UNIVERSAL SECURITY INSTRUMENTS INC
Form 10-K
July 13, 2007

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

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended March 31, 2007 or

o 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.)
7-A Gwynns Mill Court Owings Mills, Maryland (Address of principal executive offices)	21117 (Zip Code)
Registrant's telephone number, including area code	(410) 363-3000

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	**American Stock Exchange**

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 o No x

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

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 x No o

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, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer o Accelerated filer o Non-Accelerated Filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o 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 American Stock Exchange Stock on September 30, 2006, was $44,099,300**.**

The number of shares of common stock outstanding as of June 29, 2007 was 2,479,245.

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 2007 Annual Meeting of Shareholders (to be filed).

UNIVERSAL SECURITY INSTRUMENTS, INC.
2007 ANNUAL REPORT ON FORM 10-K

Table of Contents

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 (46.38% and 49.60% of its sales during fiscal 2007 and 2006 respectively), with the balance of its sales made to unrelated customers worldwide.

During the third quarter of fiscal 2007, we formed 2113824 Ontario, Inc., a wholly-owned subsidiary of the Company, under the laws of the Province of Ontario, Canada for the purpose of acquiring a majority interest in two Canadian corporations. In October 2006, 2113824 Ontario, Inc. acquired two-thirds of the issued and outstanding capital stock of International Conduits, Ltd. (Icon) and Intube, Inc. (Intube). Icon and Intube are based in Toronto, Canada and manufacture and distribute electrical mechanical tubing (EMT) steel conduit. Icon also sells home safety products, primarily purchased from USI, in the Canadian market. The primary purpose of the Icon and Intube acquisition is 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 amalgamated (merged) under the laws of the Province of Ontario, Canada to form one corporation. All future operations of the Canadian subsidiaries are combined under International Conduits, Ltd. (Icon).

We import all of our products from various foreign suppliers. For the fiscal year ended March 31, 2007, approximately 65.04% of our purchases were imported from the Hong Kong Joint Venture and 4.90% of our purchases were imported from our Canadian subsidiaries.

Our sales for the year ended March 31, 2007 were $35,823,575 compared to $28,894,101 for the year ended March 31, 2006, an increase of approximately 23.98%. We reported net income of $5,533,258 in fiscal 2007 compared to net income of $4,600,352 in fiscal 2006, an increase of 20.28%. Included in the fiscal 2007 results are $4,200,921 in sales and a $570,961 net loss by our newly acquired Canadian operations.

The Company was incorporated in Maryland in 1969. Our principal executive office is located at 7-A Gwynns Mill Court, 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 alarms under the trade names “USI Electric” and “UNIVERSAL” both of which are manufactured by the Hong Kong Joint Venture.

Our line of smoke alarms consists of battery, 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 outdoor floodlights under the name “Lite Aide(TM),” carbon monoxide alarms, door chimes and ground fault circuit interrupter (GFCI) units.

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 and marketed to the electrical distribution and retail trade.

EMT Steel Conduit

Icon manufactures mechanical steel tubing at its Toronto, Canada facility. Mechanical steel tubing is used for a variety of purposes, including EMT steel conduit, steel fencing, and as a component part of various other products. In Canada, EMT steel conduit is marketed principally through Icon's electrical distribution network to the commercial construction market. Sales of steel fencing and other mechanical steel tubing products are marketed directly by Icon's sales force. In the United States, EMT conduit is marketed principally through the Company's electrical distribution network to the commercial construction market.

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 ourself 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. Mechanical steel tubing manufactured for us by Icon is imported by land transport from Canada.

Sales and Marketing; Customers

We sell our products to various customers, and our total sales market can be divided generally into three categories; sales by the Company, sales by our USI Electric subsidiary, and sales by Icon.

The Company markets our products to retailers, including wholesale distributors, chain, discount, television retailers and home center stores, catalog and mail order companies and to other distributors ("retailers"). Our products have historically been retailed to "do-it-yourself" consumers by these retailers. We do not currently market any significant portion of our products directly to end users.

The Company's retail sales are made directly by our employees and by approximately 17 independent sales organizations who are compensated by commissions. 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 which are made directly by us are effected by our officers and full-time employees, seven of whom are also engaged in sales, management and training. Sales outside the United States, are made by our officers and through exporters, and amounted to less than 5.0% of total sales in the fiscal years ended March 31, 2007 and 2006.

In recent years, no one customer amounted to 10% of our total sales. During the fourth quarter of fiscal 2007, we began selling home safety products to The Home Depot, Inc., a major national home improvement retailer, and total sales to Home Depot for fiscal 2007 represented approximately 11% of our revenues.

Our USI Electric subsidiary markets our products to the electrical distribution trade (primarily electrical and lighting distributors and manufactured housing companies). USI Electric has established a national distribution system with 12 regional stocking warehouses throughout the United States which generally enables customers to receive their orders the next day without paying for overnight freight charges. USI Electric engages sales personnel from the electrical distribution trade and has engaged 27 independent sales organizations which represent approximately 230 sales representatives, some of which have warehouses where USI Electric products are maintained by our sales representatives for sale.

We also market our products through our own sales catalogs and brochures, which are mailed directly to trade customers, and our website. 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 Icon Canadian subsidiary markets its EMT conduit, other manufactured tubing products and related security products to the electrical distribution trade utilizing its internal sales force and independent representatives.

Our backlog of orders believed to be firm as of March 31, 2007 was approximately $2,219,435. Our backlog as of March 31, 2006 was approximately $2,996,000. This decrease in backlog is primarily due to a reduction in the backlog of orders we had for ground fault circuit interrupters at March 31, 2006 in advance of new regulations affecting these devices which went into effect July 28, 2006, partially offset by our addition of Icon's backlog for mechanical tubing.

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 year 2007, 65.04% 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 46% of the Hong Kong Joint Venture's total sales during fiscal 2007 and 50% of total sales during fiscal 2006, 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 are $22,065,702 in fiscal 2007 and $12,506,135 in fiscal 2006. Please see Note D of the Financial Statements for a comparison of annual sales and earnings of the Hong Kong Joint Venture.

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 2007, sales of safety products accounted for substantially all of our total sales. In the sale of smoke alarms, we compete in all of our markets with First Alert, Firex and Kidde Safety. In the sale of GFCI units, we compete in all our markets with Leviton Manufacturing Co., Inc., Pass & Seymour, Inc., Cooper Wiring Devices and Hubbell, Inc. All of 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, 2007, including the employees or our consolidated Canadian subsidiaries, we had 34 employees, 16 of whom are engaged in administration and sales, and the balance of whom are engaged in product development, manufacturing and servicing. 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.

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 2007, 65.04% 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 we are currently pursuing the development of additional products to be manufactured by the Hong Kong Joint Venture. Our purchases from the Hong Kong Joint Venture represented approximately 46.38% of the Hong Kong Joint Venture's total sales during fiscal 2007, 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 partners 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.

Our newly acquired Canadian mechanical steel tubing subsidiary will need to increase production to be profitable.

Icon's production of EMT conduit for the six month period ended March 31, 2007 did not produce sufficient income to cover operating expenses. If we are unable to increase production and sales of EMT conduit, our Canadian subsidiary will continue to generate losses.

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 2007, our sales of safety products accounted for 85.06% 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 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 Underwriters Laboratories (UL) 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 and Icon) fail to pass periodic inspections, the approval certificates for the relevant products may be suspended until corrections are made. Loss of UL or other 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, Icon, 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.

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 and retail trade. Our majority-owned subsidiary, Icon, focuses its marketing efforts and initiatives to maximize its manufactured mechanical tubing sales. 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 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 21 years and do not intend to pay cash dividends in the foreseeable future. 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, 2007, there are outstanding options to purchase an aggregate of 102,441 shares of our common stock at per share exercise prices ranging from $7.68 to $16.09. The exercise of such 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.

ITEM 2. PROPERTIES

Effective December 1999, we entered into an operating lease for a 9,000 square foot office and warehouse located in Baltimore County, Maryland. This lease is due to expire October 2008. The current rental, with common area maintenance, approximates $5,835 per month during the current fiscal year, with increasing rentals at 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 2009 and is subject to increasing rentals at 3% per year. The monthly rental, with common area maintenance, approximates $3,089 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.

Icon operates a 40,000 square foot office and manufacturing facility in Toronto, Canada. The initial lease expires in January 2010 and has two, three-year renewal options. The current rental with common area maintenance, approximates $19,560 per month during the current fiscal year, with increasing rentals at 3.7% per year,

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

ITEM 3. LEGAL PROCEEDINGS

On June 10, 2003, Leviton Manufacturing Co., Inc. (“Leviton”) filed a civil suit against the Company and its USI Electric subsidiary in the United States District Court for the District of Maryland (Case No. 03cv1701), alleging that the Company’s GFCI units infringe one or more of Leviton’s six patents for reset lockout technology related to but not required by UL Standard 943 for GFCI units, effective January 2003. Leviton also asserted trade dress and unfair competition claims. In May 2006, Leviton and the Company settled the trade dress/deceptive trade practice claims of the action, all subject to a confidentiality agreement. The settlement did not cover the patent infringement claims. In January 2006, the Company was granted summary judgment on the infringement claims and Leviton appealed that judgment and dismissal. On January 10, 2007, the United States Court of Appeals for the Federal Circuit issued a decision affirming the lower court’s summary judgment and dismissal of Leviton’s patent infringement claims. As a result of this decision, the Company obtained a successful outcome and the entirety of this suit by Leviton is now concluded.

On March 31, 2005, Leviton filed another lawsuit (Case No. 05cv0889) in the United States District Court for the District of Maryland against the Company. In this suit, Leviton alleges that the Company’s GFCI units infringe on US Patent 6,864,766. The Company has filed a counterclaim against Leviton and the case has been consolidated with a declaratory judgment action filed by the GFCI manufacturer, Shanghai Meihao Electric, Inc. Discovery is now concluded. The Company believes that it has strong defenses relating to the patent in suit. In the event of an unfavorable outcome, the amount of any potential loss to the Company is not determinable at this time.

On June 11, 2003, Walter Kidde Portable Equipment, Inc. (“Kidde”) filed a civil suit against the Company in the United States District Court for the Middle District of North Carolina (Case No. 03cv00537), alleging that certain of the Company’s AC powered/battery backup smoke detectors infringe on a patent acquired by Kidde. Kidde is seeking injunctive relief and damages to be determined at trial. On March 31, 2006, following numerous procedural and substantive rulings which the Company believes were favorable to the Company, Kidde obtained dismissal, without prejudice, of its suit. On November 28, 2005, prior to the March 31, 2006 dismissal of the original suit, Kidde filed a second lawsuit based on virtually identical infringement allegations as the earlier case. Because, the court dismissed the first case without conditions and without prejudice, the Company has appealed the dismissal to the United States

Court of Appeals for the Federal Circuit, believing that at a minimum, procedurally, conditions should have been imposed. On March 2, 2007, the appellate court affirmed the lower court's dismissal of the first case, and the second case is now in the preliminary stages. Although some aspects of the case are more complicated, the Company's substantive position and its defenses to Kidde's claims on most issues are substantially the same as the first Kidde case. The Company and its counsel believe that the Company has significant defenses relating to the patent in suit. In the event of an unfavorable outcome, the amount of any potential loss to the Company is not yet determinable.

On October 13, 2003, Maple Chase Company filed a civil suit in the United States District Court for the Northern District of Illinois (Case No. 03cv07205), against the Company, its USI Electric subsidiary, and one former and one present Illinois-based sales representative, alleging that certain of the Company's smoke detectors infringe on a patent owned by Maple Chase (US Reissue Patent No. Re: 33290). On April 11, 2005, this action was dismissed pending the outcome of a reexamination in the United States Patent and Trademark Office (USPTO). In April 2006, the USPTO rejected most of the claims in the patent. Maple Chase filed a substantive response which resulted in issuance of a further Official Action from the USPTO. After considering Maple Chase's arguments, on September 29, 2006 the USPTO issued a further action confirming the patentability of many of the claims at issue and rejecting others. On October 30, 2006, Maple Chase filed a further response canceling the rejected claims. On December 19, 2006, the USPTO issued a formal notice of intent to issue a re-examination certificate for the Maple Chase Company patent on which the patent infringement suit was filed. In March 2007, the full term of the patent was reached and no Re-examination Certificate has been issued by the USPTO. Under the U.S. patent laws, a patent owner may still sue for damages for up to six years following expiration of a patent but may recover damages only for the period between six years prior to filing the suit and the date of the patent expiration. Therefore, Maple Chase may still file suit for damages and the amount of potential loss to the Company, if any, is not yet determinable but declining daily. The Company believes that it has meritorious and substantial technical defenses to any action that might be filed against it by Maple Chase. The Company also believes that it is entitled to a number of legal and equitable defenses due to the long period of inaction and acquiescence by Maple Chase (and its predecessors).

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

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

There were no submissions of matters to a vote of security holders during the quarter ended March 31, 2007.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

NAME	AGE	POSITIONS
Harvey B. Grossblatt	60	President, Chief Operating Officer and Chief Executive Officer
James B. Huff	55	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.

PART II

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

Market for Common Stock

Our common stock, $.01 par value (the "Common Stock") trades on the American Stock Exchange under the symbol UUU.

As of June 20, 2007, there were 196 record holders of the Common Stock. The closing price for the Common Stock on that date was $32.00. 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. 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, 2006 to shareholders of record on September 25, 2006.

Fiscal Year Ended March 31, 2007			
First Quarter	High	$	24.45
	Low	$	17.75
Second Quarter	High	$	26.93
	Low	$	20.97
Third Quarter	High	$	30.25
	Low	$	20.47
Fourth Quarter	High	$	35.04
	Low	$	25.80
Fiscal Year Ended March 31, 2006			
First Quarter	High	$	14.63
	Low	$	9.00
Second Quarter	High	$	14.63
	Low	$	11.25
Third Quarter	High	$	14.25
	Low	$	12.01
Fourth Quarter	High	$	18.12
	Low	$	12.34

Performance Graph

The following graph compares the cumulative total shareholder return on the Company's Shares for the period March 31, 2002 through March 31, 2007 with the cumulative total return for the same period for the NASDAQ Composite Index and the Dow Jones Wilshire SmallCap Index. Dividend reinvestment has been assumed.

Total Return Analysis

	3/31/2002	3/31/2003	3/31/2004	3/31/2005	3/31/2006	3/31/2007
Universal Security Instruments, Inc.	**$ 100.00**	**$ 230.00**	**$ 462.16**	**$ 552.07**	**$ 785.59**	**$ 1,650.45**
Nasdaq Composite	**$ 100.00**	**$ 72.11**	**$ 109.76**	**$ 111.26**	**$ 132.74**	**$ 139.65**
Dow Jones Wilshire SmallCap	**$ 100.00**	**$ 75.37**	**$ 124.70**	**$ 134.62**	**$ 169.50**	**$ 182.73**

Source: Research Data Group, Inc

-12-

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, 2003, 2004, 2005, 2006 and 2007 and are derived from our audited consolidated financial statements. 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, 2006 to shareholders of record on September 25, 2006.

	Year Ended March 31,				
	2007	2006	2005	2004	2003
Statement of Operations Data:					
Net sales	$ 35,823,575	$ 28,894,101	$ 23,465,443	$ 17,201,116	$ 15,953,883
Income before equity in earnings of Hong Kong Joint Venture and income taxes	3,008,597	2,394,258	765,742	429,716	279,615
Net income	5,533,258	4,600,352	3,417,854	2,571,026	2,400,318
Per common share:					
Net income					-
Basic	2.31	2.06	1.60	1.27	1.25
Diluted	2.23	1.89	1.46	1.12	1.15
Weighted average number of common shares outstanding					
Basic	2,398,284	2,228,908	2,136,599	2,022,461	1,924,585
Diluted	2,484,606	2,432,705	2,352,632	2,300,275	2,082,327
Balance Sheet Data:					
Total assets	36,195,468	20,358,603	16,049,948	11,098,916	8,382,043
Long-term debt (non-current)	168,062	-	-	-	7,224
Working capital (1)	10,177,983	9,911,628	6,317,231	4,200,170	2,377,688
Current ratio (1)	1.90:1	4.60:1	3.00:1	3.21:1	2.26:1
Shareholders' equity	24,671,881	17,606,569	12,897,668	9,198,273	6,493,415

(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.

Quarterly Results of Operations (Unaudited)

The unaudited quarterly results of operations for fiscal years 2007 and 2006 are summarized as follows:

	Quarter Ended			
	June 30,	September 30,	December 31,	March 31,
2007				
Net sales	$ 8,038,437	$ 8,018,088	$ 8,620,893	$ 11,146,157
Gross profit	2,780,517	2,607,922	2,795,342	2,492,889
Net income	1,577,468	1,416,204	1,712,883	826,703
Net income per share - basic	0.68	0.59	0.70	0.34
Net income per share - diluted	0.62	0.57	0.70	0.34

2006				
Net sales	$ 6,923,810	$ 7,119,100	$ 7,353,597	$ 7,497,594
Gross profit	2,048,954	2,278,838	2,549,300	2,580,060
Net income	889,770	1,162,695	1,456,809	1,091,078
Net income per share - basic	0.40	0.52	0.65	0.49
Net income per share - diluted	0.37	0.48	0.60	0.44

Net income per share - diluted as stated above for the quarters ended December 31, 2006 and March 31, 2007 are $0.02 and $0.01, respectively, more than the amounts reported in the Company's Quarterly Reports on Form10-Q for the respective periods. This change in net income per share - diluted is as a result of implementation by the Company of FAS 123R.

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 ider "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. In the third quarter of fiscal 2007, we expanded our business with the acquisition of our Canadian EMT conduit subsidiary. Our financial statements detail our sales and other operational results only, and report the financial results of the Hong Kong Joint Venture using the equity method. Accordingly, the following discussion and analysis of the fiscal years ended March 31, 2007, 2006 and 2005 relate to the operational results of the Company and its consolidated subsidiaries only (including our new Canadian EMT conduit business), 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."

Comparison of Results of Operations for the Years Ended March 31, 2007, 2006 and 2005

Sales. In fiscal year 2007, our net sales increased by $6,929,474 (23.98%), from $28,894,101 in fiscal 2006 to $35,823,575 in fiscal 2007. Sales to the electrical distribution trade through our USI Electric subsidiary decreased to $19,916,690, principally due to decreased volume from the U.S. residential construction trade (from approximately $21,260,000 in 2006). The Company increased its sales to retail and wholesale customers in the fiscal year ended March 31, 2007 to $11,705,964 from $7,634,030 at March 31, 2006, principally as a result of sales to a national home improvement retailer. Consolidated net sales include net sales of our Canadian subsidiary of $4,200,921.

In fiscal year 2006, sales increased by $5,428,658 (23.1%) from $23,465,443 in fiscal 2005 to $28,894,101 in fiscal 2006. Our focus on marketing to the electrical distribution trade through our USI Electric subsidiary accounted for approximately $4,780,000 of the increased 2006 sales, principally due to increased volume (from approximately $16,480,000 in 2005 to approximately $21,260,000 in 2006). The Company also increased its sales to retail and wholesale customers in the fiscal year ended March 31, 2006.

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, 2007 was 29.80% compared to 32.73% and 31.19% in fiscal 2006 and 2005, respectively. The decrease in 2007 gross margins is attributed to lower gross margins on retail sales and to lower gross profit realized by our Canadian operations, as further explained below. The increase in gross margin in the fiscal year ended March 31, 2006 over 2005 reflects variations in the mix of products sold and is a function of higher sales, since certain fixed costs do not increase at the same rate as sales.

Our U.S. operations' gross profit margin for the fiscal year ended March 31, 2007 is 33.01% compared to 32.73% and 31.19% for fiscal for fiscal 2006 and 2005, respectively. The decrease in 2007 gross margin for our U.S. operations is attributed primarily to reduced margins on increased retail sales, and the increase in 2006 gross margin over 2005 reflects variations in the mix of products sold and is a function of higher sales.

Our Canadian operations' gross profit margin for the six months ended March 31, 2007 is 5.63%. We believe that these low margins are attributable to certain high costs and low productivity. Since these high costs will not increase at the same rate as sales, we have initiated steps to increase Icon's productivity and sales which we believe will have a significant positive impact on the Canadian operations' gross profit margin and results of operations.

Expenses. Selling, general and administrative expenses for fiscal 2007 increased by $513,781 (7.58%), from $6,776,688 in fiscal 2006 to $7,290,469 in fiscal 2007. As a percentage of net sales, these expenses decreased to 20.35% for the fiscal year ended March 31, 2007 from 23.45% for the fiscal year ended March 31, 2006. The decrease in selling, general and administrative expense as a percent of sales is attributable to costs that do not increase proportionately with the higher sales volume and a reduction in legal expenses from the 2006 period. With respect to the $513,781 fiscal 2007 increase in dollars spent on selling, general and administrative expenses, our legal expenses in fiscal 2007 decreased by $484,145, due solely to decreased activity on matters before the court, from $822,477 in fiscal 2006 to $338,332 in fiscal 2007. The reduction in legal expense was partially offset by a fiscal 2007 increase of $407,635 in salaries, wages and employee benefits. Approximately $743,860 of our fiscal 2007 expenses represent the selling, general and administrative expenses of our Canadian EMT conduit operations for the period from acquisition of October 2006 to March 31, 2007.

Selling, general and administrative expenses for fiscal 2006 increased by $585,663 (9.45%) from $6,191,025 in fiscal 2005 to $6,776,688 in fiscal 2006. As a percentage of net sales, these expenses decreased to 23.45% for the fiscal year ended March 31, 2006 from 26.38% for the fiscal year ended March 31, 2005. The decrease in selling, general and administrative expense as a percent of sales is attributable to costs that do not increase proportionately with the higher sales volume and a reduction in legal expenses from the 2005 period. Our legal expenses decreased by $259,876 in 2006 to $822,477 from $1,082,353 in fiscal 2005. The reduction in legal expense was partially offset by an increase of $718,216 in commissions and freight charges; the account classification which was the most significant factor in this dollar increase, due to our higher 2006 sales volume. Commissions and freight charges, as a percentage of sales, while consistent with commission and freight charges of the prior year, vary directly with sales volume.

Interest Income and Expense. Interest expense for fiscal 2007 increased to $73,517 from $48,999 in fiscal 2006 primarily due to increased borrowing. Interest expense for fiscal 2006 decreased to $48,999 from $85,521 in fiscal 2005 primarily due to less borrowing. The majority of the Company’s cash balances are maintained on deposit with the Company’s factor and earn interest at the factor’s prime rate of interest minus 3%. During the fiscal year ended March 31, 2007, the Company earned interest of $22,023 on these deposits and $9,668 on these deposits for the year ended March 31, 2006.

Income Taxes. During the fiscal year ended 2007, the Company offset the payment of taxes on $3,265,940 of taxable income with the difference between the option price and the exercise price recognized as an employment expense for federal income tax purposes related to employee stock options. For book purposes, this benefit has been treated as an addition to paid-in capital. In addition, the Company offset a portion of its federal taxes of approximately $731,395 with foreign tax credits available as a result of foreign taxes paid on the repatriated earnings of the Hong Kong Joint Venture. The Company has a foreign tax credit carryforward of $190,887 available to offset future taxes at March 31, 2007. After application of the deductions and credits identified above, the Company has a net tax liability for federal and state income tax purposes of approximately $337,000. The deductions and the income tax credits for foreign income taxes paid resulted in an effective income tax rate of approximately 19.28% for the fiscal year ended March 31, 2007.

During the fiscal year ended 2006, the Company offset $2,151,593 of taxable income by utilizing the remainder of its net operating loss carryforward deduction. In addition, the Company offset federal taxes of approximately $115,000 with foreign tax credits available as a result of foreign taxes paid on the repatriated earnings of the Hong Kong Joint Venture. At March 31, 2006, the Company has no remaining net operating loss carryforwards available to offset future U.S. federal taxable income, and the valuation allowance previously established to offset tax benefits associated with our net operating loss carryforwards and other deferred tax assets was fully utilized. The Company recognized an income tax benefit of $96,500 and $281,137 for fiscal year 2006 and 2005, respectively.

Net Income. We reported net income of $5,533,258 for fiscal year 2007 compared to a net income of $4,600,352 for fiscal year 2006, a $932,906 (20.28%) increase. This increase in net income resulted from increased income of our Hong Kong Joint Venture, partially offset by higher selling, general and administrative expenses as described above, and the income tax effects described above. Net income also was impacted by a net loss from our Canadian subsidiary of $570,961. Although no assurances can be given, management believes that actions which Icon is now taking to increase capacity, together with sales efforts by Icon and the Company, will have a positive impact on Icon’s financial results in future periods.

We reported net income of $4,600,352 for fiscal year 2006 compared to a net income of $3,417,854 for fiscal year 2005, a $1,182,498 (34.60%) increase. This increase in net income resulted from both higher Hong Kong Joint Venture earnings and higher gross profit, partially offset by higher selling, general and administrative expenses as described above.

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, 2007, our maximum borrowing availability under this Agreement is $6,751,563. 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, 2007, was 8.25%. Any borrowings are collateralized by all our accounts receivable and inventory. During the year ended March 31, 2007, working capital (computed as the excess of current assets over current liabilities) increased by $266,355, from $9,911,628 on March 31, 2006, to $10,177,983 on March 31, 2007.

Subsequent to our fiscal year end, on June 22, 2007 we entered into an Amended and Restated Factoring Agreement with CIT Group/Commercial Services, Inc. At the same time, our Icon Canadian subsidiary entered into a financing facility with CIT Financial Ltd., as described in our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 26, 2007.

Our operating activities used cash of $3,169,647 for the year ended March 31, 2007. For the fiscal year ended March 31, 2006, operating activities provided cash of $1,776,297. This decrease of $4,945,944 was primarily due to increases in accounts receivable, inventory and prepaid expenses generated by U.S. operations associated with sales to a national home improvement retailer and associated with the Canadian operations, and to the earnings of our Hong Kong Joint Venture. These decreases were partially offset by increases in accounts payable and accrued expenses associated with the Canadian operations.

Our investing activities used cash of $1,139,562 during fiscal 2007 and provided cash of $1,091,358 during fiscal 2006. This decrease resulted primarily from our acquisition of the Canadian operations and our subsequent purchases of machinery and equipment to be utilized in the Canadian operations, partially offset by distributions from the Hong Kong Joint Venture. During 2007, as in prior years, the Company offset a portion of its distributions from the Hong Kong Joint Venture with amounts due by the Company to the Hong Kong Joint Venture for the purchase of safety products. The Company offset $250,000 during fiscal 2007 and $458,940 during fiscal 2005 of trade amounts due by it to the Hong Kong Joint Venture in lieu of cash distributions. The Company discloses these payments as a non-cash transaction in its statement of cash flows.

Financing activities in 2007 provided the Company with cash of $1,566,188. Borrowings of $2,254,966 from our factor provided a portion of the cash used to repay $2,333,036 of debt acquired in the acquisition of the Canadian subsidiaries. Our net debt repayment was offset by cash provided from the issuance of common stock from the exercise of employee stock options of $585,658 and the tax benefit associated with the deduction of employment expense related thereto. Financing activities in 2006 provided cash of $98,549 which was primarily from the exercise of employee stock options.

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 - US GAAP differences in the Hong Kong Joint Venture's accounting policies.

In fiscal year 2007, sales of the Hong Kong Joint Venture were $41,151,055 compared to $24,811,790 and $25,899,630 in fiscal years 2006 and 2005, respectively. The increase in sales for 2007 was primarily due to increased sales to non-affiliated customers. The decrease in sales for the 2006 period from the 2005 period was primarily due to lower sales to unrelated third parties, partially offset by higher sales to the Company.

Net income was $8,377,365 for fiscal year 2007 compared to net income of $4,160,935 and $5,005,886 in fiscal years 2006 and 2005, respectively. The increase in the current fiscal year is primarily due to increased sales volume. Net income for the fiscal year ended March 31, 2006 was decreased by the establishment of a reserve of approximately $535,000 for previously capitalized costs associated with the Hong Kong Joint Venture's application for listing on the Hong Kong Stock Exchange during the fourth quarter and for the fiscal year ended March 31, 2006. The increase in income for the year ended March 31, 2006 was due primarily to price increases initiated during the year.

Gross margins of the Hong Kong Joint Venture for fiscal 2007 decreased to 33.42% from 34.69% in the prior fiscal year. The primary reason for this decrease was due to variation in product mix. At March 31, 2006, the Hong Kong Joint Venture's gross margin increased to 34.69% from 33.55% at March 31, 2005. The primary reason for this increase was higher gross margins attributed to price increases initiated during the year.

Selling, general and administrative expenses of the Hong Kong Joint Venture were $4,789,424, $4,269,714 and $3,495,678 for fiscal years 2007, 2006 and 2005, respectively. As a percentage of sales, these expenses were 12%, 17% and 13% for fiscal years 2007, 2006 and 2005, respectively. The increase in dollars of selling, general and administrative expenses for the year ended March 31, 2006 was due to higher costs, increased legal expense and the expensing of approximately $535,000 of costs previously capitalized associated with the Hong Kong Joint Venture's application for listing on the Hong Kong Stock Exchange.

Interest expense net of interest income was $52,181 for fiscal year 2007, compared to $34,130 and $30,666 in fiscal years 2006 and 2005, respectively. The increase in interest expense net of interest income for 2007 was due to a decrease in investments. The increase from 2005 to 2006 is due to variations in the amount of investments in bonds during that fiscal period.

Cash needs of the Hong Kong Joint Venture are currently met by funds generated from operations. During fiscal year 2007, working capital increased by $5,558,281 from $1,826,756 on March 31, 2006 to $7,385,037 on March 31, 2007.

Contractual Obligations and Commitments

The following table presents, as of March 31, 2007, 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	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	$ 765,737	$ 312,830	$ 452,907	$ -	$ -
Capital lease obligations	269,737	101,675	146,621	21,441	-
Notes payable	231,625	231,625	-	-	-
Note payable - factor	2,254,966	2,254,966	-	-	-
	$ 3,522,065	$ 2,901,096	$ 599,528	$ 21,441	$ -

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, 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 on 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:

Our revenue recognition policies are in compliance with Staff Accounting Bulletin No. 104, "*Revenue Recognition in Financial* Statements" issued by the Securities and Exchange Commission. 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 collectibility of the related receivable is reasonably assured. We established allowances to cover anticipated doubtful accounts and sales returns based upon historical experience.

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.

We currently have a foreign tax credit carryforward and deferred tax assets resulting from deductible temporary differences, which will reduce taxable income in future periods. We had previously provided a valuation allowance on the deferred tax assets associated with the future tax benefits such as foreign tax credits, foreign net operating losses, capital losses and net operating losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses and losses in recent years. Cumulative losses weigh heavily in the overall assessment. As a result of management's assessment, the allowance previously provided to offset tax benefits associated with net operating loss carryforwards and other deferred tax assets at March 31, 2007 has been reduced to zero.

We are subject to lawsuits and other claims, related to patents and other matters. Management is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is based on a careful analysis of each individual issue with the assistance of outside legal counsel. The required reserves 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

In May 2006, the FASB issued Statement 154, Accounting for Changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and Statement 3, Reporting Accounting Changes in Interim Financial Statements, and provides guidance on the accounting for and reporting of accounting changes and error corrections. Statement 154 applies to all voluntary changes in accounting principle and requires retrospective application (a term defined by the statement) to prior periods' financial statements, unless it is impracticable to determine the effect of a change. It also applies to changes required by an accounting pronouncement that does not include specific transition provisions. In addition, Statement 154 redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2006. The Company will adopt Statement 154 beginning April 1, 2007 and does not foresee any changes to its financial statements.

Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements: In September 2006, the U.S. Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB 108 eliminates the diversity of practice regarding how public companies quantity financial statement misstatements. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company's financial statements and the related financial statement discloses, SAB 108 must be applied to annual financial statements for their first fiscal year ended after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company's financial condition or results of operations.

Fair Value Measurements: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement (SFAS 157)*. This standard clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not yet determined the impact that the implementation of SFAS 157 will have on its results of operations or financial condition.

Accounting for Uncertainty in Income Taxes: In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognizes in its financial statements the impact of a tax position if that position is more likely than not to be sustained upon audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of our 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently reviewing the impact of adopting the provisions of FIN 48.

The Fair Value Option for Financial Assets and Financial Liabilities: In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, including an amendment of FASB Statements No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The effect, if any, of adopting SFAS No. 159 on the Company’s financial position and results of operations has not been finalized.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal financial instrument is our Factoring Agreement which provides for interest at the factor's prime rate (8.25% at March 31, 2007). We are affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable by us under our Factoring Agreement. A significant rise in the prime rate could materially adversely affect our business, financial condition and results of operations. At March 31, 2007 and during the fiscal year then ended, we had $2,254,966 principal outstanding under the facility. We do not utilize derivative financial instruments to hedge against changes in interest rates or for any other purpose.

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

We maintain a system of disclosure controls and procedures that is designed to provide reasonable assurance that information, which is required to be disclosed by us in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to management in a timely manner. Our Chief Executive Officer and Chief Financial Officer have evaluated this system of disclosure controls and procedures as of the end of the period covered by this annual report, and believe that the system is effective. During the third quarter of fiscal 2007, we acquired Icon and Intube. Management is assessing the system of internal controls at the acquired subsidiaries. Our internal control over financial reporting during the most recent fiscal year has not been materially affected, or are reasonably likely to be materially affected.

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters. However, at this time management has decided that considering the employees involved and the control procedures in place, the risks associated with such lack of segregation are insignificant and the potential benefits of adding employees to clearly segregate duties do not justify the expenses associated with such increases. Management will periodically review this situation.

ITEM 9B. OTHER INFORMATION

Not applicable.

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 2007 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.

(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 3.1 to the Company's Current Report on Form 8-K filed June 13, 2007, 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 September 30, 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 Factoring Agreement with CIT Group (successor to Congress Talcott, Inc.) dated November 14, 1999 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003, File No. 1-31747)

10.4 Amendment to Factoring Agreement with CIT Group (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended March 31, 2006, File No. 1-31747)

10.5 Amendment to Factoring Agreement with CIT Group dated September 28, 2004 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004, File No. 1-31747)

10.6 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)

10.7 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)

10.8 Credit Agreement between International Conduits Ltd. ("Icon") and CIT Financial Ltd. ("CIT Canada"), dated June 22, 2007 ("CIT Canada Credit Agreement") (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed June 26, 2007, file No. 1-31747)

10.9 General Security Agreement between CIT Canada and Icon, dated June 22, 2007, with respect to the obligations of Icon under the CIT Canada Credit Agreement (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed June 26, 2007, file No. 1-31747)

10.10 Guaranty made by the Registrant and USI Electric, Inc., in favor of CIT Canada, dated June 22, 2007, with respect to the obligations of Icon under the CIT Canada Credit Agreement (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed June 26, 2007, file No. 1-31747)

10.11 Lease between Universal Security Instruments, Inc. and National Instruments Company dated October 21, 1999 for its office and warehouse located at 7-A Gwynns Mill Court, Owings Mills, Maryland 21117 (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the Fiscal Year Ended March 31, 2000, File No. 1-31747)

10.12 Amended and Restated Employment Agreement dated July 18, 2006 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 September 30, 2006, 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*

23.1 Consent of Grant Thornton LLP*

23.2 Consent of Grant Thornton LLP (Hong Kong)*

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 July 12, 2007*

*Filed herewith

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

Separate financial statements of the Hong Kong Joint Venture

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.

July 12, 2007

By: /s/ Harvey B. Grossblatt

Harvey B. Grossblatt
President

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	July 12, 2007
/s/ James B. Huff James B. Huff	Chief Financial Officer	July 12, 2007
/s/ Cary Luskin Cary Luskin	Director	July 12, 2007
/s/ Ronald A. Seff Ronald A. Seff	Director	July 12, 2007
/s/ Howard Silverman Howard Silverman, Ph.D.	Director	July 12, 2007

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. and subsidiaries (the Company) as of March 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ GRANT THORNTON LLP

Baltimore, Maryland
July 11, 2007

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31			
		2007		2006
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	240,545	$	3,015,491
Accounts receivable:				
Trade less allowance for doubtful accounts of $15,000 at March 31, 2007 and 2006		2,555,895		1,106,435
Employees		22,073		23,656
		2,577,968		1,130,091
Amount due from factor		7,158,597		4,259,131
Inventories, net of allowance for obsolete inventory of $40,000 at March 31, 2007 and 2006		11,318,734		4,062,086
Prepaid expenses		237,666		196,863
TOTAL CURRENT ASSETS		21,533,510		12,663,662
DEFERRED TAX ASSET		808,566		476,384
INVESTMENT IN HONG KONG JOINT VENTURE		9,072,284		7,140,859
PROPERTY AND EQUIPMENT - NET		3,030,060		62,212
GOODWILL		1,732,562		-
OTHER ASSETS		18,486		15,486
TOTAL ASSETS	$	36,195,468	$	20,358,603
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Note payable - factor	$	2,254,966	$	-
Notes payable - other		231,625		-
Current portion of lease obligation		74,394		-
Accounts payable		6,777,283		1,604,845
Accrued liabilities:				
Litigation reserve		703,193		556,787
Payroll and employee benefits		622,083		243,197
Commissions and other		691,981		347,205
TOTAL CURRENT LIABILITIES		11,355,525		2,752,034
LONG-TERM OBLIGATIONS				
Long-term portion of lease obligation		168,062		-

COMMITMENTS AND CONTINGENCIES		-		-
Minority Interest		-		-
SHAREHOLDERS' EQUITY				
Common stock, $.01 par value per share; authorized 20,000,000 shares; issued and outstanding 2,475,612 and 2,258,409 shares at March 31, 2007 and March 31, 2006, respectively		24,756		22,584
Additional paid-in capital		13,214,025		11,571,939
Retained earnings		11,545,304		6,012,046
Other comprehensive loss		(112,204)		-
TOTAL SHAREHOLDERS' EQUITY		24,671,881		17,606,569
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	36,195,468	$	20,358,603

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

F-2

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

	Years Ended March 31		
	2007	2006	2005
Net sales	$ 35,823,575	$ 28,894,101	$ 23,465,443
Cost of goods sold	25,146,905	19,436,949	16,145,615
GROSS PROFIT	10,676,670	9,457,152	7,319,828
Research and development expense	296,534	246,875	277,540
Selling, general and administrative expense	7,290,469	6,776,688	6,191,025
Loss on foreign currency transactions	29,576	-	-
Operating income	3,060,091	2,433,589	851,263
Other income (expense):			
Interest expense	(73,517)	(48,999)	(85,521)
Interest income	22,023	9,668	-
	(51,494)	(39,331)	(85,521)
INCOME BEFORE EQUITY IN EARNINGS OF AFFILIATES	3,008,597	2,394,258	765,742
Equity in earnings of Hong Kong Joint Venture	3,845,960	2,109,594	2,370,975
Net income before income taxes and minority interest	6,854,557	4,503,852	3,136,717
Minority interest	-	-	-
Provision for income tax expense (benefit)	1,321,299	(96,500)	(281,137)
NET INCOME	$ 5,533,258	$ 4,600,352	$ 3,417,854
Net income per share:			
Basic	$ 2.31	$ 2.06	$ 1.60
Diluted	$ 2.23	$ 1.89	$ 1.45
Shares used in computing net income per share:			
Basic	2,398,284	2,228,908	2,136,599
Diluted	2,484,606	2,432,705	2,352,632

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

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

Common Stock		Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income	Total
Shares	Amount				