FIRETECTOR INC
Form ARS/A
April 23, 2002

ANNUAL
REPORT
2001

FIRETECTOR INC.
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Dear Stockholders:

We are pleased to report on the results of our Fiscal Year Ended September 30th 2001.

This past year was a successful year and we are confident about our long-term strategies. However, our short-term outlook dimmed at the end of our Fiscal Year and into our first Fiscal Quarter as a result of the slowing real estate market and overall economy in New York and Dallas even before September 11th. The events of September 11th have adversely impacted our business. Contrary to the common assumption that the tragedy would result in immediate business opportunities for Firetector, we have seen a significant decline in leasing activity which triggers demand for products and services for tenants. In addition, several large projects have been delayed as government agencies involved in such projects were impacted by the tragedies or have other infrastructure priorities.

During 2001 and subsequent to year-end, we have continued to invest in product development and new talented sales and engineering personnel to support our growing transit communication and audio-visual divisions. We continue to secure new bookings in both these product areas and from our fire alarm/life safety units in New York and Dallas.

While fire alarm/life safety remains as a key element of our business, we are focused on a broader array of communication products and services. Consequently, at our upcoming Annual Meeting of Stockholders scheduled for May 22, 2002, we are asking our stockholders to approve a change of our corporate name to Synergx Systems Inc. or such other name as is approved at the Meeting. Our Board of Directors has approved this change believing that the new name will better reflect our current business. While fire alarm/life safety is still an important and growing part of our business, we are a diversified technology company and systems integrator. Moreover, to help the performance of our stock long-term and to improve return on equity, we are looking at other investments, and channels both in and out of the communication sectors that could provide synergies with our assets, channels of distribution, employees and managers. Consistent with this strategy, the Board of Directors has nominated two additional candidates for director with varied business backgrounds.

On behalf of our employees, officers and directors, we would like to thank you for your continued support of Firetector Inc.

April 22, 2002

Daniel S. Tamkin, Chairman and CEO Joseph Vitale, President and COO

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

LIQUIDITY AND CAPITAL RESOURCES

Firetector Inc. ("Firetector" or the "Company"), has a $3 million dollar credit facility with Citizens Business Credit of Boston (the "Credit Facility") that expires in December, 2004. The Credit Facility had an interest rate of prime plus 3/4% on outstanding balances. Effective October 1,2001, the interest rate was reduced to prime plus 1/4%. Advances under the Credit Facility are measured against a borrowing base calculated on eligible receivables and inventory. The Credit Facility is secured by all assets of the Company and all of its operating subsidiaries.

The Credit Facility includes various covenants, which among other things, impose limitations on declaring or paying dividends, acquisitions and capital expenditures. The Company is also required to maintain certain financial ratios. At September 30, 2001, the Company was not in default with any of its financial covenants and at such time owed $1,310,000 under the Credit Facility.

Net cash provided by operations for the twelve months ended September 30, 2001 amounted to $630,000 as compared to $810,000 for the comparable prior period. The primary reason for the lower amount of cash being provided by operations was due to a decrease of $102,000 in operating profit before taxes. The $630,000 cash from operations was primarily used to pay off borrowing under a Note Payable to Mirtronics by $243,000 and to reduce borrowings under the Company's Credit Facility to a level of $1,310,000. The Company anticipates continuation of the negotiation of certain terms with its customers prior to the beginning of a project, the monitoring of its terms during a project and completing projects in timely fashion, resulting in faster final payments. It is the intention of the Company to closely monitor this program throughout fiscal 2002.

The ratio of the Company's current assets to current liabilities declined to approximately 2.45 to 1 at September 30, 2001 compared to 2.55 at September 30, 2000. This decrease is primarily due to the increase in 2001 of certain costs due to subcontractors and a corresponding increase in customer receivables related to their projects.

Firetector's terms of sale are net 30 days. However, the normal receivable collection period is 60-120 days, exclusive of retainage, because certain governmental regulations and the Company's frequent status as a subcontractor (entitled to pro rata payments as the general project is completed) extends the normal collection period. Firetector believes this is a standard industry practice. Firetector's receivable experience is consistent with the industry as a whole and will likely continue. This could be considered an area of risk and concern. However, due to the proprietary nature of Firetector's systems, many projects require Firetector's cooperation to secure a certificate of occupancy and/or to activate/operate a life safety system, thus assisting Firetector's collection of a significant portion or even total payment, even when Firetector's immediate account debtor's (contractor) creditors have seized a

project.

RESULTS OF OPERATIONS

Revenues

Total revenues in 2001 were $19.9 million, an increase of 4% compared to revenues of $19.1 million in 2000. This increase was primarily due to a 4% increase in both product and service revenues in 2001.

The increase in product revenue is the result of the Company's intensified and broadened marketing program, which maintained product revenues at record levels. During 2001, the Company continued to experience strong shipments on commercial audio/visual projects that included a New York City auction house, several professional organizations, a securities firm and the continuation of the second phase of a major airport facility. The Company also continued to experience a higher level of revenues in 2001 from its fire alarm product line; due in part from expansion into the Long Island, NY market area.

Service revenues increased 4% in 2001 to $4,349,000. The increase in service revenues is a result of higher service contract revenue on life safety systems.

Gross Profit

Gross profit dollars from product revenues increased 1% in 2001 to $5,069,000 as a result of the 4% increase in product sales. Gross profit margin as a percentage of product revenues was only 33.0% in 2001 compared to 34.0% in 2000. This decrease in gross profit percentage was due to a change in product mix. This product mix change reflects a decline in tenant renovations in 2001 as leasing activity in New York City had slowed significantly following a very active 2000. In contrast, 2000 benefited from an engineering and product management contract (professional service with no material content) which carried a higher gross margin.

Gross profit margin on service revenues decreased in 2001 to 27.9% from 29.7% in 2000. This decrease reflects the effect of certain wage increases to service technicians in both New York and Dallas. These wage increases could not be fully passed on to customers by increases in service contract revenue.

Selling, General and Administrative Expenses

Selling, General and Administrative Expenses (S G & A) increased by 5% in 2001 over 2000 primarily as a result of the Company's expanded marketing program. This expansion in marketing effort has resulted in higher revenues and related profitability during 2001 and 2000. The increase in S G & A reflects increased commission expense related to higher product revenues and additional staffing related to the Company's railcar transit communication group as it addresses a marketing opportunity for future business over the next 3 to 5 years. However, selling, general and administrative expenses as a percent of sales remained at 26.3% of revenues during both years.

Income Before Tax

Operating income decreased in 2001 to $733,000 compared to $834,000 in fiscal 2000. While there was a slight improvement in gross profit in 2001 there was a decline in operating income due to the 5% increase in selling general and administrative expenses in 2001 as noted above. Offsetting the increase in S G & A was a $103,000 reduction in interest costs due to the payoff of notes payable and a reduction in bank debt coupled with lower interest rates in 2001. Also favorably affecting operating income was lower depreciation and amortization in 2001 as certain assets became fully depreciated.

Tax Provisions

The Company's current income tax provision represents Federal, state and local income taxes. During 2000, the Company fully utilized the balance of its net operating loss carry forwards. Deferred taxes represent the net increase in deferred tax assets as it relates to certain book provisions to be deducted in future tax returns.

Order Position

Firetector's order position, excluding service, remained at $7.8 million at September 30, 2001 compared to the $7.8 million level at September 30, 2000. The Company expects to fulfill the majority of its backlog over the next twelve months. However, the backlog includes $2.2 million of recent orders for communication and announcement systems from several transit car manufacturers, that will be shippable over the next 24 month period. While quotation activity is brisk, there is no assurance when orders will be received and whether the order position will increase. Due to the fact that the Company's products are sold and installed as part of larger construction or mass transit projects, there is typically a delay between the booking of the contract and its revenue realization. The order position includes and the Company continues to bid on projects that might include significant subcontractor labor, and expects to be active in seeking orders where the Company would act as a prime contractor.

Plan of Operations

During fiscal 2002, Management intends to continue to focus on its intensified marketing programs that began in 1998 and to continue to contain or monitor fixed overhead as well as to reduce variable costs through improved efficiency and productivity. Management anticipates reduced demand in 2002 and likely reduced profitability due to the overall decline in economic activity, layoffs and real estate vacancies. The events of September 11th resulted in the loss of a limited amount of direct revenue from service contracts in certain affected buildings. Since most affected tenants relocated to existing built out space elsewhere in New York City, moved out of New York City or downsized, the catastrophe has not resulted in immediate business to offset the overall decline in demand. In addition, various large projects with or related to government agencies including airport terminal expansion which were likely to generate significant revenue in 2002 have been deferred until 2003 or beyond. Longer term, Management expects increased demand from the Company's audio-visual, public address and other communication products. Enhancements in recent years to Firetector's management information systems and methods of approving and monitoring project costs have improved Management's ability to pinpoint waste and/or third party (supplier or customer) cost responsibility.

INFLATION

The impact of inflation on the Company's business operations has not been material in the past. Casey's labor costs are normally controlled by union contracts covering a period of two years and its material costs have remained relatively stable. However in July of 1999, after a brief work stoppage (strike), the Company and its union agreed to a new three year contract that provides for wage/benefits increases of 5% in each year. During 2001, certain union members, upon passing certain test requirements, will be moving up to higher paying categories that have multiple salary steps per year in excess of the 5% contractual level. In addition, the demand for highly skilled professionals has resulted in the need to assess salary levels in order to remain competitive in both Dallas, Texas and the New York City, New York metropolitan areas. It is expected that required salary adjustments will exceed normal increases given in the past. The Company will try to mitigate the effect of these increases in labor costs by price increases, if possible, and expense reductions.

Report of Independent Auditors

To the Stockholders and Board of Directors of
Firetector Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Firetector Inc. and its subsidiaries as of September 30, 2001 and the related consolidated statements of income, stockholders' equity, and cash flows for years ended September 30, 2001 and 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures inthe consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated statements referred to above present fairly, in all material respects, the consolidated financial position of Firetector Inc. and its subsidiaries as of September 30, 2001 and the consolidated results of their operations and their cash flows for the years ended September 30, 2001 and2000, in conformity with accounting principles generally accepted in the United States of America.

December 6, 2001 MARCUM & KLIEGMAN LLP
New York, NY

FIRETECTOR INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	September 30, 2001
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 299,000
Accounts receivable, principally trade, less allowance for doubtful accounts of $328,000	6,457,000
Inventories	2,291,000
Deferred taxes	251,000
Prepaid expenses and other current assets	238,000
TOTAL CURRENT ASSETS	$9,536,000
PROPERTY, PLANT AND EQUIPMENT -net	361,000
OTHER ASSETS	191,000
DEFERRED TAXES	60,000

TOTAL ASSETS	$10,148,000

See accompanying Notes to the Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	September 30, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Other notes payable - principally to related party	$117,000
Accounts payable and accrued expenses	3,306,000
Unearned service revenue	454,000
Current portion of capital lease obligations	24,000
TOTAL CURRENT LIABILITIES	3,901,000
Note payable to bank	1,310,000
Notes payable - principally to related party, less current portion	89,000
Capital lease obligations, less current portion	65,000
TOTAL LIABILITIES	5,365,000
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Preferred stock, 2,000,000 shares authorized- none issued and outstanding	
Common stock, 10,000,000 shares authorized, $.001 par value; issued and outstanding 1,704,425 shares	2,000
Capital in excess of par	5,279,000
Deficit	(498,000)
TOTAL STOCKHOLDERS' EQUITY	4,783,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$10,148,000

See accompanying Notes to the Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended September 30, 2001	2000
Net sales	$15,578,000	$14,921,000
Service revenue	4,349,000	4,166,000
Total revenues	19,927,000	19,087,000
Cost of sales	10,510,000	9,896,000
Cost of service	3,136,000	2,928,000
Selling, general and administrative	5,252,000	5,016,000
Interest expense	146,000	249,000
Depreciation and amortization expense	150,000	164,000
	19,194,000	18,253,000
Income from operations before provision for income taxes	733,000	834,000
Provision for income taxes:		
Current	334,000	335,000
Deferred	(34,000)	25,000
	300,000	360,000
Net Income	$ 433,000	$ 474,000
Earnings Per Common Share		
Basic Earnings Per Share	$0.25	$0.28
Diluted Earnings Per Share	$0.24	$0.26
Weighted Average Number of Common Shares Outstanding	1,704,425	1,682,198
Weighted Average Number of Common and Potential Dilutive Common Shares Outstanding	1,784,089	1,853,792

See accompanying Notes to the Consolidated Financial Statements

FIRETECTOR INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2001 and 2000

	TOTAL STOCKHOLDERS' EQUITY	PREFERRED STOCK SHARES	AMOUNT
Balance at September 30, 1999	$3,756,000	0	0

Issuance of shares from exercise of options	120,000		
Net Income	474,000		
Balance at September 30, 2000	4,350,000	0	0
Net Income	$433,000		
Balance at September 30, 2001	$4,783,000	0	$0

See accompanying Notes to the Consolidated Financial Statements

FIRETECTOR INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2001 and 2000
(continued)

	CAPITAL IN EXCESS OF PAR	DEFICIT
Balance at September 30, 1999	$5,159,000	$(1,405,000)
Issuance of shares from exercise of options	120,000	
Net Income		$474,000
Balance at September 30, 2000	$5,279,000	$(931,000)
Net Income		433,000
Balance at September 30, 2001	$5,279,000	$(498,000)

See accompanying Notes to the Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended September 30, 2001	2000
OPERATING ACTIVITIES		
Net income	$433,000	$474,000
Adjustments to reconcile net income to net cash provided by operating activities:		

Depreciation and amortization	150,000	164,000
Deferred income tax (benefit) expense	(34,000)	25,000
Provision for doubtful accounts	(21,000)	128,000
Changes in operating assets and liabilities:		
Accounts receivable	(319,000)	(712,000)
Inventories, prepaid expenses and other current assets	(66,000)	(34,000)
Other assets	(39,000)	1,000
Accounts payable and accrued expenses	446,000	731,000
Unearned service revenue	80,000	33,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	630,000	810,000
INVESTING ACTIVITIES		
Purchases of property, and equipment	(148,000)	(97,000)
NET CASH (USED IN) INVESTING ACTIVITIES	(148,000)	(97,000)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options		120,000
Principal payments on revolving line of credit, long-term debt, notes payable and capital lease obligations	(271,000)	(719,000)
Proceeds from revolving line of credit, notes payable and capital lease obligations	92,000	80,000
Notes payable to affiliated companies	(243,000)	(189,000)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(422,000)	(708,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,000	5,000
Cash and cash equivalents at beginning of period	239,000	234,000
Cash and cash equivalents at end of period	$299,000	$239,000

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:		
Income taxes	$389,000	$67,000
Interest	$145,000	$234,000

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During the year ended September 30, 2001, the Company incurred no capital lease obligations for the acquisition of equipment. During the year ended September 30, 2000, the Company incurred capital lease obligations of $94,000 for the acquisition of equipment.

See accompanying Notes to the Consolidated Financial Statements

Firetector Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2001

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at September 30, 2001, and reported amounts of revenues and expenses during the fiscal year. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. The principal operating subsidiaries are: Casey Systems Inc. ("Casey"), General Sound (Texas) Company ("GenSound"), Pyrotech Service Inc. ("Pyrotech"), Systems Service Technology Corp. ("SST") and Amco Maintenance Corporation ("AMCO"). Effective October 1, 1999, the operations of Pyrotech and Amco became part of the operation of SST and these two companies became inactive. Significant intercompany items and transactions have been eliminated in consolidation. The Company is a subsidiary of Mirtronics, Inc. ("Mirtronics"), an Ontario publicly-held corporation.

Business

The Company operates in one industry segment: the design, manufacture, marketing and service of a variety of data communications product and systems with applications in the fire alarm, life safety, transit, security and communications industry.

Revenue Recognition

Sales are recognized when product is shipped to customers. Service revenue from maintenance contracts is recognized on a straight-line basis over the terms of the respective contract, which is generally one year. Non-contract service revenue is recognized when services are performed.

Inventories

Inventories are priced at the lower of cost (first-in, first-out) or market and consist primarily of raw materials.

Property and Equipment

Property and equipment are stated at historical cost. Leases meeting the criteria for capitalization are recorded at the present value of future lease payments.

Depreciation and amortization of machinery and equipment and furniture and fixtures are provided primarily by the straight-line method over their estimated useful lives. The Company depreciates machinery and equipment over periods of 3 to 10 years and amortizes leasehold improvements and assets acquired under capitalized leases over the life of the lease or their economic useful life, whichever is shorter.

Other Assets

Other assets are comprised principally of the excess of cost over the fair value of the assets acquired in the acquisition of certain subsidiaries. The excess of cost over the fair value of the assets acquired approximates $110,000 (net of accumulated amortization of $64,000) and relates principally to the 1990 acquisition of GenSound. This amount is being amortized over forty years under the straight line method.

The Company evaluates the periods of goodwill amortization to determine whether later events and circumstances warrant revised estimates of useful lives. The Company also evaluates whether the carrying value of goodwill has become impaired.

Advertising Costs

Advertising Costs are expensed as incurred during the year. Advertising Costs for the years ended September 30, 2001 and 2000 amounted to $26,000 and $20,000, respectively.

Research and Development Cost

Research and development costs are expensed as incurred during the year. Research and development costs for the years ended September 30, 2001 and 2000 amounted to $142,000 and $135,000, respectively.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". Under SFAS No. 109, the asset and liability method is used to determine deferred tax assets and liabilities based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings Per Share

SFAS No. 128 "Earnings Per Share" requires companies to report basic and diluted earnings per share ("EPS") computations. Basic EPS excludes dilution and is based on the weighted-average common shares outstanding and diluted EPS gives effect to potential dilution of securities that could share in the earnings of the Company. Diluted EPS reflects the assumed issuance of shares with respect to the Company's employee stock options, non-employee stock options, and warrants.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Concentration of Credit Risk

The Company's operations are located in two large U.S. cities (New York City, New York and Dallas, Texas), each of which is an independent market. The Company grants credit to its customers, principally all of which are general or specialized construction contractors, none of which individually constitutes a significant portion of outstanding receivables. Approximately 84% of such outstanding receivables at September 30, 2001 are due from customers in New York.

At September 30, 2001, the Company had approximately $381,000 based on checks that had not cleared the financial institutions that are subject to insured amount limitations. The Company does not require collateral to support financial instruments subject to credit risk.

Stock Options and Similar Equity Instruments

The Company adopted the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," for stock options and similar equity instruments (collectively, "Options") issued to employees; however, the Company will continue to apply the intrinsic value based method of accounting for options issued to employees

prescribed by Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issues to Employees," rather than the fair value based method of accounting prescribed by SFAS No. 123. SFAS No. 123 also applies to transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. (see Note 9).

2. Transactions with Related Parties

Mirtronics is the largest shareholder of the Company. In 1994 and 1995, Mirtronics provided financial assistance to the Company by way of a Letter of Credit in support of the company's credit facility, further advances to the Company, and an exchange of debt for equity. In connection with this financial assistance, the Company has outstanding warrants to purchase 310,000 shares of the Company's Common Stock, which were issued in 1998, and are exercisable at any time until December 31, 2003 at an exercise price of $1.02 per share.

Notes Payable Principally to Related Party includes $105,000 due to a former officer/director of the Company under a seven year installment promissory note dated January 1, 1997 that bears interest at 4% per annum.

3. Property and Equipment

Property and equipment (including those arising from capital leases) are summarized as follows:

	September 30, 2001
Machinery and equipment	$1,342,000
Furniture and fixtures	136,000
Leasehold improvements	16,000
	1,494,000
Less accumulated depreciation and amortization	1,133,000
	$361,000

Annual amortization of equipment under capital leases is included with depreciation and amortization expense.

Depreciation and amortization expense was $129,000 and $127,000 for the years ended September 30, 2001 and 2000, respectively.

4. Long-Term Debt

In 1998, the Company entered into a revolving credit facility with Citizens Business Credit Company of Boston, Massachusetts (the "Credit Facility"). The Credit Facility was revised in September 2000 and provides for a $3,000,000 revolving line of credit through December 2004 and carries an interest rate of prime plus 3/4% on outstanding balances (6% at September 30, 2001). The interest rate was reduced to prime plus 1/4% effective October 1, 2001. The Credit facility limits capital expenditures to $250,000 in each year. At September 30, 2001 $1,310,000 was outstanding under this facility. Advances under the credit facility are measured against a borrowing base calculated on eligible receivables and inventory. The credit facility is secured by all of the assets of the Company and all of its operating subsidiaries.

The Credit Facility includes certain restrictive covenants, which among other

things, impose limitations on declaring or paying dividends, acquisitions and capital expenditure. The Company is also required to maintain certain financial ratios. At September 30, 2001, the Company was not in default of any of its financial covenants.

Annual maturities of Loans and Notes Payable are as follows:

	Bank Loan	Other Notes Payable
2002	$	$117,000
2003	--	67,000
2004	--	17,000
2005	1,310,000	5,000
Total	$1,310,000	$206,000

The Company previously had a 10% note payable to Mirtronics, which was paid off, with accrued interest, on March 5, 2001.

5. Leases

The Company leases certain office and warehouse space under noncancelable operating leases expiring at various times through 2007. In February 2000, the Company signed a new lease for office, manufacturing and warehouse space in Syosset, New York. This lease expires in June 2007. In September 2000, the Company also entered into a new lease for its service center in New York City. This lease expires in August 2003. However, either party may terminate the lease with six months notice. The Company also leases certain office equipment and vehicles under noncancelable capital and operating leases expiring in various years through fiscal 2005.

The following is a schedule of future minimum payments, by year and in the aggregate, under non cancelable capital and operating leases with initial or remaining terms of one year or more at September 30, 2001:

	Capital Leases	Operating
2002	$33,000	$35
2003	31,000	32
2004	26,000	18
2005	21,000	18
2006		19
2007		14
Total minimum lease payments	111,000	$1,38
Less amount representing interest	22,000	
Present value of net minimum lease payments (including current portion of $24,000)	$89,000	

Rental expense amounted to $343,000 and $307,000 for 2001 and 2000, respectively.

6. Significant Customers
During fiscal 2001 and 2000, no customer accounted for more than 10% of sales.

7. Income Taxes

During the year ended September 30, 2001, the Company recorded a tax provision of $300,000 compared to $360,000 for the year ended September 30, 2000. A reconciliation of such with the amounts computed by applying the statutory federal income tax rate is follows:

	Year ended September 30, 2001	2000
Statutory federal income tax rate	34%	34%
Computed expected tax from income	$249,000	$284,000
Increase in taxes resulting from:		
State and local income taxes, net of Federal tax benefit	53,000	97,000
Nondeductible expenses	8,000	8,000
(Decrease) in taxes resulting from benefit of future tax deductible items	(10,000)	(29,000)
Provision	$300,000	$360,000

The Company provided $14,000 and $13,000 for state and local franchise and capital taxes for the years ended September 30, 2001 and 2000, respectively. These expenses have been included in selling, general and administrative expenses for each of the years presented.

The Company has recorded a deferred tax asset at September 30, 2001 and 2000 related to certain book provisions to be deducted in future tax returns. Management anticipates profitable operations to continue at a level that will result in the utilization of the entire deferred tax asset.

The components of deferred tax assets at September 30, 2001 and 2000 consist of the following:

	2001	2000
Allowance for doubtful accounts	$131,000	$140,000
Inventory reserve	120,000	103,000
Depreciation and amortization	60,000	34,000
Total deferred tax asset	$311,000	$277,000

8. Earnings Per Share

Shown below is a table that presents for 2001 and 2000 the computation of basic earnings per share, diluted earnings per share, weighted shares outstanding, and weighted average shares after potential dilution.

Basic EPS Computation	Year Ended 2001	2000
Net Income available to common		

shareholders	$433,000	$474,000
Weighted average outstanding shares	1,704,425	1,682,198
Basic EPS	$.25	$.28
	====	====

Diluted EPS Computation

Income available to common shareholders	$433,000	$474,000
Diluted net income	$433,000	$474,000
Weighted-average shares	1,704,425	1,682,198
Plus: Incremental shares from assumed conversions		
Non Employee Stock Options		10,242
Employee Stock Options	18,640	40,693
Warrants*	61,024	120,659
	------	-------
Dilutive potential common shares	79,664	171,594
	------	-------
Adjusted weighted-average shares	1,784,089	1,853,792
	---------	---------
Diluted EPS	$.24	$.26
	=====	=====

*Warrants convertible into 16,667 shares were antidilutive in the years ended September 30, 2001 and 2000, respectively.

9. Employee Stock Options, Options, and Warrants

On April 30, 1997, the Company and its stockholders adopted a nonqualified stock option plan ("1997 Plan"), which expires September 30, 2002, except as to options then outstanding under the 1997 Plan. Under the 1997 Plan, the Board of Directors may grant options to eligible employees at exercise prices not less than 100% of the fair market value of the common shares at the time the option is granted. The number of shares of Common Stock that may be issued shall not exceed an aggregate of up to 10% of its issued and outstanding shares from time to time. Options vest at a rate of 20% per year commencing one year after date of grant. Issuances under the 1997 Plan are to be reduced by options outstanding under a 1990 nonqualified stock option plan (replaced by the 1997 Plan).

The Company applies the intrinsic value base method of accounting for options issued to employees rather than the fair value based method of accounting. On December 29, 2000, options on 43,375 shares of common stock were extended for five more years and the option price was reset from $1.00 to $1.03 per share. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS 123, the Company's net income and net income per share for 2001 would be reduced to the pro forma amounts indicated below:

	2001	2000
Net Income:		
As reported	$433,000	$474,000
Pro forma	404,000	474,000
Earnings per common share:		
As reported		
Basic	$0.25	$0.28
Diluted	$0.24	$0.26

	=====	=====
Pro forma		
Basic	$0.24	$0.28
Diluted	$0.23	$0.26
	=====	=====

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period for purposes of future pro forma disclosures, and additional options may be granted in future years. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2001: dividend yield of zero; expected volatility of 75% and expected life of 5 years. The weighted average risk fee interest rates for 2001 were 4.64%. The weighted average fair value of options granted during 2001, for which the exercise price equaled the market price on the grant dates, was $1.03.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected price volatility. Because the Company's employees' stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's' opinion, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options.

Transactions involving stock options are summarized as follows:

	Stock Options Outstanding	Weighted Average Exercise Price of Options Outstanding
Balance September 30, 1999	107,958	$1.04
Balance September 30, 2000	107,958	1.04
Options granted	43,375	1.03
Options expired	43,375	1.00
Balance September 30, 2001	107,958	$1.05

There were 93,958 exercisable options at September 30, 2001 and 75,402 exercisable options at September 30, 2000. . The following table summarizes information concerning currently outstanding and exercisable stock options.

Exercise Price	Outstanding at September 30, 2001	Weighted Average Contractual Life	Exercisable at September 30, 2001
1.00	4,500	.3 years	4,500
1.00	25,083	1.0 years	25,083
1.13	35,000	3.0 years	21,000
1.03	43,375	4.3 years	43,375

The Company granted Mirtronics warrants to purchase 310,000 shares of the Company's Common Stock which are exercisable at a price of $1.02 per share at any time until December 31, 2001. (See Note 2 - Transactions with Related Parties)

In May 1995, the Company granted Judson Enterprises, Ltd. 33,334 options to purchase common stock at a price of $3.00 per share in exchange for investment banking services. In April 1997, the Company entered into an agreement to exchange 16,667 of these options for 16,667 new options to purchase common stock at a price of $4.50 and these options will expire in April 2002. The remaining 16,667 options expired in May 2000. Based on calculations done in accordance with the requirements of SFAS 123, stock based compensation expense resulting from this transaction was immaterial.

Transactions involving non-employee stock options and warrants are summarized as follows:

	Options and Warrants Outstanding	Weighted Average Exercise Price of Options Outstanding
Balance September 30, 1999	486,667	$1.17
Balance September 30, 2000	326,667	1.20
Balance September 30, 2001	326,667	$1.20

All of these options were exercisable at the end of the periods indicated in the above schedule.

The following table summarizes information concerning currently outstanding and exercisable non-employee stock options and warrants.

Exercise Price	Outstanding at September 30, 2001	Weighted Average Contractual Life	Exercisable at September 30, 20
4.50	16,667	.5 years	16,667
1.02	310,000	2.3 years	310,000

10. Contingencies

In the normal course of its operations, the Company has been or, from time to time, may be named in legal actions seeking monetary damages. Management does not expect, based upon consultation with legal counsel, that any material item exists that will affect the Company's business or financial condition.

11. Other

Approximately 34% of the Company's employees are covered by collective bargaining agreements. The present contract expires in June 2002.

Effective January 1, 1996, the Board of Directors instituted a 401K plan for nonunion employees. The plan includes a profit sharing provision at the discretion of the Board of Directors. In 2001 and 2000 a profit sharing contribution of $44,000 and $44,000, respectively, was charged to expense.

12. Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Values of Financial Instruments", requires disclosing fair value to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the

financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

For certain financial instruments, including cash and cash equivalents, trade receivables and payables, and short-term debt, it was assumed that the carrying amount approximated fair value because of the near term maturities of such obligations. The fair value of long-term debt was determined based on current rates at which the Company could borrow funds with similar remaining maturities, which amount approximates its carrying value.

13. Authoritative Pronouncements

The Financial Accounting Standards Board (FASB) has issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities.

SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of derivative and how it is designated, for example, gains or losses related to changes in the fair value of a derivative not designated as a hedging instrument is recognized in earnings in the period of the change, while certain types of hedging may be initially reported as a component of other comprehensive income (outside earnings) until the consummation of the underlying transaction.

SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Initial application of SFAS No. 133 should be as of the beginning of a fiscal quarter; on that date, hedging relationships must be designated anew and documented pursuant to the provisions of SFAS No, 133. Earlier application of all of the provisions of SFAS No. 133 is not to be applied retroactively to financial statements of prior periods. The requirements do not have a material impact on the Company's results of operations, financial position, or cash flows.

In July 2001, the ("FASB") issued SFAS No. 141, "Business Combinations". SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS No. 141 will have significant impact on its financial statements.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets", which is effective for all fiscal years beginning after December 15, 2001; however, early adoption is permitted for fiscal years beginning after March 15, 2001. SFAS No. 142 require, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairment of goodwill. The Company is required to adopt SFAS No. 142 in fiscal 2003. The Company is currently assessing but has not yet determined the impact of SFAS No. 142 on its financial position and results of operations.

The Financial Accounting Standards Board (FASB) issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets in August 2001. SFAS No. 144 changes the accounting for long-lived assets to be held and used by eliminating the requirement to allocate goodwill to long-lived assets to be tested for impairment, by providing a probability weighted cash flow estimation approach to

deal with situations in which alternative courses of action to recover the carrying amount of possible future cash flows and by establishing a primary-asset approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for long-lived assets to be held and used. SFAS No. 144 changes the accounting for long-lived assets to be disposed of other than by sale by requiring that the depreciable life of a long-lived asset to be abandoned be revised to reflect a shortened useful life and by requiring the impairment loss to be recognized at the date a long-lived asset is exchanged for a similar productive asset or distributed to owners in a spin-off if the carrying amount of the asset exceeds its fair value. SFAS No. 144 changes the accounting for long-lived assets to be disposed of by sale by requiring that discontinued operations no longer be recognized on a net realizable value basis (but at the lower of carrying amount or fair value less costs to sell), by eliminating the recognition of future operating losses of discontinued components before they occur and by broadening the presentation of discontinued operations in the income statement to include a component of an entity rather than a segment of a business. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally, and for financial reporting purposes, from the rest of the entity. The effective date for SFAS No. 144 is for fiscal years beginning after December 15, 2001.

The Company expects that the adoption of the new statement will not have a significant impact on its financial statements. It is not possible to quantify the impact until the newly issued statement has been studied.

FIRETECTOR INC.
CORPORATE DATA

SECURITIES TRADING

Common Stock Nasdaq symbol - FTEC

TRADING RANGES of COMMON STOCK

Quarter Ending	High	Low
December 31, 1999	2.000	1.125
March 31, 2000	4.000	1.563
June 30, 2000	1.938	1.313
September 30, 2000	1.875	1.250
December 31, 2000	1.438	0.084
March 31, 2001	1.719	1.000
June 30, 2001	1.469	1.170
September 30, 2001	1.780	1.180

The above quotations represent inter-dealer prices, without adjustment for retail mark-ups, mark-downs or commissions and do not necessarily represent actual transactions.

RECORD HOLDERS

As of December 14, 2001, there were 431 record holders of Common Stock.

DIVIDENDS

Firetector Inc. has never paid any cash dividends on its Common Stock and the payment of cash dividends is not expected in the foreseeable future. Firetector Inc.'s loan agreements prevent the payment of dividends. The payment of future dividends will depend on earnings, capital requirements, financial conditions and other factors considered relevant by the Board of Directors.

Annual Report on Form 10-KSB

Firetector Inc.'s Annual Report on Form 10-KSB as filed with the Securities and Exchange Commission on December 27, 2001 will provide additional information about Firetector Inc. A copy of the report is available without charge to Stockholders upon request to:

Corporate Secretary
Firetector Inc.
209 Lafayette Drive
Syosset, New York 11791
(516) 433-4700

TRANSFER AGENT OF ALL CLASSES

American Stock Transfer & Trust Company

GENERAL COUNSEL

Dolgenos Newman & Cronin LLP

INDEPENDENT AUDITORS

Marcum & Kliegman LLP

DIRECTORS AND EXECUTIVE OFFICERS

Daniel S. Tamkin, Chairman of the Board, Chief Executive Officer, General Counsel, Audit Committee; Executive Vice President of Forum Financial Corporation

Joseph Vitale, President, Director

John A. Poserina, Chief Financial Officer, Secretary, Treasurer and Director

Dennis P. McConnell, Director, Audit Committee; Dolgenos Newman & Cronin LLP

Henry Schnurbach, Director, Audit Committee, President of Cantar/ Polyair Inc.