

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 9, 2007

MOC \$2.90 — (AMEX)

	FY2006A	FY2007A	FY2008E	FY2009E
Total revenues (in millions)	\$85.2	\$93.8	\$111.1	\$119.4
Earnings (loss) per share	(\$0.01)	\$0.12	\$0.09*	\$0.13*
52 - Week range	\$3.41 – \$2.16		Fiscal year ends:	March
Shares outstanding as of June 20, 2007	10.8 million		Revenue/share (ttm)	\$8.73
Approximate float	4.3 million		Price/Sales (ttm)	0.33
Market Capitalization	\$31 million		Price/Sales (FY2009)E	0.30
Tangible Book value/share	\$0.82		Price/Earnings (ttm)	24.8X
Price/Book	3.5X		Price/Earnings (FY2009)E	22.2X

* Taxed at 34% rate.

Command Security Corporation. (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 maintaining an investment rating of Speculative Buy and a 12-month price target of \$4.50 per share on Command Security Corporation (AMEX: MOC). Our target is based on expectations for revenue gains and a higher price to (FY2009) sales multiple. As the company is still in an earnings recovery phase, we believe the stock is suitable mainly for investors with a high tolerance for risk.

Growth of the \$20+ billion US market for security guard services should be sustainable at around 7% to 9% a year, a rate that we believe the company will easily surpass in FY2008 due to the combined effect of internal growth and acquisitions.

Acquisitions in the security services division have reduced dependence on aviation-related customers, conditions for which have been difficult during the past six years. As two-thirds of revenue is generated by services to airport-based businesses, the airline industry's vulnerability could constrain the company's growth.

The company earned pretax income of \$790,000 in FY2007, up from a pretax loss of \$100,000 the year before (4Q/FY2007 results were released on June 27, 2007). We project FY2008 pretax income of \$1.5 million.

In FY2007, receivables financing increased due to sales growth and a lengthening in its collection period. Due to heavier use of bank credit to support receivables and finance acquisitions, the company's debt position is the heaviest it has been since FY2005.

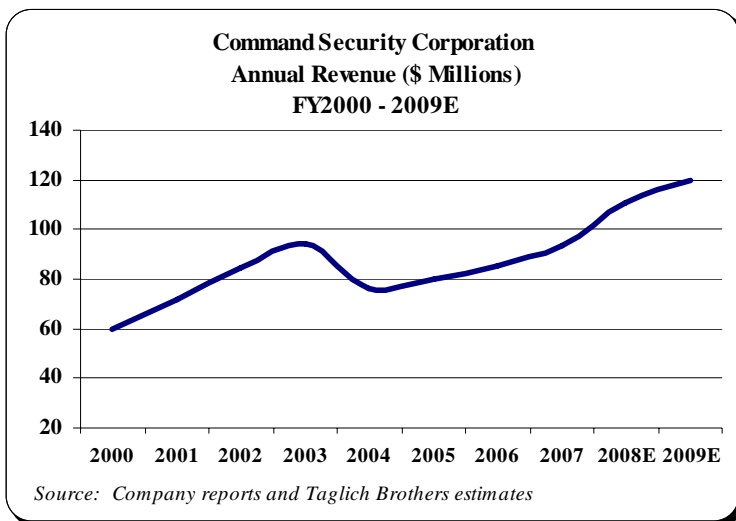
** Please view our disclaimer located on page 12.*

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 30 company-owned operating offices in California, Connecticut, Delaware, Florida, Illinois, Maine, Maryland, Massachusetts, New Jersey, Nevada, New York, Oregon, Pennsylvania 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 two-thirds of the company's revenue.

Most of the balance of sales 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 small portion of revenue is generated through back office support services to three police departments.



A relatively steady pace of revenue growth was interrupted in 2003, a consequence of Federal agencies' assumption of the responsibility for pre-boarding screening at airports, a process that began in the aftermath of the September, 2001 terrorist attacks. Gains since FY2004, supported in part by acquisitions, have lifted revenue to FY2003 levels. But during the past few years, the effects of federalization have been exacerbated by difficulties in the airline industry. Bankruptcy filings by US Airways and United Airlines in FY2003, Air Canada and Hawaiian Airlines in early FY2004, and Delta Airlines and Northwest Airlines in FY2006, resulted in write offs of \$1.1 million in receivables, some of which were recovered.

Since FY2004, the company has achieved large gains in aviation services revenue by increasing business from existing customers and developing new accounts. At recent growth rates, aviation services revenue should surpass peak (FY2003) levels by FY2008.

Profitability has yet to recover fully from the FY2004 decline in revenue. 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. Those losses were exacerbated by dividends on preferred shares that were converted to common shares in FY2005.

FY2007 was a turnaround period. Sales gains have accelerated due to an acquisition and new business, and gross margins have improved. With modest revenue gains, better leverage of G&A expenses, and stringent receivables management that limits receivables financing, we believe that the company could achieve improved earnings growth momentum through FY2009.

Operations

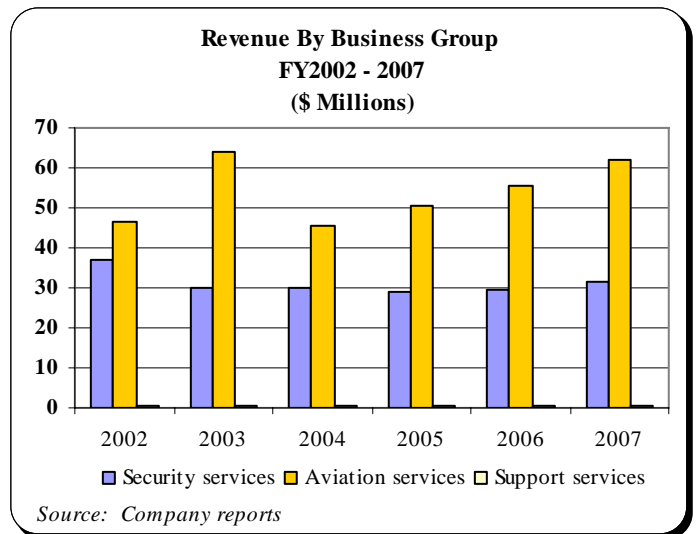
The company maintains a work force of around 3,500 security personnel backed by 60 support employees and an administrative staff of 90. A computerized scheduling and information system automatically matches security officers to customer's requirements, significantly reducing management time consumed 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. In FY2006, security services accounted for 34% of revenue.

While revenue for this business was largely flat from FY2003 through FY2006, the acquisitions of Sterling Protective Group (Florida) in June, 2006, and Brown Protective Services (California) in April, 2007, should improve revenue comparisons in FY2008 and FY2009.



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. In FY2007, services to the aviation and related industries accounted for 66% of revenue. Aviation Services' largest customer is Delta Airlines, which accounted for 24% of this segment's revenue and 16% of the total revenue for FY2007.

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, currently provided to three police departments, accounted for 0.3% of revenue in FY2007.

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 mainly in the aviation 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

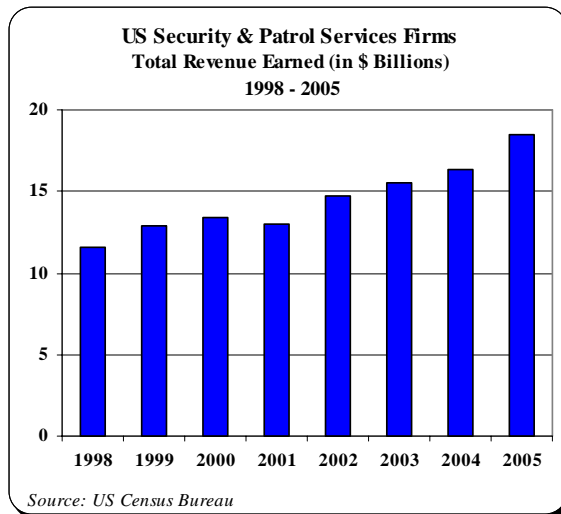
company acquired another security services firm in California, an addition which should increase annual revenue by \$11 million.

The Industry

The security industry, estimated by research firm Thomson Gale to exceed \$100 billion worldwide, includes a spectrum of services ranging from guard, armored car and investigative services, to video surveillance and biometric identification. 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 \$18.5 billion in 2005. These figures reflect average annual growth of 7% from 1998 to 2005, a rate that accelerated to 9% between 2001 and 2005. If that growth rate was sustained, the US market for these services would currently be around \$22 billion. The US guard services market has consolidated steadily since 1990, when the five largest security companies accounted for a third of the market.



The five largest firms in the industry now have a combined US market share estimated at 51%. The five largest firms operating in the US are Securitas AB (Sweden), the Wackenhut Corporation, AlliedBarton Security Services, Guardsmark, LLC and Akal Security. Securitas AB, now the largest security services in the US, has been one of the most active consolidators in the industry; it has acquired some of the largest companies in the industry, including Wells Fargo Guard Services, Wells Fargo Armored Car Services, Pinkertons and Brinks International.

Despite industry consolidation, the number of firms in this sector has increased steadily. Census Bureau figures show that the number of US firms providing investigative, guard and armored car services grew from 15,400 in 1998 to 21,800 in 2004. Since 2005, the Census Bureau has since refined its data to separately report armored car services, security guard/patrol services and investigation services. Refined pre-2004 breakdowns are not available but according to Census Bureau figures, US companies providing security guard/patrol services numbered 17,600 in 2005, up from 15,800 the year before.

Other sources offer added perspective on this market. A 2002 report by information services firm Thomson Gale estimated the worldwide 1997 market for detective, guard and armored car services at \$14.5 billion and estimated its growth at 9% annually. In its 2006 annual report, Securitas AB places the worldwide market for security services at \$124 billion, a figure which is projected to be growing at eight percent a year; around 75% of that market is concentrated in Europe and North America. Securitas AB estimated the guard services market for North America at \$19 billion (most of that in the US), of which it claimed a 16% share. Securitas' guard services revenue in US for 2006 totaled \$2.9 billion.

Growth of the worldwide guard services segment of the market is projected at seven percent annually, with growth rates differing sharply in Europe, the US and Japan (4% to 6%), and Asia (excluding Japan) and Latin

America (11% to 12%). Thomson Gale estimated that demand for guard services grew around 8% annually during the 1990s, reaching an estimated \$12 billion by 2001, a figure in line with that reported by the Census Bureau.

Competition

Securitas' reported US guard services revenue for 2006 of \$2.9 billion, representing what the company estimates was 18% of the market. By Securitas' estimates, it is the largest guard services provider in the US, trailed by Wackenhut Corp. (11% share) and five other closely held firms. These seven firms account for an estimated 51% of the US market. Using the \$22 billion current market estimate extrapolated from US Census data, we would estimate that roughly 18,000 firms under that top tier account for \$10.8 billion in revenue, an average of \$600,000 annual revenue per firm.

By comparison, Command's \$90+ million revenue makes it one of the larger firms in this sector. Although the company's revenue is much less than Securitas AB's 2006 US guard services revenue of \$2.9 billion (flat vs. 2005), 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 \$75.7 million in revenue for 2006, practically doubling in size as a result of a 4Q05 acquisition. 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 ⁽¹⁾	Securitas AB		Tri-S Security	
		2006	1Q07	2006	1Q07
Revenue (\$ millions)	94	8,827	2,221	76	20
Gross margin	14.6%	19.0%	NA	9.8%	9.2%
Operating margin	1.2%	2.3%	5.4%	(6.8%)	(4.9%)
Net margin	1.3%	1.4%	3.4%	(5.1%)	(3.3%)

⁽¹⁾ for fiscal year ending March, 2007

Source: Companies' reports

While The Brink's Company offers guard services in the US, these services make up only a very minor portion of its \$2.8 billion revenue (2006) so we have not included Brink's in the above comparatives.

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.

Recent Developments

New Service Contract On July 2, 2007, the company announced that it was awarded a new two-year contract, beginning June 22, 2007, to provide security services to a semiconductor equipment manufacturer. The contract has an annual value of approximately \$1.4 million.

American Stock Exchange Listing On June 8, 2007, the American Stock Exchange (Amex) listed the company's common stock under the symbol MOC. The company's stock previously traded under the symbol CMMD on the Over the Counter (bulletin board) market.

Acquisition Completed On April 18, 2007, the company announced that it completed the acquisition of Brown Security Services, Inc., including its wholly owned operating subsidiaries, Strategic Security Services, Inc. and Rodgers Police Patrol, Inc. The total purchase price was \$3.0 million, plus an amount equal to estimated consolidated tangible net worth of \$400,000 on the closing date, subject to adjustment. The purchase price

consisted of approximately \$1.6 million in cash and 614,286 shares of Command's common stock, based on the average closing price (\$2.906 per share) of Command's common stock on the OTC Bulletin Board for the five consecutive trading days preceding the date that the parties first entered into the definitive transaction documents.

Brown Security Services will establish the company's presence in California's San Diego and Silicon Valley regions and add around \$11 million to annual revenue.

4Q and FY2007 Results

Operations In 4Q07, the company earned a net profit of \$636,000, or \$0.06 per share, on revenue of \$23.5 million, vs. a net loss of \$372,000, or (\$0.02) per share, on revenue of \$20.9 million for the year-earlier quarter. We had projected a 4Q profit of \$395,000, or \$0.04 per share, on revenue of \$23.7 million; the variance stemmed mainly from recognition of deferred tax assets (\$450,000) that was not included in our 4Q forecast.

4Q revenue increased 12%, a gain driven by the addition of new customers earlier in the year, the June, 2006 acquisition of Sterling Protective Group and higher service utilization by existing customers. Gross margins for 4Q increased to 13.6% from 12.6%, reflecting lower labor costs margins in the security services division, reduced workmen's compensation costs and a reduction in New York state payroll taxes stemming from the elimination of the prior year's reductions in Federal unemployment tax credits. However, the gross margin narrowed sequentially due to a seasonal lift in payroll taxes and the expiration of a short-term high-margin services contract with a national insurance company.

4Q operating expenses, which consist mainly of G&A expenses, declined 5% to \$2.9 million. G&A expenses for 4Q declined 5% to \$2.8 million due in part to the December, 2006 expiration of one-year consulting contract that cost the company \$175,000 a month. G&A expenses for the quarter also declined due to reduced legal fees, insurance costs, facilities costs and bank fees. Operating expenses for 4Q included almost \$700,000 in non-cash (besides depreciation/amortization) items, mainly stock-based compensation, provisions for doubtful accounts and insurance reserves.

For FY2007, the company earned a net profit of \$1.2 million, or \$0.12 per share, on revenue of \$93.8 million, vs. a loss of \$100,000, or (\$0.01) per share, on revenue of \$85.2 million, for FY2006. Revenue for the year was up 10% due to a \$6.5 million aviation division gain stemming from new or expanded service contracts at several airports. The security services business showed a revenue gain of \$2.2 million due to the acquisition of Sterling Protective Group, which contributed \$1.8 million to FY2007 revenue, as well as new major service contracts.

The gross margin for the year widened to 14.6% from 13.4% due to the same factors that influenced 4Q gross margin improvement.

Operating expenses for FY2007 increased 10% to \$12.5 million due mainly to a 20% rise in G&A expenses to \$12.3 million that was partly offset by a drop in provisions for doubtful accounts to \$268,000 from \$1.2 million. G&A expenses for the year increased due mainly to \$1.6 million in consulting fees paid to Giuliani Security and Safety LLC, and increases in administrative personnel and facility costs. Provisions for doubtful accounts declined sharply from FY2006, when the company increased its provision for bad debts to reflect losses stemming from the bankruptcy filings of Delta Airlines and Northwest Airlines.

Interest expenses for FY2007 were up 31% to \$568,000 due to a steep increase in borrowings under the company's line of credit, higher interest rates on those borrowings, and interest expenses on the note payable relating to the company's acquisition of a security service business in June, 2006.

In 4Q, the company showed an income tax benefit of \$450,000 as it recognized some of its deferred tax assets, which totaled \$1.4 million at the end of FY2007.

Finances In 4Q, the company generated cash (before the effect of changes in working capital) of \$525,000, but operations consumed \$120,000 in cash due to additions to working capital (mainly receivables). Cash outflows,

the largest of which was for a \$360,000 reduction in the balance of checks issued in advance of deposits, were covered by \$700,000 in additional borrowings under the company's line of credit.

For FY2007, the company generated cash of \$1.8 million but increased its working capital by \$5.8 million, mainly to support an increase in receivables stemming from higher revenues and a lengthening of the company's average collection period to 69 days at the end of the year, up from 58 days a year earlier. Capital expenditures (\$345,000), the cash portion of the purchase cost for Sterling Protection (\$412,000), and repayments of borrowings (\$179,000). These expenditures and the added investment in working capital were funded by \$5.1 million in borrowings under the company's line of credit. For the year, the company's cash position increased by \$188,000, bringing its year-end cash balance to \$220,000.

Credit Facility Since December, 2003, the company has had a financing agreement with CIT Group/Business Credit, which originally provided for borrowings of up to 85% of eligible accounts receivable or a maximum \$15 million. The agreement also provided for advances against unbilled revenue (primarily monthly invoiced accounts) offset by a reserve against outstanding payroll checks. Interest on the revolving loan was set at the prime rate plus 1.25% on the greater of \$5 million or the average of the net balances owed.

A March, 2006 amendment reduced borrowings against receivables to a maximum of \$12 million, but provided for a letter of credit sub-line of up to \$1.5 million, subject to a two percent per annum fee on each letter of credit. Interest rates on the revolving loans were set at prime rate plus .25% if EBITDA is equal to or less than \$500,000 for the most recently completed fiscal quarter; otherwise, at the prime rate on the average of net balances owed. For LIBOR loans interest was set at the LIBOR rate plus 2.75% if EBITDA is equal to or less than \$500,000 for the most recently completed fiscal quarter; otherwise, at the LIBOR rate plus 2.50%.

In April, 2007, the agreement was again amended, raising the line of credit to \$16 million from \$12 million, increasing the letter of credit sub-line to \$3 million and providing the company with a \$2.4 million advance to cover the cash portion of the purchase consideration for Brown Security. The April, 2007 amendment extends the maturity date of the agreement to December, 2008 and reduces interest rates, fees, and availability reserves. Under this amendment, the interest rate on prime loans has been reduced to the prime rate less 0.25%; LIBOR loan rates have been reduced to the LIBOR rate +2%.

Outlook & Projections

Operations

For FY2008, we project net income of \$1.1 million, or \$0.09 per share, down 22% from FY2007 earnings of \$0.12 per share. Had FY2007 income been fully taxed, earnings per share for that year would have been \$0.04. We previously projected FY2008 earnings of \$0.11 per share but revised our estimate to reflect changes in our gross margin and interest expense estimates.

We project an 18% rise in revenue to \$111 million, driven in part by the April, 2007 acquisition of Brown Security, an internal revenue growth rate of around 7.5%. By 1Q08, the anniversary of the Sterling acquisition will have passed. However, the acquisition of Brown Securities will ease revenue comparisons through the end of FY2008.

We also project gross and operating margin improvement due to better coverage of overhead and easier G&A comparisons stemming from the December, 2006 expiration of the \$2.1 million consultancy agreement with Giuliani Security and Safety LLC. Despite these operating improvements, FY2008 earnings are projected to decline due to a projected 34% effective income tax rate and a rise in interest expenses to \$917,000 from FY2007's \$568,000. The projected increase in interest expenses is based on increased borrowings – a \$2.4 million advance to help fund the Brown acquisition, and a significant increase in receivables. Our borrowing forecasts are based in part on a reduction in the company's DSOs to 60 days at the end of FY2008, from 69 days at the end of FY2007. If DSOs are not reduced, borrowings (and interest expenses) could be higher than estimated.

Our preliminary forecast for FY2009, which does not include any prior-year acquisitions other than Brown Security, shows a more moderate rate of revenue growth. Based on revenue gains, a slight improvement in gross margins, slightly narrower G&A expense margins, and a reduction in interest expenses stemming from a decrease in borrowings, we project a 42% rise in earnings per share to \$0.13.

Our earnings projections are based in part on an effective income tax rate of 34%. As profits are anticipated, the company is likely to recognize a portion of its deferred tax assets, which totaled \$1.3 million as of March 31, 2007. By our projections, recognition of deferred tax assets through FY2009 will approximate 8% of pre-tax income, roughly the same rate of state income taxes.

Financial Position & Cash Flow

Based on our operating projections, cash generated (before changes in working capital) will remain flat at around \$1.8 million in FY2008 despite a projected decline in net income, as we project larger FY2008 net non-cash adjustments to income (including the exclusion of the \$450,000 FY2007 deferred tax recognition). The company's DSOs increased to 69 days in 4Q07, the effect of Delta Airlines' switch from prepayments prior to its bankruptcy filing to weekly credit terms after the airline emerged from bankruptcy. But we project a more moderate increase in working capital as the company's DSOs shrink from a peak of 69 days in 4Q07 to 60 days by mid-FY08 in response to tighter management controls. With reduced DSOs, working capital needs should be significantly less than they were in FY2007.

With a smaller rise in working capital requirements, FY2008 operations should be cash positive. The only significant outflow we project for FY2008 is the \$1.6 million in cash paid for the Brown Security acquisition. Capital expenditures and payment of the last installment due on the Sterling acquisition note will total a relatively small \$300,000. A \$2.4 million 1Q08 advance to help finance the Brown acquisition should help provide ample coverage of cash needs for the year. However, due to a steady sales-driven rise in receivables, borrowings will remain elevated compared to FY2007 levels well into FY2009, resulting in larger interest expenses.

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 FY2007, Delta Airlines accounted for 16% of the company's revenue. The airline industry has experienced significant difficulty since 2001 and its hardships have been exacerbated by high fuel prices which show no sign of abating. 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.

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.

Concentration of Stock Ownership As of September, 2006, approximately 23% of the company's common shares were owned by Trinad Capital LLP. Peter Kikis and Thomas Kikis owned, respectively, another 16% 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 has been lengthening steadily since FY2005 and represents 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 management's achievement of a significant shortening in the company's average collection period that would limit the need for additional borrowings. If the company's collection period is not significantly reduced, interest expenses incurred on borrowings used to support increased working capital could significantly exceed our projections. If earnings fall significantly below our estimates, our outlook on the stock could change.

Acquisition Integration In the past year, the company made two acquisitions, revenue from which represents a fairly significant part of the revenue growth we project through FY2008. While we believe that the acquired companies' run rates can be sustained or increased, integration difficulties could potentially impede efforts to improve margins.

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 4.3 million shares in the float. On average, approximately 14,600 shares are traded daily.

Federal Reserve/FOMC - Prior to August 8, 2006, when the Federal Reserve decided to hold the Discount Rate and its target rate for Fed Funds unchanged, the Fed had raised those rates steadily since mid-2004. The Federal Reserve has held its rates unchanged during its past seven meetings but inflation risk is a perennial concern and to the extent that further rate increases may lie ahead, equity valuations, particularly those of smaller capitalization stock, could suffer.

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.

Investment Recommendation

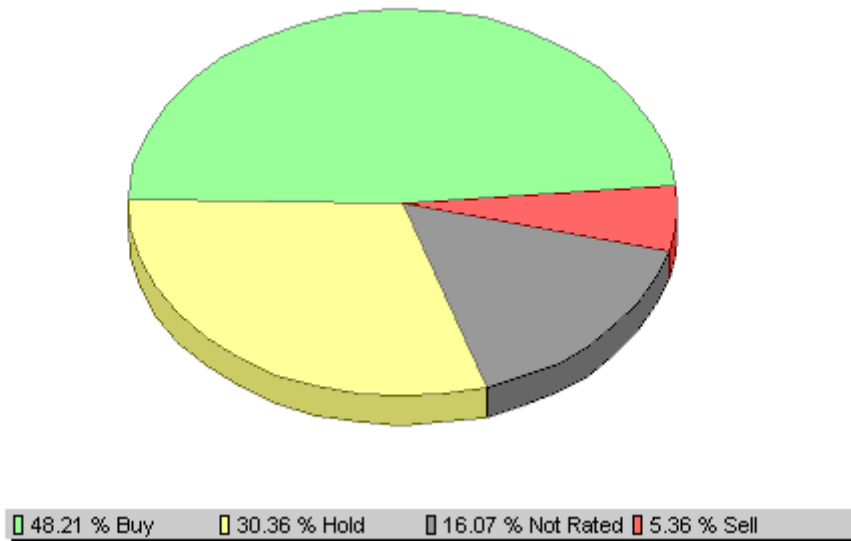
We are initiating coverage of Command Security Corporation (MOC: AMEX) with an investment opinion of Speculative Buy and a 12-month price target of \$4.50. The stock is current trading at 0.27 times estimated sales per share for FY2009 (vs. 0.34 times revenue for the past four quarters).

We believe that within the next 12 months, the stock will be trading at 0.45 times FY2009 sales per share, an expectation that, in our view, is reasonable in light of prospects for steady growth. The company's quarterly revenue gains have accelerated all through FY2007 and, due to an April, 2007 acquisition, should continue to do so through the end of FY2009. Aside from revenue gains, we project margin gains that will keep operations profitable for the next two fiscal years.

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 5. Capital IQ shows 38 stocks (30 of which are micro-capitalization stocks, in the Security and Protective Services industry. 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 2.4 times (trailing) sales, vs. 0.34X for Command and 0.13X for Tri-S Security. As a matter of interest, both of the recent acquisitions made by the company were purchased for approximately 0.31 times their estimated run rates.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	3.45%
Hold	0	0
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.

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:

Air Canada	(Toronto: AC-A.TO)	Northwest Airlines	(Nasdaq: NWACQ.PK)
The Brink's Company	(NYSE: BCO)	Securitas AB	(Nasdaq: SCTBF.PK)
Delta Airlines	(NYSE: DAL)	TRI-S Security	(Nasdaq: TRIS)
Hawaiian Holdings	(Amex: HA)		

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I, Juan Noble, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Command Security Corporation
Annual Income Statements
FY2004 - 2009E
(\$ Thousands, Except Per Share Amounts)

Year ending March 31:	2005A	2006A	2007A	2008E	2009E
Revenues	79,655	85,209	93,823	111,051	119,380
Cost of revenues	69,132	73,788	80,157	94,512	101,022
Gross margin	10,523	11,420	13,665	16,540	18,358
Operating expenses					
G&A	10,591	10,254	12,316	14,106	15,012
Prov for doubtful accts	277	1,162	268	244	263
Bad debt recoveries	(56)	(4)	(53)	0	0
Total	10,812	11,412	12,531	14,350	15,275
Operating income	(289)	8	1,135	2,189	3,084
Other income (expenses)					
Interest income	97	239	226	238	247
Interest expense	(460)	(432)	(568)	(917)	(867)
Gain (loss) on equip sales	(5)	19	(3)	0	0
Pretax income	(658)	(166)	790	1,510	2,463
Income tax (provision) benefit	267	66	450	(513)	(838)
Net loss	(390)	(100)	1,240	997	1,626
Preferred dividends	(38)				
Net income (loss) applicable to common stockholders	(429)	(100)	1,240	997	1,626
Avg. shares out.(mil) - diluted	7,863	9,647	10,621	11,700	12,500
Earnings (loss) per share - diluted	(0.05)	(0.01)	0.12	0.09	0.13
Margin analysis					
Gross margin	13.2%	13.4%	14.6%	14.9%	15.4%
G&A	13.3%	12.0%	13.1%	12.7%	12.6%
Provision for doubtful accts	0.3%	1.4%	0.3%	0.2%	0.2%
Operating income	(0.4%)	0.0%	1.2%	2.0%	2.6%
Pretax income	(0.8%)	(0.2%)	0.8%	1.4%	2.1%
Net income	(0.5%)	(0.1%)	1.3%	0.9%	1.4%

Source: Company reports and Taglich Brothers estimates

Command Security Corporation
Quarterly Income Statements
FY2007 – FY2008
(\$ Thousands, Except Per Share Amounts)

Year ending March 31:	Jun-06A	Sep-06A	Dec-06A	Mar-07A	2007A	Jun-07E	Sep-07E	Dec-07E	Mar-08E	2008E
Revenues	22,306	23,911	24,093	23,513	93,823	26,544	28,215	28,429	27,863	111,051
Cost of Revenues	19,082	20,484	20,284	20,307	80,157	22,695	24,025	24,108	23,684	94,512
Gross Margin	3,224	3,427	3,809	3,206	13,665	3,849	4,190	4,321	4,179	16,540
Operating expenses										
G&A	2,953	3,154	3,417	2,792	12,316	3,318	3,555	3,611	3,622	14,106
Prov for doubtful accts	39	47	53	129	268	58	62	63	61	244
Bad debt recoveries				(53)	(53)					
Total	2,992	3,201	3,470	2,867	12,531	3,376	3,617	3,673	3,684	14,350
Operating income	232	226	339	338	1,135	472	573	648	496	2,189
Other income (expenses)										
Interest income	58	69	62	37	226	66	59	58	55	238
Interest expense	(86)	(120)	(171)	(190)	(568)	(227)	(238)	(226)	(226)	(917)
Gain (loss) on equip sales	1	0	(4)	0	(3)					0
Pretax income	204	175	225	186	790	311	394	480	325	1,510
Income tax (provision) benefit				450	450	(106)	(134)	(163)	(110)	(513)
Net income (loss)	204	175	225	636	1,240	205	260	317	214	997
Avg. shares out. - diluted	10,560	10,575	10,637	10,712	10,621	11,400	11,600	11,800	12,000	11,700
Earnings per share (diluted)	0.02	0.02	0.02	0.06	0.12	0.02	0.02	0.03	0.02	0.09
EPS fully taxed (@ 40%)	0.01	0.01	0.01	0.01	0.04					
Margin analysis										
Gross margin	14.5%	14.3%	15.8%	13.6%	14.6%	14.5%	14.9%	15.2%	15.0%	14.9%
G&A	13.2%	13.2%	14.2%	11.9%	13.1%	12.5%	12.6%	12.7%	13.0%	12.7%
Provision for doubtful accts	0.2%	0.2%	0.2%	0.5%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Operating income	1.0%	0.9%	1.4%	1.4%	1.2%	1.8%	2.0%	2.3%	1.8%	2.0%
Pretax income	0.9%	0.7%	0.9%	0.8%	0.8%	1.2%	1.4%	1.7%	1.2%	1.4%
Net income	0.9%	0.7%	0.9%	2.7%	1.3%	0.8%	0.9%	1.1%	0.8%	0.9%
Tax rate	0.0%	0.0%	0.0%	NM	NM	34.0%	34.0%	34.0%	34.0%	34.0%

Source: Company reports and Taglich Brothers estimates

Command Security Corporation
Balance Sheets
FY2005 - 2009E
(\$ Thousands)

Year ending March 31:	2005A	2006A	2007A	2008E	2009E
ASSETS					
Current assets:					
Cash + equivalents	2,511.1	32.2	220.0	337.7	454.7
Accts rec (net)	11,629.8	13,804.1	17,978.7	18,508.5	19,896.7
Prepaid expenses	788.0	721.5	557.0	721.8	776.0
Other	347.6	2,291.1	3,428.6	3,331.5	3,581.4
Total current assets	15,276.5	16,848.9	22,184.4	22,899.6	24,708.7
Fixed assets	427.7	405.2	529.0	529.1	515.1
Intangibles	174.9	79.5	782.6	1,691.2	1,599.9
Restricted cash	72.0	74.4	78.1	75.0	75.0
Other	560.3	705.3	1,755.4	2,221.0	2,387.6
TOTAL ASSETS	16,511.4	18,113.3	25,329.6	27,415.9	29,286.3
LIABILITIES/ STOCKHOLDERS' EQUITY					
Current liabilities					
Checks in advance of deposits	495.2	1,828.8	1,760.2	2,332.1	2,507.0
Long-term debt (current)	26.7	52.6	247.1	5.9	
Capitalized lease obligations (current)	27.5	38.7	16.8	10.1	
Short-term borrowings	4,811.8	3,383.7	8,487.1	9,500.0	8,500.0
Accts payable	399.4	939.5	639.8	590.7	694.1
Due to service companies'	160.1	101.4			
Accruals	5,676.8	3,666.4	4,519.9	3,886.8	4,178.3
Total current liabilities	11,597.5	10,011.2	15,670.7	16,325.6	15,879.4
Insurance reserves'	423.4	420.8	539.5	555.3	596.9
Long-term debt (due after one yr)	41.1	28.0	5.9	5.5	1.5
Cap lease obligations (due after one yr)	40.1	28.7	9.6	4.2	
Stockholders' equity	4,409.3	7,624.7	9,103.8	10,525.3	12,808.6
TOTAL LIABILITIES/ STOCKHOLDERS' EQUITY	16,511.4	18,113.3	25,329.6	27,415.9	29,286.3

Source: Company reports and Taglich Brothers estimates

Command Security Corporation
Cash Flow Statements
FY2005 – FY2009E
(\$ Thousands)

Year ending March 31:	2005	2006	Mar-07A	2007A	2008E	2009E
Operating activities						
Net income (loss)	(390.3)	(99.6)	635.6	1,240.0	996.7	1,625.8
Depreciation/amortization	396.5	296.8	81.4	315.2	291.3	305.3
Stock based compensation	106.4	397.4	51.2	226.6	220.0	220.0
Prov for doubtful accts	221.2	1,158.2	75.8	214.9	244.3	262.6
(Gain) loss in equip sales	4.8	(19.1)		2.9		
Deferred income taxes	(267.5)	(66.4)	(450.0)	(450.0)		
Insurance reserves	(21.8)	(10.3)	130.8	237.4	15.8	41.6
Changes in working capital	8,099.6	(6,598.4)	(645.6)	(5,788.2)	(1,279.7)	(1,297.3)
Net cash from operations	8,149.0	(4,941.4)	(120.8)	(4,001.2)	488.3	1,158.1
Investing activities						
Capital expenditures	(55.1)	(74.8)	(75.7)	(345.0)	(200.0)	(200.0)
Proceeds - equip sales	20.9	10.6		2.1		
Acquisition of business				(412.5)	(1,600.0)	
Proceeds (payment) - notes to admin svc clients		(125.0)				
Principal collections - notes rec	70.9	9.2		115.8		
Net cash from investing	36.6	(180.0)	(75.7)	(639.6)	(1,800.0)	(200.0)
Financing activities						
Proceeds (repayments) - line of credit	(4,275.7)	(1,152.0)	653.3	5,116.7	1,012.9	(1,000.0)
+/- checks in advance of deposits	(71.4)	1,333.6	(359.7)	(68.6)	571.9	174.9
Debt issuance cost						
Payments on acquisition note					(112.5)	
Proceeds - warrant exercises	237.9	2,917.6				
Payments - other borrowings	(1,430.4)	(419.9)	(19.3)	(178.5)	(22.1)	(5.9)
Payments - cap lease obligations	(66.3)	(36.7)	(13.2)	(40.9)	(21.0)	(10.1)
Preferred dividends	(79.1)					
Net cash from financing activities	(5,684.9)	2,642.6	261.1	4,828.6	1,429.3	(841.1)
Change in cash & equivalents	2,500.7	(2,478.8)	64.6	187.8	117.6	117.0
Cash - beginning	10.3	2,511.1	43.0	32.2	220.0	337.7
Cash - ending	2,511.1	32.2	107.5	220.0	337.7	454.7

Source: Company reports and Taglich Brothers estimates