

11407 Cronhill Drive, Suite A
Owings Mills, Maryland 21117
(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 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, 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 November 17, 2017, 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</u>	
<u>1.</u> <u>Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets at September 30, 2017 (unaudited) and March 31, 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2017 and 2016 (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for the Six Months Ended September 30, 2017 and 2016 (unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended September 30, 2017 and 2016 (unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2017 and 2016 (unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>8</u>
<u>Item</u>	
<u>2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>12</u>
<u>Item</u>	
<u>4.</u> <u>Controls and Procedures</u>	<u>16</u>
<u>Part II - Other Information</u>	
<u>Item</u>	
<u>1.</u> <u>Legal Proceedings</u>	<u>17</u>
<u>Item</u>	
<u>6.</u> <u>Exhibits</u>	<u>17</u>
<u>Signatures</u>	<u>18</u>

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

	(unaudited) September 30, 2017	(audited) March 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 257,637	\$ 262,355
Accounts receivable:		
Trade, less allowance for doubtful accounts	365,143	170,010
Receivables from employees	64,751	60,087
Receivable from Hong Kong Joint Venture	18,367	17,584
	448,261	247,681
Amount due from factor	1,836,304	2,009,471
Inventories – finished goods	5,851,393	4,700,104
Prepaid expenses	291,476	491,928
TOTAL CURRENT ASSETS	8,685,071	7,711,539
INVESTMENT IN HONG KONG JOINT VENTURE	10,638,820	10,562,837
PROPERTY AND EQUIPMENT – NET	48,755	46,293
INTANGIBLE ASSET - NET	60,368	62,604
OTHER ASSETS	4,000	4,000
TOTAL ASSETS	\$ 19,437,014	\$ 18,387,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit - factor	\$ 1,046,749	\$ 2,264,125
Accounts payable - trade	511,800	525,638
Accounts payable - Hong Kong Joint Venture	3,976,508	1,206,731
Accrued liabilities:		
Payroll and employee benefits	75,322	82,894
Commissions and other	51,861	75,627

TOTAL CURRENT LIABILITIES	5,662,240	4,155,015
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 September 30, 2017 and March 31, 2017	23,129	23,129
Additional paid-in capital	12,885,841	12,885,841
Retained earnings	251,842	963,430
Accumulated other comprehensive income	613,962	359,858
TOTAL SHAREHOLDERS' EQUITY	13,774,774	14,232,258
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 19,437,014	\$ 18,387,273

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 September 30,	
	2017	2016
Net sales	\$ 3,582,816	\$ 4,213,705
Cost of goods sold – acquired from Joint Venture	2,360,196	2,905,992
Cost of goods sold – other	63,832	61,097
GROSS PROFIT	1,158,788	1,246,616
Selling, general and administrative expense	1,145,801	1,154,895
Research and development expense	168,701	182,352
Operating loss	(155,714)	(90,631)
Other income (expense):		
Income from investment in Hong Kong Joint Venture	9,989	51,114
Interest expense	(22,200)	(24,549)
NET LOSS	\$ (167,925)	\$ (64,066)
Loss per share:		
Basic and diluted	(0.07)	(0.03)
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)**

	Six Months Ended September 30,	
	2017	2016
Net sales	\$ 6,901,053	\$ 7,392,312
Cost of goods sold - acquired from Joint Venture	4,612,623	4,949,019
Cost of goods sold - other	148,109	133,683
GROSS PROFIT	2,140,321	2,309,610
Selling, general and administrative expense	2,289,721	2,268,615
Research and development expense	343,424	319,983
Operating loss	(492,824)	(278,988)
Other expense:		
Loss from investment in Hong Kong Joint Venture	(178,121)	(145,972)
Interest expense	(40,643)	(28,785)
NET LOSS	\$ (711,588)	\$ (453,745)
Loss per share:		
Basic and diluted	(0.31)	(0.20)
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 Sept.		Six Months Ended Sept.	
	30,		30,	
	2017	2016	2017	2016
NET LOSS	\$ (167,925)	\$ (64,066)	\$ (711,588)	\$ (453,745)
Other Comprehensive Income (Loss)				
Company's portion of Hong Kong Joint Venture's other comprehensive income (loss):				
Currency translation	112,941	(113,541)	245,485	(279,844)
Unrealized (loss) gain on investment securities	(10,904)	(4,341)	8,619	(20,921)
Total Other Comprehensive Income (Loss)	102,037	(117,882)	254,104	(300,765)
COMPREHENSIVE LOSS	\$ (65,888)	\$ (181,948)	\$ (457,484)	\$ (754,510)

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)**

	Six Months Ended September	
	30,	
	2017	2016
OPERATING ACTIVITIES		
Net loss	\$ (711,588) \$ (453,745)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,880	15,633
Loss from investment in Hong Kong Joint Venture	178,121	145,972
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable and amounts due from factor	(27,413) 37,307
Increase in inventories, prepaid expenses, and other	(950,837) (911,794)
Increase in accounts payable and accrued expenses	2,724,601	596,591
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,228,764	(570,036)
INVESTING ACTIVITIES:		
Purchase of equipment	(16,106) -
NET CASH USED IN INVESTING ACTIVITIES	(16,106) -
FINANCING ACTIVITIES:		
Net (repayment of) proceeds from Line of Credit - Factor	(1,217,376) 349,100
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,217,376) 349,100
NET DECREASE IN CASH	(4,718) (220,936)
Cash at beginning of period	262,355	362,728
CASH AT END OF PERIOD	\$ 257,637	\$ 141,792
SUPPLEMENTAL INFORMATION:		
Interest paid	\$ 40,643	\$ 28,785
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, 2017, 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, 2017 audited financial statements filed with the Securities and Exchange Commission on Form 10-K on July 14, 2017. 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 \$711,588 for the six months ended September 30, 2017 and \$2,058,902 and \$2,137,792 for the years ended March 31, 2017 and 2016, respectively. Furthermore, as of September 30, 2017, working capital (computed as the excess of current assets over current liabilities) decreased by \$533,693 from \$3,556,524 at March 31, 2017, to \$3,022,831 at September 30, 2017. In addition, the Company experienced negative cash flows from operations of \$2,153,188 and \$822,957 for the fiscal years ended March 31, 2017 and 2016, respectively.

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. The availability remaining under this facility is approximately \$801,000 at September 30, 2017.

In addition, we have secured extended payment terms of up to \$3,000,000 for the purchase of sealed battery products from our Hong Kong Joint Venture. Amounts due for purchases under these extended payment terms are unsecured, bear interest at 4.5%, and are payable ninety days from the date of each purchase thereunder. At September 30, 2017 the Company has a balance under this facility with the Hong Kong Joint Venture of \$3,976,508. The Hong Kong Joint Venture has waived the over advance position subject to a Letter of Intent to the Company dated August 30, 2017 from Taisun Magnetics, Ltd., a related party, to provide additional long-term, interest only financing of \$1,000,000. The loan from Taisun Magnetics, Ltd, when consummated, will be applied to reduce the balance outstanding on the extended payment term facility provided by our Hong Kong Joint Venture.

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 new line of sealed battery safety alarms, seeking additional financing, and reducing non-essential expenditures. This plan is in effect and approved by management. Management has continued to work on this through September 30, 2017. Though no assurances can be given, if management's plan is successful over the next twelve months, the Company anticipates that it should be able to meet its cash needs. Cash flows and credit availability is expected to be adequate to fund operations for one year from the issuance date of these condensed consolidated financial statements.

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. The Company has been in negotiations with Merchant regarding the Agreement and was notified on October 25, 2017 that the agreement was amended with an effective date of September 1, 2017. The Agreement with Merchant was modified to restrict borrowing solely to eligible accounts receivable and removing the Company's ability to borrow up to \$1,000,000 supported by inventory. Under the modified 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, 2018 and provides for continuation of the program for successive two year periods until terminated by one of the parties to the Agreement. As of September 30, 2017, the Company had borrowings of \$1,046,749 under the Agreement, and the Company had remaining availability under the Agreement of approximately \$801,000. 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 6.25% at September 30, 2017). 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

The Company recognizes sales upon shipment of products, when title has passed to the buyer, net of applicable provisions for any discounts or allowances. We recognize revenue when the following criteria are met: evidence of an arrangement exists; fixed and determinable fee; delivery has taken place; and collectability is reasonably assured. Customers may not return, exchange or refuse acceptance of goods without our approval. However, the Company has entered into an agreement with a customer to grant pre-approved rights of return of up to fifty percent of products sold on certain invoices to provide for and gain acceptance within certain markets. When a pre-approved right of return is granted, revenue recognition is deferred until the right of return expires. Upon the recognition of a sale we will establish an allowance to cover anticipated doubtful accounts based upon historical experience.

Joint Venture

The Company and its joint venture partner, 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. 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 six months ended September 30, 2017 and 2016:

	2017	2016
	(Unaudited)	(Unaudited)
Net sales	\$8,069,639	\$8,273,094
Gross profit	1,653,871	2,208,510
Net (loss) income	(501,882)	206,428
Total current assets	12,905,014	13,042,873
Total assets	24,026,974	28,010,955

Total current liabilities	2,019,534	4,359,497
Total liabilities	2,409,799	4,833,183

During the six months ended September 30, 2017 and 2016 the Company purchased \$5,548,858 and \$5,726,467, respectively, of products directly from the Hong Kong Joint Venture for resale. For the six months ended September 30, 2017 the Company has decreased its equity in the net loss of the Joint Venture to reflect a decrease of \$72,820 in inter-Company profit on purchases held by the Company in inventory. For the six months ended September 30, 2016 the Company has reduced its equity in the net earnings of the Joint Venture to reflect an increase of \$249,186 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. 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 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.

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 September 30, 2017 and 2016, 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 six month periods ended September 30, 2017 or 2016. As a result, basic and diluted weighted average common shares outstanding are identical for the three and six month periods ended September 30, 2017 and 2016.

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.

Recent Accounting Standards Not Yet Adopted

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 will supersede 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 existing 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. The Company is currently assessing the impact that adopting this new accounting standard will have on the condensed consolidated financial statements and footnote disclosures.

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 is currently assessing the impact that adopting this new accounting standard will have on the condensed consolidated financial statements and footnote disclosures.

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 does not expect that adopting this new accounting standard will 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 six month periods ended September 30, 2017 and 2016 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.

Results of Operations

Three Months Ended September 30, 2017 and 2016

Sales. Net sales for the three months ended September 30, 2017 were \$3,582,816 compared to \$4,213,705 for the comparable three months in the prior period, a decrease of \$630,889 (15.0%). Sales decreased principally due to a reduction in sales to a single customer as compared to sales to that customer in the prior year's comparable period.

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 32.3% and 29.6% of sales for the quarters ended September 30, 2017 and 2016, respectively. The increase in gross profit margin was primarily due to the mix of products sold to differing customers and to the introduction of the Company's new line of sealed battery safety alarms which generally have higher margins.

Expenses. Selling, general and administrative expenses were \$1,145,801 for the three months ended September 30, 2017, compared to \$1,154,895 for the comparable three months in the prior year. As a percentage of net sales, these expenses increased to 32.0% for the three month period ended September 30, 2017, from 27.4% for the 2016 period. These expenses, as a dollar amount, are comparable to the prior year's period, however the expenses increase as a percentage of sales due to selling, general, and administrative expenses that do not decrease in the same proportion as decreases in sales.

Research and development expenses were \$168,701 for the three month period ended September 30, 2017 compared to \$182,352 for the comparable quarter of the prior year, a decrease of \$13,651 (7.5%). The primary reasons for the decrease are the decreased expenditures to independent testing facilities as the new sealed product line is completed.

Interest Expense and Other. Our interest expense was \$22,200 for the quarter ended September 30, 2017, compared to interest expense of \$24,549 for the quarter ended September 30, 2016. Interest expense is dependent upon the total amounts borrowed on average from the Factor and from our Hong Kong Joint Venture. Amounts borrowed from the Factor and 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 resulting in the decrease in interest expense noted above.

Net Loss. We reported a net loss of \$167,925 for the quarter ended September 30, 2017, compared to a net loss of \$64,066 for the corresponding quarter of the prior fiscal year, a \$103,859 (162.1%) increase in the net loss.

Six Months Ended September 30, 2017 and 2016

Sales. Net sales for the six months ended September 30, 2017 were \$6,901,053 compared to \$7,392,312 for the comparable six months in the prior period, a decrease of \$491,259 (6.6%). Sales decreased principally due to a reduction in sales to a single customer as compared to sales to that customer in the prior year's comparable period.

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 31.0% for the period ended September 30, 2017 and 31.2% for the period ended September 30, 2016. The decrease in gross profit margin was primarily due to the mix of products sold to differing customers and to promotional pricing allowances on the Company's new line of sealed battery safety alarms.

Expenses. Selling, general and administrative expenses were \$2,289,721 at September 30, 2017 compared to \$2,268,615 for the comparable six months in the prior year. As a percentage of sales, these expenses were 33.2% for the six month period ended September 30, 2017 and 30.7% for the comparable 2016 period. These expenses, as a dollar amount, are comparable to the prior year's period, however the expenses increase as a percentage of sales due to selling, general, and administrative expenses that do not decrease in the same proportion as decreases in sales.

Research and development expenses were \$343,424 for the six months ended September 30, 2017 compared to \$319,983 for the comparable period of the prior year, an increase of \$23,441 (7.3%). The primary reasons for the

increase is the slight increase of expenditures to independent testing facilities during the six month period ended September 30, 2017 as the new sealed product line is completed.

Interest Expense and Other. Our interest expense was \$40,643 for the six months ended September 30, 2017, compared to interest expense of \$28,785 for the six months ended September 30, 2016. Interest expense is dependent upon the total amounts borrowed on average from the Factor and from our Hong Kong Joint Venture. Amounts borrowed from the Factor and the Hong Kong Joint Venture increased in the current fiscal year's six 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 \$711,588 for the six months ended September 30, 2017 compared to a net loss of \$453,745 for the corresponding period of the prior fiscal year, an increase in the net loss of \$257,843 (56.8%).

Joint Venture

Net Sales. Net sales of the Joint Venture for the three and six months ended September 30, 2017 were \$4,903,659 and \$8,069,639 respectively, compared to \$4,789,764 and \$8,273,094, respectively, for the comparable period in the prior fiscal year. The 2.4% increase and 2.5% decrease in net sales by the Joint Venture for the respective three and six month periods are due to increased sales to the Company for the three month period ended September 30, 2017 and lower sales to the Company for the six month period ended September 30, 2017.

Gross Profit Margin. Gross margins of the Joint Venture for the three month period ended September 30, 2017 decreased to 24.5% from 31.3% for the 2016 corresponding period. For the six month period ended September 30, 2017, gross margins were 20.5% compared to 26.7% for the same period of the prior year. Gross margins depend on sales volume of various products, with varying margins, accordingly, increased sales of higher margin products and decreased sales of lower margin products positively affect the overall gross margins. In addition, foreign currency exchange gains and/or losses impact gross margins.

Expenses. Selling, general and administrative expenses were \$1,217,372 and \$2,291,375 respectively, for the three and six month periods ended September 30, 2017, compared to \$1,129,972 and \$2,107,265 in the prior year's respective periods. As a percentage of sales, expenses were 24.8% and 28.4% for the three and six month periods ended September 30, 2017, compared to 23.6% and 25.5% for the three and six month periods ended September 30, 2016. The changes in selling, general and administrative expense as a percent of sales for the three and six 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 \$19,159 and \$90,119 respectively, for the three and six month periods ended September 30, 2017, compared to interest income of \$106,763 and \$204,717, respectively, for the prior year's periods. Interest income is dependent on the average balance of assets held for investment. Amounts held for investment decreased during the current years fiscal periods.

Net Income (Loss). Net earnings (loss) for the three and six months ended September 30, 2017 were \$25,179 and \$(501,882), respectively, compared to net earnings of \$412,603 and \$206,427, respectively, in the comparable periods last year. The decrease in net earnings for the three and six month periods ended September 30, 2017 is due primarily to decreased gross profit margins for the joint venture as noted above.

Liquidity. Cash needs of the Joint Venture are currently met by funds generated from operations. During the six months ended September 30, 2017, working capital decreased by \$39,017 from \$9,957,418 on March 31, 2017 to \$9,918,401 on September 30, 2017.

Management Plans and Liquidity

The Company had net losses of \$711,588 for the six months ended September 30, 2017 and \$2,058,902 and \$2,137,792 for the years ended March 31, 2017 and 2016, respectively. Furthermore, as of September 30, 2017, working capital (computed as the excess of current assets over current liabilities) decreased by \$533,693 from \$3,556,524 at March 31, 2017, to \$3,022,831 at September 30, 2017. In addition, the Company experienced negative cash flows from operations of \$2,153,188 and \$822,957 for the fiscal years ended March 31, 2017 and 2016, respectively.

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. The availability remaining under this facility is approximately \$801,000 at September 30, 2017.

In addition, we have secured extended payment terms of up to \$3,000,000 for the purchase of sealed battery products from our Hong Kong Joint Venture. Amounts due for purchases under these extended payment terms are unsecured, bear interest at 4.5%, and are payable ninety days from the date of each purchase thereunder. At September 30, 2017 the Company has a balance under this facility with the Hong Kong Joint Venture of approximately \$3,976,508. The Hong Kong Joint Venture has waived the over advance position subject to a Letter of Intent to the Company dated August 30, 2017 from Taisun Magnetics, Ltd., a related party, to provide additional long-term, interest only financing of \$1,000,000. The loan from Taisun Magnetics, Ltd., when consummated, will be applied to reduce the balance outstanding on the extended payment term facility provided by our Hong Kong Joint Venture.

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 new line of sealed battery safety alarms, seeking additional financing, and reducing non-essential expenditures. This plan is in effect and approved by management. Management has continued to work on this plan through September 30, 2017. 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. Cash flows and credit availability is expected to be adequate to fund operations for one year from the issuance date of these condensed consolidated financial statements.

Operating activities provided cash of \$1,228,764 for the six months ended September 30, 2017. This was primarily due to an increase in accounts payable and accrued expenses of \$2,724,601 and offset by an increase in inventories and prepaid expenses of \$950,837, a net loss of \$711,588, and an increase in accounts receivable and amounts due from factor of \$27,413. The net loss includes a non-cash loss from investment in the Hong Kong Joint Venture of \$178,121. Operating activities used cash of \$570,036 for the six months ended September 30, 2016. This was primarily due to an increase in inventory and prepaid expenses of \$911,794 and a net loss of \$453,745. This was partially offset by increases of \$596,591 in accounts payable and accrued expenses, and a non-cash loss from the investment in the Hong Kong Joint Venture of \$145,972.

Investing activities used cash during the six months ended June 30, 2017 resulting from the purchase of \$16,106 in equipment. Investing activities did not use or provide cash during the six months ended September 30, 2016.

Financing activities used cash of \$1,217,376 during the six months ended September 30, 2017 and provided cash of \$349,100 during the six months ended September 30, 2016, which is comprised of advances net of 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, 2017 as filed with the Securities and Exchange Commission on July 14, 2017. 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. The Company recognizes sales upon shipment of products, when title has passed to the buyer, net of applicable provisions for any discounts or allowances. We recognize revenue when the following criteria are met: evidence of an arrangement exists; fixed and determinable fee; delivery has taken place; and collectability is reasonably assured. Customers may not return, exchange or refuse acceptance of goods without our approval. However, the Company has entered into an agreement with a customer to grant pre-approved rights of return of up to fifty percent of products sold on certain invoices to provide for and gain acceptance within certain markets. When a pre-approved right of return is granted, revenue recognition is deferred until the right of return expires. We have established allowances to cover anticipated doubtful accounts based upon historical experience.

Inventories. Inventories are valued at the lower of cost or market. 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 market value based upon assumptions about future demand and market conditions.

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 consolidated 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. After a review of projected taxable income and the components of the deferred tax asset in accordance with applicable accounting guidance 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 the Company's recent history of losses from operations and the uncertainty as to whether the Company will generate sufficient taxable income to use the deferred tax assets prior to their expiration. Accordingly, a valuation allowance was established to fully offset the value of the deferred tax assets. 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, 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 September 30, 2017 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. (* Indicates filed herewith)

- 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 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), as amended by Amendment dated October 25, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 27, 2017, 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), as amended by Amendment to Lease 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)
- 10.5 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), 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) and 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)

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 November 17, 2017*

101 Interactive data files providing financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 30, 2017 and March 31, 2017, (ii) Condensed Consolidated Statements of Operations for the three and six months ended September 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2017 and 2016, and (v) Notes to Condensed Consolidated Financial Statements*

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: November 17, 2017 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