

UNIVERSAL SECURITY INSTRUMENTS INC
Form 10-Q
November 13, 2008

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

FORM 10-Q

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

For the Quarterly period ended September 30, 2008

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.)

7-A Gwynns Mill Court

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 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

No x

At November 10, 2008, the number of shares outstanding of the registrant's common stock was 2,476,367.

TABLE OF CONTENTS

| | Page | |
|---------------------------------------|--|----|
| Part I - Financial Information | | |
| <u>Item 1.</u> | Consolidated Financial Statements (unaudited): | |
| | Consolidated Balance Sheets at September 30, 2008 and March 31, 2008 | 3 |
| | Consolidated Statements of Earnings for the Three Months Ended September 30, 2008 and 2007 | 4 |
| | Consolidated Statements of Earnings for the Six Months Ended September 30, 2008 and 2007 | 5 |
| | Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2008 and 2007 | 6 |
| | Notes to Consolidated Financial Statements | 7 |
| <u>Item 2.</u> | Management's Discussion and Analysis of Financial Condition and Results of Operations | 11 |
| <u>Item 3.</u> | Quantitative and Qualitative Disclosure About Market Risk | 16 |
| <u>Item 4.</u> | Controls and Procedures | 17 |
| Part II - Other Information | | |
| <u>Item 1.</u> | Legal Proceedings | 17 |
| <u>Item 2.</u> | Unregistered Sales of Equity Securities and Use of Proceeds | 18 |
| <u>Item 4.</u> | Submission of Matters to a Vote of Security Holders | 18 |
| <u>Item 6.</u> | Exhibits | 19 |
| | Signatures | 20 |

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

| | September 30, 2008 | March 31, 2008 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 22,298 | \$ 3,863,784 |
| Accounts receivable: | | |
| Trade less allowance for doubtful accounts of \$95,927 and \$15,000 at September 30, 2008 and March 31, 2008 | 511,644 | 146,022 |
| Recoverable taxes and other receivables | 282,695 | 282,083 |
| Receivable from Hong Kong Joint Venture | 200,560 | 115,656 |
| | 994,899 | 543,761 |
| Amount due from factor | 5,848,088 | 5,600,408 |
| Inventories, net of allowance for obsolete inventory of \$40,000 at September 30, 2008 and March 31, 2008 | 8,684,870 | 5,357,488 |
| Prepaid expenses | 342,790 | 206,197 |
| Assets held for sale | 260,009 | 2,850,731 |
| TOTAL CURRENT ASSETS | 16,152,954 | 18,422,369 |
| DEFERRED TAX ASSET | 2,683,968 | 1,914,136 |
| INVESTMENT IN HONG KONG JOINT VENTURE | 10,662,922 | 9,986,579 |
| PROPERTY AND EQUIPMENT – NET | 107,722 | 130,347 |
| OTHER ASSETS | 15,486 | 15,486 |
| TOTAL ASSETS | \$ 29,623,052 | \$ 30,468,917 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Amount due to factor | \$ 625,594 | \$ 0 |
| Accounts payable | 819,977 | 777,342 |
| Hong Kong Joint Venture accounts payable | 2,942,011 | 1,687,950 |
| Accrued liabilities: | | |
| Litigation reserve | 401,592 | 401,592 |
| Payroll and employee benefits | 369,875 | 158,057 |
| Commissions and other | 260,772 | 105,431 |
| Liabilities held for sale | 260,009 | 7,823,450 |
| TOTAL CURRENT LIABILITIES | 5,679,830 | 10,953,822 |
| Long-term liability – other | 93,915 | 91,160 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$.01 par value per share; authorized 20,000,000 shares; issued and outstanding 2,483,867 shares at September 30, 2008 and 2,487,867 shares at March 31, 2008 | 24,840 | 24,879 |

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| | | |
|--|-------------------|-------------------|
| Additional paid-in capital | 13,439,750 | 13,453,378 |
| Retained earnings | 10,384,717 | 5,890,023 |
| Other comprehensive income | - | 55,655 |
| TOTAL SHAREHOLDERS' EQUITY | 23,849,307 | 19,423,935 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 29,623,052 | \$ 30,468,917 |

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

3

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

| | Three Months Ended September 30, | |
|---|----------------------------------|-------------------|
| | 2008 | 2007 |
| Net sales | \$ 8,381,379 | \$ 9,689,537 |
| Cost of goods sold – acquired from Joint Venture | 4,825,503 | 3,987,325 |
| Cost of goods sold – other | 1,664,603 | 3,759,858 |
| GROSS PROFIT | 1,891,273 | 1,942,354 |
| Research and development expense | 85,184 | 90,777 |
| Selling, general and administrative expense | 1,649,290 | 1,520,071 |
| Operating income | 156,799 | 331,506 |
| Other income (expense): | | |
| Interest income | 23,041 | - |
| Interest expense | (26,300) | (12,364) |
| INCOME BEFORE EQUITY IN EARNINGS OF JOINT VENTURE | 153,540 | 319,142 |
| Equity in earnings of Joint Venture | 600,190 | 590,965 |
| Income from continuing operations before income taxes | 753,730 | 910,107 |
| Provision for income tax expense | 97,429 | 108,000 |
| INCOME FROM CONTINUING OPERATIONS | 656,301 | 802,107 |
| Discontinued operations: | | |
| Gain (loss) from operations of the discontinued Canadian subsidiary | 2,469,041 | (483,977) |
| Income tax benefit – discontinued operations | 965,872 | - |
| Gain (loss) from discontinued operations | 3,434,913 | (483,977) |
| NET INCOME | \$ 4,091,214 | \$ 318,130 |
| Income (loss) per share: | | |
| Basic – from continuing operations | 0.26 | 0.32 |
| Basic – from discontinued operations | 1.38 | (0.19) |
| Basic – net income | 1.64 | 0.13 |
| Diluted – from continuing operations | 0.26 | 0.32 |
| Diluted – from discontinued operations | 1.38 | (0.19) |
| Diluted – net income | 1.64 | 0.13 |
| Shares used in computing net income per share: | | |
| Basic | 2,486,176 | 2,483,605 |
| Diluted | 2,486,176 | 2,515,513 |

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

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

| | Six Months Ended September 30, | |
|---|--------------------------------|---------------------|
| | 2008 | 2007 |
| Net sales | \$ 14,574,180 | \$ 19,375,195 |
| Cost of goods sold - acquired from Joint Venture | 8,097,713 | 8,175,063 |
| Cost of goods – other | 3,008,128 | 6,535,929 |
| GROSS PROFIT | 3,468,339 | 4,664,203 |
| Research and development expense | 171,418 | 160,667 |
| Selling, general and administrative expense | 2,893,224 | 3,075,606 |
| Operating income | 403,697 | 1,427,930 |
| Other income (expense): | | |
| Interest income | 41,876 | - |
| Interest expense | (26,300) | (70,861) |
| INCOME BEFORE EQUITY IN EARNINGS OF JOINT VENTURE | 419,273 | 1,357,069 |
| Equity in earnings of Joint Venture | 892,962 | 1,190,715 |
| Income from continuing operations before income taxes | 1,312,235 | 2,547,784 |
| Provision for income tax expense | 198,795 | 537,876 |
| INCOME FROM CONTINUING OPERATIONS | 1,113,440 | 2,009,908 |
| Discontinued operations: | | |
| Gain (loss) from operations of the discontinued Canadian subsidiary | 2,415,382 | (900,775) |
| Income tax benefit – discontinued operations | 965,872 | - |
| Gain (loss) from discontinued operations | 3,381,254 | (900,775) |
| NET INCOME | \$ 4,494,694 | \$ 1,109,133 |
| Income (loss) per share: | | |
| Basic – from continuing operations | 0.45 | 0.81 |
| Basic – from discontinued operations | 1.36 | (0.36) |
| Basic – net income | 1.81 | 0.45 |
| Diluted – from continuing operations | 0.45 | 0.80 |
| Diluted – from discontinued operations | 1.36 | (0.36) |
| Diluted – net income | 1.81 | 0.44 |
| Shares used in computing net income per share: | | |
| Basic | 2,487,017 | 2,481,802 |
| Diluted | 2,487,017 | 2,523,316 |

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

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

| | Six Months Ended September 30, | |
|---|--------------------------------|--------------|
| | 2008 | 2007 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 4,494,694 | \$ 1,109,133 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | |
| Operations of discontinued subsidiary | (3,428,897) | (2,942,808) |
| Depreciation and amortization | 22,625 | 24,705 |
| Earnings of the Joint Venture | (892,962) | (1,190,715) |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable and amounts due from factor | (698,818) | 1,734,038 |
| (Increase) decrease in inventories and prepaid expenses | (3,463,975) | 1,890,127 |
| Increase (decrease) in accounts payable and accrued expenses | 1,663,855 | (2,937,262) |
| (Decrease) increase in deferred taxes and other assets | (769,832) | 95,678 |
| NET CASH USED IN OPERATING ACTIVITIES | | |