UNIVERSAL SECURITY INSTRUMENTS INC
Form 10-K
June 28, 2012

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, 2012 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	52-0898545
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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 x 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, 2011, was $11,183,350.

The number of shares of common stock outstanding as of June 15, 2012 was 2,336,354.

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 2012 Annual Meeting of Shareholders (to be filed).

UNIVERSAL SECURITY INSTRUMENTS, INC.

2012 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 Eyston Company Limited, 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 (45.8% and 28.8% of its sales during fiscal 2012 and 2011 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, 2012, approximately 96.2% of our purchases were imported from the Hong Kong Joint Venture.

Our sales for the year ended March 31, 2012 were $13,304,602 compared to $13,249,604 for the year ended March 31, 2011. We reported a net loss of $503,288 in fiscal 2012 compared to net income of $817,781 in fiscal 2011, a decrease of 161.5%. The primary reasons for the decrease were a $1,190,631 (70.4%) decrease in the earnings of the Joint Venture due to lower sales to non-affiliated customers, higher selling costs incurred to meet delivery commitments to the U.S. customers, and a decrease in investment and interest income due to a decrease in cash invested in short term instruments.

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.

Over the past four fiscal years we developed new smoke, carbon monoxide, and natural gas detection technologies. This effort has resulted in the development of new alarm sensing technology and we have applied for nine patents on these new technologies and features. To date we have been granted five patents, and we are currently awaiting notification from the U.S. Patent Office regarding the remaining patent applications. Our new technologies and features have been trademarked under the trade name IoPhic®. We also regularly submitted each of our new products for independent testing agency approval, and we introduced products into the marketplace as approvals were received. This process began during the fourth quarter of our 2011 fiscal year and by the end of the third quarter of our 2012 fiscal year we had completed testing and received approvals from independent testing agencies for all of the next generation of products that we had submitted for testing.

The Company is continuing its research and development efforts and expects to submit additional products to independent testing agencies and expects to incur additional engineering, design, and certification costs of between $400,000 and $500,000 during the fiscal year ending March 31, 2013. In addition, the Company has initiated marketing efforts to educate consumers on the significant benefits and features of the IoPhic® technology and to introduce the new product line to the retail marketplace and expects to incur costs of between $350,000 and $450,000 as a result of this effort.

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, 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 12% in fiscal 2012 and 10% of total sales in the fiscal year ended March 31, 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, 2012 was approximately $2,128,473. Our backlog as of March 31, 2011 was approximately $669,315. 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 Eyston Company Limited, 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 2012 and 2011, 96.2% and 85.6%, respectively, 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. Negative 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 45.8% of the Hong Kong Joint Venture's total sales during fiscal 2012 and 28.8% of 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. The Hong Kong Joint Venture's sales to unrelated customers were $12,008,026 in fiscal 2012 and $17,258,918 in fiscal 2011. Please see Note C 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 2012, 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, 2012, we had 16 employees, 12 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 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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 was renewed in March 2012 and increased to approximately 3,400 square feet and extends through February 2015. The monthly rental, with common area maintenance, approximated $3,450 per month during the current fiscal year and is subject to increasing rentals of 3% per 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. In addition, the Hong Kong Joint Venture has construction in progress related to an additional 126,000 square foot facility in 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	65	President, Chief Operating Officer and Chief Executive Officer
James B. Huff	60	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.

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 NYSE Amex LLC exchange, formerly the American Stock Exchange under the symbol UUU. As of June 15, 2012, there were 225 record holders of the Common Stock. The closing price for the Common Stock on that date was $5.05. 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, 2012		
First Quarter	High	$7.89
	Low	$6.50
Second Quarter	High	$7.04
	Low	$4.55
Third Quarter	High	$6.39
	Low	$4.51
Fourth Quarter	High	$5.84
	Low	$5.27
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

Stock Repurchase Program

The following table sets forth information with respect to purchases of common stock by the Company or any affiliated purchasers during the fiscal quarter ended March 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans Or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
January 2012	20,398	$ 5.52	20,398	58,563
March 2012	10,096	$ 5.42	10,096	48,467
Total	30,494	$ 5.48	30,494	48,467

In October 2011, 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. The program will terminate when 100,000 shares of common stock have been repurchased by the Company pursuant to the program (unless increased or decreased by the Board of Directors).

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. 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, 2012 and 2011 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 current fiscal year ended March 31, 2012 continue to be significantly impacted by the continued economic downturn of the U.S. housing market. In addition, sales of our new generation of smoke and carbon monoxide alarms were delayed while the Company pursued obtaining the necessary independent testing agency approvals necessary to begin Canadian and U.S. sales and marketing. By the beginning of the fourth quarter of the fiscal year ended March 31, 2012, the Company had obtained the necessary independent testing agency approvals and had commenced sales in both the Canadian and U.S. markets. The Company has commenced efforts to introduce our new technology to the market and we anticipate increased quarterly sales as a result of these efforts and the availability of our next generation of products to the market.

Comparison of Results of Operations for the Years Ended March 31, 2012 and 2011

Sales. In fiscal year 2012, our net sales are $13,304,602 compared to sales in the prior year of $13,249,604, an increase of $54,998, or less than one percent.

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, 2012 was 26.4% compared to 28.4% in fiscal 2011. The decrease in 2012 gross margin is attributed to increased cost of product sold resulting from costs incurred to meet delivery commitments to a retail customer in the Canadian market.

Selling, General and Administrative Expense. Selling, general and administrative expenses increased from $4,375,241 in fiscal 2011 to $4,389,818 in fiscal 2012. As a percentage of net sales, these expenses were 33.0% for the fiscal year ended March 31, 2012 and March 31, 2011.

Research and Development. Research and development expense for the fiscal year ended March 31, 2012 was $570,952, of which approximately $400,000 was for new product 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. The decrease in overall research and development expense for the 2012 period compared to the 2011 period was due to certain projects reaching a stage of completion during the year.

Investment and Interest Income. Investment and interest income for the fiscal year ended March 31, 2012 consisted of interest earned on cash deposits with our factor. During the fiscal years ended March 31, 2012 and 2011, we earned interest of $56,183 and $32,262, respectively from these deposits. The increase in the amount of interest earned from our factor on these deposits during the 2012 period relates to the transfer of excess cash to cash deposits with our factor from investments. Total investment and interest income declined for the year due to substantially reduced balances maintained in assets held for investment as funds were withdrawn and used to build inventory.

Investment and interest income for the fiscal year ended March 31, 2011 was $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.

Interest Expense. During the fiscal years ended March 31, 2012 and 2011, we incurred interest expense of $0 and $4,166, respectively. Interest expense for fiscal 2012 decreased to $0 from $4,166 in fiscal 2011. The decrease is due to a reduction in borrowing activity with our factor in fiscal 2012.

Income Taxes. For the fiscal years ended March 31, 2012 and 2011, our Federal rate of tax based on statutory rates of 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, 2012 and 2011 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, 2012, we generated net operating loss carryovers and tax credits to offset future federal and state income taxes of $765,456 and $21,077, respectively. At March 31, 2012, we had net operating loss carryovers and tax credit carryovers of $1,578,107 and $1,605,664, respectively.

For the fiscal year ended March 31, 2011, we generated net operating loss carryovers to offset a federal and state income tax provision of approximately $261,530. Furthermore, we generated additional tax credits of $130,497 for the fiscal year ended March 31, 2011. We elected to carry our remaining net operating loss of approximately $812,651 forward to offset future taxable income. At March 31, 2011, we had tax credits of approximately $1,571,072 available to offset future taxes.

Net Loss and Income. We reported a net loss of $503,288 for the fiscal year 2012, compared to net income of $817,781 for fiscal 2011, a $1,321,069 (161.5%) decrease. The decrease in net income is primarily attributed to significantly lower earnings of the Hong Kong Joint Venture principally due to lower sales to non-affiliated customers, higher selling costs incurred to meet delivery commitments to U.S. customers and a decrease in investment and interest income due to a decrease in cash invested in short-term instruments. Our equity in the earnings of the Hong Kong Joint Venture declined from $1,691,133 in fiscal 2011 to $500,502 in fiscal 2012, a $1,190,631 (70.4%) decrease.

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 $1,000,000. Based on specified percentages of our accounts receivable and inventory and letter of credit commitments, at March 31, 2012, our maximum borrowing availability under this Agreement was $1,000,000. 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, 2012, was 3.25%. All borrowings are collateralized by all our accounts receivable and inventory. During the year ended March 31, 2012, working capital (computed as the excess of current assets over current liabilities) decreased by $1,047,596, from $11,540,103 on March 31, 2011, to $10,492,507 on March 31, 2012.

Our operating activities used cash of $3,823,293 for the year ended March 31, 2012 principally as a result of increasing inventories by $1,864,529, the earnings of our Hong Kong Joint Venture of $500,502, as previously discussed, lower earnings from domestic operations due to lower gross profit margins, an increase in accounts receivable and amounts due from factor of $384,947 and a decrease in trade accounts payable and accrued expenses of $164,728.

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.

Our investing activities provided cash during the fiscal year ended March 31, 2012 of $556,870, principally from cash distributions received from the Hong Kong Joint Venture.

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.

Financing activities used cash of $275,896 during the fiscal year ended March 31, 2012, resulting from the repurchase of the Company’s common stock in accordance with the Company’s stock repurchase plan.

No cash was provided or used by financing activities in 2011.

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.

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 2012, sales of the Hong Kong Joint Venture were $22,160,107, compared to $24,231,557 in fiscal 2011. The decrease in sales for fiscal 2012 is primarily due to the decrease in sales to unaffiliated customers.

Net income was $1,259,210 for fiscal year 2012 compared to net income of $3,339,499 for the fiscal year ended March 31, 2011. The decrease in net income for fiscal 2012 was primarily due to decreased sales to unaffiliated customers while fixed costs did not change in the same proportion as the decline in sales.

Gross margins of the Hong Kong Joint Venture for fiscal 2012 decreased to 22.6% from 26.6% in the prior fiscal year. The primary reason for the decrease is lower selling prices to the Company for sales to the US. retail market.

Selling, general and administrative expenses of the Hong Kong Joint Venture for fiscal 2012 were $4,002,052, compared to $3,447,358 in the prior fiscal year. The increase in dollars as compared to the prior fiscal year results from a reversal of value-added tax recorded in the prior fiscal year. As a percentage of sales, these expenses were 18.1% and 14.2%, respectively, for the fiscal years ended March 31, 2012 and 2011. The increase as a percentage is due to costs that do not decrease at the same rate as sales.

Investment income and interest income, net of interest expense was $458,191 for fiscal year 2012, compared to $387,887 for fiscal year 2011. The increase in interest income net of interest expense was due to increased investment in assets held for investment.

Cash needs of the Hong Kong Joint Venture are currently met by funds generated from operations. During fiscal year 2011, working capital increased from $10,290,546 on March 31, 2011 to $10,432,351 on March 31, 2012.

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 whenever it is more likely than not that a deferred tax credit 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***.

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.

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 issues 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, 2012.

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 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 2012 Annual Meeting of Shareholders (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) 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 July 13, 2011, File No. 1-31747)
10.1	2011 Non-Qualified Stock Option Plan (incorporated by reference to the Company's Proxy Statement with respect to the Company's 2011 Annual Meeting of Shareholders, filed July 26, 2011, File No. 1-31747)
10.2	Hong Kong Joint Venture Agreement, as amended (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 2003, File No. 1-31747)
10.3	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*

- 14 -

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 26, 2012*
101	Interactive data files providing financial information from the Registrant's Annual Report on Form 10-K for the fiscal year ended March 31, 2012 in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of March 31, 2012 and 2011; (ii) Consolidated Statements of Operations for the years ended March 31, 2012 and 2011; (iii) Consolidated Statements of Shareholders' Equity for the years ended March 31, 2012 and 2011; (iv) Consolidated Statements of Cash Flows for the years ended March 31, 2012 and 2011; and (v) Notes to Consolidated Financial Statements*

*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.

June 28, 2012 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, 2012
/s/ James B. Huff James B. Huff	Chief Financial Officer (principal financial officer and principal accounting officer)	June 28, 2012
/s/ Cary Luskin Cary Luskin	Director	June 28, 2012
/s/ Ronald A. Seff Ronald A. Seff	Director	June 28, 2012
/s/ Ira Bormel Ira Bormel	Director	June 28, 2012

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, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. Our audits of the basic consolidated 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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, 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 consolidated 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, 2012

F-1

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$3,186,274	$6,728,593
Accounts receivable:		
Trade less allowance for doubtful accounts of approximately $75,000 at March 31, 2012 and 2011	229,027	276,463
Other receivables	68,230	69,666
Receivable from Hong Kong Joint Venture	584,594	301,380
	881,851	647,509
Amount due from factor	1,719,731	1,569,126
Inventories, net of allowance for obsolete inventory of $70,000 at March 31, 2012 and $100,000 at March 31, 2011	5,398,540	3,534,011
Prepaid expenses	599,876	519,356
TOTAL CURRENT ASSETS	11,786,272	12,998,595
DEFERRED TAX ASSET	2,394,801	2,002,561
INVESTMENT IN HONG KONG JOINT VENTURE	13,083,493	13,149,614
PROPERTY AND EQUIPMENT – NET	176,144	203,440
INTANGIBLE ASSET - NET	84,962	89,434
OTHER ASSETS	40,134	40,134
TOTAL ASSETS	$27,565,806	$28,483,778
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$673,524	$794,014
Hong Kong Joint Venture accounts payable	449,430	453,480
Accrued liabilities:		
Payroll and employee benefits	111,974	177,298
Commissions and other	58,837	33,700
TOTAL CURRENT LIABILITIES	1,293,765	1,458,492

Long-term obligation – other	25,000	25,000
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value per share; 20,000,000 authorized and 2,336,354 shares outstanding at March 31, 2012 and 2,387,887 shares issued and outstanding at March 31, 2011.	23,364	23,879
Additional paid-in capital	12,885,756	13,135,198
Retained earnings	13,337,921	13,841,209
TOTAL SHAREHOLDERS' EQUITY	26,247,041	27,000,286
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$27,565,806	$28,483,778

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	
	2012	2011
Net sales	$13,304,602	$13,249,604
Cost of goods sold – acquired from Joint Venture	9,420,225	7,024,044
Cost of goods sold - other	373,179	2,463,815
GROSS PROFIT	3,511,198	3,761,745
Research and development expense	570,952	615,639
Selling, general and administrative expense	4,389,818	4,375,241
Operating loss	(1,449,572)	(1,229,135)
Other income (expense):		
Interest expense	-	(4,166)
Investment and interest income	56,182	213,086
	56,182	208,920
LOSS BEFORE EQUITY IN EARNINGS OF JOINT VENTURE	(1,393,390)	(1,020,215)
Equity in earnings of Hong Kong Joint Venture	500,502	1,691,133
(Loss) income from operations before income taxes	(892,888)	670,918
Income tax benefit	(389,600)	(146,863)
NET (LOSS) INCOME	$(503,288)	$817,781
(Loss) income per share:		
Basic	$(0.21)	$0.34
Diluted	$(0.21)	$0.34
Shares used in computing net income per share:		
Basic	2,374,952	2,387,887
Diluted	2,374,952	2,395,766

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	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance at April 1, 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
Stock based compensation	-	-	25,939	-	25,939
Repurchase of common stock	(51,533)	(515)	(275,381)	-	(275,896)
Net loss	-	-	-	(503,288)	(503,288)
Balance at March 31, 2012	2,336,354	$23,364	$12,885,756	$13,337,921	$26,247,041

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended March 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES OPERATING ACTIVITIES		
Net (loss) income	$(503,288)	$817,781
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	41,522	61,025
Stock based compensation	25,939	-
Deferred income taxes	(392,240)	(125,405)
Earnings of the Hong Kong Joint Venture	(500,502)	(1,691,133)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable and amounts due from factor	(384,947)	2,157,589
(Increase) in inventories	(1,864,529)	(94,105)
(Increase) in prepaid expenses	(80,520)	(168,165)
(Decrease) in accounts payable and accrued expenses	(164,728)	(1,004,757)
(Increase) in other assets	-	(19,998)
NET CASH (USED IN) OPERATING ACTIVITIES	(3,823,293)	(67,168)
INVESTING ACTIVITIES:		
Proceeds from sale of assets held for investment	-	4,001,890
Cash distributions from Joint Venture	566,622	694,976
Purchase of equipment	(9,752)	(65,302)
Patent costs capitalized	-	(89,434)
NET CASH PROVIDED BY INVESTING ACTIVITIES	556,870	4,542,130
FINANCING ACTIVITIES:		
Repurchase of common stock	(275,896)	-
NET CASH USED IN FINANCING ACTIVITIES	(275,896)	-
(DECREASE) INCREASE IN CASH	(3,542,319)	4,474,962
Cash at beginning of period	6,728,593	2,253,631
CASH AT END OF PERIOD	$3,186,274	$6,728,593
Supplemental information:		
Interest paid	$-	$4,166
Income taxes recovered (paid)	$-	$-

F-5

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<u>Nature of Business:</u> 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.

<u>Principles of Consolidation:</u> The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. 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.

<u>Use of Estimates:</u> 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.

<u>Cash and Cash Equivalents:</u> 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, 2012 and 2011.

<u>Revenue Recognition:</u> 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: In October 2011, the stockholders approved the Company’s 2011 Non-Qualified Stock Option Plan authorizing the issuance of 120,000 options to purchase the Company’s common stock. At March 31, 2012, 97,000 options have been issued at an exercise price of $5.51.

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.

The expected term of stock options granted was based on the Company’s historical option exercise experience and post-vesting forfeiture experience using the historical expected term from the vesting date. The expected volatility of the options granted was determined using historical volatilities based on stock prices over a look-back period corresponding to the expected term. The risk-free interest rate was determined using the yield available for zero-coupon U.S. government issues with a remaining term equal to the expected term of the options. The forfeiture rate was determined using historical pre-vesting forfeiture rates since the inception of the plans. The company has never paid a dividend; and, as such, the dividend yield is zero.

Stock Repurchase Program: In October 2011, the Company announced a stock buyback program under which the Board 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. The program will terminate when 100,000 shares of common stock have been repurchased by the Company pursuant to the program (unless increased or decreased by the Board of Directors).

The following table sets forth information with respect to purchases by the Company of its common stock during the fiscal year ended March 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans Or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
November 2011	11,000	$ 5.35	11,000	89,000
December 2011	10,039	$ 5.08	10,039	78,961
January 2012	20,398	$ 5.52	20,398	58,563
March 2012	10,096	$ 5.42	10,096	48,467
Total	51,533	$ 5.39	51,533	48,467

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.

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 $56,943 and $57,161 for the years ended March 31, 2012 and 2011, 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, and the Company adopted, 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 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, 2012, 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 $356,171 and $308,278 in fiscal years 2012 and 2011, respectively.

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 $571,219 and $398,397 at March 31, 2012 and 2011, respectively. Inventories are shown net of an allowance for inventory obsolescence of $70,000 and $100,000 as of March 31, 2012 and 2011, respectively.

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 F, *Income Taxes***.

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 operation purposes. 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. Diluted loss per common share for the year ended March 31, 2012 excludes the effect of all stock options, as their effect is antidilutive. As a result, the weighted average number of common shares outstanding is identical for the year ended March 31, 2012 for both basic and diluted shares.

	March 31, 2012	2011
Weighted average number of common shares outstanding for basic EPS	2,374,952	2,387,887
Shares issued upon assumed exercise of outstanding stock options	-	7,879
Weighted average number of common and common equivalent shares outstanding for diluted EPS	2,374,952	2,395,766

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:

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,	
	2012	2011
Leasehold improvements	$166,772	$166,772
Machinery and equipment	190,400	189,276
Furniture and fixtures	256,558	251,611
Computer equipment	245,944	242,003
	859,674	849,662
Less accumulated depreciation	(683,530)	(646,222)
	$176,144	$203,440

Depreciation and amortization expense totaled $41,522 and $61,025 for fiscal years ended March 31, 2012 and 2011, 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, 2012, the Company has an investment balance of $13,083,493 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, 2012 and 2011.

March 31,

	2012	2011
Current assets	$14,753,305	$14,127,686
Property and other assets	17,791,497	17,208,266
Total	$32,544,802	$31,335,952
Current liabilities	$4,320,954	$3,837,140
Non-current liabilities	6,014	24,116
Equity	28,217,834	27,474,696
Total	$32,544,802	$31,335,952

	For the Year Ended March 31,	
	2012	2011
Net sales	$22,160,107	$24,231,557
Gross profit	5,011,795	6,444,936
Net income	1,259,210	3,339,499

During the years ended March 31, 2012 and 2011, the Company purchased $10,152,081 and $8,130,109, respectively, of finished product from the Hong Kong Joint Venture, which represents 96.2% and 85.6%, respectively, of the Company's total finished product purchases for the years ended at March 31, 2012 and 2011. Amounts due the Hong Kong Joint Venture included in Accounts Payable totaled $449,430 and $453,480 at March 31, 2012 and 2011, respectively. Amounts due from the Hong Kong Joint Venture included in Accounts Receivable totaled $584,594 and $301,380 at March 31, 2012 and 2011, 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 $1,000,000 with the amount available at any one time based on cash on deposit, 90% of uncollected non-recourse receivables sold to the factor, and 50% of qualifying inventory. Financing of approximately $1,000,000 is available at March 31, 2012. 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, 2012. 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, 2012.

Under this Factoring Agreement, the Company sold receivables of approximately $9,979,020 and $10,360,042 during the years ended March 31, 2012 and 2011, 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 $1,719,731 and $1,569,126 at March 31, 2012 and 2011. The amount of the uncollected balance of non-recourse receivables borrowed by the Company as of March 31, 2012 and 2011 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 of 0.25%) at March 31, 2012 and 2011.

NOTE E - LEASES

During January 2009, the Company entered into an operating lease for its office and warehouse location in Owings Mills, Maryland 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. 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 2,600 square foot office in Naperville, Illinois. During fiscal 2012, the lease was expanded to approximately 3,400 square feet and the lease was extended to February 2015 with rentals increasing 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 $176,575 and $171,080 for the years ended March 31, 2012 and 2011, respectively.

	2013	2014	2015	2016
Future minimum lease payments are as follows:	192,534	204,558	53,781	2,997

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 and accrued liabilities

For the fiscal year ended March 31, 2012, the Company has an accumulated net operating loss carryover of approximately $1,578,107 that the Company may carry-forward to offset future taxable income. The Company generated no foreign tax credits for the period. At March 31, 2012, the Company has $1,522,886 of foreign tax and $82,778 of research and development credit carry-forward available to offset future federal income taxes.

For the fiscal year ended March 31, 2011, the Company has an accumulated net operating loss of approximately $812,651 that the Company may carryforward 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 credit carryforward and $48,186 of research and development credit available to offset future federal income taxes.

At March 31, 2012, the Company has net operating loss carryforwards and tax benefit carryforwards of $1,578,107 and $1,605,664, respectively, which expire at various dates from 2013 through 2030. There are certain limitations to the use and application of these deferred tax assets.

Management reviews net operating loss carryforwards and income tax credit carryforwards to evaluate if those amounts are recoverable. Based on historical results and projections of future operations and taxable income, the recoverability of these deferred tax assets is determined to be more likely than not; and, accordingly, no valuation allowance is deemed necessary at March 31, 2012.

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

	2012	2011
Current benefit		
U.S. Federal	$-	$(21,459)
U.S. State	-	-
	-	(21,459)
Deferred benefit	(389,600)	(125,404)
Total income tax benefit	$(389,600)	$(146,863)

	March 31, 2012	2011
Deferred tax assets:		
Financial statement accruals and allowances	$68,765	$54,340
Inventory uniform capitalization	83,098	72,412
Net operating loss carryforward	637,274	304,737
Foreign tax credit carryforward	1,522,886	1,522,886
Research and development tax credit carryforward	82,778	48,186
Net deferred tax asset	$2,394,801	$2,002,561

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,	
	2012	2011
Federal tax (benefit) expense at statutory rate (34%) before loss carry-forward	$(303,582)	$225,374
Non-repatriated earnings of Hong Kong Joint Venture	(18,758)	(338,693)
Foreign tax credit	-	(74,670)
Research and development credit	-	(17,361)
State income tax expense, net of federal tax effect	-	(5,277)
Reduction in uncertain tax position liability	-	(21,459)
Permanent differences	14,551	14,955
True-up adjustments and other	(81,811)	70,268
Income tax benefit	$(389,600)	$(146,863)

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, the amount of the unrecognized tax attributes were reduced by $21,459, including deemed interest and penalties. That amount, if ultimately recognized, would reduce the Company's annual effective tax rate.

NOTE G - SHAREHOLDERS' EQUITY

Stock Repurchase Program – The following table sets forth information with respect to purchases of common stock by the Company or any affiliated purchasers during the fiscal year ended March 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans Or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
November 2011	11,000	$ 5.35	11,000	89,000
December 2011	10,039	$ 5.08	10,039	78,961
January 2012	20,398	$ 5.52	20,398	58,563
March 2012	10,096	$ 5.42	10,096	48,467
Total	51,533	$ 5.39	51,533	48,467

In October 2011, 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. The program will terminate when 100,000 shares of common stock have been repurchased by the Company pursuant to the program (unless increased or decreased by the Board of Directors).

Stock Options – Under the terms of the Company's 2011 Non-Qualified Stock Option Plan, 120,000 shares of common stock were reserved for the granting of stock options, of which 97,000 options have been issued as of March 31, 2012.

Under the 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. 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 now expired 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, 2012 and option transactions for the years then ended:

Status as of March 31, 2012	Number of Shares
Presently exercisable	25,000

Outstanding options by grant	
Number of holders – grant 1	1
Average exercise price per share	$3.25
Expiration date:	March 2014
Number of holders – grant 2	19
Average exercise price per share	$5.51
Expiration date:	December 2013

Transactions for the Year Ended March 31, 2012:	Number of Shares	Weighted Average Exercise Price
Outstanding at April 1, 2011	25,000	3.25
Granted	97,000	5.51
Outstanding at March 31, 2012	122,000	5.05

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

	Options Outstanding			Options Exercisable	
Range of Exercise Price	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
$ 5.51	97,000	5.51	2.00	97,000	5.51

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 57.73%, risk-free interest rate of 0.3% and expected lives of two years used for options granted in fiscal 2012. There were no options granted in fiscal 2011. The fair value of options granted in fiscal 2012 approximates $170,000. Fifty percent of the options vest one year after issuance, with the remaining fifty percent vesting twenty-three months after issuance.

As of March 31, 2012, the unrecognized compensation cost related to share-based compensation arrangements that we expect to vest is $144,519. The aggregate intrinsic value of currently exercisable options was $53,250 at March 31, 2012.

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.

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, 2012, the Company had one customer, Facilities Maintenance, that represented 12.3% of the Company’s product sales.

NOTE J - QUARTERLY FINANCIAL DATA (UNAUDITED)

<u>Quarterly Results of Operations (Unaudited):</u>

The unaudited quarterly results of operations for fiscal years 2012 and 2011 are summarized as follows:

	Quarter Ended			
	June 30,	September 30,	December 31,	March 31,
2012				
Net sales	$3,201,302	$ 3,307,514	$ 3,186,197	$3,609,589
Gross profit	872,938	1,000,659	818,527	819,074
Net income (loss)	581	(309,941)	67,226	(261,154)
Net income (loss) per share:				
Basic	0.00	(0.13)	0.03	(0.11)
Diluted	0.00	(0.13)	0.03	(0.11)
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
Net income	281,867	268,376	19,545	247,993
Net income per share:				
Basic	0.12	0.11	0.01	0.10
Diluted	0.12	0.11	0.01	0.10

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 $62,769 and $55,029 for the years ended March 31, 2012 and 2011, respectively.

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

SCHEDULE II

UNIVERSAL SECURITY INSTRUMENTS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED MARCH 31, 2012 AND 2011

	Balance at beginning of year	**Charged to cost and expenses**	Deductions	**Balance at end of year**
Year ended March 31, 2012				
Allowance for doubtful accounts	$ 75,000	$ 0	$ 0	$ 75,000
Year ended March 31, 2011				
Allowance for doubtful accounts	$ 87,851	$ 0	$ 12,851	$ 75,000
Year ended March 31, 2012				
Allowance for inventory reserve	100,000	$ 0	$ 30,000	$ 70,000
Year ended March 31, 2011				
Allowance for inventory reserve	$ 100,000	$ 0	$ 0	$ 100,000

S-1