

Edgar Filing: FIRETECTOR INC - Form 10QSB

FIRETECTOR INC
Form 10QSB
May 14, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended _____ March 31, 2002 _____

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commission file number _____ 0-17580 _____

FIRETECTOR INC.

(Exact name of small business issuer as specified in its charter)

Delaware

11-2941299

(State or jurisdiction of incorporation or organization)

(IRS employer identification Number)

209 Lafayette Drive, Syosset, New York

11791

(Address of Principal Executive Offices)

(Zip code)

(516) 433-4700

(Issuer's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 11, 2002, 1,704,425 shares of Registrant's Common Stock were issued and outstanding.

Transitional Small Business Disclosure Format (check one) Yes No

INDEX

Part I - Financial Information (unaudited)	Page
Item 1. Financial Statements.	
Condensed Consolidated Balance Sheet as at March 31, 2002	3

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Condensed Consolidated Statements of Operations for the Three Month Periods Ended March 31, 2002 and 2001	5
Condensed Consolidated Statements of Operations for the Six Month Periods Ended March 31, 2002 and 2001	6
Condensed Consolidated Statements of Cash Flows for the Six Month Periods Ended March 31, 2002 and 2001	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Part II - Other Information	
Item 1. Legal Proceedings.	13
Item 2. Changes in Securities.	13
Item 3. Defaults Upon Senior Securities.	13
Item 4. Submission of Matters to a Vote of Security Holders.	13
Item 5. Other Information.	13
Item 6. Exhibits and Reports on Form 8-K	13
Signatures	15

Part I - FINANCIAL INFORMATION

FIRETECTOR INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)

	March 31, 2002

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	224,328
Accounts receivable, principally trade, less allowance for doubtful accounts of \$335,783	5,234,460
Inventories	2,541,762
Deferred taxes	321,000
Prepaid expenses and other current assets	601,018
TOTAL CURRENT ASSETS	8,922,568
PROPERTY AND EQUIPMENT -at cost, less accumulated depreciation and amortization of \$1,187,070	343,700
OTHER ASSETS	165,764

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DEFERRED TAXES	65,000

TOTAL ASSETS	9,497,032
	=====

See accompanying Notes to the Condensed Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

March 31,
2002

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Other notes payable - principally to related party	88,224
Accounts payable and accrued expenses	2,734,059
Deferred revenue	499,554
Current portion of capital lease obligations	23,117

TOTAL CURRENT LIABILITIES	3,344,954
---------------------------	-----------

Note payable to bank	1,647,381
Notes payable - principally to related party, less current portion	67,398
Capital lease obligations, less current portion	55,319

TOTAL LIABILITIES	5,115,052
-------------------	-----------

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	1,704
Capital in excess of par	5,278,490
Accumulated Deficit	(898,214)

TOTAL STOCKHOLDERS' EQUITY	4,381,980
----------------------------	-----------

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	9,497,032
	=====

See accompanying Notes to the Condensed Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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	For the Six Months Ended March 2002	2001
	-----	-----
Product sales	4,283,034	6,036,19
Subcontract sales	635,402	382,58
Service revenue	2,269,132	2,161,20
	-----	-----
Total revenues	7,187,568	8,579,97
	-----	-----
Cost of product sales	3,023,742	3,996,43
Cost of subcontract sales	518,391	302,39
Cost of service	1,626,247	1,467,76
Selling, general and administrative	2,553,875	2,424,29
Interest expense	48,888	84,76
Depreciation and amortization expense	87,012	88,54
	-----	-----
	7,858,155	8,364,20
	-----	-----
(Loss) Income from operations before (benefit from) provision for income taxes	(670,587)	215,77
(Benefit from) Provision for income taxes:		
Current	(195,000)	120,00
Deferred	(75,000)	(26,00)
	-----	-----
	(270,000)	94,00
	-----	-----
Net (Loss) Income	(400,587)	121,77
	=====	=====
Earnings Per Common Share		
Basic (Loss) Earnings Per Share	\$ (.24)	\$.0
Diluted (Loss) Earnings Per Share	\$ (.24)	\$.0
	=====	=====
Weighted Average Number of Common Shares Outstanding	1,704,425	1,704,42
Weighted Average Number of Common and Potential Dilutive Common Shares Outstanding	1,704,425	1,776,38

See accompanying Notes to the Condensed Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Thr Mar
	2002

Product sales	2,095,118
Subcontract sales	400,979

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Service revenue	1,152,740

Total revenues	3,648,837

Cost of product sales	1,299,996
Cost of subcontract sales	331,578
Cost of service	825,042
Selling, general and administrative	1,321,101
Interest expense	25,970
Depreciation and amortization expense	44,142

	3,847,829

(Loss) Income from operations before (benefit from) provision for income taxes	(198,992)
(Benefit from) provision for income taxes:	
Current	(51,000)
Deferred	(28,000)

	(79,000)

Net (Loss) Income	(119,992)
	=====
Earnings per common share	
Basic (loss) earnings per share	\$ (.07)
	=====
Diluted (loss) earnings per share	\$ (.07)
	=====
Weighted average number of common shares outstanding	1,704,425
Weighted average number of common and potential dilutive common shares outstanding	1,704,425

See accompanying Notes to the Condensed Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Six Mo
	2002

OPERATING ACTIVITIES	
Net (loss) income	(400,587)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:	
Depreciation and amortization	87,012
Deferred tax benefit	(75,000)
Provision for doubtful accounts	7,898
Changes in operating assets and liabilities:	

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Accounts receivable	1,214,905
Inventories, prepaid expenses and other current assets	(613,697)
Other assets	(7,492)
Accounts payable and accrued expenses	(572,126)
Deferred revenue	45,655
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(313,432)
INVESTING ACTIVITIES	
Purchases of property and equipment	(36,479)
NET CASH (USED IN) INVESTING ACTIVITIES	(36,479)
FINANCING ACTIVITIES	
Principal payments on revolving line of credit, long-term debt, notes payable and capital lease obligations	(92,620)
Proceeds from revolving line of credit, notes payable and capital lease obligations	368,439
Notes payable to affiliated companies	0
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	275,819
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(74,092)
Cash and cash equivalents at beginning of period	298,420
Cash and cash equivalents at end of period	224,328
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid during the period for:	
Income taxes	150,154
Interest	48,887

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During the six months ended March 31, 2002 and 2001, the Company incurred no capital lease obligations for the acquisition of equipment.

See accompanying Notes to the Condensed Consolidated Financial Statements

FIRETECTOR INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2002

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. Results for the three and six months ended March 31, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in Firetector Inc. ("the Company") and Subsidiaries' annual report on Form 10-KSB for the year ended September 30, 2001.

2. REVENUE RECOGNITION

Product revenues include sale of systems, which are similar in nature, that involve fire alarm, life safety and security (CCTV and card access), transit (on board systems) and communication (paging, announcement and audio/visual). Product sales represent sales of product along with the integration of technical services at a fixed price under a contract with an electrical contractor or end user customer (building owner or tenant), or customer agent. Product revenue is allocated using a constant gross profit percentage over the entire contract, and recognized, using the percentage-of-completion method of accounting. The Company utilizes a units-of-work performed method to measure progress towards completion of the contract. The effects of changes in contract terms are reflected in the accounting period in which they become known. Contract terms provide for billing schedules that differ from revenue recognition and give rise to costs and estimated profits in excess billings, and billings in excess of costs and estimated profits.

Subcontract revenues principally represents revenues related to electrical installation of wiring and piping performed by others for the Company when the Company acts as the prime contractor and sells its products along with electrical installation. Subcontract revenue is also recognized during the entire project using the percentage-of-completion method of accounting as electrical installation is performed at the job site.

Service revenue from separate 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.

3. INVENTORY

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

FIRETECTOR INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

SIX MONTHS ENDED MARCH 31, 2002

(UNAUDITED)

4. LONG TERM DEBT

The Company has a revolving Credit Facility with Citizens Business Credit

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Company of Boston, Massachusetts, (the "Credit Facility"). The credit facility provides for a \$3,000,000 revolving line of credit which expires in December 2004. The Credit Facility provides for interest at prime rate (4.75% at March 31, 2002) plus 1/4% on outstanding balances. At March 31, 2002 \$1,647,381 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 expenditures. The Company is also required to maintain certain financial ratios. Citizens Business Credit Company of Boston has modified the requirement of one of the ratios for the balance of fiscal 2002. At March 31, 2002, the Company was not in default of any of its covenants as a result of this modification.

FIRETECTOR INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

SIX MONTHS ENDED MARCH 31, 2002

(UNAUDITED)

5. EARNINGS (LOSS) PER SHARE

The Financial Accounting Standards Board issued SFAS No. 128 "Earnings Per Shares" which 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.

	Three Months ended March 31,		Six Months
	2002	2001	2002
Basic EPS Computation			
Net (Loss) Income available to common stockholders	\$(119,992)	\$ 60,014	\$(400,587)
Weighted average outstanding shares	1,704,425	1,704,425	1,704,425
Basic EPS (Loss)	\$ (.07) =====	\$.04 =====	\$ (.24) =====
Diluted EPS Computation			
Net (Loss) Income available to common			

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stockholders	\$ (119,992) =====	\$ 60,014 =====	\$ (400,587) =====
Weighted-average shares	1,704,425 -----	1,704,425 -----	1,704,425 -----
Plus: Incremental shares from assumed conversions			
Employee Stock Options		26,784	
Warrants*		82,518 -----	
Dilutive potential common shares	N/A ---	109,302 -----	N/A ---
Adjusted weighted-average shares	1,704,425 -----	1,813,727 -----	1,704,425 -----
Diluted EPS (Loss)	\$ (.07) =====	\$.03 =====	\$ (.24) =====

All Warrants and Options were antidilutive for the three and six month period ended March 31, 2002 and therefore not included in the above calculation. Warrants convertible into 16,667 shares, which were antidilutive in the three and six month period ended March 31, 2001 and therefore not included in the above calculation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company has a \$3 million credit facility with Citizens Business Credit Company of Boston, (the "Credit Facility") that expires in December, 2004. The Credit Facility has an interest rate of prime plus 1/4% on outstanding balances. 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 Company owed \$1,647,381 under the Credit Facility at March 31, 2002.

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. Citizens Business Credit has modified the requirements for one of these ratios for the balance of fiscal 2002. At March 31, 2002, the Company was not in default with any of its financial covenants as a result of this modification.

Net cash (used) by operations for the six months ended March 31, 2002 amounted to \$313,432 as compared to cash being provided by operations of \$387,482 for the comparable prior year period. The primary reason for cash being (used) by operations was due to a decrease of \$886,363 in operating profit before taxes. Contributing to cash being (used) by operations for the six months ended March 31, 2002 was a \$250,968 increase in inventories caused by purchases for certain projects that do not call for immediate shipment. The resulting cash outflow for the six month period in 2002 required the Company to increase its borrowing under the Credit Facility by \$337,710.

The ratio of the Company's current assets to current liabilities decreased to approximately 2.67 to 1 at March 31, 2002 compared to 3.01 to 1 at March 31, 2001. This decrease in the current ratio is due to a \$57,000 reduction in

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working capital, which was caused by the need to fund the operating loss during the six months ended March 31, 2002.

Results of Operations

Revenues and Gross Profit

	Three Months Ended		Six Months Ended	
	----- March 31, -----		----- March 31, -----	
	2002	2001	2002	2001

	(In thousands of dollars)			
Product Revenue	\$2,095	\$3,374	\$4,284	\$6,037
Subcontract Revenue	401	162	635	382
Service Revenue	1,153	1,098	2,269	2,161
Total Revenue	3,649	4,634	7,188	8,580
Gross Profit Product	795	1,122	1,259	2,040
Gross Profit Subcontract	69	27	117	80
Gross Profit Service	328	345	643	693
Total Gross Profit	1,192	1,494	2,019	2,813
Gross Profit Product %	38%	33%	29%	34%
Gross Profit Subcontract %	17%	17%	18%	21%
Gross Profit Service %	28%	31%	28%	32%

2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Revenues

The Company's product revenues during the three and six months ended March 31, 2002 decreased from the comparable prior year periods, representing decreases of 38% and 29% for the respective periods. These decreases in product revenues resulted from a general slowdown in economic activity in the Company's principal markets, New York City and Dallas. In addition, the events of September 11th delayed work on several projects involving New York City Transit Authority and reduced tenant revenue as tenants relocated out of New York City, consolidated into existing space uptown or moved into space in "move in" condition that had been abandoned or offered for sublease.

Subcontract revenue increased during the current three and six month periods as the Company was responsible for electrical installation on several large fire alarm projects in 2002.

Service revenues increased during the current three and six month periods. The increase reflects higher call-in maintenance service material on fire systems as replacement parts were needed in certain buildings affected by contamination from the events of September 11th.

Gross Profit

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Gross profit on product revenues for the three months and six months ended March 31, 2002, decreased 29% and 38% for the respective prior year periods. The decrease in absolute gross profit during both periods is primarily related to lower sales (noted above) and related gross margin caused in part by the events of September 11th and from the slowdown in economic activity. However, the increase in gross profit percentage during the current three month period reflects a lower material component on project activity during the period. The decrease in gross profit percentage in the current six month period is due to certain labor cost overruns on several large projects and greater material component on products sold. In addition, during the six month period of 2002, certain fixed overhead costs increased approximately \$100,000 (2% decrease in gross profit percentage) principally from wage increases. In contrast, during the 2001 six month period, gross profit includes the revenue benefit from a non-recurring engineering and product management contract (professional service with no material content).

Gross profit related to subcontract revenues for the three and six months ended March 31, 2002 increased in absolute terms as the Company was responsible for electrical installation on two large fire alarm projects in 2002. However, the gross profit percentage was lower during 2002 as one project was contracted for sale at a lower than normal mark up.

Gross profit on service revenues for the three and six months ended March 31, 2002 decreased in spite of the increase in service revenues. The decline in gross profit from service was due to certain wage increases to service technicians that could not be passed on to service contracts.

Income Before Tax

The decline in income before income taxes during the three and six months ended March 31, 2002 in 2001 is primarily due to a decrease in gross margin caused by the decline in product revenues (brought about by the general slowdown of economic activity and delays on certain projects caused by the events of September 11th) and from higher fixed overhead costs (noted above). In contrast, the six month period of 2001 included the favorable effect

2. Management's Discussion and Analysis of Financial Condition and Results of Operations

of an engineering and product management contract. Also contributing to the decline in income before income taxes was an increase (3% during the three month period and 5% during the six month period) in selling, general and administrative expenses to support higher product sales and expand product territory. This increase includes additional staffing to service the Company's railcar communication customers as it addresses a marketing opportunity for future business over the next several years. Favorably affecting income before income taxes were declines in interest expense (43% and 42%) due to lower interest rates for the three and six months ending March 31, 2002, respectively.

Tax Provision

The Company's current income tax benefit represents federal, state and local income tax savings from the carryback of a portion of the 2002 operating loss. Deferred taxes represent the net increase in deferred tax assets as it relates to certain book provisions to be deducted in future tax returns as well as a carryforward of a portion of the 2002 operating loss.

Order Position

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The Company's order position, excluding service, at March 31, 2002 amounted to \$13,300,000 as compared to \$9,500,000 at March 31, 2001 and \$7,800,000 at September 30, 2001. The increase in order position reflects large new orders received for several subway complexes. The order position includes \$2.2 million of recent orders for communication and announcement systems from several transit car manufacturers that will be shippable over the next 36 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 on mass transit projects, there is typically a delay between the booking of the contract and its revenue realization. The Company expects to fulfill the majority of its backlog (exclusive of orders for transit cars) over the next twelve to eighteen months. The order position includes, and the Company continues to bid on projects that might include significant subcontractor labor, involving electrical installation by others at low margin but setting a platform for future product additions, tenant installations and service revenues.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not Applicable

Item 2. Changes in Securities.

Not applicable

Item 3. Defaults Upon Senior Securities.

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable

Item 5. Other Information.

Item 6. Exhibits and Reports on form 8-K.

(a) Exhibit 10. Third Amendment to Credit Agreement, dated as of May 14, 2002, among Firetector Inc., General Sound (Texas) Company, Casey Systems Inc. and Pyrotech Service Inc. as co-borrowers and Citizens Business Credit Company as lender.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended March 31, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRETECTOR, INC
(Registrant)

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/s/ John A. Poserina

John A. Poserina,
Chief Financial Officer
(Principal Accounting and
Financial Officer), Secretary
and Director

Date: May 14, 2002