

UNIVERSAL SECURITY INSTRUMENTS INC
Form 10-K
June 28, 2011

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

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2011 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file number: 001-31747

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

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

11407 Cronhill Drive, Suite A, Owings Mills, Maryland
(Address of principal executive offices) 21117
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|--------------------------------|---|
| Common Stock, \$0.01 par value | New York Stock Exchange (Euronext) |

Securities registered pursuant to Section 12(g) of the Act:

None
Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definition 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 x

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

The aggregate market value of Common Stock, \$.01 par value, held by non-affiliates of the registrant based on the closing sales price of the Common Stock on the New York Stock Exchange (NYSE AMEX) on September 30, 2010, was \$ 12,739,728.

The number of shares of common stock outstanding as of June 15, 2011 was 2,387,887.

documents incorporated by reference

To the extent specified, Part III of this Form 10-K incorporates information by reference to the Registrant's definitive proxy statement for its 2011 Annual Meeting of Shareholders (to be filed).

UNIVERSAL SECURITY INSTRUMENTS, INC.
2011 ANNUAL REPORT ON FORM 10-K

Table of Contents

| | | Page |
|-----------------|---|------|
| PART I | | |
| Item 1. | Business | 3 |
| Item 1A. | Risk Factors | 5 |
| Item 1B. | Unresolved Staff Comments | 8 |
| Item 2. | Properties | 9 |
| Item 3. | Legal Proceedings | 9 |
| | Executive Officers of the Registrant | 9 |
| PART II | | |
| Item 5. | Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 10 |
| Item 6. | Selected Financial Data | 11 |
| Item 7. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 12 |
| Item 8. | Financial Statements and Supplementary Data | 18 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 18 |
| Item 9A. | Controls and Procedures | 18 |
| Item 9B. | Other Information | 18 |
| PART III | | |
| Item 10. | Directors, Executive Officers and Corporate Governance | 19 |
| Item 11. | Executive Compensation | 19 |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 19 |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | 19 |
| Item 14. | Principal Accountant Fees and Services | 19 |
| PART IV | | |
| Item 15. | Exhibits and Financial Statement Schedules | 20 |
| Signatures | | 22 |

PART I

ITEM 1. BUSINESS

General

Universal Security Instruments, Inc. (“we” or “the Company”) designs and markets a variety of popularly-priced safety products consisting primarily of smoke alarms, carbon monoxide alarms and related products. Most of our products require minimal installation and are designed for easy installation by the consumer without professional assistance, and are sold through retail stores. We also market products to the electrical distribution trade through our wholly-owned subsidiary, USI Electric, Inc. (“USI Electric”). The electrical distribution trade includes electrical and lighting distributors as well as manufactured housing companies. Products sold by USI Electric usually require professional installation.

In 1989 we formed a limited liability company under the laws of Hong Kong, as a joint venture with a Hong Kong-based partner to manufacture various products in the Peoples Republic of China (the “Hong Kong Joint Venture”). We currently own a 50% interest in the Hong Kong Joint Venture and are a significant customer of the Hong Kong Joint Venture (28.8% and 51.1% of its sales during fiscal 2011 and 2010 respectively), with the balance of its sales made to unrelated customers worldwide. We import all of our products from foreign suppliers. For the fiscal year ended March 31, 2011, approximately 85.6% of our purchases were imported from the Hong Kong Joint Venture.

Our sales for the year ended March 31, 2011 were \$13,249,604 compared to \$26,439,118 for the year ended March 31, 2010, a decrease of approximately 49.9%. We reported net income of \$817,781 in fiscal 2011 compared to net income of \$2,268,048 in fiscal 2010, a decrease of 63.9%. The primary reason for these decreases was the loss of a major national home improvement retailer customer at the beginning of our 2011 fiscal year.

The Company was incorporated in Maryland in 1969. Our principal executive office is located at 11407 Cronhill Drive, Suite A, Owings Mills, Maryland 21117, and our telephone number is 410-363-3000. Information about us may be obtained from our website www.universalsecurity.com. Copies of our Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, are available free of charge on our website as soon as they are filed with the Securities and Exchange Commission (SEC) through a link to the SEC’s EDGAR reporting system. Simply select the “Investor Relations” menu item, then click on the “SEC Filings” link. The SEC’s EDGAR reporting system can also be accessed directly at www.sec.gov.

Safety Products

We market a line of residential smoke and carbon monoxide alarms under the trade names “UNIVERSAL” and “USI Electric” both of which are manufactured by the Hong Kong Joint Venture.

Our line of smoke alarms consists of battery powered, electrical and electrical with battery backup alarms. Our products contain different types of batteries with different battery lives, and some with alarm silencers. The smoke alarms marketed to the electrical distribution trade also include hearing impaired and heat alarms with a variety of additional features. We also market carbon monoxide alarms, door chimes and ventilation products.

During the past three fiscal years, we have been evaluating and researching new smoke and carbon monoxide detection technologies. This effort has resulted in the development of a new smoke alarm sensing technology with several new product features that we have trademarked as IOPHIC. In addition, we have applied for eleven patents on certain of these technologies and features, have been granted the first patent, and are currently awaiting notification

from the US Patent Office regarding the remaining patent applications. We have also developed a new carbon monoxide sensor which will be capable of detecting several types of gases. While we have received independent testing approvals for a number of our next generation of products, some of the approvals, being slower than anticipated, have delayed sales. During the fourth quarter of our fiscal year ending March 31, 2011 we began shipping the first certificated models of our next generation of products and expect to begin shipping a substantial portion of the remainder of our new product line during the fiscal year ending March 31, 2012. We expect to incur additional engineering, design, and certification costs of between \$300,000 and \$400,000 during the fiscal year ending March 31, 2012.

- 3 -

Our wholly-owned subsidiary, USI Electric, Inc., focuses its sales and marketing efforts to maximize safety product sales, especially smoke alarms and carbon monoxide alarms manufactured by our Hong Kong Joint Venture. USI Electric, Inc. concentrates on marketing to the electrical distribution trade.

Import Matters

We import all of our products. As an importer, we are subject to numerous tariffs which vary depending on types of products and country of origin, changes in economic and political conditions in the country of manufacture, potential trade restrictions, and currency fluctuations. We have attempted to protect ourselves from fluctuations in currency exchange rates to the extent possible by negotiating commitments in U.S. dollars.

Our inventory purchases are also subject to delays in delivery due to problems with shipping and docking facilities, as well as other problems associated with purchasing products abroad. Substantially all of our safety products, including products we purchase from our Hong Kong Joint Venture, are imported from the People's Republic of China.

Sales and Marketing; Customers

We sell our products to various customers, and our total sales market can be divided generally into two categories; sales by the Company to retailers, including wholesale distributors, chain, discount, television retailers and home center stores, catalog and mail order companies and other distributors ("retailers"), and sales by our USI Electric subsidiary to the electrical distribution trade (primarily electrical and lighting distributors and manufactured housing companies). Products marketed by the Company have historically been retailed to "do-it-yourself" consumers by these retailers. Products marketed by our USI Electric subsidiary to the electrical distribution trade typically require professional installation. We do not currently market a significant portion of our products directly to end users.

A significant portion of our sales are made by approximately 27 independent sales organizations, compensated by commission, which represents approximately 230 sales representatives, some of which have warehouses where USI Electric products are maintained for sale. In addition, the Company has established a national distribution system with 9 regional stocking warehouses throughout the United States which generally enables customers to receive their orders the next day without paying for overnight freight charges. Our agreements with these sales organizations are generally cancelable by either party upon 30 days notice. We do not believe that the loss of any one of these organizations would have a material adverse effect upon our business. Sales are also made directly by the officers and full-time employees of the Company and our USI Electric subsidiary, seven of whom have other responsibilities for the Company. Sales outside the United States are made by our officers and through exporters, and amounted to approximately 10% of total sales in each of the fiscal years ended March 31, 2011 and 2010.

During fiscal 2007, we began selling home safety products to The Home Depot, Inc., a major national home improvement retailer. Total sales to this customer for fiscal 2010 and 2009 represented approximately 51.3% and 46.6% of our revenues, respectively. Home Depot informed the Company at the beginning of our fiscal year ended March 31, 2011 that it will only sell the Company's products online and through the retailer's professional contractor desk. Accordingly, sales to this customer decreased significantly and represented less than 10% of our sales for fiscal 2011.

We also market our products through our website and through our own sales catalogs and brochures, which are mailed directly to trade customers. Our customers, in turn, may advertise our products in their own catalogs and brochures and in their ads in newspapers and other media. We also exhibit and sell our products at various trade shows, including the annual National Hardware Show.

Our backlog of orders believed to be firm as of March 31, 2011 was approximately \$669,315. Our backlog as of March 31, 2010 was approximately \$334,729. This increase in backlog is primarily due to the timing of orders of our safety products.

Hong Kong Joint Venture

We have a 50% interest in the Hong Kong Joint Venture, which has manufacturing facilities in the People's Republic of China, for the manufacturing of certain of our electronic and electrical products.

We believe that the Hong Kong Joint Venture arrangement will ensure a continuing source of supply for a majority of our safety products at competitive prices. During fiscal years ended 2011 and 2010, 85.6% and 99.0% of our total inventory purchases were made from the Hong Kong Joint Venture. The products produced by the Hong Kong Joint Venture include smoke alarms and carbon monoxide alarms. Changes in economic and political conditions in China or any other adversity to the Hong Kong Joint Venture will unfavorably affect the value of our investment in the Hong Kong Joint Venture and would have a material adverse effect on the Company's ability to purchase products for distribution.

Our purchases from the Hong Kong Joint Venture represented approximately 28.8% of the Hong Kong Joint Venture's total sales during fiscal 2011 and 51.1% of total sales during fiscal 2010, with the balance of the Hong Kong Joint Venture's sales being primarily made in Europe and Australia, to unrelated customers. The Hong Kong Joint Venture's sales to unrelated customers were \$17,258,918 in fiscal 2011 and \$14,099,350 in fiscal 2010. Please see Note C of the Financial Statements for a comparison of annual sales and earnings of the Hong Kong Joint Venture.

Discontinued Operations

In October 2006, we formed 2113824 Ontario, Inc., an Ontario corporation, as a wholly-owned subsidiary of the Company for the purpose of acquiring a two-thirds interest in two Canadian corporations, International Conduits, Ltd. (Icon) and Intube, Inc. (Intube). As discussed in detail in our past Annual Reports, we were not successful in increasing Icon's sales in the face of competition and a downturn in the housing market, and in 2008 the assets of Icon were placed under the direction of a court appointed receiver and were liquidated. Our consolidated financial statements and the related note disclosures reflect the operations of Icon as discontinued operations for all periods presented. In the accompanying consolidated financial statements, the results of Icon for all fiscal years included have been restated and are presented as the results of discontinued operations, and certain other prior year amounts have been reclassified in order to conform to the current year's presentation.

Other Suppliers

Certain private label products not manufactured for us by the Hong Kong Joint Venture are manufactured by other foreign suppliers. We believe that our relationships with our suppliers are good. We believe that the loss of our ability to purchase products from the Hong Kong Joint Venture would have a material adverse effect on the Company. The loss of any of our other suppliers would have a short-term adverse effect on our operations, but replacement sources for these other suppliers could be developed.

Competition

In fiscal year 2011, sales of safety products accounted for substantially all of our total sales. In the sale of smoke alarms and carbon monoxide alarms, we compete in all of our markets with First Alert and Walter Kidde Portable Equipment, Inc. These companies have greater financial resources and financial strength than we have. We believe that our safety products compete favorably in the market primarily on the basis of styling, features and pricing.

The safety industry in general involves changing technology. The success of our products may depend on our ability to improve and update our products in a timely manner and to adapt to new technological advances.

Employees

As of March 31, 2011, we had 18 employees, 15 of whom are engaged in administration and sales, and the balance of whom are engaged in product development. Our employees are not unionized, and we believe that our relations with our employees are satisfactory.

ITEM 1A. RISK FACTORS

An investment in our Common Stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect the Company are described below. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations.

- 5 -

Risk Factors Relating To Our Business Generally

Our success depends to a very large degree on our relationship with and the success of our Hong Kong Joint Venture.

During fiscal year 2011, 85.6% of our total inventory purchases were made from the Hong Kong Joint Venture. The products produced by the Hong Kong Joint Venture include smoke alarms and carbon monoxide alarms, and, as previously noted, we are pursuing the development of our next generation of products that will be manufactured by the Hong Kong Joint Venture. Our purchases from the Hong Kong Joint Venture represented approximately 28.8% of the Hong Kong Joint Venture's total sales during fiscal 2011, with the balance of the Hong Kong Joint Venture's sales being primarily made in Europe and Australia to unrelated customers. If the Hong Kong Joint Venture does not maintain profitability, our profitability will be adversely affected.

In addition, adverse changes in our relationship with our Hong Kong Joint Venture partner would unfavorably affect the value of our investment in the Hong Kong Joint Venture and could have a material adverse effect on our ability to purchase products for distribution.

Our reliance on the Hong Kong Joint Venture exposes us to uncertainties and risks from abroad which could negatively affect our operations and sales.

Our relationship with the Hong Kong Joint Venture and our and the Hong Kong Joint Venture's sales in other countries expose us to particular risks. The following are among the risks that could negatively affect our imports and our and the Hong Kong Joint Venture's sales in foreign markets:

- new restrictions on access to markets,
- currency devaluation,
- new tariffs,
- adverse changes in monetary and/or tax policies,
- inflation, and
- governmental instability.

Should any of these risks occur, the value of our investment in the Hong Kong Joint Venture could be reduced and our results of operations could be negatively impacted.

The lack of availability of inventory could adversely affect our financial results.

We source inventory primarily from our Hong Kong Joint Venture, which has manufacturing facilities in the People's Republic of China. Our purchases of inventory are subject to being affected by a number of factors, namely, production capacity, labor unrest and untimely deliveries. Changes in economic and political conditions in China or any other adversity to the Hong Kong Joint Venture will unfavorably affect the value of our investment in the Hong Kong Joint Venture and could have a material adverse effect on the our ability to purchase products for distribution.

Our Hong Kong Joint Venture is subject to political and economic factors unique to China.

The Chinese government has been reforming the Chinese economic system. In recent years, the government has also begun reforming the government structure. These reforms have resulted in significant economic growth and social progress. Although the majority of the production assets in China are still state-owned, economic reform policies have emphasized autonomous enterprises and the utilization of market mechanisms. Our Hong Kong Joint Venture currently expects that the Chinese government will continue its reform by further reducing governmental intervention in business enterprises and allowing market mechanisms to allocate resources. Any adverse changes in political,

economic or social conditions in China could have a material adverse effect on the Hong Kong Joint Venture's operations and our financial results, as well as our ability to purchase products manufactured by the Hong Kong Joint Venture.

We are subject to risks in connection with the importation of our products from foreign countries.

We import all of our products. As an importer, we are subject to numerous tariffs which vary depending on types of products and country of origin, changes in economic and political conditions in the country of manufacture, potential trade restrictions and currency fluctuations. We have attempted to protect ourselves from fluctuations in currency exchange rates to the extent possible by negotiating commitments in U.S. dollars. We are also subject to strikes or other labor unrest at points of origin and destination, as well as delays and restrictions which impact shipping and shipping routes.

- 6 -

We rely on our key personnel and the loss of one or more of those personnel could have a material adverse effect on our business, financial condition and results of operations.

Our operations and prospects depend in large part on the performance of our senior management team. There can be no assurance that we would be able to find qualified replacements for any of these individuals if their services were no longer available. The loss of the services of one or more members of our senior management team could have a material adverse effect on our business, financial condition, and results of operations.

Our competition is both intense and varied and our failure to effectively compete could adversely affect our prospects.

In fiscal year 2011, our sales of safety products accounted for substantially all of our sales. Many of our competitors have greater financial resources and financial strength than we have. Some of our competitors may be willing to reduce prices and accept lower profit margins to compete with us. While we believe that our safety products compete favorably with other such products in the market, primarily on the basis of styling, features, and pricing, the safety industry in general involves changing technology. The success of our products may depend on our ability to improve and update our products in a timely manner and to adapt to new technological advances. As a result of this competition, we could lose market share and suffer losses, which could have a material adverse effect on our future financial performance.

The security products marketplace is dynamic and challenging because of the introduction of new products and services.

We must constantly introduce new products, services, and product features to meet competitive pressures. We may be unable to timely change our existing merchandise sales mix in order to meet these competitive pressures, which may result in increased inventory costs or loss of market share.

Adverse changes in national or regional U.S. economic conditions could adversely affect our financial results.

We market our products nationally to retailers, including wholesale distributors, chain, discount, and home center stores, catalog and mail order companies and to other distributors. Overall consumer confidence, consumer credit availability, recessionary trends, housing starts and prices, mortgage rates, and consumers' disposable income and spending levels directly impact our sales. Negative trends, whether national or regional in nature, in any of these economic conditions have and could adversely affect our financial results.

Our products must meet specified quality and safety standards to enter and stay on the market.

Our products must meet US. and various international standards before they are sold. For example, in the United States, our products must be certified by independent testing agencies and similar certifications must be obtained in each country where we compete for market share. If our manufacturers' products or manufacturing facilities (including those of the Hong Kong Joint Venture) fail to pass periodic inspections, the approval certificates for the relevant products may be suspended until corrections are made. Loss of independent certifications could have a material adverse affect on our sales and financial results.

Our products expose us to the potential of product liability claims.

All of our products are manufactured by the Hong Kong Joint Venture or others. Nevertheless, we could be named as a defendant in an action arising from damages suffered as a result of one of our products. While we carry products liability insurance, to the extent we are found liable for damages for which we are uninsured, our profitability may be adversely affected. Any suit, even if not meritorious or if covered by an indemnification obligation, could result in the

expenditure of a significant amount of our financial and managerial resources and could create significant negative publicity for us and our products.

- 7 -

We may be unable to successfully execute our merchandising and marketing strategic initiatives.

Our wholly-owned subsidiary, USI Electric focuses its sales and marketing efforts and initiatives to maximize safety product sales, especially smoke alarms and carbon monoxide alarms manufactured by our Hong Kong Joint Venture and marketed to the electrical distribution trade. If we fail to successfully execute these initiatives, our business could be adversely affected.

We are and could become subject to litigation regarding intellectual property rights, which could seriously harm our business.

We design most of our security products and contract with suppliers to manufacture those products and deliver them to us. We have been the subject of lawsuits by third parties which assert against us infringement claims or claims that we have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. If such infringement by our suppliers or by us were found to exist, we could be subject to monetary damages and an injunction preventing the use of their intellectual property. If one of our products were found to infringe, we may attempt to acquire a license or right to use such technology or intellectual property, which could result in higher manufacturing costs. Any infringement claim, even if not meritorious and/or covered by an indemnification obligation, could result in the expenditure of a significant amount of our financial and managerial resources.

If governmental regulations change or are applied differently, our business could suffer.

The sales of our smoke and carbon monoxide alarms are impacted by local laws and regulations mandating the installation of these security devices in new and sometimes existing homes and buildings. Changes in these consumer safety regulations, both in the United States and abroad, could impact our business.

Risk Factors Relating to our Articles of Incorporation and our Stock

The liability of our directors is limited.

Our Articles of Incorporation limit the liability of directors to the maximum extent permitted by Maryland law.

It is unlikely that we will issue dividends on our common stock in the foreseeable future.

We have not declared or paid cash dividends on our common stock in over 27 years. We currently anticipate that we will retain all of our earnings for use in the development of our business and do not anticipate paying cash dividends in the foreseeable future. As a result, capital appreciation, if any, of our common stock would be the only source of gain for stockholders until dividends are paid, if at all. The payment of dividends in the future will be at the discretion of our board of directors.

The exercise of outstanding options will dilute the percentage ownership of our stockholders, and any sales in the public market of shares of our common stock underlying such options may adversely affect prevailing market prices for our common stock.

As of March 31, 2011, there are outstanding options to purchase 25,000 shares of our common stock at a per share exercise prices of \$3.25. The exercise of outstanding options would dilute the percentage ownership of our existing stockholders, and any sales in the public market of shares of our common stock underlying such options may adversely affect prevailing market prices for our common stock.

It may be difficult for a third party to acquire us, which could affect our stock price.

Our charter and bylaws contain certain anti-takeover provisions pursuant to the Maryland General Corporation Law. This means that we may be a less attractive target to a potential acquirer who otherwise may be willing to pay a premium for our common stock above its market price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

- 8 -

ITEM 2. PROPERTIES

Effective January 2009, we entered into a 10 year operating lease for a 12,000 square foot office and warehouse located in Baltimore County, Maryland. The Company has the right to terminate the lease after five years for a one-time payment of \$42,000. In June 2009, we amended this lease to include an additional 3,000 square feet of warehouse space contiguous to our existing warehouse in Baltimore County, Maryland. Monthly rental expense, with common area maintenance, approximates \$10,800 and increases 3% per year.

Effective March 2003, we entered into an operating lease for an approximately 2,600 square foot office in Naperville, Illinois. This lease expires in February 2012 and is subject to increasing rentals at 3% per year. The monthly rental, with common area maintenance, approximated \$3,400 per month during the current fiscal year.

The Hong Kong Joint Venture currently operates an approximately 100,000 square foot manufacturing facility in the Guangdong province of Southern China and a 250,000 square-foot manufacturing facility in the Fujian province of Southern China. The Hong Kong Joint Venture's offices are leased pursuant to a five year lease with rental payments of approximately \$13,250 per month.

The Company believes that its current facilities, and those of the Hong Kong Joint Venture, are currently suitable and adequate.

ITEM 3. 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.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is information about the Company's executive officers.

| NAME | AGE | POSITIONS |
|----------------------|-----|--|
| Harvey B. Grossblatt | 64 | President, Chief Operating Officer and Chief Executive Officer |
| James B. Huff | 59 | Chief Financial Officer, Secretary and Treasurer |

HARVEY B. GROSSBLATT has been a director of the Company since 1996. He served as Chief Financial Officer from October 1983 through August 2004, Secretary and Treasurer of the Company from September 1988 through August 2004, and Chief Operating Officer from April 2003 through August 2004. Mr. Grossblatt was appointed Chief Executive Officer in August 2004.

JAMES B. HUFF was appointed Chief Financial Officer in August 2004 and Secretary and Treasurer in October 2004. From December 2003 until August 2004, Mr. Huff was controller of Essex Corporation, a Columbia, Maryland based public company which provides intelligence engineering services to federal government agencies. From August 2002 until November 2003, Mr. Huff served as chief financial officer of Computer Temporaries, Inc., Lanham, Maryland; from August 2000 until July 2002, he was chief financial officer of HLM Architects and Engineering, Inc., a Charlotte, North Carolina based public company; and from January 1990 until November 1999, Mr. Huff was chief

financial officer of RMF Engineering, Inc., Baltimore, Maryland.

- 9 -

PART II

ITEM MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
5. AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock

Our common stock, \$.01 par value (the "Common Stock") trades on the NYSE Amex LLC exchange, formerly the American Stock Exchange under the symbol UUU. As of June 15, 2011, there were 278 record holders of the Common Stock. The closing price for the Common Stock on that date was \$6.76. We have not paid any cash dividends on our common stock, and it is our present intention to retain all earnings for use in future operations. The following table sets forth the high and low prices for the Common Stock for each full quarterly period during the fiscal years indicated.

| | | |
|----------------------------------|------|---------|
| Fiscal Year Ended March 31, 2011 | | |
| First Quarter | High | \$ 7.24 |
| | Low | \$ 5.16 |
| Second Quarter | High | \$ 6.31 |
| | Low | \$ 5.19 |
| Third Quarter | High | \$ 7.80 |
| | Low | \$ 5.91 |
| Fourth Quarter | High | \$ 8.80 |
| | Low | \$ 6.75 |
| Fiscal Year Ended March 31, 2010 | | |
| First Quarter | High | \$ 6.47 |
| | Low | \$ 3.11 |
| Second Quarter | High | \$ 6.24 |
| | Low | \$ 4.40 |
| Third Quarter | High | \$ 7.83 |
| | Low | \$ 4.46 |
| Fourth Quarter | High | \$ 7.51 |
| | Low | \$ 5.30 |

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with, and is qualified by reference to, the consolidated financial statements and notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this Annual Report on Form 10-K. The Statement of Operations data and the Balance Sheet data for the years ended, and as at, March 31, 2007, 2008, 2009, 2010 and 2011 are derived from our audited consolidated financial statements. These historical results are not necessarily indicative of results that may be expected in future periods. All share and per share amounts included in the following financial data have been retroactively adjusted to reflect the 4-for-3 stock dividend paid on October 16, 2007 to shareholders of record on September 25, 2007.

| | Year Ended March 31, | | | | |
|---|----------------------|---------------|---------------|---------------|---------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Statement of Operations Data: | | | | | |
| Net sales | \$ 13,249,604 | \$ 26,439,118 | \$ 26,097,596 | \$ 33,871,362 | \$ 32,934,388 |
| (Loss) Income before equity in earnings of Hong Kong Joint Venture and income taxes | (1,020,215) | (158,962) | 371,966 | 1,351,139 | 3,608,196 |
| Income from continuing operations | 817,781 | 2,268,048 | 1,442,336 | 2,824,749 | 6,093,366 |
| Income (loss) from discontinued operations (net of tax benefit) | - | - | 3,423,021 | (8,393,663) | (560,108) |
| Net income (loss) | 817,781 | 2,268,048 | 4,865,357 | (5,568,914) | 5,533,258 |
| Per common share: | | | | | |
| Basic – from continuing operations | 0.34 | 0.95 | 0.58 | 1.14 | 2.54 |
| Basic – from discontinued Operations | - | - | 1.39 | (3.38) | (0.23) |
| Basic – net income (loss) | 0.34 | 0.95 | 1.97 | (2.24) | 2.31 |
| Diluted – from continuing Operations | 0.34 | 0.95 | 0.58 | 1.13 | 2.45 |
| Diluted – from discontinued Operations | - | - | 1.38 | (3.35) | (0.23) |
| Diluted – net income (loss) | 0.34 | 0.95 | 1.96 | (2.23) | 2.23 |
| Weighted average number of common shares outstanding | | | | | |
| Basic | 2,387,887 | 2,387,887 | 2,466,983 | 2,484,192 | 2,398,284 |
| Diluted | 2,395,766 | 2,398,300 | 2,471,807 | 2,502,017 | 2,484,606 |
| Balance Sheet Data: | | | | | |
| Total assets | 28,483,778 | 28,670,754 | 27,777,678 | 30,468,917 | 36,195,468 |
| Long-term debt (non-current) | 25,000 | 46,459 | 95,324 | 91,160 | - |
| Working capital (1) | 11,540,103 | 11,979,053 | 11,099,333 | 7,468,547 | 14,678,615 |
| Current ratio (1) | 8.91:1 | 5.91:1 | 3.99:1 | 1.68:1 | 2.27:1 |
| Shareholders’ equity | 27,000,286 | 26,182,505 | 23,965,899 | 19,423,935 | 24,671,881 |

(1) Working capital is computed as the excess of current assets over current liabilities. The current ratio is calculated by dividing current assets by current liabilities.

- 11 -

Quarterly Results of Operations (Unaudited)

The unaudited quarterly results of operations for fiscal years 2011 and 2010 are summarized as follows:

| | Quarter Ended | | | |
|-----------------------------------|---------------|---------------|--------------|--------------|
| | June 30, | September 30, | December 31, | March 31, |
| 2011 | | | | |
| Net sales | \$ 3,681,421 | \$ 3,714,378 | \$ 2,475,511 | \$ 3,378,294 |
| Gross profit | 1,111,242 | 1,064,144 | 751,580 | 834,779 |
| Income from continuing operations | 281,867 | 268,376 | 19,545 | 247,993 |
| Income per share from operations: | | | | |
| Basic | 0.12 | 0.11 | 0.01 | 0.10 |
| Diluted | 0.12 | 0.11 | 0.01 | 0.10 |
| 2010 | | | | |
| Net sales | \$ 5,914,905 | \$ 7,900,805 | \$ 6,321,490 | \$ 6,301,918 |
| Gross profit | 1,169,834 | 1,647,672 | 1,319,001 | 1,195,105 |
| Income from operations | 611,465 | 924,870 | 263,490 | 468,223 |
| Income per share from operations: | | | | |
| Basic | 0.25 | 0.39 | 0.11 | 0.20 |
| Diluted | 0.25 | 0.39 | 0.11 | 0.20 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this discussion and elsewhere in this Annual Report on Form 10-K, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. 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, including the Risk Factors discussed elsewhere in this Annual Report and other risks, could affect our financial performance and could cause our actual results for future periods to differ materially from those anticipated or projected. We do not undertake and specifically disclaim any obligation to update any forward-looking statements to reflect occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

General

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. From October 2006 through January 2008 we also were engaged in the manufacture and distribution of EMT steel conduit through Icon, our majority-owned Canadian subsidiary. Our financial statements detail our sales and other operational results, and report the financial results of the Hong Kong Joint Venture using the equity method. Accordingly, the following discussion and analysis of the fiscal years ended March 31, 2011, 2010 and 2009 relate to the operational results of the Company and its consolidated subsidiaries only and includes the Company's equity share of earnings in the Hong Kong Joint Venture. A discussion and analysis of

the Hong Kong Joint Venture's operational results for these periods is presented below under the heading "Hong Kong Joint Venture."

While we believe that our overall sales are likely affected by the current global economic situation, we believe that we are specifically negatively impacted by the severe downturn in the U.S. housing market. As stated elsewhere in this report, our USI Electric subsidiary markets our products to the electrical distribution trade (primarily electrical and lighting distributors and manufactured housing companies). Every downturn in new home construction and new home sales negatively impacts sales by our USI Electric subsidiary. We anticipate that when and as the housing market recovers, sales by our USI Electric subsidiary will improve, as well. Our operating results for the fiscal year ended March 31, 2011 were significantly impacted by the loss of a major customer. In addition, our expected increase in sales from our new generation (New Gen) smoke and carbon monoxide alarms has not yet materialized. While we have received independent testing approvals for a number of the New Gen products, some of the approvals, being slower than anticipated, have delayed sales. Once all the necessary approvals and inventory from our Hong Kong Joint Venture are on hand, we anticipate increased sales from these products.

- 12 -

Discontinued Canadian Operations

In October 2006, we formed 2113824 Ontario, Inc., an Ontario corporation, as a wholly-owned subsidiary of the Company for the purpose of acquiring a two-thirds interest in two Canadian corporations, International Conduits, Ltd. (Icon) and Intube, Inc. (Intube). As discussed in detail in our past Annual Reports, we were not successful in increasing Icon's sales in the face of competition and a downturn in the housing market, and in 2008 the assets of Icon were placed under the direction of a court appointed receiver and were liquidated. Our consolidated financial statements and the related note disclosures reflect the operations of Icon as discontinued operations for all periods presented. In the accompanying consolidated financial statements, the results of Icon for all fiscal years included have been restated and are presented as the results of discontinued operations, and certain other prior year amounts have been reclassified in order to conform to the current year's presentation

Comparison of Results of Operations for the Years Ended March 31, 2011, 2010 and 2009

Sales. In fiscal year 2011, our net sales decreased by \$13,189,514 (49.9%), from \$26,439,118 in fiscal 2010 to \$13,249,604 in fiscal 2011. The Company's sales to retail and wholesale customers in the fiscal year ended March 31, 2011 decreased to \$7,326,197 from \$20,036,342 at March 31, 2010, a decrease of \$12,710,145, and is principally attributed to decreased sales to The Home Depot. Sales to the electrical distribution trade through our USI Electric subsidiary decreased to \$5,923,407 (from \$6,402,776 in 2010), a decrease of \$479,369, principally due to decreased volume from the U.S. residential construction trade resulting from the overall decline in the U.S. domestic housing industry.

In fiscal year 2010, sales increased by \$341,522 (1.3%) from \$26,097,596 in fiscal 2009 to \$26,439,118 in fiscal 2010. Sales to the electrical distribution trade through our USI Electric subsidiary decreased to \$6,402,776 (from \$8,619,816 in 2009), principally due to decreased volume from the U.S. residential construction trade. Sales to retail and wholesale customers increased in the fiscal year ended March 31, 2010 to \$19,694,820 from \$17,477,780 at March 31, 2009, principally as a result of increased sales to The Home Depot.

Gross Profit. Gross profit margin is calculated as net sales less cost of goods sold expressed as a percentage of net sales. Our gross profit margin for the fiscal year ended March 31, 2011 was 28.4% compared to 20.2% and 23.4% in fiscal 2010 and 2009, respectively. The increase in 2011 gross margin is attributed to reduced sales to The Home Depot which had yielded lower gross profit margins than sales to other customers. In fiscal 2011, total, sales to this national home improvement retailer customer decreased to less than 10% of total Company sales from 51.3% in fiscal 2010. Conversely, the decrease in gross margin from fiscal 2009 to fiscal 2010 is attributed to approximately 51.3% of total company sales being to this customer that yielded lower gross profit margins, from 46.6% in the prior year.

Selling, General and Administrative Expense. Selling, general and administrative expenses decreased from \$4,731,697 in fiscal 2010 to \$4,375,241 in fiscal 2011, a \$356,456 (7.5%) decrease. As a percentage of net sales, these expenses increased to 33.0% for the fiscal year ended March 31, 2011 from 17.9% for the fiscal year ended March 31, 2010 because these costs are primarily fixed and thus do not decrease at the same rate as sales. Of the dollar decrease in selling, general and administrative expense, \$134,763 is attributable to lower commissions, \$263,920 is attributable to lower legal expenses due to the resolution of outstanding litigation, and \$91,103 is attributable to lower freight expenses associated with the reduced volume of sales to the electrical distribution trade due to the decline in new home construction during the period. These reductions were partially offset by an increase in promotional expense of \$95,715 associated with the introduction of a new product line.

Selling, general and administrative expenses for fiscal 2010 decreased by \$565,587 (10.7%) from \$5,297,284 in fiscal 2009 to \$4,731,697 in fiscal 2010. As a percentage of net sales, these expenses decreased to 17.9% for the fiscal year ended March 31, 2010 from 20.3% for the fiscal year ended March 31, 2009. Of the total decrease in these expenses,

approximately \$400,000 resulted from the elimination of an amount previously accrued to pursue litigation that was settled during the 2010 fiscal year and the remaining decline is attributable to lower commissions, selling and freight costs associated with reduced sales to the electrical distribution trade as discussed above.

- 13 -

Research and Development. Research and development expense for the fiscal year ended March 31, 2011 was \$615,639, of which approximately \$400,000 was for new product development, compared to \$712,688 for the comparable period of the prior year in which approximately \$500,000 was expended for new product development, a decrease of \$97,049 or 13.6%. Legal expenses of \$89,434 incurred in obtaining and perfecting patents on newly developed detector technology are capitalized for financial statement purposes and will be amortized over twenty years on a straight-line basis upon the issuance of patents. These expenditures are expensed currently for income tax purposes. Research and development expenses were \$435,750 for the fiscal year ended March 31, 2009. As previously discussed, the Company has been evaluating and researching new smoke and gas detection technologies, resulting in the development of new sensing technology and product features, for which the Company has applied for patents. To date one U.S. design patent has been obtained and we expect additional patents to be issued. We expect to incur additional engineering, design and certification costs of between \$300,000 and \$400,000 during the fiscal year ending March 31, 2012.

Investment and Interest Income. Investment and interest income for the fiscal year ended March 31, 2011 is \$213,086. Investment and interest income is primarily earned on investments. These assets represent the investment of idle cash resources to obtain higher yields of return. Amounts were first invested in late March of the fiscal year ended March 31, 2010 and accordingly amounts earned in the fiscal year ended 2011 represent the first full year of activity on these investments. In addition we earn interest on our cash balances on accounts receivable collections maintained on deposit with the factor at the factor's prime rate of interest minus 3%. During the fiscal years ended March 31, 2011, 2010 and 2009, we earned interest of \$750, \$32,262 and \$37,228, respectively from these deposits. The decline in the amount of interest earned on these deposits in 2011 relates to the transfer of excess cash to other investments as discussed above.

Interest Expense. During the fiscal years ended March 31, 2011, 2010 and 2009, we incurred interest expense of \$4,166, \$78,451 and \$32,198, respectively. Interest expense for fiscal 2011 decreased to \$4,166 from \$78,451 in fiscal 2010. The decrease is due to a reduction in borrowing activity with our factor in fiscal 2011. In the prior fiscal year ended March 31, 2010 the Company increased the amounts advanced from its factor in order to secure the Company's cash position after the factor warned in a press release of the probability of bankruptcy proceedings. Subsequently, the factor advised the Company that the factor was not pursuing bankruptcy procedures as discussed above.

Interest expense for fiscal 2010 increased to \$78,451 from \$32,198 in fiscal 2009 primarily due to the timing of activity in our line of credit. The Company incurred additional interest charges during the fiscal year ended March 31, 2010 related to additional amounts advanced from our factor in order to secure the Company's cash position after the factor warned in a press release of the probability of bankruptcy proceedings.

Income Taxes. For the fiscal years ended March 31, 2011, 2010, and 2009 our Federal rate of tax based on statutory rates would be approximately 34.0%. The rate of tax indicated by the provision for income tax expense as shown on the Consolidated Statements of Operations for the March 31, 2011, 2010, and 2009 fiscal years varies from the expected statutory rate. Footnote G to the financial statements provides a reconciliation between the amount of tax that would be expected at statutory rates and the amount of tax expense or benefit provided at the effective rate of tax for each fiscal period.

For the fiscal year ended March 31, 2011, we generated net operating loss carryovers and tax credits to offset future federal and state income taxes of \$261,530 and \$130,497, respectively. At March 31, 2011, we had net operating loss carryover and foreign tax credit carryover of \$812,651 and \$1,522,886, respectively.

For the fiscal year ended March 31, 2010, we used net operating loss carryovers to offset a federal and state income tax provision of approximately \$217,281. Furthermore, we generated foreign tax credits of \$169,511 for the fiscal

year ended March 31, 2010. We elected to carry our remaining net operating loss of approximately \$821,000 forward to offset future taxable income. At March 31, 2010, we had foreign tax credits of approximately \$1,410,000 available to offset future taxes.

For the fiscal year ended March 31, 2009, we generated a net operating loss for federal and state income tax purposes of \$600,508. The loss was generated principally as a result of the payment of the guarantee of the indebtedness of the discontinued Canadian subsidiary. Furthermore, we generated foreign tax credits of \$157,249 for the fiscal year ended March 31, 2009. We elected to carry our net operating loss forward to offset future taxable income.

Income from Continuing Operations. We reported income from continuing operations of \$817,781 for the fiscal year 2011, compared to income from continuing operations of \$2,268,048 for fiscal 2010, a \$1,450,267 (63.9%) decrease. The decrease in income from continuing operations is primarily attributed to significantly lower total sales, primarily due to the loss of a major national retail account. The loss of this customer also negatively impacted the earnings of our Hong Kong Joint Venture and our equity in the earnings thereof declined from \$2,644,291 in fiscal 2010 to \$1,691,133 in fiscal 2011, a \$953,158 (36.0%) decrease.

We reported income from continuing operations of \$2,268,048 for fiscal year 2010 compared to income from continuing operations of \$1,442,336 for fiscal year 2009, a \$825,712 (57.2%) increase. This increase in income from continuing operations resulted principally from an increase of \$1,114,539 in our reported equity in the earnings of the Hong Kong Joint Venture, partially offset by a higher net provision in 2010 for income taxes. Our equity in the earnings of the Hong Kong Joint Venture is calculated by adjusting our share of the Hong Kong Joint Venture's net income by certain items, including our share of the Hong Kong Joint Venture's profit on sales of inventory (\$236,247) to the Company which remain in the Company's inventory at year end. We ended fiscal 2010 with a lower amount of inventory purchased from the Hong Kong Joint Venture primarily due to lower inventories maintained to service a large national retailer, and also due to the downturn in the U.S. housing market.

Net Income. We reported net income of \$817,781 for fiscal 2011 compared to net income of \$2,268,048 for fiscal year 2010 and \$4,865,357 for fiscal year 2009. As discussed above, with respect to income from continuing operations, net income was lower in fiscal year 2011 principally as a result of the decrease in sales associated with the loss of a major customer during the fiscal year. Net income was higher in fiscal 2009 due to recognition of income from the operations of the discontinued Canadian subsidiary.

Financial Condition, Liquidity and Capital Resources

Our cash needs are currently met by funds generated from operations and from our Factoring Agreement with CIT Group, which supplies both short-term borrowings and letters of credit to finance foreign inventory purchases. The maximum we may borrow under this Agreement is \$7,500,000. Based on specified percentages of our accounts receivable and inventory and letter of credit commitments, at March 31, 2011, our maximum borrowing availability under this Agreement was \$2,610,571. Any outstanding principal balance under this Agreement is payable upon demand. The interest rate on the Factoring Agreement, on the uncollected factored accounts receivable and any additional borrowings is equal to the prime rate of interest charged by the factor which, as of March 31, 2011, was 3.25%. All borrowings are collateralized by all our accounts receivable and inventory. During the year ended March 31, 2011, working capital (computed as the excess of current assets over current liabilities) decreased by \$438,950, from \$11,979,053 on March 31, 2010, to \$11,540,103 on March 31, 2011.

Our operating activities used cash of \$67,168 for the year ended March 31, 2011 principally as a result of lower income due to the impact of declining sales, offset by a decline in accounts receivable and amounts due from factor that provided cash of \$2,157,589, which was partially offset by a use of cash associated with lower Joint Venture earnings of \$1,691,133. Other items using cash include an increase in deferred tax assets of \$125,405, an increase in inventories of \$94,105, an increase in prepaid expenses of \$168,165, a decrease in accounts payable and accrued expenses of \$1,004,757 and an increase in other assets of \$19,998.

For the fiscal year ended March 31, 2010, operating activities provided cash of \$5,028,726. The increase in cash provided by operating activities was primarily due to decreases in the amount of inventories and amount due from factor. These sources of cash were partially offset by increases in our equity in the earnings of the Hong Kong Joint Venture and decreases in accounts payable and accrued expenses.

Our investing activities provided cash of \$4,542,130 during fiscal 2011 principally as a result of the sale of our investment in short-term investments of \$4,001,890 and by cash distributions of the Hong Kong Joint Venture of \$694,976. In addition, the Company acquired equipment of \$65,302 and incurred costs of \$89,434 associated with filing patents during the year. Investing activities used cash of \$2,964,842 during fiscal 2010 principally as a result of our purchase of assets held for investment, partially offset by dividends paid.

No cash was provided or used by financing activities in 2011. Financing activities in 2010 used cash of \$94,283, which was primarily due to the repurchase of common stock under the terms of the Company's stock buy-back plan

While sales by the Company and by our USI Electric subsidiary have been negatively impacted by the severe downturn in the U.S. housing market, we believe that our capital resources are sufficient for our operations. We anticipate that when and as the housing market recovers, sales by the Company and by our USI Electric subsidiary will improve, as well, thereby increasing our capital resources.

- 15 -

Hong Kong Joint Venture

The financial statements of the Hong Kong Joint Venture are included in this Form 10-K beginning on page JV-1. The reader should refer to these financial statements for additional information. There are no material Hong Kong to US GAAP differences in the Hong Kong Joint Venture's accounting policies.

In fiscal year 2011, sales of the Hong Kong Joint Venture were \$24,231,557, compared to \$28,848,177 in fiscal 2010. The decrease in sales for fiscal 2011 is primarily due to the decrease in sales to The Home Depot.

In fiscal year 2010, sales of the Hong Kong Joint Venture were \$28,848,177 compared to \$36,161,337 in fiscal years 2009. The decrease in sales for 2010 is primarily due to decreased sales to the Company, partially offset by increased sales to non-affiliated customers in Europe.

Net income was \$3,339,499 for fiscal year 2011 compared to net income of \$4,018,779 for the fiscal year ended March 31, 2010. The decrease in net income for fiscal 2011 was primarily due to decreased sales to the Company caused by decreased orders from a national home improvement retailer while fixed costs did not change in the same proportion as the decline in sales.

Net income was \$4,018,779 for fiscal year 2010 compared to net income of \$4,011,404 in fiscal years 2009. The increase in the 2010 fiscal year is primarily due to increased sales volume in the European and Asian markets, which provide higher gross margins as discussed below.

Gross margins of the Hong Kong Joint Venture for fiscal 2011 decreased to 26.6% from 28.1% in the prior fiscal year. The primary reason for this decrease was due to the mix of products sold. The primary reason for the change in product mix is lower sales to the Company for the U.S. retail market. At March 31, 2010, the Hong Kong Joint Venture's gross margin increased to 28.1% from 26.5% at March 31, 2009. The primary reason for this increase was higher gross margins on sales to the Company for the U.S. retail market.

Selling, general and administrative expenses of the Hong Kong Joint Venture for fiscal 2011 were \$3,447,358, compared to \$4,275,709 for fiscal 2010 and \$5,298,831 for fiscal 2009. As a percentage of sales, these expenses were 14.2%, 14.8% and 14.7% for fiscal years 2011, 2010 and 2009, respectively. The decrease in dollars of selling, general and administrative expenses for the year ended March 31, 2011 was primarily due to the reversal of value-added tax previously accrued in the amount of \$428,380. The decrease in dollars of selling, general and administrative expenses for the year ended March 31, 2010 was principally due to increases in foreign currency exchange losses, insurance, management bonus, rent expense and sales commissions.

Investment income and interest income, net of interest expense was \$380,887 for fiscal year 2011, compared to \$208,667 and \$167,283 in fiscal years 2010 and 2009, respectively. The increase in interest income net of interest expense for 2011 was due to an increase in investments. The increase from 2009 to 2010 is due to variations in the amount of investments in bonds during those fiscal periods.

Cash needs of the Hong Kong Joint Venture are currently met by funds generated from operations. During fiscal year 2011, working capital decreased by \$1,465,480 from \$11,756,026 on March 31, 2010 to \$10,290,546 on March 31, 2011.

Contractual Obligations and Commitments

The following table presents, as of March 31, 2011, our significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in Note F to the

consolidated financial statements.

| | Payment Due By Period | | |
|-----------------------------|-----------------------|------------|------------|
| | Total | Year 1 | Years 2-3 |
| Operating lease obligations | \$ 507,723 | \$ 183,676 | \$ 324,047 |

- 16 -

Critical Accounting Policies

Management's discussion and analysis of our consolidated financial statements and results of operations are based upon our Consolidated Financial Statement included as part of this document. The preparation of these 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, impairment of long-lived assets, and contingencies and litigation. We base these estimates on historical experiences 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 that the following critical accounting policies affect management's more significant judgments and estimates used in the preparation of its consolidated financial statements. For a detailed discussion on the application of these and other accounting policies, see Note A to the consolidated financial statements included in this Annual Report. 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:

Income Taxes: The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the financial statements. These temporary differences will 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 valuation allowances are provided, as necessary. The Company follows the financial pronouncement that gives guidance related to the financial statement of recognition and measurement of a tax position taken or expected to be taken in a tax return and requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties related to income tax matters are recorded as income tax expenses, See Note G, Income Taxes.

Revenue Recognition: Revenue is recognized at the time product is shipped and title passes pursuant to the terms of the agreement with the customer, the amount due from the customer is fixed and collectability of the related receivable is reasonably assured. We establish allowances to cover anticipated doubtful accounts and sales returns based upon historical experience. The Company nets the factored accounts receivable with the corresponding advance from the Factor, with the net amount reflected in the consolidated balance sheet. The Company sells trade receivables on a pre-approved non-recourse basis to the Factor under the Factoring Agreement on an ongoing basis.

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

Assets Held For Investment: Assets held for investment are accounted for as investments available for sale and valued at their fair value, with unrealized gains and losses reported as a separate component of stockholders' equity in accumulated other comprehensive income. All realized gains and losses on our investments available for sale are recognized in results of operations as investment income.

Investments available for sale are evaluated periodically to determine whether a decline in their value is "other than temporary." Management reviews criteria such as the magnitude and duration of the decline, as well as the reasons for the decline, to predict whether the loss in value is other than temporary. If a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

We may be subject to lawsuits and other claims, related to patents and other matters. Management is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is based on a careful analysis of each individual issue with the assistance of outside legal counsel. Any required reserve may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

Recently Issued Accounting Pronouncements

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this Item 8 are included in the Company's Consolidated Financial Statements and set forth in the pages indicated in Item 15(a) of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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 ("Exchange Act"), 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 as of the end of the period covered by this annual report, and have concluded that the system is effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). Internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Our Chief Financial Officer, with the participation of our Chief Executive Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of

March 31, 2011.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

- 18 -

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information with respect to the identity and business experience of the directors of the Company and their remuneration set forth in the section captioned “Election of Directors” in the Company’s definitive Proxy Statement to be filed pursuant to Regulation 14A and issued in conjunction with the 2011 Annual Meeting of Stockholders (the “Proxy Statement”) is incorporated herein by reference. The information with respect to the identity and business experience of executive officers of the Company is set forth in Part I of this Form 10-K. The information with respect to the Company’s Audit Committee is incorporated herein by reference to the section captioned “Meetings and Committees of the Board of Directors” in the Proxy Statement. The information with respect to compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the section captioned “Compliance with Section 16(a) of the Exchange Act” in the Proxy Statement. The information with respect to the Company’s Code of Ethics is incorporated herein by reference to the section captioned “Code of Ethics” in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections captioned “Director Compensation” and “Executive Compensation” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership is incorporated herein by reference to the sections captioned “Beneficial Ownership” and “Information Regarding Share Ownership of Management” in the Proxy Statement. Information required by this item regarding our equity compensation plans is incorporated herein by reference to the Section entitled “Executive Compensation” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections captioned “Transactions with Management”, if any, and “Election of Directors” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section captioned “Independent Registered Public Accountants” in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)1. Financial Statements.

| | Page |
|---|------|
| Report of Independent Registered Public Accounting Firm | F-1 |
| Consolidated Balance Sheets as of March 31, 2011 and 2010 | F-2 |
| Consolidated Statements of Operations for the Years Ended March 31, 2011, 2010 and 2009 | F-3 |
| Consolidated Statements of Shareholders' Equity for the Years Ended March 31, 2011, 2010 and 2009 | F-4 |
| Consolidated Statements of Cash Flows for the Years Ended March 31, 2011, 2010 and 2009 | F-5 |
| Notes to Consolidated Financial Statements | F-6 |

(a)2. Financial Statement Schedules.

| | |
|--|-----|
| Schedule II – Valuation of Qualifying Accounts | S-1 |
|--|-----|

(a)3. Exhibits required to be filed by Item 601 of Regulation S-K.

Exhibit No.

- 3.1 Articles of Incorporation (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1988, File No. 1-31747)
- 3.2 Articles Supplementary, filed October 14, 2003 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed October 31, 2002, file No. 1-31747)
- 3.3 Bylaws, as amended (incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2009, File No. 1-31747)
- 10.1 Non-Qualified Stock Option Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2003, File No. 1-31747)
- 10.2 Hong Kong Joint Venture Agreement, as amended (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003, File No. 1-31747)
- 10.3 Amended and Restated Factoring Agreement between the Registrant and The CIT Group/Commercial Services, Inc. ("CIT"), dated June 22, 2007 (substantially identical agreement entered into by the Registrant's wholly-owned subsidiary, USI Electric, Inc.) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 26, 2007, file No. 1-31747)
- 10.4 Amended and Restated Inventory Security Agreement between the Registrant and CIT, dated June 22, 2007 (substantially identical agreement entered into by the Registrant's wholly-owned subsidiary, USI Electric, Inc.) (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 26, 2007, file No. 1-31747)
- 10.5 Amendment, dated December 22, 2009, to Amended and Restated Factoring Agreement between the Registrant and CIT dated June 22, 2007 (substantially identical agreement entered into by the Registrant's wholly-owned subsidiary, USI Electric, Inc.) (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed February 16, 2010, file No. 1-31747)
- 10.6 Lease between Universal Security Instruments, Inc. and St. John Properties, Inc. dated November 4, 2008 for its office and warehouse located at 11407 Cronhill Drive, Suites A-D, Owings Mills, Maryland 21117 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2008, File No. 1-31747)
- 10.7 Amendment to Lease between Universal Security Instruments, Inc. and St. John Properties, Inc. dated June 23, 2009 (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended March 31, 2009, File No. 1-31747)

10.8 Amended and Restated Employment Agreement dated July 18, 2007 between the Company and Harvey B. Grossblatt (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2007, File No. 1-31747), as amended by Addendum dated November 13, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 15, 2007, File No. 1-31747), by Addendum dated September 8, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed September 8, 2008, File No. 1-31747), and 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)

14 Code of Ethics (incorporated by reference to Exhibit 14 to the Company's Annual Report on Form 10-K for the year ended March 31, 2004, File No. 1-31747)

21 Subsidiaries of the Registrant*

| | |
|------|--|
| 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 June 28, 2011* |

*Filed herewith

(c) Financial Statements Required by Regulation S-X.

Separate financial statements of the Hong Kong Joint Venture

| | |
|---|------|
| Report of Independent Registered Public Accounting Firm | JV-1 |
| Consolidated Statement of Comprehensive Income | JV-3 |
| Consolidated Statement of Financial Position | JV-4 |
| Statement of Financial Position | JV-5 |
| Consolidated Statement of Changes in Equity | JV-6 |
| Consolidated Statement of Cash Flows | JV-7 |
| Notes to Financial Statements | JV-8 |

- 21 -

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

June 28, 2011

By: /s/ Harvey B. Grossblatt
Harvey B. Grossblatt
President and Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|--|---------------|
| /s/ Harvey B. Grossblatt Harvey B. Grossblatt | President, Chief Executive Officer and Director | June 28, 2011 |
| /s/ James B. Huff James B. Huff | Chief Financial Officer (principal financial officer and principal accounting officer) | June 28, 2011 |
| /s/ Cary Luskin Cary Luskin | Director | June 28, 2011 |
| /s/ Ronald A. Seff Ronald A. Seff | Director | June 28, 2011 |
| /s/ Ira Bormel Ira Bormel | Director | June 28, 2011 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Universal Security Instruments, Inc.

We have audited the accompanying consolidated balance sheets of Universal Security Instruments, Inc. (a Maryland Corporation) and subsidiaries (the Company) as of March 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2011. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Security Instruments, Inc. and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP

Baltimore, Maryland
June 28, 2011

F-1

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | March 31 | |
|---|---------------------|---------------------|
| | 2011 | 2010 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$6,728,593 | \$2,253,631 |
| Assets held for investment | - | 4,001,890 |
| Accounts receivable: | | |
| Trade less allowance for doubtful accounts of approximately \$75,000 at March 31, 2011 and approximately \$90,000 at March 31, 2010 | 276,463 | 316,843 |
| Other receivables | 69,666 | 70,523 |
| Receivable from Hong Kong Joint Venture | 301,380 | 162,305 |
| | 647,509 | 549,671 |
| Amount due from factor | 1,569,126 | 3,824,553 |
| Inventories, net of allowance for obsolete inventory of \$100,000 at March 31, 2011 and 2010 | 3,534,011 | 3,439,906 |
| Prepaid expenses | 519,356 | 351,192 |
| TOTAL CURRENT ASSETS | 12,998,595 | 14,420,843 |
| DEFERRED TAX ASSET | 2,002,561 | 1,877,156 |
| INVESTMENT IN HONG KONG JOINT VENTURE | 13,149,614 | 12,153,456 |
| PROPERTY AND EQUIPMENT – NET | 203,440 | 199,163 |
| INTANGIBLE ASSET - NET | 89,434 | - |
| OTHER ASSETS | 40,134 | 20,136 |
| TOTAL ASSETS | \$28,483,778 | \$28,670,754 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$794,014 | \$689,762 |
| Hong Kong Joint Venture accounts payable | 453,480 | 1,472,993 |
| Accrued liabilities: | | |
| Payroll and employee benefits | 177,298 | 232,034 |
| Commissions and other | 33,700 | 47,001 |
| TOTAL CURRENT LIABILITIES | 1,458,492 | 2,441,790 |
| Long-term obligation – other | 25,000 | 46,459 |
| COMMITMENTS AND CONTINGENCIES | - | - |

SHAREHOLDERS' EQUITY

| | | |
|---|---------------------|---------------------|
| Common stock, \$.01 par value per share; authorized 20,000,000 shares; 2,387,887 shares issued and outstanding at March 31, 2011 and 2010 | 23,879 | 23,879 |
| Additional paid-in capital | 13,135,198 | 13,135,198 |
| Retained earnings | 13,841,209 | 13,023,428 |
| TOTAL SHAREHOLDERS' EQUITY | 27,000,286 | 26,182,505 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$28,483,778 | \$28,670,754 |

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

F-2

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Years Ended March 31 | | |
|---|----------------------|--------------------|--------------------|
| | 2011 | 2010 | 2009 |
| Net sales | \$13,249,604 | \$26,439,118 | \$26,097,596 |
| Cost of goods sold – acquired from Joint Venture | 7,024,044 | 20,908,186 | 19,363,886 |
| Cost of goods sold - other | 2,463,815 | 199,320 | 633,740 |
| GROSS PROFIT | 3,761,745 | 5,331,612 | 6,099,970 |
| Research and development expense | 615,639 | 712,688 | 435,750 |
| Selling, general and administrative expense | 4,375,241 | 4,731,697 | 5,297,284 |
| Operating (loss) income | (1,229,135) | (112,773) | 366,936 |
| Other income (expense): | | | |
| Interest expense | (4,166) | (78,451) | (32,198) |
| Investment income | 213,086 | 32,262 | 37,228 |
| | 208,920 | (46,189) | 5,030 |
| (LOSS) INCOME BEFORE EQUITY IN EARNINGS OF JOINT VENTURE | (1,020,215) | (158,962) | 371,966 |
| Equity in earnings of Hong Kong Joint Venture | 1,691,133 | 2,644,291 | 1,529,752 |
| Income from continuing operations before income taxes | 670,918 | 2,485,329 | 1,901,718 |
| Provision for income tax (benefit) expense | (146,863) | 217,281 | 459,382 |
| INCOME FROM CONTINUING OPERATIONS | 817,781 | 2,268,048 | 1,442,336 |
| Discontinued operations | | | |
| Income from the discontinued Canadian subsidiary | - | - | 2,481,318 |
| Income tax benefit – discontinued operations | - | - | 941,703 |
| Income from discontinued operations | - | - | 3,423,021 |
| NET INCOME | \$817,781 | \$2,268,048 | \$4,865,357 |
| Income per share: | | | |
| Basic – from continuing operations | \$0.34 | \$0.95 | \$0.58 |
| Basic – from discontinued operations | \$0.00 | \$0.00 | \$1.39 |
| Basic – net income | \$0.34 | \$0.95 | \$1.97 |
| Diluted – from continuing operations | \$0.34 | \$0.95 | \$0.58 |
| Diluted – from discontinued operations | \$0.00 | \$0.00 | \$1.38 |
| Diluted – net income | \$0.34 | \$0.95 | \$1.96 |

Shares used in computing net income per share:

| | | | |
|---------|-----------|-----------|-----------|
| Basic | 2,387,887 | 2,387,887 | 2,466,983 |
| Diluted | 2,395,766 | 2,398,300 | 2,471,807 |

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

F-3

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Other Comprehensive Income | Total |
|-----------------------------------|------------------------|------------------------|----------------------------------|----------------------|----------------------------------|---------------|
| Balance at March 31, 2008 | 2,487,867 | \$ 24,879 | \$ 13,453,378 | \$ 5,890,023 | \$ 55,655 | \$ 19,423,935 |
| Stock based compensation | - | - | 11,230 | - | - | 11,230 |
| Comprehensive income: | | | | | | |
| Effect of currency translation | - | - | - | - | (55,655) | (55,655) |
| Net income | - | - | - | 4,865,357 | - | 4,865,357 |
| Repurchase of common stock | (79,647) | (796) | (278,172) | - | - | (278,968) |
| Balance at March 31, 2009 | 2,408,220 | \$ 24,083 | \$ 13,186,436 | \$ 10,755,380 | - | \$ 23,965,899 |
| Stock based compensation | - | - | 42,762 | - | - | 42,762 |
| Net income | - | - | - | 2,268,048 | - | 2,268,048 |
| Repurchase of common stock | (20,333) | (204) | (94,000) | - | - | (94,204) |
| Balance at March 31, 2010 | 2,387,887 | \$ 23,879 | \$ 13,135,198 | \$ 13,023,428 | - | \$ 26,182,505 |
| Net income | - | - | - | 817,781 | - | 817,781 |
| Balance at March 31, 2011 | 2,387,887 | \$ 23,879 | \$ 13,135,198 | \$ 13,841,209 | \$ - | \$ 27,000,286 |

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

| | Years Ended March 31, | | |
|--|-----------------------|--------------------|--------------------|
| | 2011 | 2010 | 2009 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| OPERATING ACTIVITIES | | | |
| Net income | \$817,781 | \$2,268,048 | \$4,865,357 |
| Adjustments to reconcile net income to net cash | | | |
| Provided by (used in) operating activities: | | | |
| Operations of discontinued subsidiary | - | - | (3,431,654) |
| Depreciation and amortization | 61,025 | 56,361 | 49,210 |
| Stock based compensation | - | 42,762 | 11,230 |
| (Increase) decrease in deferred taxes | (125,405) | 264,546 | (227,566) |
| | | | - |
| Earnings of the Hong Kong Joint Venture | (1,691,133) | (2,644,291) | (1,529,752) |
| Changes in operating assets and liabilities: | | | |
| Decrease in accounts receivable and amounts due from factor | 2,157,589 | 701,993 | 1,067,952 |
| (Increase) decrease in inventories | (94,105) | 5,557,325 | (3,639,743) |
| Increase in prepaid expenses | (168,165) | (95,447) | (49,548) |
| (Decrease) increase in accounts payable, accrued expenses, and other | (1,004,757) | (1,120,884) | 383,518 |
| Increase in other assets | (19,998) | (1,687) | (2,963) |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (67,168) | 5,028,726 | (2,503,959) |
| INVESTING ACTIVITIES: | | | |
| Sale of (investment in) assets held for investment | 4,001,890 | (4,001,890) | - |
| Cash distributions from Joint Venture | 694,976 | 1,041,281 | 965,958 |
| Purchase of equipment | (65,302) | (4,233) | (170,229) |
| Patent costs capitalized | (89,434) | - | - |
| Activities of discontinued subsidiary | - | - | 2,590,722 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 4,542,130 | (2,964,842) | 3,386,451 |
| FINANCING ACTIVITIES: | | | |
| Activities of discontinued subsidiary | - | - | (4,187,444) |
| Repurchase of common stock | - | (94,204) | (278,968) |
| Principal payment of notes payable | - | (79) | - |
| Decrease in long-term debt | - | - | 4,166 |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | - | (94,283) | (4,462,246) |
| INCREASE (DECREASE) IN CASH | 4,474,962 | 1,969,601 | (3,579,754) |
| Cash at beginning of period | 2,253,631 | 284,030 | 3,863,784 |
| CASH AT END OF PERIOD | \$6,728,593 | \$2,253,631 | \$284,030 |

Supplemental information:

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| | | | |
|-------------------------------|---------|----------|-----------|
| Interest paid | \$4,166 | \$78,451 | \$32,198 |
| Income taxes recovered (paid) | \$- | \$- | \$520,558 |

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

F-5

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Universal Security Instruments, Inc.'s ("the Company") primary business is the sale of smoke alarms and other safety products to retailers, wholesale distributors and to the electrical distribution trade which includes electrical and lighting distributors as well as manufactured housing companies. The Company imports all of its safety and other products from foreign manufacturers. The Company, as an importer, is subject to numerous tariffs which vary depending on types of products and country of origin, changes in economic and political conditions in the country of manufacture, potential trade restrictions and currency fluctuations.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The operations of International Conduits, Ltd (the discontinued subsidiary) are not consolidated and are shown in the consolidated financial statements as the results from discontinued operations. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe that our 50% ownership interest in the Hong Kong Joint Venture allows us to significantly influence the operations of the Hong Kong Joint Venture. As such, we account for our interest in the Hong Kong Joint Venture using the equity method of accounting. We have included our investment balance as a non-current asset and have included our share of the Hong Kong Joint Venture's income in our consolidated statement of operations. The investment and earnings are adjusted to eliminate intercompany profits.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash equivalents consist of highly liquid investments with original maturities of three months or less from the date of purchase. At times, the Company maintains cash and investment balances in financial institutions, which may exceed federally insured limits. The Company has not experienced any losses relating to such accounts and believes it is not exposed to a significant credit risk on its cash and cash equivalents and investments. The carrying value of cash and cash equivalents approximates their fair value based on their short-term maturities at March 31, 2011 and 2010.

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 criterion are met: evidence of an arrangement, 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. We have established allowances to cover anticipated doubtful accounts based upon historical experience.

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

Stock-Based Compensation: As of March 31, 2011, the Company's Non-Qualified Stock Option Plan, as amended, has expired. No options are presently exercisable under the now-expired plan.

We account for share-based payments using the fair value method. We recognize all share-based payments to employees and non-employee directors in our financial statements based on their grant date fair values, calculated using the Black-Scholes option pricing model. Compensation expense related to share-based awards is recognized on a straight-line basis based on the value of share awards that are expected to vest during the requisite service period on the grant date, which is revised if actual forfeitures differ materially from original expectations.

Research and Development: Research and development costs are charged to operations as incurred.

Accounts Receivable: The Company nets the factored accounts receivable with the corresponding advance from the Factor, with the net amount reflected in the consolidated balance sheet.

F-6

The Company sells trade receivables on a pre-approved non-recourse basis to the Factor under the Factoring Agreement on an ongoing basis. Factoring charges recognized on sales of receivables are included in selling, general and administrative expenses in the consolidated statements of income and amounted to \$57,161, \$125,432 and \$149,597 for the years ended March 31, 2011, 2010 and 2009, respectively. The Agreement for the sale of accounts receivable provides for continuation of the program on a revolving basis until terminated by one of the parties to the Agreement.

Financing Receivables. In September 2010, the FASB issued an Accounting Standards Update requiring enhanced disclosure of the credit quality of financing receivables, as defined therein, and the adequacy of allowances for credit losses. Management considers amounts due from the Company's factor to be "financing receivables". Trade accounts receivable, other receivables, and receivables from our Hong Kong Joint Venture are not considered by management to be financing receivables.

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

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

Based on the nature of the factoring agreement and prior experience, no allowance for uncollectible financing receivables has been provided. At March 31, 2011, an allowance of \$75,000 has been provided for uncollectible trade accounts receivable.

Shipping and Handling Fees and Costs: The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with inbound freight are included in cost of goods sold. Shipping and handling costs associated with outbound freight are included in selling, general and administrative expenses and totaled \$308,278, \$401,446 and \$528,643 in fiscal years 2011, 2010 and 2009, respectively.

Assets Held for Investment: Assets held for investment consist of investments in ten different bond and/or exchange traded funds. These funds invest in, under normal circumstances, a portfolio of fixed income securities, including non-mortgage securities issued or guaranteed by the U.S. Government, its agencies, instrumentalities or sponsored enterprises ("U.S. Government Securities"), corporate notes and commercial paper and fixed and floating rate asset-backed securities. One fund invests in foreign bonds and represents approximately 10 percent of the assets held for investment.

All of the funds are subject to various risks including, but not limited to interest rate risk, credit risk, high yield risk, market risk, liquidity risk, foreign (non-U.S.) investment risk, currency risk, leveraging risk and management risk.

Assets held for investment are accounted for as investments available for sale and valued at their fair value, with unrealized gains and losses reported as a separate component of stockholders' equity in accumulated other comprehensive income. All realized gains and losses on our investments available for sale are recognized in results of operations as investment income.

Investments available for sale are evaluated periodically to determine whether a decline in their value is "other than temporary." Management reviews criteria such as the magnitude and duration of the decline, as well as the reasons for the decline, to predict whether the loss in value is other than temporary. If a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Fair Value: Fair value is defined as the price at which an asset could be exchanged or a liability transferred (an exit price) in an orderly transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied.

Financial assets recorded at fair value in the accompanying financial statements are categorized based upon their level.

F-7

Level 1-

Inputs are other than quoted prices included in Level 1, which are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument's anticipated life of judgment associated with the inputs used to measure their fair value. The levels are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, and are as follows:

Our investments are classified as Level 1.

Level 2-

Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair valued assets we hold that are generally included in this category are investment grade securities such as mutual funds and exchange traded funds.

We carry no investments classified as Level 2.

Level 3-

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

We carry no investments classified as Level 3.

When quoted prices in active markets for identical assets are available, we use these quoted market prices to determine the fair value of financial assets and classifies these assets as Level 1. In other cases where a quoted market price for identical assets in an active market is either not available or not observable, we obtain the fair value from a third party vendor that uses pricing models, such as matrix pricing, to determine fair value. These financial assets would then be classified as Level 2. In the event quoted market prices were not available, we would determine fair value using broker quotes or an internal analysis of each investment's financial statements and cash flow projections. In these instances, financial assets would be classified based upon the lowest level of input that is significant to the valuation. Thus, financial assets might be classified in Level 3 even though there could be some significant inputs that may be readily available. To date, we have never had any assets that were required to be classified as Level 2 or 3

Inventories: Inventories are stated at the lower of cost (first in/first out method) or market. Included as a component of finished goods inventory are additional non-material costs. These costs include overhead costs, freight, import duty and inspection fees of \$398,397 and \$310,044 at March 31, 2011 and 2010, respectively. Inventories are shown net of an allowance for inventory obsolescence of \$100,000 as of March 31, 2011 and 2010.

The Company reviews inventory quarterly to identify slow moving products and valuation allowances are adjusted when deemed necessary.

Income Taxes: The Company recognizes a liability or asset for the deferred tax consequences of temporary differences between the tax basis of assets or liabilities and their reported amounts in the financial statements. These temporary differences will 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 valuation allowances are provided, whenever it is more likely than not that a deferred tax asset will not be realized. The Company follows the financial pronouncement that gives guidance related to the financial statement of recognition and measurement of a tax position taken or expected to be taken in a tax return and requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties related to income tax matters are recorded as income tax expenses, See Note G, Income Taxes.

F-8

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

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

Foreign currency: The activity and accounts of the Hong Kong Joint Venture are denominated in Hong Kong dollars and are translated to US dollars in consolidation. The Company translates the accounts of the Hong Kong Joint Venture at the applicable exchange rate in effect at the year end date for balance sheet purposes and at the average exchange rate for the reporting period for statement of income purposes. The related translation adjustments are reported in accumulated other comprehensive income in shareholders' equity. Transaction gains and losses arising from transactions denominated in foreign currencies are included in the results of operations. The Company currently does not maintain cash in foreign banks to support its operations in Hong Kong.

Net Income per Share: The Company reports basic and diluted earnings per share. Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted number of common shares and common share equivalents outstanding (unless their effect is anti-dilutive) for the period. All common share equivalents are comprised of stock options.

| | 2011 | March 31, 2010 | 2009 |
|--|-----------|-------------------|-----------|
| Weighted average number of common shares outstanding for basic EPS | 2,387,887 | 2,387,887 | 2,466,983 |
| Shares issued upon assumed exercise of outstanding stock options | 7,879 | 10,413 | 4,824 |
| Weighted average number of common and common equivalent shares outstanding for diluted EPS | 2,395,766 | 2,398,300 | 2,471,807 |

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided by using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes.

The estimated useful lives for financial reporting purposes are as follows:

| | | |
|--------------------------------|---|--|
| Automotive and truck equipment | - | Shorter of term of lease or useful life of asset |
| Leasehold improvements | - | Shorter of term of lease or useful life of asset |
| Machinery and equipment | - | 5 to 10 years |
| Furniture and fixtures | - | 5 to 15 years |
| Computer equipment | - | 5 years |

Property and equipment consist of the following:

| | March 31, | |
|-------------------------------|------------|------------|
| | 2011 | 2010 |
| Leasehold improvements | \$ 166,772 | \$ 166,772 |
| Machinery and equipment | 189,276 | 163,106 |
| Furniture and fixtures | 251,611 | 251,611 |
| Computer equipment | 242,003 | 202,870 |
| | 849,662 | 784,359 |
| Less accumulated depreciation | (646,222) | (585,196) |
| | \$ 203,440 | \$ 199,163 |

F-9

Depreciation and amortization expense totaled \$61,025, \$56,361 and \$49,210 for fiscal years ended March 31, 2011, 2010 and 2009, respectively.

NOTE C - INVESTMENT IN THE HONG KONG JOINT VENTURE

The Company holds a 50% interest in a Joint Venture with a Hong Kong Corporation, which has manufacturing facilities in the People's Republic of China, for the manufacturing of consumer electronic products. As of March 31, 2011, the Company has an investment balance of \$13,149,614 for its 50% interest in the Hong Kong Joint Venture. There are no material differences between the generally accepted accounting principles (GAAP) used in the Hong Kong Joint Venture's accounting policies when compared to US GAAP.

The following represents summarized financial information derived from the audited financial statements of the Hong Kong Joint Venture as of March 31, 2011 and 2010 and for the years ended March 31, 2011, 2010 and 2009.

| | March 31, | |
|---------------------------|----------------------|----------------------|
| | 2011 | 2010 |
| Current assets | \$ 14,127,686 | \$ 16,559,736 |
| Property and other assets | 17,208,266 | 13,882,324 |
| Total | \$ 31,335,952 | \$ 30,442,060 |
| Current liabilities | \$ 3,837,140 | \$ 4,803,710 |
| Non-current liabilities | 24,116 | 25,569 |
| Equity | 27,474,696 | 25,612,781 |
| Total | \$ 31,335,952 | \$ 30,442,060 |

| | For the Year Ended March 31, | | |
|--------------|------------------------------|---------------|---------------|
| | 2011 | 2010 | 2009 |
| Net sales | \$ 24,231,557 | \$ 28,848,177 | \$ 36,161,337 |
| Gross profit | 6,444,936 | 8,111,618 | 9,594,405 |
| Net income | 3,339,499 | 4,018,779 | 4,011,404 |

During the years ended March 31, 2011, 2010 and 2009, the Company purchased \$8,130,109, \$14,748,828, and \$22,861,649, respectively, of finished product from the Hong Kong Joint Venture, which represents 85.6%, 99.0% and 97.3%, respectively, of the Company's total finished product purchases for the years ended at March 31, 2011, 2010 and 2009. Amounts due the Hong Kong Joint Venture included in Accounts Payable totaled \$453,480 and \$1,472,993 at March 31, 2011 and 2010, respectively. Amounts due from the Hong Kong Joint Venture included in Accounts Receivable totaled \$301,380 and \$162,305 at March 31, 2011 and 2010, respectively.

The Company's investment in the Hong Kong Joint Venture as recorded on the Company's Consolidated Balance sheets has been adjusted by the intercompany profit of the Hong Kong Joint Venture in the Inventory of the Company.

NOTE D - AMOUNTS DUE FROM FACTOR

The Company sells certain of its trade receivables on a pre-approved, non-recourse basis to a Factor. Since these are sold on a non-recourse basis, the factored trade receivables and related repayment obligations are not separately

recorded in the Company's consolidated balance sheets. The Agreement provides for financing of up to a maximum of \$7,500,000 with the amount available at any one time based on 90% of uncollected non-recourse receivables sold to the factor and 50% of qualifying inventory. Financing of approximately \$2,610,571 is available at March 31, 2011. Any outstanding amounts due to the factor are payable upon demand and bear interest at the prime rate of interest charged by the factor, which is 3.25% at March 31, 2011. Any amount due to the factor is also secured by the Company's inventory. There were no borrowings outstanding under this agreement at March 31, 2011.

F-10

Under this Factoring Agreement, the Company sold receivables of approximately \$10,360,042 and \$25,001,975 during the years ended March 31, 2011 and 2010, respectively. Gains and losses recognized on the sale of factored receivables include the fair value of the limited recourse obligation. The uncollected balance of non-recourse receivables held by the factor amounted to \$1,569,126 and \$3,824,553 at March 31, 2011 and 2010. The amount of the uncollected balance of non-recourse receivables borrowed by the Company as of March 31, 2011 and 2010 is \$0 and \$0, respectively. Collected cash maintained on deposit with the factor earns interest at the factor's prime rate of interest less three percentage points (effective rate 0.25% at March 31, 2011 and 2010).

NOTE E - LEASES

During January 2009, the Company entered into an operating lease for its office and warehouse which expires in March 2019. This lease is subject to increasing rentals at 3% per year. In June 2009, we amended this lease to include an additional 3,000 square feet of warehouse space contiguous to our existing warehouse in Baltimore County, Maryland. The Company has the right to terminate the lease after five years for a one-time payment of \$42,000. In February 2004, the Company entered into an operating lease for an approximately 2,600 square foot office in Naperville, Illinois. This lease expires in February 2012 with increasing rentals at 3% per year.

Each of the operating leases for real estate has renewal options with terms and conditions similar to the original lease. Rent expense, including common area maintenance, totaled \$171,080, \$161,875 and \$119,565 for the years ended March 31, 2011, 2010 and 2009, respectively.

| | 2012 | 2013 | 2014 |
|---|------------|------------|------------|
| Future minimum lease payments are as follows: | \$ 171,736 | \$ 137,439 | \$ 183,593 |

NOTE F – INCOME TAXES

The Company files its income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. 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 tax credit carryforwards, reserves, inventories, and accrued liabilities

For the fiscal year ended March 31, 2011, the Company has an accumulated net operating loss carryover of approximately \$812,651 that the Company may carry-forward to offset future taxable income. The Company generated \$113,136 of foreign tax credits for the period. At March 31, 2011, the Company has \$1,522,886 of foreign tax and \$48,186 of research and development credit carry-forward available to offset future federal income taxes.

For the fiscal year ended March 31, 2010, the Company has an accumulated net operating loss of approximately \$551,121 that the Company may carryforward to offset future taxable income. The Company generated \$169,511 of foreign tax credits for the period. At March 31, 2010, the Company has \$1,409,750 of foreign tax credit carryforward available to offset future federal income taxes.

For the fiscal year ended March 31, 2009, the Company generated a net operating loss of \$600,508 that the Company elected to carry-back to offset prior taxable income. In addition, the Company generated \$157,249 of foreign tax credits for the period. Accordingly, at March 31, 2009, the Company had \$1,240,239 of foreign tax credit carryforward available to offset future federal income taxes.

The components of income tax expense (benefit) from continuing operations for the Company are as follows:

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| | 2011 | 2010 | 2009 |
|---|---------------------|------------------|-------------------|
| Current expense (benefit) | | | |
| U.S. Federal | \$(21,459) | \$20,894 | \$608,794 |
| U.S. State | - | 2,229 | 64,943 |
| | - | 23,123 | 673,737 |
| Deferred expense (benefit) | (125,404) | 194,158 | (214,355) |
| Total income tax (benefit) expense | \$(146,863) | \$217,281 | \$459,382 |

F-11

| | March 31, | |
|--|--------------|--------------|
| | 2011 | 2010 |
| Deferred tax assets: | | |
| Financial statement accruals and allowances | \$ 54,340 | \$ 112,920 |
| Inventory uniform capitalization | 72,412 | 48,862 |
| Net operating loss carryforward | 304,737 | 305,624 |
| Foreign tax credit carryforward | 1,522,886 | 1,409,750 |
| Research and development tax credit carryforward | 48,186 | - |
| Net deferred tax asset | \$ 2,002,561 | \$ 1,877,156 |

The reconciliation between the statutory federal income tax provision and the actual effective tax provision for continuing operations is as follows:

| | Years ended March 31, | | |
|---|-----------------------|------------|------------|
| | 2011 | 2010 | 2009 |
| Federal tax expense at statutory rate (34%) before loss carry-forward | \$ 225,374 | \$ 845,012 | \$ 646,584 |
| Non-repatriated earnings of Hong Kong Joint Venture | (338,693) | (325,732) | (114,275) |
| Foreign tax credit | (74,670) | (169,511) | (157,249) |
| Research and development credit | (17,361) | - | - |
| State income tax expense, net of federal tax effect | (5,277) | 7,637 | 64,943 |
| Reduction in uncertain tax position liability | (21,459) | (51,011) | - |
| Permanent differences | 14,955 | 31,516 | 19,379 |
| True-up adjustments | 70,268 | (120,630) | - |
| Provision for income tax expense (benefit) | \$ (146,863) | \$ 217,281 | \$ 459,382 |

The Company adopted new income tax guidance regarding uncertain tax positions on April 1, 2007. As a result of the implementation, the Company recognized an \$86,000 liability for unrecognized tax benefits, which was accounted for as a reduction of the April 1, 2007 retained earnings balance. The total amount of unrecognized tax attributes as of the date of the adoption was approximately \$86,000 and includes income taxes, tax penalties and imputed interest. Interest and penalties related to adjustments to income taxes as filed, have not been significant. The Company includes any such interest and penalties in its tax provision. During the fiscal year ended March 31, 2011 and 2010, the amount of the unrecognized tax attributes were reduced by \$21,459 and \$39,541, respectively, to \$25,000, including deemed interest and penalties. That amount, if ultimately recognized, would reduce the Company's annual effective tax rate. The Company has concluded that none of this amount will be paid within the next twelve months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | |
|--|----------|
| Balance at April 1, 2010 | \$46,459 |
| Reduction for tax positions of prior years | (21,459) |
| Balance at March 31, 2011 | \$25,000 |

NOTE G - SHAREHOLDERS' EQUITY

Stock Repurchase Program – In July 2008, the Company announced a stock buyback program and authorized the purchase of up to 100,000 shares of common stock. Shares may be purchased from time to time under this program in

the open market, through block trades and/or in negotiated transactions.

During the fiscal year ended March 31, 2009, 79,647 shares were repurchased under this program. Subsequent to March 31, 2009, an additional 20,333 shares were repurchased, resulting in a total of 99,980 shares repurchased at an average price of \$3.71 per share.

F-12

Stock Options - Under terms of the Company's now expired 1978 Non-Qualified Stock Option Plan, as amended, 1,170,369 shares of common stock were reserved for the granting of stock options, of which 1,149,638 options had been issued as of March 31, 2009. At March 31, 2011, there are no options outstanding under the 1978 Non-Qualified Stock Option Plan.

In March 2009, 25,000 options were issued at \$3.25 for restricted shares of the Company's common stock. These options were not issued under the 1978 Non-Qualified Stock Option Plan and became fully vested after one year with a right to exercise until March 2014.

The following tables summarize the status of exercisable stock options at March 31, 2011 and option transactions for the three years then ended:

| Status as of March 31, 2011 | Number of Shares |
|----------------------------------|------------------|
| Presently exercisable | 25,000 |
| Outstanding options | |
| Number of holders | 1 |
| Average exercise price per share | \$ 3.25 |
| Expiration date: | March 2014 |

| Transactions for the Three Years Ended March 31, 2011: | Number of Shares | Weighted Average Exercise Price |
|--|------------------|---------------------------------|
| Outstanding at March 31, 2008 | 97,423 | |
| Granted | 0 | 3.25 |
| Cancelled | (43,996) | 11.27 |
| Exercised | - | 0.00 |
| Outstanding at March 31, 2009 | 53,427 | |
| Cancelled | (28,427) | 16.09 |
| Outstanding at March 31, 2010 and 2011 | 25,000 | 3.25 |

The following table summarizes information about stock options outstanding at March 31, 2011:

| Range of Exercise Price | Options Outstanding | | | Options Exercisable | |
|-------------------------|---------------------|---------------------------------|--------------------------------------|---------------------|---------------------------------|
| | Number of Shares | Weighted Average Exercise Price | Weighted Average Contract Life (Yrs) | Number of Shares | Weighted Average Exercise Price |
| \$ 3.25 | 25,000 | 3.25 | 5.00 | 25,000 | 3.25 |

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions; no annual dividends, expected volatility of 64.05%, risk-free interest rate of 0.5% and expected lives of five years used for options granted in fiscal 2009. There were no options granted in fiscal 2010 or 2011.

For the fiscal year ended March 31, 2010, we recorded \$42,762 of stock-based compensation cost as general and administrative expense in our statement of operations. No forfeitures have been estimated.

As of March 31, 2011, the unrecognized compensation cost related to share-based compensation arrangements that we expect to vest is \$0. The aggregate intrinsic value of currently exercisable options was \$124,500 at March 31, 2011.

F-13

NOTE H - COMMITMENTS AND CONTINGENCIES

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

During fiscal 2010, a litigation matter was settled, resulting in the elimination of an amount previously accrued to pursue the litigation in the amount of \$400,000. The reversal was included in selling, general and administrative expense in fiscal 2010.

NOTE I - MAJOR CUSTOMERS

The Company is primarily a distributor of safety products for use in home and business under both its trade names and private labels for other companies. As described in Note C, the Company purchased a majority of its products from its 50% owned Hong Kong Joint Venture.

For the fiscal year ended March 31, 2011, the Company had one customer, Facilities Maintenance, that represented 12.3% of the Company's product sales.

In prior fiscal years, the Company had one customer, The Home Depot, which represented 51.3% and 46.6% of the Company's product sales during the periods ended March 31, 2010 and 2009, respectively, and declined to less than 10% for the fiscal year ended March 31, 2011. Effective approximately April 1, 2010 and for the fiscal year ending March 31, 2011, The Home Depot will continue to sell the Company's products only online and through the retailer's professional contractor desk. Accordingly, sales to The Home Depot decreased to \$880,913 for the fiscal year ended March 31, 2011 compared to \$15,793,769 and \$13,802,809 for the fiscal years ended 2010 and 2009, respectively, and are expected to represent a significantly lower percentage of the Company's total revenue in future fiscal years.

NOTE J - QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly Results of Operations (Unaudited):

The unaudited quarterly results of operations for fiscal years 2011 and 2010 are summarized as follows:

| | June 30, | Quarter Ended September 30, | December 31, | March 31, |
|--|--------------|-----------------------------------|--------------|--------------|
| 2011 | | | | |
| Net sales | \$ 3,681,421 | \$ 3,714,378 | \$ 2,475,511 | \$ 3,378,294 |
| Gross profit | 1,111,242 | 1,064,144 | 751,580 | 834,779 |
| Income from continuing operations | 281,867 | 268,376 | 19,545 | 247,993 |
| Income per share from operations: | | | | |
| Basic | 0.12 | 0.11 | 0.01 | 0.10 |
| Diluted | 0.12 | 0.11 | 0.01 | 0.10 |
| 2010 | | | | |
| Net sales | \$ 5,914,905 | \$ 7,900,805 | \$ 6,321,490 | \$ 6,301,918 |
| Gross profit | 1,169,834 | 1,647,672 | 1,319,001 | 1,195,105 |
| Income from operations | 611,465 | 924,870 | 263,490 | 468,223 |

Income per share from operations:

| | | | | |
|---------|------|------|------|------|
| Basic | 0.25 | 0.39 | 0.11 | 0.20 |
| Diluted | 0.25 | 0.39 | 0.11 | 0.20 |

F-14

NOTE K – RETIREMENT PLAN

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code. All full-time employees who have completed 12 months of service are eligible to participate. Employees are permitted to contribute up to the amounts prescribed by law. The Company may provide contributions to the plan consisting of a matching amount equal to a percentage of the employee’s contribution, not to exceed four percent (4%). Employer contributions were \$55,029, \$54,680, and \$55,059 for the years ended March 31, 2011, 2010 and 2009..

NOTE L – DISCONTINUED OPERATIONS

Discontinued Operations: We report discontinued operations in accordance with current financial guidance for “Accounting for the Impairment or Disposal of Long-Lived Assets.” Accordingly, we report businesses or asset groups as discontinued operations when we commit to a plan to divest the business or asset group and the sales of the business or asset group is deemed probable within the next 12 months.

Discontinued operations include our unconsolidated subsidiary, International Conduits, Ltd. which was placed into receivership in the fourth quarter of 2008. The results of this business, including the loss on impairment, have been presented as discontinued operations for all periods presented.

The consolidated statements of income include the following in discontinued operations:

| | Year ended March 31, | | |
|--|----------------------|------|-------------|
| | 2011 | 2010 | 2009 |
| Net Sales | \$- | \$- | \$- |
| Income (loss) before income taxes (including asset impairment loss of \$9,013,990 in 2008) | - | - | 2,481,318 |
| Income tax benefit | - | - | 941,703 |
| Income (loss) from discontinued operations | \$- | \$- | \$3,423,021 |

In October 2006, we formed 2113824 Ontario, Inc., an Ontario corporation, as a wholly-owned subsidiary of the Company for the purpose of acquiring a two-thirds interest in two Canadian corporations, International Conduits, Ltd. (Icon) and Intube, Inc. (Intube). Icon and Intube were based in Toronto, Canada and manufactured and distributed electrical mechanical tubing (EMT) steel conduit. Icon also sold home safety products, primarily purchased from the Company, in the Canadian market. The primary purpose of the Icon and Intube acquisition was to expand our product offerings to include EMT steel conduit, and to provide this product and service to the commercial construction market. On April 2, 2007, Icon and Intube were merged under the laws of Ontario to form one corporation.

In June 2007, Icon entered into a credit agreement with CIT Financial, Ltd. to provide a term loan and a line of credit facility. These loans were secured by all of the assets of Icon and by the corporate guarantees of the Company and our USI Electric subsidiary.

At the time of our investment in Icon, we projected that our established U.S. sales network would allow us to increase sales of EMT to U.S. customers. Despite our efforts, Icon suffered continuing losses, and we were not successful in increasing Icon’s sales in the face of competition and a downturn in the housing market. On January 29, 2008, Icon received notice from CIT Financial, Ltd. (CIT Canada), Icon’s principal and secured lender, that Icon was in default under the terms of the Credit Agreement dated June 22, 2007 between Icon and CIT Canada and demanding immediate payment of all of Icon’s obligations to CIT Canada under the Credit Agreement. On February 11, 2008, the assets of Icon were placed under the direction of a court appointed receiver, and the operations of Icon were

suspended. Accordingly, the assets and liabilities of Icon are not consolidated in the financial statements of the Company and are classified as assets held in receivership. Our consolidated financial statements and the related note disclosures reflect the operations of Icon as discontinued operations for all periods presented.

On September 22, 2008, Icon's obligations were settled in the receivership action by Ontario Superior Court order. As a result of the settlement of Icon's obligations, a gain of CAD\$5,101,674 (US\$4,910,718) was realized by Icon in the quarter ended September 30, 2008. Approximately US\$3,000,000 of the gain related to extinguishment of liabilities due to unsecured creditors as the Company determined that a legal release of the liabilities had been achieved to allow recognition of the gain on extinguishment of liabilities. This gain was partially offset in consolidation by the US\$1,518,375 after-tax effect loss recognized by the Company in settlement of its guarantee of Icon's secured debt and other losses attributable to the Icon discontinued operation to arrive at income from discontinued operations of \$3,423,021 for the fiscal year ended March 31, 2009.

At March 31, 2010, Icon had no remaining assets or liabilities.

NOTE M – INTANGIBLE ASSETS

Intangible assets consist of legal expenses of \$89,434 incurred in obtaining and perfecting patents on newly developed detector technology and are capitalized for financial statement purposes. Upon issuance, patents are amortized over twenty years on a straight-line basis.

The estimated useful lives for financial reporting purposes are as follows:

| | | |
|-------------------------|---|----------|
| Intangible patent costs | - | 20 years |
|-------------------------|---|----------|

F-16

SCHEDULE II

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED MARCH 31, 2011, 2010 AND 2009

| | Balance at beginning of year | Charged to cost and expenses | Deductions | Balance at end of year |
|---------------------------------|------------------------------------|---------------------------------|------------|---------------------------|
| Year ended March 31, 2011 | \$ 87,851 | \$ 0 | \$ 12,851 | \$ 75,000 |
| Allowance for doubtful accounts | | | | |
| Year ended March 31, 2010 | | | | |
| Allowance for doubtful accounts | \$ 95,927 | \$ 0 | \$ 8,076 | \$ 87,851 |
| Year ended March 31, 2009 | | | | |
| Allowance for doubtful accounts | \$ 15,000 | \$ 80,927 | \$ 0 | \$ 95,927 |
| Year ended March 31, 2011 | | | | |
| Allowance for inventory reserve | \$ 100,000 | \$ 0 | \$ 0 | \$ 100,000 |
| Year ended March 31, 2010 | | | | |
| Allowance for inventory reserve | \$ 204,309 | \$ 0 | \$ 104,309 | \$ 100,000 |
| Year ended March 31, 2009 | | | | |
| Allowance for inventory reserve | \$ 40,000 | \$ 164,309 | \$ 0 | \$ 204,309 |

S-1