

UNIVERSAL SECURITY INSTRUMENTS INC
Form 10-Q
February 19, 2019

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, 2018

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	52-0898545
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11407 Cronhill Drive, Suite A	
Owings Mills, Maryland	21117

Edgar Filing: UNIVERSAL SECURITY INSTRUMENTS INC - Form 10-Q

(Address of principal executive offices) (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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☐ Accelerated filer ☐ Non-Accelerated Filer ☒ Smaller Reporting Company ☒ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At February 19, 2019, the number of shares outstanding of the registrant's common stock was 2,312,887.

TABLE OF CONTENTS

	Page
<u>Part I - Financial Information</u>	
<u>Item 1.</u>	
<u>Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets at December 31, 2018 (unaudited) and March 31, 2018</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2018 and 2017 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Operations for the Nine Months Ended December 31, 2018 and 2017 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended December 31, 2018 and 2017 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Shareholders' Equity for the Nine Months Ended December 31, 2018 (unaudited)</u>	7
<u>Condensed Consolidated Statements of Shareholders' Equity for the Nine Months Ended December 31, 2017 (unaudited)</u>	8
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2018 and 2017 (unaudited)</u>	9
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	10

<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>15</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>19</u>
<u>Part II - Other Information</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>20</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>20</u>
	<u>Signatures</u>	<u>21</u>

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

	(unaudited) December 31, 2018	(audited) March 31, 2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 144,348	\$ 128,161
Accounts receivable:		
Trade, less allowance for doubtful accounts	1,014,975	418,550
Receivables from employees	65,788	55,568
Receivable from Hong Kong Joint Venture	11,173	-
	1,091,936	474,118
Amount due from factor	1,970,890	2,410,680
Inventories – finished goods	7,244,161	5,491,892
Prepaid expenses	203,480	278,100
TOTAL CURRENT ASSETS	10,654,815	8,782,951
INVESTMENT IN HONG KONG JOINT VENTURE	8,611,079	10,023,275
INTANGIBLE ASSET - NET	54,778	58,132
PROPERTY AND EQUIPMENT – NET	21,642	35,585
OTHER ASSETS	4,000	4,000
TOTAL ASSETS	\$ 19,346,314	\$ 18,903,943
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit - factor	\$ 1,527,712	\$ 1,611,154
Accounts payable - Hong Kong Joint Venture	5,833,162	3,838,627
Accounts payable - trade	803,933	494,253
Accrued liabilities:		
Accrued payroll and employee benefits	68,510	51,066

Edgar Filing: UNIVERSAL SECURITY INSTRUMENTS INC - Form 10-Q

Accrued commissions and other	84,810	155,507
TOTAL CURRENT LIABILITIES	8,318,127	6,150,607
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value per share; authorized 20,000,000 shares; 2,312,887 shares issued and outstanding at December 31, 2018 and March 31, 2018	23,129	23,129
Additional paid-in capital	12,885,841	12,885,841
Accumulated Deficit	(2,376,030)	(1,298,880)
Accumulated other comprehensive income	495,247	1,143,246
TOTAL SHAREHOLDERS' EQUITY	11,028,187	12,753,336
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 19,346,314	\$ 18,903,943

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,	
	2018	2017
Net sales	\$ 4,491,862	\$ 3,555,431
Cost of goods sold – acquired from Joint Venture	2,974,182	2,410,122
Cost of goods sold – other	456,302	77,761
GROSS PROFIT	1,061,378	1,067,548
Selling, general and administrative expense	1,120,585	1,136,033
Research and development expense	86,461	169,521
Operating loss	(145,668)	(238,006)
Other expense:		
Loss from investment in Hong Kong Joint Venture	(255,401)	(676,705)
Interest expense	(115,924)	(100,085)
NET LOSS	\$ (516,993)	\$ (1,014,796)
Loss per share:		
Basic and diluted	\$ (0.22)	\$ (0.44)
Shares used in computing net loss per share:		
Weighted average basic and diluted shares outstanding	2,312,887	2,312,887

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Nine Months Ended December 31,	
	2018	2017
Net sales	\$ 13,064,110	\$ 10,456,484
Cost of goods sold – acquired from Joint Venture	8,389,977	7,022,745
Cost of goods sold – other	916,119	225,870
GROSS PROFIT	3,758,014	3,207,869
Selling, general and administrative expense	3,416,924	3,425,754
Research and development expense	360,766	512,945
Operating loss	(19,676)	(730,830)
Other expense:		
Loss from investment in Hong Kong Joint Venture	(764,197)	(854,826)
Interest expense	(293,277)	(140,728)
NET LOSS	\$ (1,077,150)	\$ (1,726,384)
Loss per share:		
Basic and diluted	\$ (0.47)	\$ (0.75)
Shares used in computing net loss per share:		
Weighted average basic and diluted shares outstanding	2,312,887	2,312,887

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF

COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended Dec. 31,		Nine Months Ended Dec. 31,	
	2018	2017	2018	2017
NET LOSS	\$ (516,993)	\$ (1,014,796)	\$ (1,077,150)	\$ (1,726,384)
Other Comprehensive (Loss) Income Company's portion of Hong Kong Joint Venture's other comprehensive (loss) income:				
Currency translation	(218,016)	150,095	(655,876)	395,580
Unrealized gain (loss) on investment securities	58,631	(28,602)	7,877	(19,983)
Total Other Comprehensive (Loss) Income	(159,385)	121,493	(647,999)	375,597
COMPREHENSIVE LOSS	\$ (676,378)	\$ (893,303)	\$ (1,725,149)	\$ (1,350,787)

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NINE MONTHS ENDED DECEMBER 31, 2018

	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Deficit	AOCI*	Total
Balance at April 1, 2018	2,312,887	\$23,129	\$12,885,841	\$(1,298,880)	\$1,143,246	\$12,753,336
Currency translation					(379,479)	(379,479)
Unrealized loss on investment securities					(9,291)	(9,291)
Net loss				(438,833)		(438,833)
Balance at June 30, 2018	2,312,887	\$23,129	\$12,885,841	\$(1,737,713)	\$754,476	\$11,925,733
Currency translation					(58,381)	(58,381)
Unrealized loss on investment securities					(41,463)	(41,463)
Net loss				(121,324)		(121,324)
Balance at September 30, 2018	2,312,887	\$23,129	\$12,885,841	\$(1,859,037)	\$654,632	\$11,704,565
Currency translation					(218,016)	(218,016)
Unrealized gain on investment securities					58,631	58,631
Net loss				(516,993)		(516,993)
Balance at December 31, 2018	2,312,887	\$23,129	\$12,885,841	\$(2,376,030)	\$495,247	\$11,028,187

* Accumulated Other Comprehensive Income

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****NINE MONTHS ENDED DECEMBER 31, 2017**

	Common Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	AOCI*	Total
Balance at April 1, 2017	2,312,887	\$23,129	\$12,885,841	\$963,430	\$359,858	\$14,232,258
Currency translation					132,544	132,544
Unrealized gain on investment securities					19,523	19,523
Net loss				(543,663)		(543,663)
Balance at June 30, 2017	2,312,887	\$23,129	\$12,885,841	\$419,767	\$511,925	\$13,840,662
Currency translation					112,941	112,941
Unrealized loss on investment securities					(10,904)	(10,904)
Net loss				(167,925)		(167,925)
Balance at September 30, 2017	2,312,887	\$23,129	\$12,885,841	\$251,842	\$613,962	\$13,774,774
Currency translation					150,095	150,095
Unrealized loss on investment securities					(28,602)	(28,602)
Net loss				(1,014,796)		(1,014,796)
Balance at December 31, 2017	2,312,887	\$23,129	\$12,885,841	\$(762,954)	\$735,455	\$12,881,471

* Accumulated Other Comprehensive Income

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

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

	Nine Months Ended December 31,	
	2018	2017
OPERATING ACTIVITIES		
Net loss	\$ (1,077,150)	\$ (1,726,384)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	17,297	23,584
Loss from investment in Hong Kong Joint Venture	764,197	854,826
Changes in operating assets and liabilities:		
Increase in accounts receivable and amounts due from factor	(178,028)	(230,183)
Increase in inventories, prepaid expenses, and other	(1,677,649)	(539,971)
Increase in accounts payable and accrued expenses	2,250,962	2,307,303
NET CASH PROVIDED BY OPERATING ACTIVITIES	99,629	689,175
INVESTING ACTIVITIES:		
Purchase of equipment	-	(16,106)
NET CASH USED IN INVESTING ACTIVITIES	-	(16,106)
FINANCING ACTIVITIES:		
Net repayment of Line of Credit - Factor	(83,442)	(882,899)
NET CASH USED IN FINANCING ACTIVITIES	(83,442)	(882,899)
NET INCREASE (DECREASE) IN CASH	16,187	(209,830)
Cash at beginning of period	128,161	262,355
CASH AT END OF PERIOD	\$ 144,348	\$ 52,525
SUPPLEMENTAL INFORMATION:		
Interest paid	\$ 208,860	\$ 140,728
Income taxes paid	-	-

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARY

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 wholly-owned subsidiary. Except for the condensed consolidated balance sheet as of March 31, 2018, 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 accounting principles generally accepted in the United States of America (US-GAAP) have been condensed or omitted. The interim condensed consolidated financial statements should be read in conjunction with the Company's March 31, 2018 audited financial statements filed with the Securities and Exchange Commission on Form 10-K on July 16, 2018. The interim operating results are not necessarily indicative of the operating results for the full fiscal year.

Management Plans

The Company had net losses of \$1,077,150 for the nine months ended December 31, 2018 and \$2,262,310 and \$2,058,902 for the years ended March 31, 2018 and 2017, respectively. Furthermore, as of December 31, 2018, working capital (computed as the excess of current assets over current liabilities) decreased by \$295,656 from \$2,632,344 at March 31, 2018, to \$2,336,688 at December 31, 2018.

Our short-term borrowings to finance operating losses, trade accounts receivable, and foreign inventory purchases are provided pursuant to the terms of our Factoring Agreement (Agreement) with Merchant Factor Corporation (Merchant or Factor). Advances from the Company's factor, are at the sole discretion of Merchant based on their assessment of the Company's receivables, inventory and financial condition at the time of each request for an advance. At December 31, 2018, the Company had approximately \$400,000 of availability on the facility with Merchant. In addition, we have secured extended payment terms for purchases up to \$4,000,000 from Eyston Company Limited, our Hong Kong Joint Venture for the purchase of the sealed battery products. These amounts are unsecured and have repayment terms of one hundred-twenty days for each advance thereunder. The interest rate on amounts due to the Hong Kong Joint Venture is 5.5%. At December 31, 2018, the balance of accounts payable due to the Hong Kong Joint Venture was

\$5,833,162.

The Company has a history of sales that are insufficient to generate profitable operations, and has limited sources of financing. Management's plan in response to these conditions includes increasing sales resulting from the delivery of the Company's line of sealed battery ionization smoke alarms and carbon monoxide products, and obtaining additional financing on its credit facility. The Company has seen positive results on this plan during the fiscal years ended March 31, 2018 and 2017 and through December 31, 2018 due to sales of its sealed battery products and management expects this growth to continue going forward. Though no assurances can be given, if management's plan continues to be successful over the next twelve months, the Company anticipates that it should be able to meet its cash needs for the next twelve months following the issuance date of this report. Cash flows and credit availability is expected to be adequate to fund operations for one year from the issuance date of this report.

Line of Credit – Factor

On January 15, 2015, the Company entered into the Agreement with Merchant for the purpose of factoring the Company's trade accounts receivable and to provide financing secured by finished goods inventory. Under the Agreement the Company may borrow eighty percent (80%) of eligible accounts receivable. Additional funding, characterized by Merchant as an over advance, may be provided up to one hundred percent (100%) of eligible accounts receivable. The over advance portion, if any, may not exceed fifty percent (50%) of eligible inventory up to a maximum of \$500,000. The Agreement expires on January 6, 2020, and provides for continuation of the program for successive two year periods until terminated by one of the parties to the Agreement. As of December 31, 2018, the Company had borrowings of \$1,527,712 under the Agreement, and the Company had remaining availability under the Agreement of approximately \$400,000. Advances on factored trade accounts receivable are secured by all of the Company's trade accounts receivable and inventories, are repaid periodically as collections are made by Merchant but are otherwise due upon demand, and bear interest at the prime commercial rate of interest, as published, plus two percent (Effective rate 7.50% at December 31, 2018). Advances under the factoring agreement are made at the sole discretion of Merchant, based on their assessment of the receivables, inventory and our financial condition at the time of each request for an advance.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with 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.

Revenue Recognition

Adoption of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*

On April 1, 2018, the Company adopted ASC Topic 606 using the modified retrospective method. Results for reporting periods beginning after April 1, 2018 are presented under ASC Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with ASC Topic 605, “Revenue Recognition”. The adoption of ASC Topic 606 had no material impact on our current or previously recorded results of operations.

Revenue Recognition

The Company’s primary source of revenue is the sale of safety and security products based upon purchase orders or contracts with customers. Revenue is recognized at a point in time once the Company has determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the product is shipped or delivered to the customer. Customers may not return, exchange or refuse acceptance of goods without our approval. Generally, the Company does not grant extended payment terms. Shipping and handling costs associated with outbound freight, after control over a product has transferred to a customer, are accounted for as a fulfillment cost and are recorded in selling, general and administrative expense.

The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for products sold. Revenue is recorded at the transaction price net of estimates of variable consideration. The Company uses the expected value method based on historical data in considering the impact of estimates of variable consideration, which may include trade discounts, allowances, product returns (including rights of return) or warranty replacements. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

The Company has entered into an agreement with a single customer to grant pre-approved rights of return of up to twenty-five percent of products sold on certain invoices to provide for and gain acceptance within certain markets. This customer has been provided extended payment terms to provide for a portion of the payment to be made within 120 days.

Disaggregation of Revenue

The Company presents below revenue associated with sales of products acquired from our Hong Kong Joint Venture separately from revenue associated with sales of ground fault circuit interrupters (GFCI's) and ventilation fans. The Company believes this disaggregation best depicts how our various product lines perform and are affected by economic factors. Revenue recognized by these categories for the three and nine months ended December 31, 2018 and 2017 are as follows:

	Three months ended		Nine months ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Sales of products acquired from our HKJV	\$3,965,173	\$ 3,458,924	\$11,857,131	\$9,839,079
Sales of GFCI's and ventilation fans	526,689	96,507	1,206,979	617,405
	\$4,491,862	\$ 3,555,431	\$13,064,110	\$10,456,484

Receivables

Receivables are recorded when the Company has an unconditional right to consideration. We have established allowances to cover anticipated doubtful accounts based upon historical experience.

Remaining Performance Obligations

Remaining performance obligations represent the transaction price of firm orders for satisfied or partially satisfied performance obligations on contracts with an original expected duration of one year or more. The Company's contracts are predominantly short-term in nature with a contract term of one year or less. For those contracts, the Company has utilized the practical expedient in ASC Topic 606 exempting the Company from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

Joint Venture

The Company and its joint venture partner, a Hong Kong corporation, each owns a 50% interest in the Hong Kong joint venture that manufactures security products in its facilities located in the People's Republic of China. There are no material differences between US-GAAP and the basis of accounting used by the Hong Kong Joint Venture. The following represents summarized balance sheet and income statement information of the Hong Kong Joint Venture as of and for the nine months ended December 31, 2018 and 2017:

	2018	2017
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Net sales	\$ 11,175,101	\$ 10,169,231
Gross profit	1,536,150	1,580,652
Net loss	(1,175,720)	(1,561,216)
Total current assets	14,382,102	12,794,028
Total assets	20,699,448	23,473,281
Total current liabilities	2,759,398	2,287,795
Total liabilities	3,148,268	2,655,138

During the nine months ended December 31, 2018 and 2017 the Company purchased \$9,316,375 and \$7,179,110, respectively, of products directly from the Hong Kong Joint Venture for resale. For the nine months ended December 31, 2018 the Company has decreased its investment in the Joint Venture to reflect an increase of \$176,337 in inter-Company profit on purchases held by the Company in inventory. For the nine months ended December 31, 2017 the Company has decreased its investment in the net earnings of the Joint Venture to reflect an increase of \$74,218 in 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. 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.

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 has previously established a full valuation allowance on its deferred tax assets to recognize that net operating losses, and research and foreign tax credits expiring in future periods will likely not be realized. This determination was made based on continued taxable losses which cause uncertainty as to whether the Company will generate sufficient taxable income to use the deferred tax assets prior to expiration. 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 *Tax Cut and Jobs Act* includes a “Deemed Repatriation Transition Tax” (“Transition Tax”) and is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of our Hong Kong Joint Venture. The Company has completed its tax returns for the fiscal year ending March 31, 2018 and determined that it will not have a net tax liability since it has sufficient net operating loss carryforwards and foreign tax credit carryforwards to offset the unremitted earnings and profits of its Hong Kong Joint Venture that are subject to the Transition tax. The Company has remaining net operating loss and foreign tax credits carryforwards that remain fully reserved. Our ability to realize the remaining tax benefits associated with these net operating loss and foreign tax credits carryforwards depends primarily upon the timing of future taxable income and the expiration dates of the components of these carryforwards. If sufficient future taxable income is generated, we may be able to offset a portion of future 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 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, 2018 and 2017, an allowance of approximately \$57,000 has been provided for uncollectible trade accounts receivable.

Net Loss per Common Share

Basic net loss per common share is 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. There were no potentially dilutive common stock equivalents outstanding during the three and nine month periods ended December 31, 2018 or 2017. As

a result, basic and diluted weighted average common shares outstanding are identical for the three and nine month periods ended December 31, 2018 and 2017.

Contingencies

From time to time, the Company is involved in various claims and routine litigation matters. In the opinion of management, after consultation with legal counsel, the outcomes of such matters are not anticipated to have a material adverse effect on the Company's condensed consolidated financial position, results of operations, or cash flows in future years.

Recently Adopted Accounting Standards

Changes to US-GAAP are established by the Financial Accounting Standards Board (FASB) in the form of Accounting Standards Updates (ASU's) to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASU's.

In June 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. ASU 2014-09 affects any entity using US-GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. In addition, the requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, *Property, Plant, and Equipment*, and intangible assets within the scope of Topic 350, *Intangibles—Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation. This guidance is effective for annual periods beginning on or after December 15, 2017, including interim reporting periods within that reporting period and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application.

In December 2016 the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, or ASU 2016-20. The amendments in ASU 2016-20 update and affect narrow aspects of the guidance issued in ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Narrow Scope Improvements and Practical Expedients*, which provided revised guidance on certain issues relating to revenue from contracts with customers, including clarification of the objective of the collectability criterion. In March 2016, the FASB issued a final amendment to clarify the implementation guidance for principal versus agent considerations and in April 2016 issued a final amendment to clarify the guidance related to identifying performance obligations and the accounting for intellectual property licenses. See the revenue recognition accounting policy note for further information on the Company's adoption of this standard on April 1, 2018.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which clarifies and provides guidance on eight cash flow classification issues and is intended to reduce existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This standard is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company adopted this new accounting standard on April 1, 2018 which did not have a material impact on the condensed consolidated financial statements and footnote disclosures.

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”, “anticipates”, “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.

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, 2018 and 2017 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 new technologies and features). Most of our new technologies and features have been trademarked under the trade name IoPhic.

Changes in international trade duties and other aspects of international trade policy, both in the U.S. and abroad, could materially impact the cost of our products. All of our products are imported from the Peoples Republic of China (PRC). To date, our ground fault circuit interrupters (GFCI), which constitute only a small portion of our sales, have been included in products subject to a new 25% tariff effective August 23, 2018. Additionally, on September 28, 2018, tariffs of 10% have been imposed on our Carbon Monoxide and Photoelectric alarms. We are monitoring these developments and will determine our strategies as additional information becomes available. Any increase in tariffs that is not offset by an increase in our sales prices could have an adverse effect on our business, financial position, results of operations or cash flows.

Results of Operations

Three Months Ended December 31, 2018 and 2017

Sales. Net sales for the three months ended December 31, 2018 were \$4,491,862 compared to \$3,555,431 for the comparable three months in the prior year, an increase of \$936,431 (26.3%). Sales increased principally due to increased volume of the Company's line of sealed battery safety alarms and sales of GFCI's and other electrical devices not marketed in the prior fiscal 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 23.6% and 30.0% of sales for the quarters ended December 31, 2018 and 2017, respectively. The decrease in gross profit margin was primarily due to the imposition of new tariffs which took effect during the quarter and to the mix of products sold to differing customers.

Expenses. Selling, general and administrative expenses were generally comparable at \$1,120,585 for the three months ended December 31, 2018, compared to \$1,136,033 for the comparable three months in the prior year. As a percentage of net sales, these expenses decreased to 24.9% for the three month period ended December 31, 2018, from 32.0% for the 2017 period. These expenses decreased as a percentage of net sales since selling, general, and administrative expenses do not increase in direct proportion to increased sales

Research and development expenses were \$86,461 for the three month period ended December 31, 2018 compared to \$169,521 for the comparable quarter of the prior year, a decrease of \$83,060 (49.0%). The primary reason for the decrease is the completion of independent testing and a reduction in salaries expense.

Interest Expense. Our interest expense was \$115,924 for the quarter ended December 31, 2018, compared to interest expense of \$100,085 for the quarter ended December 31, 2017. Interest expense is dependent upon the total amounts borrowed on average from the Factor and on extended trade payables due to the Hong Kong Joint Venture and on interest rates that have increased during this fiscal quarter. Amounts due to the Hong Kong Joint Venture increased in the current fiscal year's three month period as compared to the same period in the prior fiscal year.

Net Loss. We reported a net loss of \$516,993 for the quarter ended December 31, 2018, compared to a net loss of \$1,014,796 for the corresponding quarter of the prior fiscal year, a \$497,803 (49.1%) decrease in the net loss. The primary reasons for the decrease in the net loss are the reduction in the net loss of the Hong Kong Joint Venture.

Nine Months Ended December 31, 2018 and 2017

Sales. Net sales for the nine months ended December 31, 2018 were \$13,064,110 compared to \$10,456,484 for the comparable nine months in the prior period, an increase of \$2,607,626 (24.9%). Sales increased principally due to increased volume of the Company's line of sealed battery safety alarms and sales of GFCT's and other electrical devices not marketed in the prior fiscal 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 28.8% for the nine month period ended December 31, 2018 and 30.7% for the nine month period ended December 31, 2017. The decrease in gross profit margin was primarily due to the imposition of new tariffs which took effect during the third fiscal quarter and to the mix of products sold to differing customers.

Expenses. Selling, general and administrative expenses were generally comparable at \$3,416,924 for the nine months ended December 31, 2018 compared to \$3,425,754 for the comparable nine months in the prior year. As a percentage of sales, these expenses were 26.2% for the nine month period ended December 31, 2018 and 32.8% for the comparable 2017 period. These expenses decreased as a percentage of net sales since selling, general, and administrative expenses do not increase in direct proportion to increased sales.

Research and development expenses were \$360,766 for the nine months ended December 31, 2018 compared to \$512,945 for the comparable period of the prior year, a decrease of \$152,179 (29.7%). The primary reason for the decrease is the completion of independent testing and a reduction in salaries expense.

Interest Expense. Our interest expense was \$293,277 for the nine months ended December 31, 2018, compared to interest expense of \$140,728 for the nine months ended December 31, 2017. Interest expense is dependent upon the total amounts borrowed on average from the Factor and from our Hong Kong Joint Venture and on interest rates that have increased during this fiscal year. Amounts borrowed from the Factor and the Hong Kong Joint Venture increased in the current fiscal year's nine month period as compared to the same period in the prior fiscal year resulting in the increase in interest expense noted above.

Net Loss. We reported a net loss of \$1,077,150 for the nine months ended December 31, 2018 compared to a net loss of \$1,726,384 for the corresponding period of the prior fiscal year, a decrease in the net loss of \$649,234 (37.6%). The primary reason for the decrease in the net loss is the increase in sales partially offset by the imposition of the new tariffs.

Joint Venture

Net Sales. Net sales of the Joint Venture for the three and nine months ended December 31, 2018 were \$3,218,878 and \$11,175,101 respectively, compared to \$2,099,592 and \$10,169,231, respectively, for the comparable period in the prior fiscal year. The 53.3% and 9.9% increases in net sales by the Joint Venture for the respective three and nine month periods are due to increased sales to the Company.

Gross Profit Margin. Gross margins of the Joint Venture for the three month period ended December 31, 2018 increased to 13.1% from (3.4)% for the 2017 corresponding period. For the nine month period ended December 31, 2018, gross margins were 13.8% compared to 15.5% for the same period of the prior year. Gross margins depend on sales volume of various products, with varying margins. In addition, foreign currency exchange gains and/or losses impact gross margins.

Expenses. Selling, general and administrative expenses were \$1,022,455 and \$3,265,526 respectively, for the three and nine month periods ended December 31, 2018, compared to \$1,134,807 and \$3,377,504 in the prior year's respective periods. As a percentage of sales, expenses were 31.8% and 29.2% for the three and nine month periods ended December 31, 2018, compared to 54.1% and 33.2% for the three and nine month periods ended December 31, 2017. 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 at the same rate as changes in sales volume.

Interest Income. Interest income on assets held for investment was \$25,664 and \$94,667 respectively, for the three and nine month periods ended December 31, 2018, compared to interest income of \$63,298 and \$229,544, respectively, for the prior year's periods. Interest income is dependent on yields and on the average balance of assets held for investment.

Net Loss. Net losses for the three and nine months ended December 31, 2018 were \$426,316 and \$1,175,720, respectively, compared to net losses of \$1,059,334 and \$1,561,216, respectively, in the comparable period last year. The decrease in the net loss for the three and nine month periods ended December 31, 2018 is due primarily to increased sales to the Company.

Liquidity. Cash needs of the Joint Venture are currently met by funds generated from operations. During the nine months ended December 31, 2018, working capital increased by \$1,814,488 from \$9,808,216 on March 31, 2018 to \$11,622,704 on December 31, 2018.

Management Plans and Liquidity

The Company had net losses of \$1,077,150 for the nine months ended December 31, 2018 and \$2,262,310 and \$2,058,902 for the years ended March 31, 2018 and 2017, respectively. Furthermore, as of December 31, 2018, working capital (computed as the excess of current assets over current liabilities) decreased by \$295,656 from \$2,632,344 at March 31, 2018, to \$2,336,688 at December 31, 2018.

Our short-term borrowings to finance operating losses, trade accounts receivable, and foreign inventory purchases are provided pursuant to the terms of our Factoring Agreement (Agreement) with Merchant Factor Corporation (Merchant or Factor). Advances from the Company's factor, are at the sole discretion of Merchant based on their assessment of the Company's receivables, inventory and financial condition at the time of each request for an advance. At December 31, 2018, the Company had approximately \$400,000 of availability on the facility with Merchant. In addition, we have secured extended payment terms for purchases up to \$4,000,000 from Eyston Company Limited, our Hong Kong Joint Venture for the purchase of the sealed battery products. These amounts are unsecured and have repayment terms of one hundred-twenty days for each advance thereunder. The interest rate on amounts due to the Hong Kong Joint Venture is 5.5%. At December 31, 2018, the balance of accounts payable due to the Hong Kong Joint Venture was \$5,833,162.

The Company has a history of sales that are insufficient to generate profitable operations, and has limited sources of financing. Management's plan in response to these conditions includes increasing sales resulting from the delivery of the Company's line of sealed battery ionization smoke alarms and carbon monoxide products, and obtaining additional financing on its credit facility. The Company has seen positive results on this plan during the fiscal years ended March 31, 2018 and 2017 and through December 31, 2018 due to sales of its sealed battery products and management expects this growth to continue going forward. Though no assurances can be given, if management's plan continues to be successful over the next twelve months, the Company anticipates that it should be able to meet its cash needs for the next twelve months following the issuance date of this report. Cash flows and credit availability is expected to be adequate to fund operations for one year from the issuance date of this report.

Operating activities provided cash of \$99,629 for the nine months ended December 31, 2018. This was primarily due to an increase in accounts payable and accrued expenses of \$2,250,962 and offset by a net loss of \$1,077,150 and an increase in accounts receivable of \$178,028, and an increase in inventories, prepaid expenses and other of \$1,677,649. The net loss includes a non-cash loss from the investment in the Hong Kong Joint Venture of \$764,197.

Operating activities provided cash of \$689,175 for the nine months ended December 31, 2017. This was primarily due to an increase in accounts payable and accrued expenses of \$2,307,303 and offset by a net loss of \$1,726,384 and an increase in accounts receivable of \$230,183, and in increase in inventories, prepaid expenses and other of \$539,971. The net loss includes a non-cash loss from the investment in the Hong Kong Joint Venture of \$854,826.

There were no investing activities for the nine months ended December 31, 2018. Investing activities used cash during the nine months ended December 31, 2017 resulting from the purchase of \$16,106 in equipment.

Financing activities used cash of \$83,442 during the nine months ended December 31, 2018 and used cash of \$882,899 during the nine months ended December 31, 2017, which is comprised of net repayments on the line of credit from our factor.

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, 2018 as filed with the Securities and Exchange Commission on July 16, 2018. 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. In June 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. ASU 2014-09 affects any entity using US GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. In addition, the requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, *Property, Plant, and Equipment*, and intangible assets within the scope of Topic 350, *Intangibles—Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with a customer. Step 2: Identify the performance obligations in the contract. Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation. This guidance is effective for annual periods beginning on or after December 15, 2017, including interim reporting periods within that reporting period and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application.

In December 2016 the FASB issued Accounting Standards Update No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, or ASU 2016-20. The amendments in ASU 2016-20 update and affect narrow aspects of the guidance issued in ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Narrow Scope Improvements and Practical Expedients*, which provided revised guidance on certain issues relating to revenue from contracts with customers, including clarification of the objective of the collectability criterion. In March 2016, the FASB issued a final amendment to clarify the implementation guidance for principal versus agent considerations and in April 2016 issued a final amendment to clarify the guidance related to identifying performance obligations and the accounting for intellectual property licenses. The Company adopted this new accounting standard on April 1, 2018 which did not have a material impact on the condensed consolidated financial statements and footnote disclosures.

Inventories. Inventories are valued at the lower of cost or net realizable value. Cost is determined on the first-in first-out method. We evaluate inventories on a quarterly basis and write down inventory that is deemed obsolete or unmarketable in an amount equal to the difference between the cost of inventory and the estimated net realizable value based upon assumptions about future demand and market conditions.

Income Taxes. The Company files its income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. Income tax returns filed for the fiscal years ended March 31, 2018, 2017, and 2016 are considered open and subject to examination by tax authorities. Deferred income tax assets and liabilities are computed and recognized for those differences that have future tax consequences and will result in net taxable or deductible amounts in future periods. Deferred tax expense or benefit is the result of changes in the net asset or liability for deferred taxes. The deferred tax liabilities and assets for the Company result primarily from net operating loss and tax credit carry forwards, reserves and accrued liabilities. We calculate our interim tax provision in accordance with the guidance for accounting for income taxes in interim periods. 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.

The Company follows ASC 740-10 which provides guidance for 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 consolidated 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, if any, related to income tax matters are recorded as income tax expenses.

Off-Balance Sheet Arrangements. We have not created, and are not party to, any special-purpose or off balance sheet entities for the purpose of raising capital, incurring debt or operating parts of our business that are not consolidated into our condensed financial statements and do not have any arrangements or relationships with entities that are not consolidated into our condensed financial statements that are reasonably likely to materially affect our liquidity or the availability of our capital resources.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures (as such item is defined in Rules 13a – 15(e) and 15d – 15(e) of the Exchange Act) that is 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 this system of disclosure controls and procedures in accordance with applicable Securities and Exchange Commission guidance as of the end of the period covered by this quarterly report, and have concluded that disclosure controls and procedures were not effective because of the material weakness in internal control over financial reporting as discussed below.

Material weaknesses arose in our oversight of the accounting function and disclosure controls and procedures of the Hong Kong Joint Venture (HKJV). The HKJV is a material component of the Company's consolidated financial statements. The Company has discussed this weakness with management of the HKJV and is monitoring implementation of suggested improvements.

Changes in Internal Control over Financial Reporting. There have not been any changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2018 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 3.1 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 Discount Factoring Agreement between the Registrant and Merchant Factors Corp., dated January 6, 2015 (substantially identical agreement entered into by USI'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 January 16, 2015, file No. 1-31747)
- 10.4 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)
- 10.5 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)
- 10.6 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), by Addendum dated July 3, 2013 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 8, 2013, File No. 1-31747), and by Addendum dated July 21, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 21, 2014, File No. 1-31747), by addendum dated July 23, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 28, 2015, File No. 1-31747), by addendum dated July 12, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 12, 2016, File No. 1-31747), by addendum dated July 18, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 20, 2017, File No. 1-31747), and by addendum dated July 9, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 9, 2018, File No. 1-31747)

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer*

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer*

32.1 Section 1350 Certifications*

99.1 Press Release dated February 19, 2019*

Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2018 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of December 31, 2018 and March 31, 2018, (ii) Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2018 and 2017, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2018 and 2017, and (v) Notes to Condensed 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 19, 2019 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