

UNIVERSAL SECURITY INSTRUMENTS INC

Form 10-Q

February 13, 2014

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

**FORM 10-Q**

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

For the Quarterly period ended December 31, 2013

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

**Commission file number 001-31747**

**UNIVERSAL SECURITY INSTRUMENTS, INC.**  
(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**52-0898545**

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

**11407 Cronhill Drive, Suite A**

**Owings Mills, Maryland**

(Address of principal executive offices)

**21117**

(Zip Code)

Registrant's telephone number, including area code: **(410) 363-3000**

Inapplicable

(Former name, former address and former fiscal year if changed from last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 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 ☒

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

At February 13, 2014, the number of shares outstanding of the registrant's common stock was 2,287,887.

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

|                                                                                                                                                                      | December 31, 2013<br>Unaudited | March 31, 2013<br>As Revised |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------------------------|
| <b>ASSETS</b>                                                                                                                                                        |                                |                              |
| <b>CURRENT ASSETS</b>                                                                                                                                                |                                |                              |
| Cash and cash equivalents                                                                                                                                            | \$ 1,917,866                   | \$ 2,438,892                 |
| Accounts receivable:                                                                                                                                                 |                                |                              |
| Trade less allowance for doubtful accounts of approximately \$57,000 at December 31, 2013 and March 31, 2013                                                         | 621,554                        | 153,175                      |
| Receivable from employees                                                                                                                                            | 67,698                         | 65,375                       |
| Receivable from Hong Kong Joint Venture                                                                                                                              | 49,763                         | 419,219                      |
|                                                                                                                                                                      | 739,015                        | 637,769                      |
| Amount due from factor                                                                                                                                               | 1,992,680                      | 2,281,662                    |
| Inventories                                                                                                                                                          | 4,751,345                      | 4,341,652                    |
| Prepaid expenses                                                                                                                                                     | 258,660                        | 598,686                      |
| <b>TOTAL CURRENT ASSETS</b>                                                                                                                                          | <b>9,659,566</b>               | <b>10,298,661</b>            |
| DEFERRED TAX ASSET                                                                                                                                                   | -                              | 2,310,835                    |
| INVESTMENT IN HONG KONG JOINT VENTURE                                                                                                                                | 14,542,448                     | 14,906,573                   |
| PROPERTY AND EQUIPMENT NET                                                                                                                                           | 125,097                        | 152,201                      |
| INTANGIBLE ASSET - NET                                                                                                                                               | 77,137                         | 80,491                       |
| OTHER ASSETS                                                                                                                                                         | 38,134                         | 38,134                       |
| <b>TOTAL ASSETS</b>                                                                                                                                                  | <b>\$ 24,442,382</b>           | <b>\$ 27,786,895</b>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                          |                                |                              |
| <b>CURRENT LIABILITIES</b>                                                                                                                                           |                                |                              |
| Accounts payable                                                                                                                                                     | \$ 298,853                     | \$ 548,388                   |
| Accrued liabilities:                                                                                                                                                 |                                |                              |
| Payroll and employee benefits                                                                                                                                        | 106,533                        | 103,890                      |
| Commissions and other                                                                                                                                                | 45,658                         | 75,712                       |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                                                                     | <b>451,044</b>                 | <b>727,990</b>               |
| Long-term obligation other                                                                                                                                           | 25,000                         | 25,000                       |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                                                                 | <b>-</b>                       | <b>-</b>                     |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                          |                                |                              |
| Common stock, \$.01 par value per share; authorized 20,000,000 shares; 2,287,887 shares issued and outstanding at December 31, 2013 and March 31, 2013, respectively | 22,879                         | 22,879                       |

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|                                            |               |               |
|--------------------------------------------|---------------|---------------|
| Additional paid-in capital                 | 12,804,841    | 12,749,256    |
| Retained earnings                          | 9,939,421     | 12,885,360    |
| Accumulated other comprehensive income     | 1,199,197     | 1,376,410     |
| TOTAL SHAREHOLDERS' EQUITY                 | 23,966,338    | 27,033,905    |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 24,442,382 | \$ 27,786,895 |

*The accompanying notes are an integral part of these condensed consolidated financial statements*

**UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

|                                                        | Three Months Ended December 31, |                  |
|--------------------------------------------------------|---------------------------------|------------------|
|                                                        | 2013                            | 2012             |
| Net sales                                              | \$ 3,738,914                    | \$ 4,753,736     |
| Cost of goods sold acquired from Joint Venture         | 2,603,231                       | 3,585,736        |
| Cost of goods sold other                               | 10,213                          | 140,940          |
| <b>GROSS PROFIT</b>                                    | <b>1,125,470</b>                | <b>1,027,060</b> |
| Research and development expense                       | 146,385                         | 124,063          |
| Selling, general and administrative expense            | 1,077,071                       | 1,290,650        |
| Operating loss                                         | (97,986)                        | (387,653)        |
| Other income:                                          |                                 |                  |
| Interest income                                        | 5,852                           | 5,120            |
| <b>LOSS BEFORE EQUITY IN EARNINGS OF JOINT VENTURE</b> | <b>(92,134)</b>                 | <b>(382,533)</b> |
| Equity in (loss) earnings of Joint Venture             | (275,057)                       | 589,426          |
| (Loss) Income from operations before income taxes      | (367,191)                       | 206,893          |
| Provision for income tax expense                       | -                               | 183,636          |
| <b>NET (LOSS) INCOME</b>                               | <b>\$ (367,191)</b>             | <b>\$ 23,257</b> |
| (Loss) Income per share:                               |                                 |                  |
| Basic                                                  | \$ (0.16)                       | \$ 0.01          |
| Diluted                                                | (0.16)                          | 0.01             |
| Shares used in computing net loss per share:           |                                 |                  |
| Basic                                                  | 2,287,887                       | 2,310,672        |
| Diluted                                                | 2,287,887                       | 2,314,338        |

*The accompanying notes are an integral part of these consolidated financial statements.*

**UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

|                                                               | Nine Months Ended December 31, |                     |
|---------------------------------------------------------------|--------------------------------|---------------------|
|                                                               | 2013                           | 2012                |
| Net sales                                                     | \$ 9,940,194                   | \$ 11,269,901       |
| Cost of goods sold - acquired from Joint Venture              | 6,735,324                      | 7,679,691           |
| Cost of goods other                                           | 520,921                        | 411,473             |
| <b>GROSS PROFIT</b>                                           | <b>2,683,949</b>               | <b>3,178,737</b>    |
| Research and development expense                              | 367,529                        | 373,758             |
| Selling, general and administrative expense                   | 3,198,561                      | 3,893,485           |
| Operating loss                                                | (882,141)                      | (1,088,506)         |
| Other income :                                                |                                |                     |
| Interest income                                               | 17,674                         | 19,972              |
| Other income                                                  | -                              | 64,224              |
| <b>LOSS BEFORE EQUITY IN (LOSS) EARNINGS OF JOINT VENTURE</b> | <b>(864,467)</b>               | <b>(1,004,310)</b>  |
| Equity in earnings (loss) of Joint Venture                    | 229,363                        | 462,515             |
| Loss from operations before income taxes                      | (635,104)                      | (541,795)           |
| Provision for current income tax expense                      | 2,310,835                      | 15,739              |
| <b>NET LOSS</b>                                               | <b>\$ (2,945,939)</b>          | <b>\$ (557,534)</b> |
| Loss per share:                                               |                                |                     |
| Basic                                                         | \$ (1.29)                      | \$ (0.24)           |
| Diluted                                                       | (1.29)                         | (0.24)              |
| Shares used in computing net loss per share:                  |                                |                     |
| Basic                                                         | 2,287,887                      | 2,317,315           |
| Diluted                                                       | 2,287,887                      | 2,317,315           |

*The accompanying notes are an integral part of these consolidated financial statements.*

**UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF**  
**COMPREHENSIVE (LOSS) INCOME**  
**(Unaudited)**

|                                      | Three Months Ended Dec. 31, |             | Nine Months Ended Dec. 31, |              |
|--------------------------------------|-----------------------------|-------------|----------------------------|--------------|
|                                      | 2013                        | 2012        | 2013                       | 2012         |
| NET (LOSS) INCOME                    | \$ (367,191)                | \$ 23,257   | \$ (2,945,939)             | \$ (557,534) |
| Other Comprehensive Income (Loss):   |                             |             |                            |              |
| Company's portion of Hong Kong Joint |                             |             |                            |              |
| Venture's Other comprehensive income |                             |             |                            |              |
| (loss):                              |                             |             |                            |              |
| Currency translation                 | (21,250)                    | (36,599)    | (36,580)                   | 212,320      |
| Investment securities                | (12,891)                    | (28,981)    | (140,633)                  | 91,930       |
| Total Comprehensive Income (Loss)    | (34,141)                    | (65,580)    | (177,213)                  | 304,250      |
| COMPREHENSIVE LOSS                   | \$ (401,332)                | \$ (42,323) | \$ (3,123,152)             | \$ (253,284) |

*The accompanying notes are an integral part of these consolidated financial statements.*

**UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

|                                                                                   | Nine Months Ended December 31, |                     |
|-----------------------------------------------------------------------------------|--------------------------------|---------------------|
|                                                                                   | 2013                           | 2012                |
| <b>OPERATING ACTIVITIES</b>                                                       |                                |                     |
| Net loss                                                                          | \$ (2,945,939)                 | \$ (557,534)        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                     |
| Decrease (Increase) in deferred taxes                                             | 2,310,835                      | 47,853              |
| Depreciation and amortization                                                     | 30,458                         | 33,658              |
| Stock base compensation                                                           | 55,585                         | 66,700              |
| Loss (earnings) of the Joint Venture                                              | (229,363)                      | (462,515)           |
| Changes in operating assets and liabilities:                                      |                                |                     |
| Decrease in accounts receivable and amounts due from factor                       | 128,081                        | 140,110             |
| (Increase) Decrease in inventories and prepaid expenses                           | (69,667)                       | 666,765             |
| Decrease in accounts payable and accrued expenses                                 | (276,946)                      | (462,101)           |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                      | <b>(996,956)</b>               | <b>(527,064)</b>    |
| <b>INVESTING ACTIVITIES:</b>                                                      |                                |                     |
| Purchase of property and equipment                                                | -                              | (8,704)             |
| Dividends received from Joint Venture                                             | 475,930                        | 64,974              |
| <b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>                                  | <b>475,930</b>                 | <b>56,270</b>       |
| <b>FINANCING ACTIVITIES</b>                                                       |                                |                     |
| Repurchase of common stock                                                        | -                              | (171,469)           |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                      | <b>-</b>                       | <b>(171,469)</b>    |
| <b>NET DECREASE IN CASH</b>                                                       | <b>(521,026)</b>               | <b>(642,263)</b>    |
| Cash at beginning of period                                                       | 2,438,892                      | 3,186,274           |
| <b>CASH AT END OF PERIOD</b>                                                      | <b>\$ 1,917,866</b>            | <b>\$ 2,544,011</b> |
| <b>SUPPLEMENTAL INFORMATION:</b>                                                  |                                |                     |
| Interest paid                                                                     | -                              | -                   |
| Income taxes                                                                      | -                              | -                   |

*The accompanying notes are an integral part of these consolidated financial statements.*

**UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Statement of Management**

The condensed consolidated financial statements include the accounts of Universal Security Instruments, Inc. (USI or the Company) and its majority owned subsidiaries. Except for the consolidated balance sheet as of March 31, 2013, which was derived from audited financial statements, the accompanying condensed consolidated financial statements are unaudited. Significant inter-company accounts and transactions have been eliminated in consolidation. In the opinion of the Company's management, the interim condensed consolidated financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the results for the interim periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. The interim condensed consolidated financial statements should be read in conjunction with the Company's March 31, 2013 audited financial statements filed with the Securities and Exchange Commission on Form 10-K. The interim operating results are not necessarily indicative of the operating results for the full fiscal year.

**Use of Estimates**

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (US-GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

**Joint Venture**

The Company and its co-venturer, a Hong Kong corporation, each owns a 50% interest in a Hong Kong joint venture, Eyston Company Limited (the "Hong Kong Joint Venture"), that manufactures security products in its facilities located in the People's Republic of China. The following represents summarized balance sheet and income statement information of the Joint Venture as of and for the nine months ended December 31, 2013 and 2012:

|                           | 2013          | 2012          |
|---------------------------|---------------|---------------|
| Net sales                 | \$ 16,424,133 | \$ 16,951,783 |
| Gross profit              | 4,283,152     | 4,275,838     |
| Net income                | 633,945       | 1,046,690     |
| Total current assets      | 15,148,093    | 13,643,152    |
| Total assets              | 35,368,407    | 34,622,174    |
| Total current liabilities | 6,005,538     | 4,764,335     |

For the three month period ended December 31, 2013, the Joint Venture recorded sales of \$3,661,251 and a net loss of \$531,125, as compared to sales of \$6,380,366 and net income of \$849,969 for the comparable quarter of the prior year.

During the nine months ended December 31, 2013 and 2012 the Company purchased \$6,122,297 and \$6,899,560, respectively, of products directly from the Hong Kong Joint Venture for resale. For the nine month period ended December 31, 2013 and 2012 the Company has adjusted its earnings of the Joint Venture to reflect an increase of \$154,536 and \$60,829, respectively, to eliminate inter-Company profit on purchases held by the Company in inventory.

## **Income Taxes**

We calculate our interim tax provision in accordance with the guidance for accounting for income taxes in interim periods. At the end of each interim period, we estimate the annual effective tax rate and apply that tax rate to our ordinary quarterly pre-tax income. The tax expense or benefit related to discrete events during the interim period is recognized in the interim period in which those events occurred. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the financial statements. These temporary differences may result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. The deferred tax assets are reviewed periodically for recoverability and a valuation allowance is provided whenever it is more likely than not that a deferred tax asset will not be realized. The Company established an initial valuation allowance of \$300,000 on its deferred tax assets during the year ended March 31, 2013 to recognize that certain foreign tax credits expiring in future periods will likely not be realized. Upon further review of updated projected taxable income and the components of the deferred tax asset in accordance with applicable accounting guidance at September 30, 2013, it was determined that it is more likely than not that the tax benefits associated with the remaining components of the deferred tax assets will not be realized. This determination was made based on continued taxable losses during fiscal 2014, which were not in line with projections, as well as product offering delays which cause uncertainty as to whether the Company will generate sufficient taxable income to use the deferred tax assets prior to expiration in 2016. Accordingly, a valuation allowance was established to fully offset the value of the deferred tax assets at September 30, 2013 and December 31, 2013. Our ability to realize the tax benefits associated with the deferred tax assets depends primarily upon the timing of future taxable income and the expiration dates of the components of the deferred tax assets. If sufficient future taxable income is generated, we may be able to offset a portion of future tax expenses.

The Company follows ASC 740-10 that gives guidance to tax positions related to the recognition and measurement of a tax position taken or expected to be taken in a tax return and requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties related to income tax matters are recorded as income tax expenses. The Company has recorded a long-term liability of \$25,000 for an uncertain income tax position, tax penalties and any imputed interest thereon.

#### **Accounts Receivable and Amount Due from Factor**

The Company assigns the majority of its short-term receivables arising in the ordinary course of business to our factor. At the time a receivable is assigned to our factor the credit risk associated with the credit worthiness of the debtor is assumed by the factor. The Company continues to bear any credit risk associated with delivery or warranty issues related to the products sold.

Management assesses the credit risk of both its trade accounts receivable and its financing receivables based on the specific identification of accounts that have exceeded credit terms. An allowance for uncollectible receivables is provided based on that assessment. Changes in the allowance account from one accounting period to the next are charged to operations in the period the change is determined. Amounts ultimately determined to be uncollectible are eliminated from the receivable accounts and from the allowance account in the period that the receivables' status is determined to be uncollectible.

Based on the nature of the factoring agreement and prior experience, no allowance related to Amounts Due from Factor has been provided. At December 31, 2013 and 2012, an allowance of \$57,000 has been provided for uncollectible trade accounts receivable.

#### **Net Income per Common Share**

Basic earnings per common share are computed based on the weighted average number of common shares outstanding during the periods presented. Diluted earnings per common share is computed based on the weighted average number of common shares outstanding plus the effect of stock options and other potentially dilutive common stock equivalents. The dilutive effect of stock options and other potentially dilutive common stock equivalents is determined using the treasury stock method based on the Company's average stock price.

Diluted income per common share for the three and nine month periods ended December 31, 2013 and the nine month period ended December 31, 2012 excludes 25,000 shares issuable upon the exercise of “in-the-money” stock options as their impact on our net loss is anti-dilutive. As a result, basic and diluted weighted average common shares outstanding are identical for the three and nine month periods ended December 31, 2013 and the nine month period ended December 31, 2012. A reconciliation of the weighted average shares of common stock utilized in the computation of basic and diluted earnings per share for the three and nine month periods ended December 31, 2013 and 2012, is as follows:

|                                                                                            | Three Months Ended<br>December 31, |           | Nine Months Ended<br>December 31, |           |
|--------------------------------------------------------------------------------------------|------------------------------------|-----------|-----------------------------------|-----------|
|                                                                                            | 2013                               | 2012      | 2013                              | 2012      |
| Weighted average number of common shares outstanding for basic EPS                         | 2,287,887                          | 2,310,672 | 2,287,887                         | 2,317,315 |
| Shares issued upon the assumed exercise of outstanding stock options                       | -                                  | 3,666     | -                                 | -         |
| Weighted average number of common and common equivalent shares outstanding for diluted EPS | 2,287,887                          | 2,314,338 | 2,287,887                         | 2,317,315 |

### Shareholders' Equity

*Stock Options.* In October 2011, the shareholders approved the Company's 2011 Non-Qualified Stock Option Plan (the "Plan"). Under the terms of the Plan, 120,000 shares are reserved for the granting of stock options, of which 97,000 were issued. Under the provisions of the Plan, a committee of the Board of Directors determines the option price and the dates exercisable. During December 2011, ninety-seven thousand (97,000) options were granted at an option price of \$5.51 per share. These options expired on December 14, 2013, with no forfeiture or exercise activity.

In addition, in March 2009, 25,000 options were granted at \$3.25 for restricted shares of the Company's common stock. These options are fully vested with a right to exercise until March 2014.

For the nine month period ended December 31, 2013, we recorded \$55,585 of stock-based compensation cost as general and administrative expense in our statement of operations. No forfeitures have been estimated. As of December 31, 2013, there is no unrecognized compensation cost related to share-based compensation arrangements. The aggregate intrinsic value of currently exercisable options was approximately \$27,000 at December 31, 2013.

### Contingencies

From time to time, the Company is involved in various lawsuits and legal matters. It is the opinion of management, based on the advice of legal counsel, that material losses from litigation are not reasonably likely.

### Recent Accounting Pronouncements Not Yet Adopted

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updated (ASU's) to the FASB's Accounting Standards Codification.

The Company considers the applicability and impact of all ASU's. Recently issued ASU's were evaluated and determined to be either not applicable or are not expected to have a material impact on our consolidated financial statements.

### Revision of Prior Period Financial Statements

Certain amounts appearing in the condensed consolidated balance sheet as of March 31, 2013, have been restated to conform to the current year's presentation. The Company had not previously recorded its proportionate share of the Hong Kong Joint Ventures other comprehensive income amounts. These amounts consist of the impact of foreign currency exchange rates on the translation of certain subsidiaries of the Hong Kong Joint Venture and changes in the fair value of investments held by the Hong Kong Joint Venture that are classified as available for sale. As a result, the Company increased its investment in the Hong Kong Joint Venture and Accumulated Other Comprehensive Income as of March 31, 2013 by \$1,376,410. Since these two components represented the only components of other

comprehensive income, the Company has not previously presented a Statement of Comprehensive Income (Loss). The Company has, in the accompanying Financial Statements, presented a separate condensed consolidated statement of comprehensive loss for the three and nine month periods ended December 31, 2013 and 2012.

The two components noted above increased comprehensive loss for three months ended December 31, 2012, by \$65,580 resulting in a net comprehensive loss of \$42,323. For the three months in the quarters ending June 30, 2012, September 30, 2012, and March 31, 2013, other comprehensive income (loss) was \$235,122, \$134,708 and \$(10,631); which (decreased) or increased comprehensive loss or income (previously reported as net loss or income) for the quarters then ended. For the fiscal year ending March 31, 2013, other comprehensive income was \$293,619, which decreased comprehensive loss of \$452,561 (previously reported as a net loss) to \$158,942.

The Company assessed the materiality of the error in accordance with the Securities and Exchange Commission (the SEC) Staff Accounting Bulletin Nos. 99 and 108 (SAB 99 and 108), and based on an analysis of quantitative and qualitative factors, determined that the error was immaterial to each of the prior reporting periods affected and, therefore, amendment of reports previously filed with the SEC was not required.

### **Accumulated Other Comprehensive Income**

The following table presents the changes in Accumulated Other Comprehensive Income by component for the nine months ended December 31, 2013:

|                           | Currency<br>Translation | Investment<br>Securities | Total        |
|---------------------------|-------------------------|--------------------------|--------------|
| Balance March 31, 2013    | \$ 1,172,486            | \$ 203,924               | \$ 1,376,410 |
| Other comprehensive loss  | (36,580)                | (140,633)                | (177,213)    |
| Balance December 31, 2013 | \$ 1,135,906            | \$ 63,291                | \$ 1,199,197 |

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

As used throughout this Report, “we,” “our,” “the Company” “USI” and similar words refers to Universal Security Instruments, Inc.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains certain forward-looking statements reflecting our current expectations with respect to our operations, performance, financial condition, and other developments. These forward-looking statements may generally be identified by the use of the words “may”, “will”, “believes”, “should”, “expects”, “anticipate”, “estimates”, and similar expressions. These statements are necessarily estimates reflecting management’s best judgment based upon current information and involve a number of risks and uncertainties. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and readers are advised that various factors could affect our financial performance and could cause our actual results for future periods to differ materially from those anticipated or projected. While it is impossible to identify all such factors, such factors include, but are not limited to, those risks identified in our periodic reports filed with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K.

### **overview**

We are in the business of marketing and distributing safety and security products which are primarily manufactured through our 50%-owned Hong Kong Joint Venture. Our financial statements detail our sales and other operational results only, and report the financial results of the Hong Kong Joint Venture using the equity method. Accordingly, the following discussion and analysis of the three and nine month periods ended December 31, 2013 and 2012 relate to the operational results of the Company. A discussion and analysis of the Hong Kong Joint Venture’s operational results for these periods is presented below under the heading “Joint Venture.”

The Company has developed new products based on new smoke and gas detection technologies, with what the Company believes are improved sensing technology and product features. To date we have applied for thirteen patents on these new technologies and features. We have been granted ten patents (including six for the new technologies and features), and are currently awaiting notification from the U.S. Patent Office regarding the three remaining patent applications. Most of our new technologies and features have been trademarked under the trade name IoPhic.

### **Results of Operations**

#### **Three Months Ended December 31, 2013 and 2012**

*Sales.* Net sales for the three months ended December 31, 2013 were \$3,738,914 compared to \$4,753,736 for the comparable three months in the prior fiscal year, a decrease of \$1,014,822 (21.3%). The primary reason for the decrease in net sales volumes were lower sales during the quarter ended December 31, 2013 as compared to the comparable quarter of the prior year.

*Gross Profit Margin.* Gross profit margin is calculated as net sales less cost of goods sold expressed as a percentage of net sales. Our gross profit margin was 30.1% and 21.6% of sales for the quarters ended December 31, 2013 and 2012, respectively. The increase in gross profit margin was primarily due to the mix of products sold.

*Expenses.* Research and development expenses were \$146,385 at December 31, 2013, compared to \$124,063 for the comparable three months in the prior year, an 18.0% increase. The increase in research and

development expense is primarily due to increased consultant costs.

Selling, general and administrative expenses were \$1,077,071 at December 31, 2013, compared to \$1,290,650 for the comparable three months in the prior year. As a percentage of net sales, these expenses increased to 29.9% for the three month period ended December 31, 2013, from 27.2% for the 2012 period. The decrease of these costs in dollars was primarily due to a reduction in amounts expended for advertising and promotions.

*Interest Income.* Our interest income was \$5,852 for the quarter ended December 31, 2013, compared to interest income of \$5,120 for the quarter ended December 31, 2012. The net interest income is dependent upon the cash balance held in an interest bearing account with our factor.

*Income Taxes.* During the quarter ended December 31, 2013, the Company recorded no income tax benefit associated with the net loss for the period due to the deferred tax assets arising from such tax benefits having been fully reserved. For the corresponding 2012 period, the Company incurred income tax expense of \$183,636.

*Net Loss.* We reported a net loss of \$367,191 for the quarter ended December 31, 2013, compared to net income of \$23,257 for the corresponding quarter of the prior fiscal year, a \$390,448 (1678.8%) decrease in earnings. The primary reason for the Company's net loss is lower Hong Kong Joint Venture earnings arising from reduced sales both to the Company and to unaffiliated customers of the Joint Venture, resulting in a net loss of \$275,057 compared to net income of \$589,426 for the comparable quarter of the prior year.

### **Nine Months Ended December 31, 2013 and 2012**

*Sales.* Net sales for the nine months ended December 31, 2013 were \$9,940,194 compared to \$11,269,901 for the comparable nine months in the prior fiscal year, a decrease of \$1,329,707 (11.8%). The primary reason for the decrease is lower sales of carbon monoxide detectors during the nine month period ended December 31, 2013 as compared to the comparable period in the prior year.

*Gross Profit Margin.* The gross profit margin is calculated as net sales less cost of goods sold expressed as a percentage of net sales. The Company's gross profit margin was 27.0% for the period ended December 31, 2013 and 28.2% for the period ended December 31, 2012. The decrease in gross profit margin was primarily due to the mix of products sold.

*Expenses.* Research and development expenses were comparable to the nine months in the prior year. Selling, general and administrative expenses were \$3,198,561 at December 31, 2013 compared to \$3,893,485 for the comparable nine months in the prior year. As a percentage of sales, these expenses were 32.6% for the nine month period ended December 31, 2013 and 34.5% for the comparable 2012 period. The primary reason for the decrease in the amount of these expenses as a percentage of sales is due to a reduction in advertising and promotional expenses, with a portion of the decrease attributable to lower sales in the current period.

*Interest Income.* Our interest income was \$17,674 for the nine months ended December 31, 2013, compared to interest income of \$19,972 for the nine months ended December 31, 2012. The decrease in interest income is due to a reduction in cash held in an interest bearing account.

*Income Taxes.* During the nine months ended December 31, 2013, the Company recorded an income tax expense of \$2,310,835 to provide an allowance against the Company's deferred tax assets. For the corresponding prior period, the Company recorded a tax benefit of \$15,739. The Company recorded the charge in the current period due to insufficient projected taxable income and the likelihood that the deferred tax assets would more likely than not be utilized. The Company believes that the introduction of its new line of sealed smoke and carbon monoxide alarms in 2014 will have a positive impact on sales and income.

*Net Loss.* We reported a net loss of \$2,945,939 for the nine months ended December 31, 2013 compared to a net loss of \$557,534 for the corresponding period of the prior fiscal year, an increase of \$2,388,405 (428.4%). The primary reason for the increased loss is the non-cash charge to provide an allowance for unrealizable deferred tax assets. Contributing to the Company's net loss is lower equity in the earnings of our Hong Kong Joint Venture, as further discussed under the heading Joint Venture.

### **Financial Condition and Liquidity**

The Company has a Factoring Agreement with CIT Group, Inc. (CIT) which supplies both short-term borrowings and letters of credit to finance foreign inventory purchases. The maximum amount available under the

Factoring Agreement is currently \$1,000,000. Based on specified percentages of our accounts receivable and inventory and letter of credit commitments, as of December 31, 2013 we had a borrowing availability of \$1,000,000 under the Factoring Agreement. The interest rate under the Factoring Agreement on the uncollected factored accounts receivable and any additional borrowings is equal to the prime rate of interest charged by our lender. At December 31, 2013, the prime rate was 3.25%. Borrowings are collateralized by all of our accounts receivable and inventory.

Our factored accounts receivable as of the end of our last fiscal year was \$2,281,662, and was \$1,992,680 as of December 31, 2013. Our prepaid expenses as of the end of our last fiscal year were \$598,686, and were \$258,660 as of December 31, 2013.

Operating activities used cash of \$996,956 for the nine months ended December 31, 2013. This was primarily due to joint venture earnings of \$229,363, an increase in inventories and prepaid expenses of \$22,416, and a decrease in accounts payable and accrued expenses of \$271,704. For the same period last year, operating activities used cash of \$527,064, primarily as a result of increases in inventory and prepaid expenses and a decrease in accounts payable and accrued expenses.

Investing activities provided cash of \$475,930 during the nine months ended December 31, 2013, and provided cash of \$56,270 for the nine months ended December 31, 2012, which is comprised of dividends received from our Hong Kong Joint Venture.

Financing activities used cash of \$171,469 during the nine months ended December 31, 2012 for the repurchase of common stock in accordance with the Company's Stock Repurchase Plan.

We believe that cash on hand available under the Factoring Agreement, distributions from the Joint Venture, and our line of credit facilities provide us with sufficient resources to meet our requirements for liquidity and working capital.

### **Joint Venture**

*Net Sales.* Net sales of the Joint Venture for the three and nine months ended December 31, 2013 were \$3,661,251 and \$16,424,133, respectively, compared to \$6,380,366 and \$16,951,783, respectively, for the comparable period in the prior fiscal year. The 42.6% and 3.1% respective decreases in net sales by the Joint Venture for the three and nine month periods is due to lower volumes of sales primarily to unaffiliated customers in Europe.

*Gross Margins.* Gross margins of the Joint Venture for the three month period ended December 31, 2013 decreased to 16.4% from 31.0% for the 2012 corresponding period. For the nine month period ended December 31, 2013, gross margins increased to 26.1% from the 25.2% gross margin of the prior year's corresponding period. The changes to gross margins for the 2013 period are due to lower sales and to unabsorbed factory overhead, increased labor and materials costs, and due to product mix of the Joint Venture's sales; since gross margins depend on sales volume of various products, with varying margins, decreased sales of higher margin products and increased sales of lower margin products affect the overall gross margins.

*Expenses.* Selling, general and administrative expenses were \$1,368,525 and \$4,050,057, respectively, for the three and nine month periods ended December 31, 2013, compared to \$1,056,245 and \$3,325,859 in the prior year's respective periods. As a percentage of sales, expenses were 37.4% and 24.7% for the three and nine month periods ended December 31, 2013, compared to 16.6% and 19.6% for the three and nine month periods ended December, 2012. The changes in selling, general and administrative expense as a percent of sales for the three and nine month periods were primarily due to costs that do not change in a direct relationship to sales compared with lower sales volumes.

*Interest Income and Expense.* Interest income on assets held for investment was \$132,548 and \$380,634 respectively, for the three and nine month periods ended December 31, 2013, compared to interest income of \$153,746 and \$376,732, respectively, for the prior year's periods. The increase for the three and nine month periods was principally due to currency fluctuations and the increase in the average balance of assets held for investment.

*Net Income (Loss).* Net income (loss) for the three and nine months ended December 31, 2013 was (\$531,125) and \$633,945, respectively, compared to \$849,969 and \$1,046,690, respectively, in the comparable periods last year. The 162.5% and 39.4% respective decreases in net income for the three and nine month periods were due primarily to decreased sales volume as noted above, combined with lower gross profit margins as discussed above.

*Liquidity.* Cash needs of the Joint Venture are currently met by funds generated from operations. During the nine months ended December 31, 2013, working capital decreased by \$428,116 from \$9,570,671 on March 31, 2013 to \$9,142,555 on December 31, 2013.

## Critical Accounting Policies

Management's discussion and analysis of our condensed consolidated financial statements and results of operations are based on our condensed Consolidated Financial Statements included as part of this document. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to bad debts, inventories, income taxes, and contingencies and litigation. We base these estimates on historical experiences, future projections and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect management's more significant judgments and estimates used in the preparation of its condensed consolidated financial statements. For a detailed discussion on the application on these and other accounting policies, see Note A to the consolidated financial statements included in Item 8 of the Form 10-K for the year ended March 31, 2013. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty and actual results could differ from these estimates. These judgments are based on our historical experience, terms of existing contracts, current economic trends in the industry, information provided by our customers, and information available from outside sources, as appropriate. Our critical accounting policies include:

*Revenue Recognition.* We recognize sales upon shipment of products net of applicable provisions for any discounts or allowances. The shipping date from our warehouse is the appropriate point of revenue recognition since upon shipment we have substantially completed our obligations which entitle us to receive the benefits represented by the revenues, and the shipping date provides a consistent point within our control to measure revenue. Customers may not return, exchange or refuse acceptance of goods without our approval. We have established allowances to cover anticipated doubtful accounts based upon historical experience.

*Inventories.* Inventories are valued at the lower of market or cost. Cost is determined on the first-in first-out method. We have recorded a reserve for obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Management reviews the reserve quarterly.

*Income Taxes.* The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the financial statements. These temporary differences may result in taxable or deductible amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. The deferred tax assets are reviewed periodically for recoverability and a valuation allowance is provided whenever it is more likely than not that a deferred tax asset will not be realized. The Company established an initial valuation allowance of \$300,000 on its deferred tax assets during the year ended March 31, 2013 to recognize that certain foreign tax credits expiring in future periods will likely not be realized. Upon further review of updated projected taxable income and the components of the deferred tax asset at September 30, 2013, it was determined that it is more likely than not that the tax benefits associated with the remaining components of the deferred tax assets will not be realized under current accounting guidance. This determination was made based on continued taxable losses during fiscal 2014, that were not in line with projections, as well as product offering delays which cause uncertainty as to whether the Company will generate sufficient taxable income to use the deferred tax assets prior to expiration in 2016. Accordingly, the valuation allowance was increased by approximately \$2,479,000 to fully offset the value of the deferred tax assets at September 30, 2013. A full valuation allowance is also included at December 31, 2013. Our ability to realize the tax benefits associated with the deferred tax assets depends

primarily upon the timing of future taxable income and the expiration dates of the components of the deferred tax assets. If sufficient future taxable income is generated, we may be able to offset a portion of future tax expenses.

The Company follows the financial pronouncement that gives guidance related to the financial statement of recognition and measurement of a tax position taken or expected to be taken in a tax return and requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties related to income tax matters are recorded as income tax expenses.

*Accounts Receivable and Amount Due From Factor.* The Company assigns the majority of its short-term receivables arising in the ordinary course of business to our factor. At the time a receivable is assigned to our factor the credit risk associated with the credit worthiness of the debtor is assumed by the factor. The Company continues to bear any credit risk associated with delivery or warranty issues related to the products sold.

Management assesses the credit risk of both its trade accounts receivable and its financing receivables based on the specific identification of accounts that have exceeded credit terms. An allowance for uncollectible receivables is provided based on that assessment. Changes in the allowance account from one accounting period to the next are charged to operations in the period the change is determined. Amounts ultimately determined to be uncollectible are eliminated from the receivable accounts and from the allowance account in the period that the receivables' status is determined to be uncollectible.

Based on the nature of the factoring agreement and prior experience, no allowance related to the Amount Due from Factor has been provided. At December 31, 2013, an allowance of \$57,000 has been provided for uncollectible trade accounts receivable.

*Contingencies.* From time to time, we are subject to lawsuits and other claims, related to patents and other matters. Management is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is based on a careful analysis of each individual issue with the assistance of outside legal counsel. It is the opinion of management, based on advice of legal counsel, that material losses from litigation are not reasonably likely.

*Warranties.* We generally provide warranties from one to ten years to the non-commercial end user on all products sold. The manufacturers of our products provide us with a one-year warranty on all products we purchase for resale. Claims for warranty replacement of products beyond the one-year warranty period covered by the manufacturers are immaterial and we do not record estimated warranty expense or a contingent liability for warranty claims.

#### **recent accounting pronouncements not yet adopted**

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updated (ASU's) to the FASB's Accounting Standards Codification.

We consider the applicability and impact of all ASU's. Recently issued ASU's were evaluated and determined to be either not applicable or are not expected to have a material impact on our consolidated financial statements.

#### **ITEM 4.**

#### **CONTROLS AND PROCEDURES**

We maintain controls and procedures that are designed to provide reasonable assurance that information, which is required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. Our Chief Executive Officer and Chief Financial Officer have evaluated the controls and procedures as of the end of the period covered by this quarterly report, and have concluded that they are effective at the reasonable assurance level. There have been no changes in our internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company is involved in various lawsuits and legal matters. It is the opinion of management, based on the advice of legal counsel, that these matters will not have a material adverse effect on the Company's financial statements.

### ITEM 6. EXHIBITS

#### Exhibit No.

- |      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1  | Articles of Incorporation (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1988, File No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 3.2  | Articles Supplementary, filed October 14, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed October 31, 2002, file No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 3.3  | Bylaws, as amended (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K filed July 13, 2011, File No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 10.1 | 2011 Non-Qualified Stock Option Plan (incorporated by reference to the Company's Proxy Statement with respect to the Company's 2011 Annual Meeting of Shareholders, filed July 26, 2011, File No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 10.2 | Hong Kong Joint Venture Agreement, as amended (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003, File No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 10.3 | Amended and Restated Factoring Agreement between the Registrant and The CIT Group/Commercial Services, Inc. ("CIT"), dated June 22, 2007 (substantially identical agreement entered into by the Registrant's wholly-owned subsidiary, USI Electric, Inc.) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 26, 2007, file No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 10.4 | Amended and Restated Inventory Security Agreement between the Registrant and CIT, dated June 22, 2007 (substantially identical agreement entered into by the Registrant's wholly-owned subsidiary, USI Electric, Inc.) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 26, 2007, file No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 10.5 | Amendment, dated December 22, 2009, to Amended and Restated Factoring Agreement between the Registrant and CIT dated June 22, 2007 (substantially identical agreement entered into by the Registrant's wholly-owned subsidiary, USI Electric, Inc.) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed February 16, 2010, file No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| 10.6 | Lease between Universal Security Instruments, Inc. and St. John Properties, Inc. dated November 4, 2008 for its office and warehouse located at 11407 Cronhill Drive, Suites A-D, Owings Mills, Maryland 21117 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2008, File No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 10.7 | Amendment to Lease between Universal Security Instruments, Inc. and St. John Properties, Inc. dated June 23, 2009 (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended March 31, 2009, File No. 1-31747)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 10.8 | Amended and Restated Employment Agreement dated July 18, 2007 between the Company and Harvey B. Grossblatt (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2007, File No. 1-31747), as amended by Addendum dated November 13, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 15, 2007, File No. 1-31747), by Addendum dated September 8, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 8, 2008, File No. 1-31747), by Addendum dated March 11, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 12, 2010, File No. 1-31747), by Addendum dated July 19, 2012 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 20, 2012, File No. 1-31747) , and by Addendum dated July 3, 2013 (incorporated by reference |

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to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 8, 2013, File No. 1-31747).

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer\*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer\*
- 32.1 Section 1350 Certifications\*
- 99.1 Press Release dated February 13, 2014\*
- 101 Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2013 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets, December 31, 2013 and March 31, 2013, (ii) Condensed Consolidated Statements of Earnings for the three months ended December 31, 2013 and 2012, (iii) Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2013 and 2012, and (v) Notes to Consolidated Financial Statements\*

\*Filed herewith

**SIGNATURES**

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

**UNIVERSAL SECURITY INSTRUMENTS,  
INC.**  
(Registrant)

Date: February 13, 2014

By: /s/ Harvey B. Grossblatt  
Harvey B. Grossblatt  
President, Chief Executive Officer

By: /s/ James B. Huff  
James B. Huff  
Vice President, Chief Financial Officer