tax Cuts and Jobs Act”). The Tax Act included significant changes to existing tax law, including a permanent reduction to the U.S. federal corporate income tax rate from 34% to 21%, a one-time repatriation tax on deferred foreign income, deductions, credits and business related exclusions.

The permanent reduction to the U.S. federal corporate income tax rate from 34% to 21% was effective January 1, 2018 (the “Effective Date”). When a U.S. federal tax rate change occurs during a fiscal year, taxpayers are required to compute a weighted daily average rate for the fiscal year of enactment. As a result of the Tax Act, the Company has calculated a U.S. federal statutory corporate income tax rate of 31% for the fiscal year ending March 31, 2018 and applied this rate in computing the income tax provision. The U.S. federal statutory corporate income tax rate of 31% is the weighted daily average rate between the pre-enactment U.S. federal statutory tax rate of 34% applicable to the Company’s fiscal year ending March 31, 2018 prior to the Effective Date and the post-enactment U.S. federal statutory tax rate of 21% applicable thereafter. The Company expects the U.S. federal statutory rate to be 21% for fiscal years beginning after March 31, 2018.

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Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

On December 22, 2017, the SEC issued Staff Accounting Bulletin 118 (“SAB 118”). SAB 118 expresses views of the SEC regarding ASC Topic 740, Income Taxes (“ASC 740”) in the reporting period that includes the enactment date of the Tax Act. The SEC staff issuing SAB 118 (the “Staff”) recognized that a registrant’s review of certain income tax effects of the Tax Act may be incomplete at the time financial statements are issued for the reporting period that includes the enactment date, including interim periods therein. If a company does not have the necessary information available, prepared or analyzed for certain income tax effects of the Tax Act, SAB 118 allows a company to report provisional numbers and adjust those amounts during the measurement period not to extend beyond one year. The Company has recorded all known and estimable impacts of the Tax Act that are effective for the fiscal year ended March 31, 2018. Future adjustments to the provisional numbers will be recorded as discrete adjustments to income tax expense in the period in which those adjustments become estimable and/or are finalized.

As of March 31, 2017, the Company had net deferred tax assets totaling approximately \$5.1 million. The lower future tax rate means the future benefits of existing deferred tax assets would need to be computed at the new, lower tax rate which would result in a reduction in deferred tax assets and an increase in income tax expense in the period of enactment.

As a direct result of the permanent reduction in federal tax rates from 34% to 21%, the value of these net deferred tax assets has declined. Accordingly, the Company’s income tax provision for the fiscal year ended March 31, 2018 includes a \$1.55 million non-cash charge to reduce the value of deferred tax assets to the revised value based on the new, lower tax rate.

| | |
|--|---|
| | Fiscal Year Ended March 31, 2018 |
| Net Impact on U.S. deferred tax assets and liabilities (provisional) | \$1,550,000 |

In accordance with SAB 118, the provision estimates recorded represent reasonable estimates of the effects of the Tax Cuts and Jobs Act for which the analysis is not yet complete. As the Company completes its analysis of the effects of the Tax Cuts and Jobs Act, including collecting, preparing and analyzing necessary information regarding foreign earnings and profits, performing and refining calculations and obtaining additional guidance from such standard setting and regulatory bodies as the US Internal Revenue Services, US Treasury Department and FASB, among others, it may record adjustments to the provisional estimates. The Company expects to finalize its provisional estimates at the earlier of the time it files its US federal income tax return for the fiscal year ended March 31, 2018 or the end of the measurement period provided for under SAB 118, which is December 31, 2018.

The following table sets forth the effective tax rates for the Company for the fiscal years ended March 31, 2018 and 2017.

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

| | 2018 | 2017 |
|---|--------------|-------------|
| Current: | | |
| Federal | \$ 139,831 | \$(70,267) |
| State and local | 32,435 | (23,422) |
| | 172,266 | (93,689) |
| Deferred: | | |
| Federal | 1,719,495 | (52,132) |
| State and local | 14,239 | 89,821 |
| | 1,733,734 | 37,689 |
| Net provision for (benefit from) income taxes | \$ 1,906,000 | \$(56,000) |

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

| | 2018 | 2017 |
|---|---------|---------|
| Statutory federal income tax rate | 30.8 % | 34.0 % |
| State and local income taxes | 7.1 % | 6.8 % |
| Permanent differences | (16.7)% | (5.0)% |
| Minority investment in unconsolidated affiliate | 41.0 % | (35.1)% |
| Remeasurement of deferred tax assets | 326.8 % | 0.0 % |
| Other | 12.9 % | 1.7 % |
| Effective tax rate | 401.9 % | 2.4 % |

The increase in the effective tax rate for the fiscal year ended March 31, 2018 as compared with the fiscal year ended March 31, 2017 was primarily attributable to the \$1.55 million impact of the U.S. federal corporate income tax rate change on the Company's deferred tax assets and higher pretax earnings.

The permanent differences in our reconciliation of the effective tax rate for the years ended March 31, 2018 and 2017 are as follows:

| | 2018 | | 2017 | |
|---|-------------|---------|-----------|--------|
| Amortization of Customer Lists | \$18,289 | 1.5 % | \$219,696 | (3.8)% |
| Other non-deductible expenses | 18,598 | 1.4 % | 73,361 | (1.2)% |
| Deferred tax benefit – stock compensation | (245,774) | (19.6)% | - | (0.0)% |
| Total | \$(208,887) | (16.7)% | \$293,057 | (5.0)% |

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

During the fiscal years ended March 31, 2018 and 2017, the Company recorded impairment charges of \$0.4 million and \$2.1 million, respectively, in connection with its investment in OPSA. Any capital loss when and if the investment is sold is not expected to be deductible because the Company does not expect to have capital gains to utilize the capital loss if ultimately recognized.

Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

The significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|-------------|-------------|
| Non-current deferred tax assets (liabilities): | | |
| Accrued expenses | \$525,875 | \$721,843 |
| Accounts receivable | 97,665 | 221,325 |
| Workers' compensation reserve | 1,576,819 | 3,022,916 |
| Employee stock compensation | 336,532 | 439,805 |
| Net operating loss carry-forward | 509,266 | - |
| Intangible assets | 202,086 | 307,268 |
| Litigation settlement | - | 297,295 |
| Insurance reserves | 169,717 | 149,453 |
| Impairment of minority investment in unconsolidated affiliate | 720,293 | 856,758 |
| Equipment | (35,919) | (44,130) |
| Net non-current deferred tax assets | \$4,102,334 | \$5,972,533 |
| Allowance for deferred tax asset related to minority investment in unconsolidated affiliate | (720,293) | (856,758) |
| Total deferred tax assets | \$3,382,041 | \$5,115,775 |

As of March 31, 2018, we have fully reserved for a deferred tax asset in the amount of \$720,293 related to impairment of our minority investment in an unconsolidated affiliate.

Fiscal years 2015 through 2018 remain subject to examination by federal and state taxing authorities with certain states having open tax years beginning in fiscal 2014.

17. Issuer Purchases of Equity Securities

Under active stock repurchase programs, we may repurchase up to \$4,000,000 of our common stock on the open market. Common stock repurchases are recorded as treasury stock, at cost. Shares repurchased during December 2011

have been retired. Shares repurchased during February 2012 and December 2012 are being held in treasury. The program does not have a prescribed expiration date.

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During the fiscal years ended March 31, 2018 and 2017 the Company did not repurchase any shares under these programs. The number and average price of shares purchased to date under these programs is as set forth in the table below:

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

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Command Security Corporation

Notes to Consolidated Financial Statements, Continued March 31, 2018 and 2017

Schedule II

COMMAND SECURITY CORPORATION

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

| | Balance at Beginning of Period | Additions (Reductions) Charged or Credited to Expenses | Additions to/(Deductions from) Reserve | Balance at End of Period |
|---|--------------------------------------|--|---|-----------------------------------|
| Year ended March 31, 2018: | | | | |
| Deducted from asset accounts: | | | | |
| Allowance for doubtful accounts receivable - current maturities | \$ 542,489 | \$ (78,208) | \$ (129,089) | \$ 335,192 |
| Year ended March 31, 2017: | | | | |
| Deducted from asset accounts: | | | | |
| Allowance for doubtful accounts receivable - current maturities | \$ 650,226 | \$ (138,547) | \$ 30,810 | \$ 542,489 |

See Report of Independent Registered Public Accounting Firm

End of Filing

