

DECTRON INTERNATIONALE INC  
Form 10-Q  
June 14, 2006

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Quarter Ended April 30, 2006, 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 1-14503

**DECTRON INTERNATIONALE INC.**

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(Exact name of registrant as specified in its charter)

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Quebec, Canada

N/A

(State of Incorporation or other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer Identification No.)

4300 Poirier Blvd., Montreal

H4R 2C5

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (514) 334 9609

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of large accelerated filer and accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of June 14, 2006, there were 3,155,000 shares of common stock outstanding.



**DECTRON INTERNATIONALE INC.**

**PART I - FINANCIAL INFORMATION**

Item 1.

Financial Statements

3

Item 2.

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

3

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

7

Item 4.

Controls and Procedures

8

**PART II - OTHER INFORMATION**

Item 1. Legal Proceedings

9

Item 1A. Risk Factors

9

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

9

Item 3. Defaults Upon Senior Securities

9

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

9

Item 5. Other Information

9

Item 6. Exhibits

9

SIGNATURES

10



**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), contains forward-looking statements, as described in the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected. These forward-looking statements regarding future events and the future results of Dectron Internationale Inc. are based on current expectations, estimates, forecasts, and projections about the markets in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and business trends, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to the cautionary statements and important factors discussed in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended January 31, 2006 for further information. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

**PART I. FINANCIAL INFORMATION**

**ITEM 1.**

**FINANCIAL STATEMENTS**

See Pages F-1 through F-13.

**ITEM 2.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's Discussions and Analysis of Financial Conditions and Results of Operations ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended April 30, 2006 and the audited consolidated financial statements and MD&A for the year ended January 31, 2006. This MD&A is based on reported earnings in accordance with United States generally accepted accounting principles (GAAP).

Dectron's interim consolidated financial statements have been prepared using the same accounting policies as described in note 1 of Dectron's audited consolidated financial statements for the year ended January 31, 2006. Please refer to Note 2 of the interim consolidated financial statements for the three months ended April 30, 2006 for further information.

Quarterly reports on Form 10-Q, the annual report on Form 10-K and supplementary information filed with the U.S. Securities and Exchange commission, and reports filed with the Canadian Securities regulatory authorities, can be found on-line at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com) respectively, as well as on our corporate Web site at [www.dectron.com](http://www.dectron.com).

### **Forward-looking information**

Certain statements contained in this MD&A constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and section 21E of the Exchange Act of 1934. Forward-looking statements include, but are not limited to, Dectron Internationale's statements regarding liquidity, anticipated cash needs and availability and anticipated expense levels. All forward-looking statements included in this MD&A are based on information available to Dectron Internationale on the date hereof, and Dectron Internationale assumes no obligation to update any such forward-looking statement. Dectron Internationale's actual results could differ materially from those in such forward-looking statements.



## **Critical Accounting Policies**

Dectron's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. The significant accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

### **Revenue Recognition**

Dectron recognizes revenue for finished products when the goods are shipped and title passes to the customer, provided that there are no uncertainties regarding customer acceptance, persuasive evidence of an arrangement exist, the sales price is fixed or determinable, and collectibility is deemed probable.

### **Deferred Revenue**

Dectron has sold extended warranty contracts covering a period of four to nine years beyond the one year basic guarantee. The deferred revenue is recognized as income over the four to nine year period on a straight-line basis commencing one year from the sale of the contracts.

### **Intangible Assets and Goodwill**

Dectron accounts for intangible assets and goodwill in accordance with Statement of Financial Accounting Standards (SFAS) 142, "Goodwill and Other Intangible Assets", which was adopted by Dectron on February 1, 2002 in accordance with that statement, goodwill and intangible assets with indefinite lives are no longer amortized, but rather tested for impairment at least annually. Goodwill represents the excess of purchase price over the fair value of identifiable assets acquired in a purchase business combination. Intangible assets with estimable useful lives, consisting of patents, trademarks, and rights, are amortized on a straight-line basis over the estimated useful lives of 5 to 15 years, and are reviewed for impairment in accordance with SFAS 144, "Accounting for the Impairment of Long-Lived Assets".

Goodwill and intangible assets with definite lives are tested annually for impairment in accordance with the provisions of SFAS 142.

Impairment of goodwill is tested at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data. If the carrying amount of the reporting unit exceeds its fair value, then a second step is performed to measure the amount of impairment loss, if any. Any impairment loss would be expensed in the consolidated statements of earnings. The impairment test for intangibles with indefinite useful lives consists of a comparison of the fair value of the intangible assets with its carrying amount. When the carrying amount of the intangible assets exceeds its fair value, an impairment loss would be recognized for the difference.

Intangible assets with estimable lives and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset or assets group may not be recoverable in accordance with SFAS 144. Recoverability of intangible assets with estimable lives and other long-lived assets is measured by a comparison of the carrying amount of an assets or asset group to future net undiscounted pretax cash flows expected to be generated by the assets or asset group. If these comparisons indicated that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset or the asset group exceeds the related estimated fair value.

## Foreign Currency Translation

Dectron maintains its books and records in Canadian dollars. Foreign currency transactions are translated using the temporal method. Under this method, all monetary items are translated into Canadian funds at the rate of exchange prevailing at balance sheet date. Non-monetary items are translated at historical rates. Income and expenses are translated at the rate in effect on the transaction dates. Transaction gains and losses are included in the determination of earnings for the year.

The translation of the financial statements from Canadian dollars into United States dollars is performed for the convenience of the reader. Balance sheet accounts are translated using closing exchange rates in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during each reporting period. No representation is made that the Canadian dollar amounts could have been, or could be, converted into United States dollars at the rates on the respective dates and or at any other certain rates. Adjustments resulting from the translation are included in the accumulated other comprehensive income in stockholder's equity.

## Income Taxes

As part of the process of preparing our financial statements, we will be required to estimate our income taxes in each of the jurisdictions in which we operate. This process will involve estimates of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes.

## Selected Financial Information

(in thousands of dollars, except share data)	April 30, 2006	January 31, 2006
FINANCIAL POSITION	\$	\$
Cash and cash equivalents	1,583	1,519
Total Assets	39,370	36,449
Total Debt	2,009	2,082
Shareholder's equity	12,731	12,193
- per common share	4.03	3.86

Working capital	5,901	4,021
Working capital ratio	1.25:1	1.19:1
Weighted average number of common shares outstanding (basic and diluted)	3,155,000	3,155,000
Common shares outstanding	3,155,000	3,155,000

## Results of Operations

*Three month period ended April 30, 2006 compared to three month period ended April 30, 2005.*

Revenues for the three months ended April 30, 2006 were \$13.8 million, a \$2.9 million (26.6%) increase over the prior year's first quarter revenues of \$10.9 million. The growth is attributed to sales of Dectron dehumidification units for water parks as well as stronger international sales in the Circul-aire division.

Gross profit increased by \$806,000 to \$3.8 million from \$3.0 million in the same period last year. As a percentage of revenues, gross profit remained stable at 27.5%. The gross profit margin was adversely affected by higher raw material costs and aggressive pricing strategies in certain HVAC markets which were offset by increase productivity

5

gains as well as a stronger mix of products.

Selling expenses increased by \$430,000 to \$1.8 million in the three months ended April 30, 2006 compared to \$1.3 million for the period ended April 30, 2005. The increase is primarily due to higher commissions paid on the increased sales levels and the costs of attending trade shows. As a percentage of revenues, selling and marketing expenses increased to 12.7% from 12.1%.

General and administrative expenses increased by \$63,000 (6.3%) to \$1.1 million from \$1.0 million for the period ended April 30, 2005. As a percentage of revenues, general and administrative actually decreased to 7.7% from 9.2%.

Depreciation and amortization expenses slightly increased to \$360,000 in the three months ending April 30, 2006 compared to \$323,000 in 2005 due to the amortization of deferred charges. Financing expenses increased slightly (\$22,000) to \$256,000 from \$234,000.

There were no discontinued operations in the three months ending April 30, 2006. The losses, net of taxes, in the first quarter of 2005 were \$99,000 (offset partially by disposal gains of \$64,000) both resulting from the discontinued operations of Liberty Drive Property, Inc.

Net earnings in the three months period ending April 30, 2006 was \$251,000 (or \$0.08 per share) compared to net earnings of \$41,000 (or \$0.01 per share) in the corresponding period in 2005.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is a non-GAAP measure used by many in the industry as a measurement of operational performance. For the three month period ended April 30, 2006 EBITDA (as defined below) increased 47.0% over the previous year to \$980,000 from \$667,000

#### EBITDA RECONCILIATION

Three Months Ended April 30,

(in thousands of dollars)

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Net income	\$251	\$41	
Before			
Income Taxes	113	34	
Items related to discontinued operations	-	35	
Interest	256	234	
Depreciation & Amortization	360	323	
EBITDA	\$980	\$667	47.0%
% of sales	7.1%	6.1%	

## **Liquidity and Capital Resources**

Our cash requirements are primarily for working capital, capital expenditures and principal payments on our capital lease obligations. Historically, these cash needs have been met by cash flows from operations as well as borrowings under our revolving credit facility.

Dectron had a positive net change in cash of \$64,000 for the three months period ended April 30, 2006. Dectron had working capital (current assets less current liabilities) of \$5.1 million at April 30, 2006 an increase of \$1.9 million from the working capital of January 31, 2006. The increase is due to the reclassification of loans receivable (from a company under common control) to short-term as management believes they will be repaid in the current fiscal year as well as higher accounts receivable due to improved sales. The principal source of cash was from accounts payables in the amount of \$2.0 million and the repayment of some loans receivable. The principal uses of cash were an increase in accounts receivables of \$2.6 million.

6

The Company has a Cdn\$12,000 secured credit arrangement with a Canadian chartered bank. Borrowing availability is calculated as a function of "eligible accounts receivable" and "eligible inventory" each as defined in the Line of Credit Agreement. Dectron's borrowings under the line of credit bear interest at Canadian prime plus 2%, which at April 30, 2006 amounted to 7.25%. Interest on any borrowings is payable monthly. All borrowings are collateralized by our assets. The agreement expires June 30, 2006 and the Company is negotiating with potential lenders, including the incumbent, to secure longer term financing at terms no less favourable than those currently in place.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements.

## **Contractual Obligations and Commercial Commitments**

Our significant contractual obligations as of April 30, 2006 are for debt and operating leases. Debt by year of maturity and future rental payments under operating lease agreements are presented below. As of April 30, 2006, we had an outstanding balance on our line of credit of \$12,770 and do not have any purchase obligations. We have not engaged in off-balance sheet financing, commodity contract trading or significant related party transactions.

<b>Contractual Obligations</b>	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Total Long term debt	2,009	685	843	267	214
Operating lease	4,268	948	1,983	1,337	-

Management believes that these commitments will be satisfied with current operating cash flow.

## **OUTLOOK**

The Company believes that the improved sales performance should continue throughout the remainder of the year and that based on the improved product mix in the backlog, margins should remain higher than last year. The Company further feels that it will continue to make positive inroads in its MRU, water park and air security markets. The Company continues to have a strong backlog and expects the current trends to continue into the rest of the year.

Management believes that progress has been made in regard to productivity. Various manufacturing operations have been consolidated and certain non-strategic low-yielding assets have been sold. Accordingly, the Company does not expect to incur any loss from discontinued operations for the current fiscal year.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **ITEM 3.**

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### Market Risk and Risk Management

We are exposed to fluctuations in foreign currency exchange rates and interest rates. We do not use futures, options and swaps. We do hedge some of our exposure to foreign exchange fluctuations by keeping a portion of our debt in United States Dollars. Additionally, many of our raw material purchases are made in United States Dollars which reduces, but does not eliminate, our exposure.

#### Interest Rate Risk

7

Dectron is exposed to market risk related to fluctuations in interest rates on its debt. Increases in prevailing interest rates could increase our interest payment obligations relating to variable rate debt. For example, a 100 basis point increase in interest rates would increase annual interest expense by approximately \$120,000.

#### **ITEM 4.**

#### **CONTROLS AND PROCEDURES**

We believe it is critical to provide investors and other users of our financial statements with information that is relevant, objective, understandable and timely, so that they can make informed decisions. We have established and we maintain accounting systems and practices and internal control processes designed to provide reasonable assurance that transactions are properly executed and recorded and that our policies and procedures are carried out appropriately.

Our management team is committed to providing high-quality, relevant and timely information about our businesses. Management performs reviews of each of our businesses throughout the year, addressing issues ranging from financial performance and strategy to personnel and compliance.

Management is responsible for implementing and maintaining adequate systems of internal control over financial reporting and disclosure controls and procedures and for monitoring their effectiveness.

We evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" ("Disclosure Controls") pursuant to Rules 13a-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and



our "internal controls and procedures for financial reporting" (Internal Controls) as of the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation was done under the supervision and with the participation of management.

Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Chief Executive Officer to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives

Based upon our management's evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of April 30, 2006, the disclosure and internal accounting controls provide reasonable assurance that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported as and when required, including with specific reference that our assets are safeguarded, transactions are executed in accordance with management's authorizations and the financial records are reliable for the purpose of preparing financial statements.

Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles in the United States Of America.

Based upon our management's evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of April 30, 2006, there were no significant changes in our internal control over financial reporting that occurred during the quarter ended April 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 1A. RISK FACTORS**

There were no material changes in risk factors as previously disclosed in our Form 10-K for the fiscal year ended January 31, 2006.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

(a)

Exhibits

31.1

Certification of the Chief Executive Officer filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2

Certification of the Chief Financial Officer filed herewith pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32

Certification of the Chief Executive Officer and Chief Financial Officer furnished herewith pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**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.

DECTRON INTERNATIONALE INC.

June 14, 2006

By:     /s/ Glenn La Rusic    

Glenn La Rusic

Chief Financial Officer

**DECTRON INTERNATIONALE INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**APRIL 30, 2006**

**TABLE OF CONTENTS**

F2 - F3

Interim Consolidated Statements of Earnings

F4 - F 5

Interim Consolidated Statements of Cash Flows

F6 - F7

Interim Consolidated Statements of Stockholders' Equity

F8

Notes to Interim Consolidated Financial Statements

F9 - F14

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

**DECTRON INTERNATIONALE INC.**

## Interim Consolidated Balance Sheets

As at April 30, 2006 and January 31, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F2**

	<b>April 30, 2006</b>	<b>January 31, 2006</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 1,583	\$ 1,519
Accounts receivable	14,332	11,718
Inventory	11,105	10,841
Prepaid expenses and sundry assets	1,033	552
Loans receivable	1,283	477
	29,336	25,107
<b>Investment tax credits receivable</b>	518	508
<b>Loan receivable</b>	84	1,290
<b>Property, plant and equipment</b>	7,024	7,144
<b>Deferred charges</b>	127	159



<b>Intangibles</b>	70	68
<b>Goodwill</b>	1,844	1,810
<b>Deferred income taxes</b>	367	363
	\$	\$
	39,370	36,449

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

**DECTRON INTERNATIONALE INC.**

Interim Consolidated Balance Sheets (Continued)

As at April 30, 2006 and January 31, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F3**

	<b>April 30,</b>		<b>January 31, 2006</b>
	<b>2006</b>		
<b>Liabilities</b>			
Current			
Bank loans	\$ 12,770	\$	
			12,634
Accounts payable and accrued expenses	9,531		7,508
Income taxes payable	606		391
Current portion of long-term debt	524		548
Deferred revenue	4		5
	23,435		21,086
<b>Long-term debt</b>	1,485		1,534
<b>Deferred revenue</b>	1,719		1,636
	26,639		24,256
<b>Stockholders' equity</b>			

<b>Capital stock (note 3)</b>	7,091	7,041
<b>Treasury stock</b>	(89)	(89)
<b>Accumulated other comprehensive income</b>	3,544	3,307
<b>Retained earnings</b>	2,185	1,934
	12,731	12,193
	\$	\$
	39,370	36,449

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

**DECTRON INTERNATIONALE INC.**

## Interim Consolidated Statements of Earnings

For the Three Month Period Ended April 30, 2006 and 2005

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F4**

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>April 30, 2006</b>	<b>April 30, 2005</b>
<b>Sales</b>	\$	\$
	13,818	10,911
Cost of sales	10,016	7,915
Gross profit	3,802	2,996
Operating expenses		
Selling	1,755	1,325
General and administrative	1,067	1,004
Depreciation and amortization	360	323
Interest expense	256	234
	3,438	2,886
Earning before income taxes and discontinued operations	364	110

Income taxes	113	34
Earnings before discontinued operations	251	76
Loss from discontinued operations, net of tax	-	(99)
Gain on disposal of discontinued operations, net of tax	-	64
Net earnings	\$ 251	\$ 41

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

**DECTRON INTERNATIONALE INC.**

Interim Consolidated Statements of Earnings (Continued)

For the Three Month Period Ended April 30, 2006 and 2005

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F5**

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>April 30, 2006</b>	<b>April 30, 2005</b>
Net earnings (loss) per common share, basic and diluted (in US\$)		
Continuing operations	\$ 0.08	\$ 0.02
Discontinued operations	-	(0.03)
Disposal of discontinued operations	-	0.02
	\$ 0.08	\$ 0.01
<b>Weighted average number of common shares outstanding</b>		
Basic	3,155,000	3,155,000
Diluted	3,155,000	3,155,000

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

**DECTRON INTERNATIONALE INC.**

## Interim Consolidated Statements of Cash Flows

For the Three Month Period Ended April 30, 2006 and 2005

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F6**

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>April 30, 2006</b>	<b>April 30, 2005</b>
<b>Operating activities</b>		
Net earnings from continuing operations	\$ 251	\$ 76
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	360	323
Increase in accounts receivable	(2,614)	(771)
Increase in inventory	(264)	(597)
Increase in prepaid expenses and sundry assets	(481)	(228)
Decrease in deferred income taxes	-	1
Increase in accounts payable and accrued expenses	2,023	1,876
Increase in income taxes receivable	-	(37)
Increase in income taxes payable	215	-
Increase (decrease) in deferred revenue	82	(55)
Net cash provided by (used in) operating activities	(428)	588

**Investing activities**



Acquisition of property, plant and equipment	(116)	(38)
Decrease in deferred charges	32	-
Net cash used in investing activities	(84)	(38)
<b>Financing activities</b>		
	400	(239)
Repayment of (advances to) loans receivable		
Advances from bank loans	136	217
Repayments of long-term debt	(73)	(288)
Repayments from share purchase plan receivable	50	-
Net cash provided by (used in) financing activities	513	(310)
<b>Effect of foreign currency exchange rate on cash and cash equivalents</b>	63	(95)
<b>Effect of discontinued operations</b>	-	50

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



**DECTRON INTERNATIONALE INC.**

Interim Consolidated Statements of Cash Flows (continued)

For the Three Month Period Ended April 30, 2006 and 2005

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F7**

	<b>Three Months Ended</b>	<b>Three Months Ended</b>
	<b>April 30, 2006</b>	<b>April 30, 2005</b>
<b>Net increase in cash and cash equivalents</b>	\$ 64	\$ 195
<b>Cash and cash equivalents, beginning of year</b>	1,519	1,075
<b>Cash and cash equivalents, end of period</b>	\$ 1,583	\$ 1,270
<b>Supplemental disclosure of cash flow information:</b>		
<b>Interest paid</b>	\$ 232	\$ 211
<b>Income taxes paid</b>	\$ 90	\$ 179

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

**DECTRON INTERNATIONALE INC.**

## Interim Consolidated Statements of Stockholders' Equity

For the Three Month Period Ended April 30, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F8**

	<b>Number</b>	<b>Amount</b>	<b>Cumulative Retained Earnings</b>	<b>Other Comprehensive Income</b>	<b>Treasury Stock</b>
Balance January 31, 2003	2,919,500	\$	\$	\$	\$
			7,136	4,914	(129)
Share purchase plan receivable	-	\$	\$	\$	\$
		(171)	-	-	-
Issuance of shares	54,250	163	-	-	-
Foreign currency translation	-	-	-	1,693	-
Net loss for the year	-	-	(1,698)	-	-
Balance January 31, 2004	2,973,750	\$	\$	\$	\$
			7,128	3,216	1,564
Share purchase plan receivable	-	\$	\$	\$	\$
		(799)	-	-	-
Issuance of shares	181,250	544	-	-	-
Foreign currency translation	-	-	-	740	-

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Net loss for the year	-	-	(988)	-	-
Balance, January 31, 2005	3,155,000	\$ 6,873	\$	\$ 2,304	\$ (89)
			2,228		
Share purchase plan receivable	\$	\$	\$	\$	
	-	168	-	-	-
Issuance of shares	-	-	-	-	-
Foreign currency translation	-	-	-	1,003	-
Net loss for the year	-	-	(294)	-	-
Balance, January 31, 2006	3,155,000	\$ 7,041	\$ 1,934	\$ 3,307	\$ (89)
Share purchase plan receivable	-	\$ 50	\$	\$	
	-	-	-	-	-
Issuance of shares	-	-	-	-	-
Foreign currency translation	-	-	-	237	-
Net earnings for the period	-	-	251	-	-
Balance, April 30, 2006	3,155,000	\$ 7,091	\$ 2,185	\$ 3,544	\$ (89)

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

**DECTRON INTERNATIONALE INC.**

Notes to Interim Consolidated Financial Statements

April 30, 2006 and January 31, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F9**

**1.**

**Notice of No Auditor Review of the Interim Consolidated Financial Statements**

The interim consolidated financial statements are the responsibility of the Company's management and have been approved by its Board of Directors. The Company's independent auditor has not performed a review of these Interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**2.**

**Significant Accounting Policies**

These unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, using the same accounting principles as those mentioned in Note 1 to the consolidated financial statements for the year ended January 31, 2006. The unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended January 31, 2006. These consolidated financial statements require management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and the notes thereto. Actual results could differ from these estimates.

**Basis of Consolidated Financial Statements Presentation**

These consolidated financial statements include the accounts of Dectron Internationale Inc., Dectron Inc. Consolidated, Circul-aire Group and International Water Makers Inc.

Dectron Inc. Consolidated is comprised of Dectron Inc. and of its wholly-owned subsidiaries, Refplus Inc., Thermoplus Air Inc., Dectron U.S.A. Inc. and Liberty Drive Property, Inc. (formely Ipac 2000 Inc).

Circul-aire Group is comprised of Cascade Technologies Inc., and of its wholly-owned subsidiaries, Purafil Canada Inc. and Circul-aire Inc. and its wholly-owned subsidiary Tranzmetal Inc.

All inter-company profits, transactions and account balances have been eliminated.

### **Foreign Currency Translation**

The company maintains its books and records in Canadian dollars. The operation of the company's subsidiary in the United States is an integrated corporation. As a result, monetary assets and liabilities in foreign currency are translated into Canadian dollars at exchange rates in effect at the balance sheet date, whereas non-monetary assets and liabilities are translated at the average exchange rates in effect at transaction dates. Income and expenses in foreign currency are translated at the average rate effective during the year with the exception of depreciation and amortization, which is translated at the historical rate. Gains and losses resulting from the translation of foreign currency transactions are included in earnings.

The translation of the financial statements from Canadian dollars into United States dollars is performed for the convenience of the reader. Balance sheet accounts are translated using closing exchange rates in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during each reporting period. No representation is made that the Canadian dollar amounts could have been, or could be, converted into United States dollars at the rates on the respective dates and or at any other certain rates. Adjustments resulting from the translation are included in the accumulated other comprehensive income in stockholder's equity.

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





**DECTRON INTERNATIONALE INC.**

Notes to Interim Consolidated Financial Statements

April 30, 2006 and January 31, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F10**

**2.**

**Significant Accounting Policies (continued)**

**Effect of recent accounting pronouncements**

a)

On February 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payments to employees and directors including employee stock options and stock purchases related to the Company's employee stock option and award plans based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Option No. 25, "Accounting for Stock Issued to employees" ("APB25") for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of February 1, 2006, the first day of the Company's fiscal year 2007. The Company's financial statements as of and for the three month period ended April 30, 2006 reflect the impact of SFAS 123(R) of nil. In accordance with the modified prospective transition method, the Company's financial statements for the prior year have not been restated to reflect, and do not include, the impact of SFAS 123(R).

b)

In November 2004, the FASB issued SFAS 151, "Inventory Costs - an amendment of ARB No.43, Chapter 4," which requires companies to expense abnormal freight, handling costs, or spoilage in the period incurred and to allocate fixed overhead based on normal capacity, with adjustment if production is abnormally high. This standard became effective for the Company on August 1, 2005, with early adoption permitted. The Company currently accounts for abnormal freight, handling costs, and spoilage consistent with the standard. There was no material impact on the results of the Company.

c)

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," a replacement of Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial statements" ("SFAS No. 154"). SFAS No. 154 changes the requirements for, the accounting for, and reporting of, a change in accounting principle. Previously voluntary changes in accounting principles were generally required to be recognized by way of a cumulative effect adjustment within net income during the period of the change. SFAS No. 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, the statement does not change the transition provisions of any existing accounting pronouncements. The adoption of this statement is not expected to have a material effect on the company's financial position or results of operations.

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

**DECTRON INTERNATIONALE INC.**

Notes to Interim Consolidated Financial Statements

April 30, 2006 and January 31, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F11**

**3.**

**Capital stock**

Authorized

An unlimited number of preferred shares, cumulative, voting, no par value

An unlimited number of common shares, voting, no par value

Issued

	<b>April 30,</b>	<b>January 31,</b>
	<b>2006</b>	<b>2006</b>
3,155,000 Common shares (2005: 3,155,000)	\$	\$
	7,091	7,041

During the fiscal year ended January 31, 2006, no employees have exercised their options under the 2001 Stock Option Plan.

### **Employee stock option plans**

In 2001, the Company also adopted the 2001 Stock Option Plan (the "Plan") pursuant to which 500,000 shares of Common stock are reserved for issuance, 108,500 options are currently issued and outstanding.

On January 4, 2002, the Board granted options under the Plan to certain members of the Board and certain employees. Subject to certain limitations, the options granted are exercisable one year after issuance. Subsequent to the one-year anniversary date of the grant, the option holders may exercise the option up to 25% per year of the total options granted for the following four years. Each of the options became fully exercisable on January 4, 2006 and expires on January 4, 2011. The exercise price of the option is \$4.20.

The Plan is administered by the Board of Directors, who will determine, among other things, those individuals who shall receive options, the time period during which the options may be partially or fully exercised, the number of shares of Common Stock issuable upon the exercise of the options and the option exercise price.

The Plan is effective for a period of ten years expiring in 2011. Options may be granted to officers, directors, consultants, key employees, advisors and similar parties who provide the company with their skills and expertise. Options granted under the Plan are exercisable for up to ten years, and shall be at an exercise price as determined by the Board. Options are non-transferable except by the laws of descent and distribution or a change in control of Dectron, as defined in the Plans, and are exercisable only by the participant during his or her lifetime.

Change in control include (i) the sale of substantially all of the assets of Dectron and merger or consolidation with another company, or (ii) a majority of the Board changes other than by election by the stockholders pursuant to Board solicitation or by vacancies filled by the Board caused by death or resignation of such person.

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

**DECTRON INTERNATIONALE INC.**

Notes to Interim Consolidated Financial Statements

April 30, 2006 and January 31, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F12**

**3.**

**Capital stock (continued)**

**Employee stock option plans (continued)**

If a participant ceases affiliation with Dectron by reason of death, permanent disability or retirement at or after age 70, the option remains exercisable for one year from such occurrence but not beyond the option's expiration date. Other types of termination allow the participant three months to exercise, except for termination for cause, which results in immediate termination of the option.

Option under the Plan must be issued within ten years from the effective date.

Any unexercised options that expire or that terminate upon an employee's ceasing to be employed by the company become available again for issuance under the Plans.

The Plans may be terminated or amended at any time by the Board of Directors, except that the number of shares of Common Stock reserved for issuance upon the exercise of options granted under the Plans may not be increased without consent of the stockholders.

A summary of the status of the company's stock option plans are as follows:

	April 30, 2006		January 31, 2006		January 31, 2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
				\$		\$
Outstanding, beginning of year	108,500	\$ 4.20	108,500	4.20	295,750	3.44
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	(181,250)	3.00
Cancelled	-	-	-	-	(6,000)	3.00
				\$		\$
Outstanding, end of year	108,500	\$ 4.20	108,500	4.20	108,500	4.20
Options, exercisable, end of year	108,500		108,500		81,375	

The following table summarizes information about fixed stock options outstanding:

	April 30, 2006				
	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<u>Exercise price</u>			Price		Price
\$			\$ 4.20	108,500	\$ 4.20
4.20	108,500	4.9			

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





**DECTRON INTERNATIONALE INC.**

Notes to Interim Consolidated Financial Statements

April 30, 2006 and January 31, 2006

(Amounts Expressed in thousands of United States Dollars, unless specified)

**Page F13****3. Capital stock (continued)****Employee stock option plans (continued)****Share purchase plan receivable**

The SEC staff Accounting Bulletins require that accounts or notes receivable arising from transactions involving capital stock should be presented as deductions from shareholders' equity and not as assets. Accordingly, in order to comply with U.S. GAAP, stockholders' equity increased by \$50 at April 30, 2006, to reflect the loans due from certain employees and officers, which relate to the purchase of common shares of the company.

**4. Segmented Information**

	<b>April 30, 2006</b>	<b>January 31, 2006</b>
a)		
The breakdown of sales by geographic area is as follows:		
Canada	\$ 6,251	\$ 24,450
United States of America	5,737	20,463
International	1,830	2,453
	\$ 13,818	\$

47,366

b)

The breakdown of earnings (losses) by geographic area is as follows:

Canada	\$	114	\$	(152)
United States of America		104		(127)
International		33		(15)
			\$	
	\$	251		(294)

c)

The breakdown of identifiable assets by geographic area are as follows :

Canada	\$	38,484	\$	35,537
United States of America		886		912
	\$	39,370	\$	36,449

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