



# TAGLICH BROTHERS

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## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### Command Security Corp

Rating: Speculative Buy

Juan Noble

July 2, 2009

MOC \$3.27 — (NYSE-AMEX)

	FY2008A	FY2009A	FY2010E	FY2011E
Total revenues (in millions)	\$119.4	\$130.8	\$141.3	\$152.6
Earnings (loss) per share	\$0.22	\$0.11	\$0.15	\$0.23
52 - Week range	\$4.49 – \$2.43	Fiscal year ends:		March
Shares outstanding as of June 19, 2009	10.8 million	Revenue/share (ttm)		\$11.48
Approximate float	6.5 million	Price/Sales (ttm)		0.28X
Market Capitalization	\$35.3 million	Price/Sales (FY2011)E		0.26X
Tangible Book value/share	\$0.88	Price/Earnings (ttm)		29.1X
Price/Book	3.7X	Price/Earnings (FY2011)E		14.5X

Command Security Corporation (NYSE-AMEX: MOC), headquartered in Lagrangeville, New York, provides uniformed security officers, aviation and support security services to a wide range of commercial, financial, industrial, aviation and governmental clients. Uniformed security services provided to airports and ancillary services and organizations account for two-thirds of the company's revenue. The rest consists mainly of armed and unarmed uniformed security personnel for access control, mobile patrols, traffic control, security console/system operators, fire safety directors, communication, reception, concierge and front desk/doorman operations.

#### Key Investment Considerations:

**We are reiterating our investment rating of Speculative Buy on Command Security Corporation (NYSE-AMEX: MOC) and maintaining a 12-month price target of \$5.00 per share. Our target is based on expectations for continuing revenue and profitability gains through FY2011.**

**Growth of the \$20+ billion US market for security guard services should be sustainable at around 6% to 7% a year, a rate that the company surpassed easily through FY2009 due partly to acquisitions.**

**Acquisitions in the security services division have reduced sales to aviation-related customers to 56% of revenue, down from 66% two years ago. Reduced dependence on the airline industry has lowered the risk that airline industry margin compression stemming from higher fuel prices could constrain the company's growth.**

**For FY2010, we project earnings of \$0.15 per share on revenue of \$141.3 million. We had previously projected earnings of \$0.21 per share on revenue of \$138.5 million but have cut our estimates on expectations of a significantly higher G&A margin than we projected earlier. We are introducing our forecasts for FY2011, projecting earnings of \$0.23 per share on revenue of \$152.6 million.**

**Borrowings were up slightly in FY2009, mainly to fund acquisitions and support higher receivables. Roughly 43% of Command's assets are financed by equity. By our estimates, the company will become more conservatively financed during the next two years as profits are retained.**

*\* Please view our disclaimer located on page 15.*

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**Investment Recommendation**

We are reiterating an investment opinion of Speculative Buy on Command Security Corporation and maintaining a 12-month price target of \$5.00 a share. The stock is currently trading at 0.26X estimated sales per share for FY2011 (vs. 0.28X sales for the past four quarters).

The company’s quarterly revenue gains have accelerated since early FY2006 and should continue to do so through FY2011. Slight margin gains should enhance pre-tax profitability through FY2011.

We believe that within the next 12 months, the stock will be trading at 0.4X estimated FY2011 sales per share of \$12.40, or roughly \$5.00 per share. We believe that this expectation is reasonable in light of prospects for steady growth. We project earnings growth of 37% for FY2010 and 47% for FY2011. A moderate (8%) organic growth rate and leveraging of operating costs and expenses could drive longer-term profit gains of 15%.

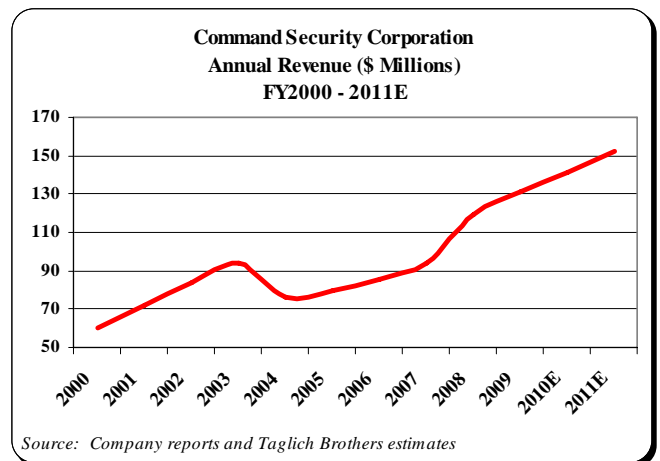
Comparatives There are few direct comparatives available; we know of only two other publicly traded (in the US) guard services companies operating in the US, which we profile on page 7. Capital IQ shows 27 stocks in the Security and Protective Services industry with market capitalizations of less than \$250 million. Of those, all except Command Security and Tri-S Security are technology-based companies offering equipment or services that do not include guard services. As a group, these stocks trade at 0.74X (trailing) sales, vs. 0.28X for Command and 0.01X for Tri-S Security. There is insufficient P-E data to make any comparisons with the Security and Protective Services industry.

**Overview**

Command Security Corporation, headquartered in Lagrangeville, New York, was established in 1980. The company provides uniformed security officers, aviation and support security services to commercial, financial, industrial, aviation and governmental clients in the United States from more than 40 company-owned operating offices in 18 states including California, Colorado, Connecticut, Delaware, Washington DC, Florida, Illinois, Maine, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Texas, Virginia and Washington.

The company’s services consist of security services, aviation services and support services that are provided to a wide range of commercial and industrial clients. Uniformed security services provided to airports and ancillary services and organizations account for about two-thirds of the company’s revenue.

The rest consists mainly of revenue from armed and unarmed uniformed security personnel for access control, mobile patrols, traffic control, security console/system operators, fire safety directors, communication, reception, concierge and front desk/doorman operations. A very small portion of revenue is generated through back office support services to three police departments.



Revenue growth stalled in 2003, a consequence of Federal agencies’ assumption of the responsibility for pre-boarding screening at airports in the aftermath of the September 2001 terrorist attacks. During the past few years, the effects of federalization have been exacerbated by difficulties in the airline industry. Bankruptcy filings by several airlines resulted in write offs of \$1.1 million in receivables, some of which were recovered.

From FY2004 to FY2006, the company operated at a loss stemming in large measure from narrower gross margins and interest charges on borrowings used to finance working capital. In FY2007, a turnaround year,

Command surpassed its FY2003 revenue peak, building momentum that doubled net income in FY2008 and enabled the company to regain an earlier (FY2002) peak net income of \$2.4 million. Sales gains have accelerated due to acquisitions and internal growth, facilitating operating margin improvement. Momentum carried into FY2009 but a rise in G&A expenses and income taxes cut deeply into profits.

### ***FY2009 Results***

Operations For FY2009, Command earned net income of \$1.3 million, or \$0.11 per share, on revenue of \$130.8 million, vs. 2008's earnings of \$0.22 per share on revenue of \$119.4 million. We had previously projected FY2009 earnings of \$0.16 per share on revenue of \$132.3 million. FY2009 pretax profit was up 8% but earnings per share was down by half, as the FY2008 effective tax rate was nominal. FY2009 income taxes of \$1.3 million were much larger than the prior year's income tax benefit of \$160,000 due to the recognition of \$1.2 million in deferred tax assets in FY2008.

FY2009 revenue was up 10%, a gain driven mainly by expanded security services provided to new and existing customers. These customers included a major medical center, a New York based hospital center, a major international commercial bank, a large grocery market distribution center in California, and a company that provides merchandising and distribution services to a major grocery retailer in New Jersey. These security services customers accounted for approximately \$9 million in added revenue. Acquisitions in Florida (September 2008) and Maryland (January 2008) increased FY 2009 security services revenue by \$3.5 million.

An increase in aviation services to new and existing customers at Los Angeles International Airport and JFK and LaGuardia Airport in New York increased FY2009 revenue by approximately \$3.4 million. These gains were partly offset by the loss of \$2.8 million in revenues at seven domestic airport locations as a change in government regulations transferred certain document verification services formerly provided by Command to the Transportation Safety Administration. Also, several airline customers reduced capacity within their systems, resulting in reductions of service hours provided to those carriers.

The company's gross margin for FY2009 was up slightly, to 14.3% from 13.6%, due mainly to reduced labor ratio margins in the security services division.

Command's operating expense margin for FY2009 widened to 12% from 11% due largely to a \$2 million (14%) rise in G&A expenses to \$15.4 million. The increase in G&A expenses was driven mainly by a \$1.8 million rise in administrative payroll and related costs relating to the expansion of operations and acquisitions. The company hired a CEO in September 2008, made additional investments in its sales and marketing group, and incurred higher professional fees and insurance costs. The increase G&A expenses was offset in part by approximately \$140,000 in reductions stemming from reduced stock compensation costs, and the absence in FY2009 of expenses relating to Command's initial listing of common shares on the American Stock Exchange in FY2008.

Due to a higher operating expense margin, the operating margin for FY2009 narrowed to 2.3% from 2.5% despite an improved gross margin.

Interest expenses dropped by \$270,000 to \$500,000 due to reduced average interest rates under the company's commercial revolving loan agreement.

Finances In FY2009, cash throw off from operations totaled \$2.7 million. Most of that was offset by a \$2.2 million increase in working capital stemming mainly from a rise in receivables and pay downs of accounts payable and accruals. Additional borrowing of \$2.2 million and the \$400,000 in net funds generated by operations covered acquisitions and capital expenditures totaling \$1.4 million, a reduction of \$800,000 in checks written in advance of deposits and \$300,000 in debt issuance costs. Cash for FY2009 increased nominally (\$30,000), increasing cash to almost \$180,000 by the end of the year.

*New Credit Facility* On February 12, 2009, the company entered into a new \$20 million credit facility (including a letter of credit sub-line of up to \$3 million) with Wells Fargo, replacing a \$16 million facility with CIT. This new credit facility, which expires in February 2012, contains restrictive and financial covenants. Borrowings under this agreement are being used to refinance borrowings that were outstanding under the CIT facility, working capital (mainly receivables), acquisitions and general corporate needs. Interest is charged at the prime rate + 1.5%, or at the LIBOR rate + 2.75%. As of March 31, 2009, the interest rates for revolving and LIBOR loans were, respectively, 4.75% and 4.00%.

Outstanding borrowings as of March 31, 2009 consisted of \$3 million in revolving loans, \$8 million in LIBOR loans and \$147,000 in letters of credit. In aggregate, outstanding borrowings represented approximately 77% of maximum borrowing capacity under the agreement. For FY2009, the company was in compliance with all loan covenants.

### ***Outlook & Projections***

For FY2010, we project net income of \$1.8 million, or \$0.15 per share, on revenue of \$141.3 million vs. FY2009 earnings of \$0.11 per share on revenue of \$130.8 million. We had previously projected FY2010 earnings of \$0.21 per share on revenue of \$138.5 million. Our FY2010 earnings forecast was revised mainly to reflect a higher G&A expense margin than we previously anticipated. By our estimates, FY2010 revenue will increase by 8%, a rate slightly higher than the market growth we project. Our revenue forecasts anticipate market share gains but do not include any acquisitions.

We project stable gross margins; due to competitive pressure, we don't believe that Command has the flexibility to widen its gross margin by raising prices. We project a 9% increase in G&A expenses to \$16.7 million, reflecting, as noted in our discussion of FY2009 results, the hiring of a CEO in September 2008 and an increase in administrative payroll relating to acquisitions in January and September 2008.

The increase in G&A could constrain operating margin improvement. By our estimates, the FY2010 operating margin will remain unchanged at 2.3% but operating income will increase by 6% to \$3.2 million, rising at a lower rate than revenue. Interest expense should drop 9% to \$470,000 due to lower debt balances during the year. Between the increase in operating income and the reduction in interest expense, pretax profit should increase 8% to \$2.7 million. For FY2010 and FY2011, we project an effective income tax rate of 34%, with recognition of deferred tax assets largely offsetting non-Federal income taxes.

For FY2011, we project a net profit of \$2.8 million, or \$0.23 per share, on revenue of \$152.6 million. As with our FY2010 projections, we project an above-market revenue growth rate of 8% based on market share gains. Our forecasts do not reflect any acquisitions. In anticipation of better overhead coverage stemming from larger volume, we project a slightly improved gross margin and a narrower G&A margin, both of which should widen the operating margin for FY2011 to 3% from 2.3%. That margin gain will, by our estimates, raise operating income by 43% to \$4.6 million. The increase in operating income and a slight reduction in interest expense should lift pretax profit by 54% to \$4.2 million.

*Financial Position and Cash Flow* For FY2010, we estimate cash throw-off at \$3.3 million, partly offset by \$1.1 million in additions to working capital. Working capital needs are projected to increase due to a rise in receivables, prepayments and other current assets, partly offset by pay downs in accruals and accounts payable. Net cash of \$2.2 million from operations should enable Command to cover capital expenditures estimated at \$200,000, reduce the line of credit utilization by \$1.8 million, and increase the company's cash by \$175,000 to around \$640,000 by the end of FY2010.

We project FY2011 cash throw off at \$3.1 million, of which \$1.8 million will be absorbed by additions to working capital. Working capital needs will rise due to increases in receivables, prepayments and other current assets, offset by pay downs of accruals. Projected net cash of \$1.3 million from operations should cover \$200,000

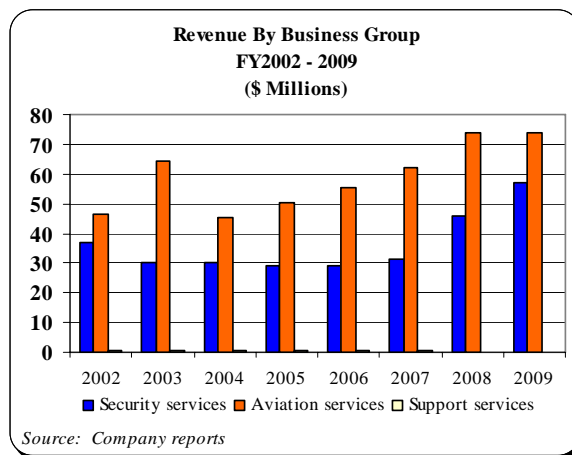
in capital expenditures and reduce borrowings by \$1.3 million. By our estimates, cash will drop nominally and show a year-end balance of \$570,000.

**Operations**

The company maintains a work force of more than 5,000 security personnel backed by 240 managers, support employees and administrative staff. A computerized scheduling and information system automatically matches security officers to customer’s requirements, significantly reducing management time consumed in scheduling daily security officer hours.

Services are provided under contracts that specify personnel and/or equipment to be provided at designated locations and applicable (typically hourly per person) rates, which can vary depending on base, overtime and holiday time worked, and the term of the contract. The company assumes responsibility for scheduling and uninterrupted service, and for the training, supervision, equipping, compensation and insurance of security officers. These contracts can be terminated by either the company or the customer, generally with no less than 30 days notice. The company may also terminate an agreement immediately upon customer default on payables to the company, or if the customer is involved in insolvency proceedings.

Security Services The company provides security officers that are deployed at buildings, malls, government, healthcare and educational facilities, and industrial, commercial retail and residential sites. Security officers are used mainly for personal or property protection, in many cases around-the-clock, 365 days a year. These security officers may, depending on customer needs, be uniformed or plain-clothed, armed or unarmed, mobile (in marked radio cars) or at stationary posts such as fire stations, reception areas or video monitors.



Aside from traditional responsibilities such as access control, theft prevention, personnel security checks, traffic and parking control and protection against fire, theft, sabotage and safety hazards, security officers also respond to emergency situations and report fires, natural disasters, work accidents and medical crises to the appropriate authorities. The company occasionally provides specialized vehicle patrol and inspection services and personal protection services to key executives and high profile personalities. Security services accounted for 44% of revenue in FY2009.

While revenue for this business was largely flat from FY2003 through FY2006, the acquisitions of Sterling Protective Group (Florida) in June 2006, Brown Protective Services (California) in April 2007, Expert Security Services (Maryland) in January 2008, and Eagle International Group, LLC and International Security & Safety Group, LLC (Florida) in September 2008 should improve revenue comparisons through FY2010.

Aviation Services Through its Aviation Safeguards business, the company offers a variety of uniformed services for more than 100 domestic and international air carriers. These services include aircraft security, access control, wheelchair escorts, skycaps, baggage handlers, and uniformed security officers for cargo security areas. This division operates through airport offices at 13 domestic airports including JFK International Airport and LaGuardia Airport in New York, and Los Angeles International Airport, and San Jose International Airport in California. Aviation and related industries accounted for 56% of revenue in FY2009. Aviation Services’ largest customer is Delta Airlines, which accounted for 26% of this segment’s revenue and 15% of total revenue in FY2009.

Support Services The support services program for small and mid-sized security, investigative and law enforcement agencies includes financing of all receivables, access to a fully integrated operational computer system, continuous access to accounts receivable and collection information, processing of all client remittance

checks, quarterly and annual payroll reports, and consultation on acquisitions. Support services provided to three police departments accounted for 0.2% of revenue, or \$200,000 in FY2009.

**Strategy**

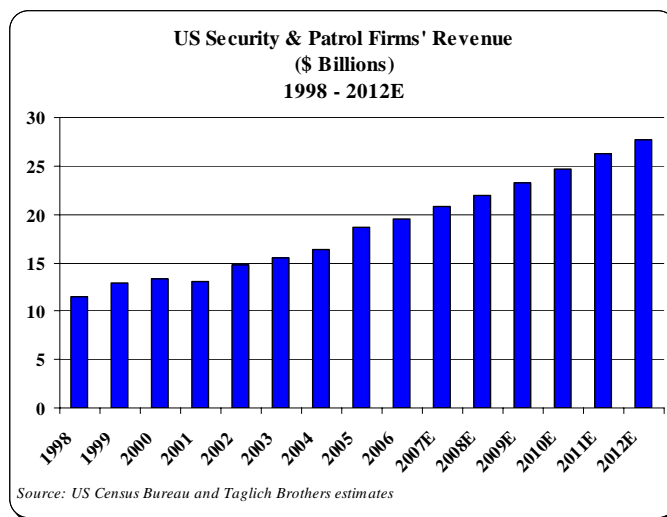
The company’s strategy aims to improve internal growth through new accounts, increased business from existing customers, and the discontinuance of unprofitable contracts. Since FY2005, revenue gains have been achieved in both the aviation and security services business. New business is pursued through an organized marketing effort overseen by a Vice President for Sales and Marketing hired in October 2006.

Occasionally, acquisitions are a factor underlying growth. In June 2006, Command acquired a security guard service in southern Florida, raising the company’s run rate by an estimated \$2.8 million. In April 2007, the company acquired another security services firm in California, an addition which raised annual revenue by around \$11 million. The acquisitions of Maryland-based Expert Security Services in January 2008 and Eagle International Group, LLC and International Security & Safety Group, LLC (both in Florida) in September 2008 should raise annual revenue by an estimated \$2 million and \$5 million, respectively.

**The Industry**

The worldwide security services industry, estimated by research firm the research firm Freedonia Group at \$139 billion, includes a spectrum of services ranging from guard, armored car and investigative services, to video surveillance and biometric identification. Freedonia projects average annual industry growth of 7.5% through 2012. Much of the growth in security services has been technology-based. Of the 38 publicly traded companies classified by Capital IQ as Security and Protective Services, only three (including Command) concentrate on guard services.

US demand for security services has increased steadily, spurred in part by spectacular incidents such as the Oklahoma City bombing in 1999 and September, 2001 terror attacks in New York and Washington D.C. These incidents prompted many organizations to outsource their security needs, driving an increase in the number of guard service providers. Airport security in particular received much more attention in the wake of the 9-11 attacks.



US Census Bureau data show that revenue earned by security guard/patrol service firms has increased steadily, rising from \$11.5 billion in 1998 to \$19.6 billion in 2006 (latest available). These figures reflect average annual growth of 7% from 1998 to 2006, a rate that accelerated to 9% between 2001 and 2005. If a US market growth rate was sustained at around 6%, the US 2009 market for guard services would currently be around \$23 billion.

Census Bureau figures show that the number of US firms providing guard and patrol services grew from 4,900 in 1998 to 5,500 in 2006. In the same period, total employment grew from 99 per firm to 110. The increase in the number (and size) of security guard firms masks the consolidation in the US industry, where the five largest security companies account for roughly a third of the market.

According to rankings in a February 2009 issue of Security Magazine, the five largest firms operating in the US are Securitas AB (Sweden), Group 4 Securicor, AlliedBarton, US Security Associates, and Guardsmark, LLC. These top five companies account for roughly a third of the US market for guard services. As a matter of interest, Command Security ranked 13<sup>th</sup> on that list. Securitas AB, now the largest security services provider in the US,

has been one of the most active consolidators in the industry; it acquired some of the largest companies in the industry, including Wells Fargo Guard Services, Wells Fargo Armored Car Services, Pinkertons and Brinks International.

### Competition

Securitas' reported North American security services revenue for 2008 of \$2.7 billion, representing what the company estimates was 18% of a market that was growing at an estimated 4% to 6% a year. By Securitas' estimates, it is the largest guard services provider in the US, trailed by Wackenhut Corp. and five other closely held firms. Using the \$22 billion 2008 market estimate extrapolated from US Census data, we would estimate that roughly 5,400 firms under that top tier account for \$14.6 billion in revenue, an average of \$2.7 in annual revenue per firm.

By comparison, Command's \$140 million run rate makes it one of the larger firms in this sector. Although the company's revenue is much less than Securitas AB's 2008 North American security services revenue of \$2.7 billion, Command's revenue dwarfs that of the average firm in this sector. We see only one other small-capitalization company in the same sector, Tri-S Security Corporation, which reported \$114 million in revenue for 2008. Some recent indications as to the relative size and profitability of the three publicly traded guard services companies operating in the US are as follows:

	Command Security		Securitas AB		Tri-S Security	
	FY2009 <sup>(1)</sup>	FY2008	2008	2007	2008	2007
Revenue (\$ millions)	131	119	7,218	6,575	141	89
Gross margin	14.3%	13.6%	18.5%	18.1%	6.7%	6.1%
Operating margin	2.3%	2.5%	5.5%	4.6%	0.08%	(7.7%)
Net margin	1.0%	2.1%	4.0%	1.0%	(4.1%)	(4.8%)

<sup>(1)</sup> Ended March 31

Source: Companies' reports

In 2008, Securitas AB's revenue was up 10% to \$7.2 billion; net income from continuing operations increased 40% to \$241 million. In 1Q09, Securitas' revenue was up 26% to \$2.1 billion; profit was up 27% to \$66.3 million. Tri-S's 2008 revenue increased 58% to \$141 million, but the company incurred a net loss of \$15.8 million, vs. a loss of \$4.2 for 2007. Tri-S's 1Q09 revenue was up 80% to \$29.3 million but its loss for the period deepened to \$3.2 million from \$2.1 million.

The fragmentary nature of the guard services industry, according to Thomson Gale, tends to limit the majority of firms, most of which are small, to competing only in local markets. Pricing tends to be an important competitive factor but the company tends to base its competitiveness more on quality of service, the strengths of its supervisors, training of personnel and the development of personal relationships.

### Risks

In our view, these are the principal risks underlying the stock:

**Customer/Industry Concentration** Around two-thirds of the company's revenue is contributed by its Aviation Safeguards business, which provides services to the aviation industry. In FY2009, Delta Airlines accounted for 15% of the company's revenue, roughly the same proportion seen in FY2007 and FY2008. The airline industry has experienced significant difficulty since 2001 and its hardships have been exacerbated by high fuel prices which abated in late 2008 but have since increased significantly. The company has weathered the effect of bankruptcies by some large customers and no further insolvencies appear imminent. However, aviation industry

difficulties could persist, imposing some limitations on the company's growth. The October, 2008 merger of Delta Airlines and Northwest Airlines, both of which are the company's customers, could result in some facilities consolidation that could reduce revenue. The facilities that management believes are most likely to be consolidated in the merger are not served by Command.

Competition The guard services industry is highly fragmented and very competitive at regional and local levels. Command Security is a relatively larger mid-tier firm, substantially larger than the average guard services firm. However, the company is much smaller than the top-tier firms that account for 51% of its market. The large firms have significant name recognition and can bring greater resources to bear on marketing efforts, potentially underpricing the company in certain markets.

New CEO A new CEO could potentially signal a change in strategy that may have implications for growth and profitability.

Concentration of Stock Ownership The July 29, 2008 proxy (latest filed) statement showed that Trinad Capital LLP owns 25% of the company's common shares. Peter Kikis and Thomas Kikis owned, respectively, another 14% and 9% of the company's common stock. The concentration of ownership among these shareholders could give them disproportionate influence over management actions, potentially leading to decisions that may not be in the best interest of the stockholders at large. Conversely, however, this concentration of ownership could underlie a management discipline that positively influences the company's actions.

Receivables Controls The company's average receivables collection period remained generally within the 60 to 65 day range since FY2006. Receivables represent a significant tie-up of operating funds that has required a steep rise in borrowings (and interest expenses) since FY2006. Our earnings forecasts are based in part on a relatively stable average collection period (approximately 60 days). If the company's collections slow significantly, interest expenses incurred on borrowings used to support increased working capital could significantly exceed our projections.

Heavy Reliance on Credit Facility The company relies very heavily on its credit facility to support its accounts receivable. The expiration of that borrowing arrangement in February 2012 could potentially be disruptive if the company could not extend the facility on acceptable terms or secure a line of credit with another lender.

Microcap Concerns Shares of MOC have risks common to the stocks of other microcap (which we define as market capitalizations of \$250 million or less) companies. These risks often underlie stock price discounts from the valuations of larger-capitalization stocks. Liquidity risk, typically caused by small trading floats and very low trading volume, can lead to large spreads and high volatility in stock price. The company has approximately 6.5 million shares in the float. On average, approximately 13,600 shares are traded daily.

Miscellaneous Risks The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Command Security Corporation

Annual Income Statements  
(\$ 000)  
FY2007 – FY2011E

Year ending March 31:	2007A	2008A	2009A	2010E	2011E
Revenues	93,823	119,404	130,813	141,278	152,581
Cost of revenues	80,157	103,162	112,149	121,091	130,606
Gross margin	13,665	16,242	18,664	20,188	21,974
Operating expenses					
G&A	12,316	13,425	15,351	16,688	17,066
Prov for doubtful accts	268	360	347	311	336
Bad debt recoveries	(53)	(512)	(42)		
Total	12,531	13,273	15,657	16,998	17,402
Operating income	1,135	2,969	3,008	3,189	4,573
Other income (expenses)					
Interest income	226	75	28	20	23
Interest expense	(568)	(784)	(514)	(467)	(386)
Gain on sale of securities		50			
Gain (loss) on equip sales	(3)	3	25		
Pretax income	790	2,314	2,546	2,742	4,209
Income tax (provision) benefit	450	160	(1,264)	(932)	(1,431)
Net income (loss)	1,240	2,474	1,282	1,810	2,778
Avg. shares out.(mil) - diluted	10,621	11,384	11,391	11,750	12,300
Earnings (loss) per share - diluted	0.12	0.22	0.11	0.15	0.23
Margin analysis					
Gross margin	14.6%	13.6%	14.3%	14.3%	14.4%
G&A	13.1%	11.2%	11.7%	11.8%	11.2%
Provision for doubtful accts	0.3%	0.3%	0.3%	0.2%	0.2%
Operating income	1.2%	2.5%	2.3%	2.3%	3.0%
Pretax income	0.8%	1.9%	1.9%	1.9%	2.8%
Net income (loss)	1.3%	2.1%	1.0%	1.3%	1.8%
Tax rate	57.0%	6.9%	(49.7%)	(34.0%)	(34.0%)

Source: Company reports and Taglich Brothers estimates

Command Security Corporation

Quarterly Income Statements

(\$ 000)

FY2010 – FY2011E

Year ending March 31:	Jun-09E	Sep-09E	Dec-09E	Mar-10E	2010E	Jun-10E	Sep-10E	Dec-10E	Mar-11E	2011E
Revenues	34,505	36,403	35,381	34,989	<b>141,278</b>	37,265	39,315	38,212	37,789	<b>152,581</b>
Cost of Revenues	29,588	31,161	30,251	30,091	<b>121,091</b>	31,936	33,614	32,633	32,423	<b>130,606</b>
Gross Margin	4,917	5,242	5,130	4,899	<b>20,188</b>	5,329	5,701	5,579	5,366	<b>21,974</b>
Operating expenses										
G&A	4,054	4,277	4,157	4,199	<b>16,688</b>	4,192	4,325	4,203	4,346	<b>17,066</b>
Prov for doubtful accts	76	80	78	77	<b>311</b>	82	86	84	83	<b>336</b>
Total	4,130	4,357	4,235	4,276	<b>16,998</b>	4,274	4,411	4,287	4,429	<b>17,402</b>
Operating income	787	885	895	623	<b>3,189</b>	1,055	1,290	1,292	937	<b>4,573</b>
Other income (expenses)										
Interest income	3	5	6	7	<b>20</b>	6	6	5	5	<b>23</b>
Interest expense	(125)	(117)	(114)	(111)	<b>(467)</b>	(107)	(99)	(90)	(91)	<b>(386)</b>
Pretax income	665	772	787	518	<b>2,742</b>	954	1,196	1,207	852	<b>4,209</b>
Income tax (provision) benefit	(226)	(263)	(268)	(176)	<b>(932)</b>	(325)	(407)	(410)	(290)	<b>(1,431)</b>
Net income (loss)	439	510	519	342	<b>1,810</b>	630	790	796	562	<b>2,778</b>
Avg. shares out. - diluted	11,600	11,700	11,800	11,900	<b>11,750</b>	12,000	12,200	12,400	12,600	<b>12,300</b>
Earnings per share (diluted)	0.04	0.04	0.04	0.03	<b>0.15</b>	0.05	0.06	0.06	0.04	<b>0.23</b>
Margin analysis										
Gross margin	14.3%	14.4%	14.5%	14.0%	<b>14.3%</b>	14.3%	14.5%	14.6%	14.2%	<b>14.4%</b>
G&A	11.8%	11.8%	11.8%	12.0%	<b>11.8%</b>	11.3%	11.0%	11.0%	11.5%	<b>11.2%</b>
Provision for doubtful accts	0.2%	0.2%	0.2%	0.2%	<b>0.2%</b>	0.2%	0.2%	0.2%	0.2%	<b>0.2%</b>
Operating income	2.3%	2.4%	2.5%	1.8%	<b>2.3%</b>	2.8%	3.3%	3.4%	2.5%	<b>3.0%</b>
Pretax income	1.9%	2.1%	2.2%	1.5%	<b>1.9%</b>	2.6%	3.0%	3.2%	2.3%	<b>2.8%</b>
Net income	1.3%	1.4%	1.5%	1.0%	<b>1.3%</b>	1.7%	2.0%	2.1%	1.5%	<b>1.8%</b>
Tax rate	34.0%	34.0%	34.0%	34.0%	<b>34.0%</b>	34.0%	34.0%	34.0%	34.0%	<b>34.0%</b>

Source: Company reports and Taglich Brothers estimates

Command Security Corporation

Annual Balance Sheets  
(\$ 000)  
FY2007 – FY2011E

Year ending March 31:	2007A	2008A	2009A	2010E	2011E
<b>ASSETS</b>					
Current assets:					
Cash + equivalents	220	147	177	637	566
Accts rec (net)	17,979	20,098	21,604	23,546	25,430
Prepaid expenses	557	2,681	2,256	2,826	3,052
Other	3,429	1,910	1,861	2,472	2,670
Total current assets	22,184	24,836	25,898	29,482	31,718
Fixed assets	529	560	672	721	880
Intangibles	783	4,049	5,180	4,508	4,100
Restricted cash	78	303	83	75	75
Other	1,755	3,039	2,432	2,826	3,052
<b>TOTAL ASSETS</b>	<b>25,330</b>	<b>32,786</b>	<b>34,265</b>	<b>37,611</b>	<b>39,824</b>
<b>LIABILITIES/ STOCKHOLDERS' EQUITY</b>					
Current liabilities					
Checks in advance of deposits	1,760	1,962	1,149	1,413	1,526
Long-term debt (current)	247	6		6	0
Capitalized lease obligations (current)	17	17	65	65	70
Short-term borrowings	8,487	8,752	11,006	9,250	8,000
Accts payable	640	1,026	314	1,177	1,270
Due to service companies'					
Accruals	4,520	6,975	6,258	7,770	8,392
Total current liabilities	15,671	18,738	18,792	19,681	19,258
Insurance reserves'	540	671	643	848	915
Cap lease obligations (due after one yr)	10	18	109		
Stockholders' equity	9,104	13,360	14,722	17,082	19,651
<b>TOTAL LIABILITIES/ EQUITY</b>	<b>25,330</b>	<b>32,786</b>	<b>34,265</b>	<b>37,611</b>	<b>39,824</b>

Source: Company reports and Taglich Brothers estimates

Command Security Corporation

Annual Cash Flow Statements

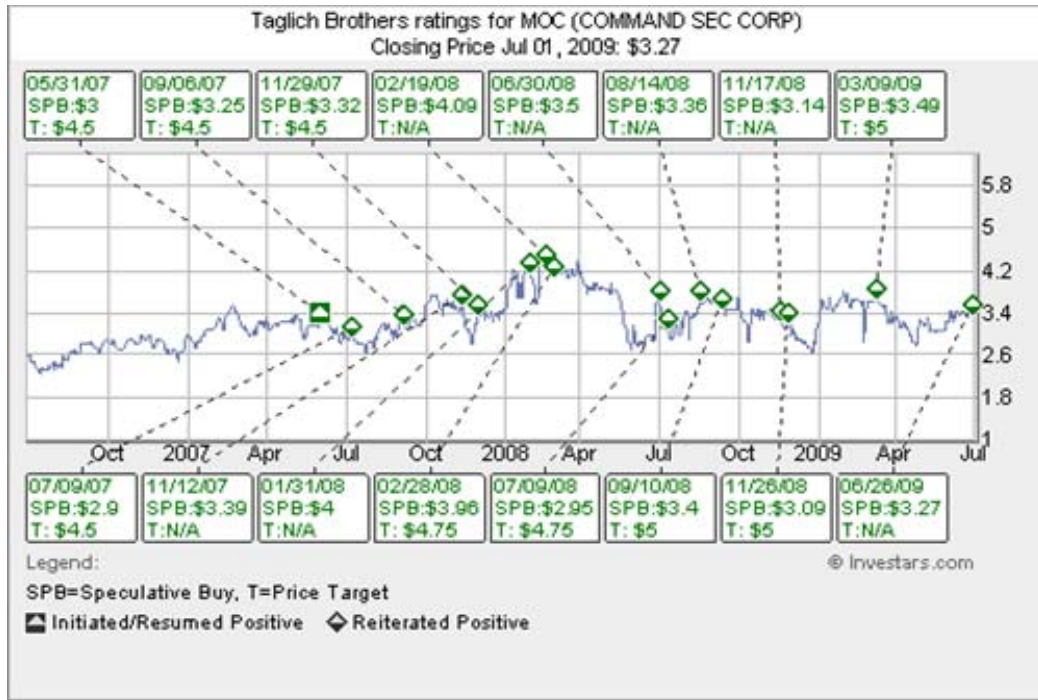
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FY2007 – FY2011E

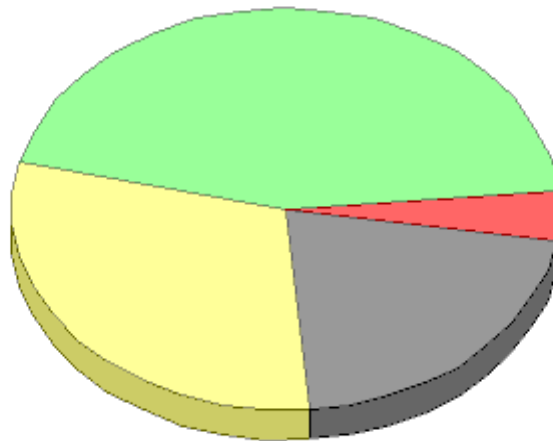
Year ending March 31:	2007A	2008A	2009A	2010E	2011E
Operating activities					
Net lincome (loss)	1,240	2,474	1,282	1,810	2,778
Depreciation/amortization	315	697	799	584	452
Stock based compensation	227	240	172	400	400
Tax effect - expired warrants			(116)		
Prov for doubtful accts	215	(152)	20	311	336
(Gain) loss in equip sales	3	(3)	(25)		
Gain on sale of securities		(50)			
Deferred income taxes	(450)	(1,246)	550		
Insurance reserves	237	131	(28)	205	(864)
Restricted cash		(225)			
Changes in working capital	(5,788)	279	(2,244)	(1,141)	(1,819)
Net cash from operations	(4,001)	2,145	411	2,169	1,282
Investing activities					
Capital expenditures	(345)	(169)	(203)	(200)	(200)
Proceeds - equip sales	2	3	25		
Acquisition of business	(413)	(2,261)	(1,358)		
Proceeds from sale of securities		149			
Principal collections - notes rec	116				
Net cash from investing	(640)	(2,278)	(1,536)	(200)	(200)
Financing activities					
Proceeds (repayments) - line of credit	5,117	265	2,254	(1,756)	(1,250)
+/- checks in advance of deposits	(69)	202	(813)	264	113
Debt issuance cost		(153)	(304)		
Proceeds - warrant exercises		10	64		
Payments - other borrowings	(178)	(247)	(6)	(6)	(6)
Payments - cap lease obligations	(41)	(18)	(39)	(10)	(10)
Net cash from financing activities	4,829	59	1,156	(1,508)	(1,153)
Change in cash & equivalents	188	(73)	30	460	(71)
Cash - beginning	32	220	147	177	637
Cash - ending	220	147	177	637	566

Source: Company reports and Taglich Brothers estimates

Command Security Corporation



Taglich Brothers Current Ratings Distribution



■ 44.74 % Buy   ■ 30.26 % Hold   ■ 21.05 % Not Rated   ■ 3.95 % Sell

<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	1	4.00
Hold	1	14.29
Sell	0	0
Not Rated	0	0

### Meaning of Ratings

#### Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

#### Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

#### Neutral

We will remain neutral pending certain developments.

#### Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

#### Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

**Public Companies mentioned in this report:**

Delta Airlines	(NYSE: DAL)	TRI-S Security	(Nasdaq: TRIS)
Securitas AB	(Nasdaq: SCTBF.PK)		

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