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DECTRON INTERNATIONALE INC
Form 10QSB
December 13, 2002

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

FORM 10-QSB

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

For the quarterly period ended October 31, 2002

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 001-14503

DECTRON INTERNATIONALE INC.
(Exact name of Small Business Issuer as Specified in Its Charter)

Quebec, Canada

N/A

(State or other jurisdiction of
incorporation or organization)

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

4300 Poirier Blvd.
Montreal, Quebec

H4R 2C5

(Address of principal executive offices)

(Zip Code)

(514) 334-9609 (Issuer's telephone number, including area code)

Check whether the issuer: (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 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

The number of shares outstanding of the registrant's Common Stock, No Par
Value, on December 12, 2002 was 2,916,500 shares.

Transitional Small Business Disclosure Format (check one):

Yes No

DECTRON INTERNATIONALE INC.
QUARTERLY REPORT ON FORM 10-QSB

OCTOBER 31, 2002

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DECTRON INTERNATIONALE INC.

Interim Consolidated Balance Sheets

As at October 31, 2002 and January 31, 2002

(Amounts Expressed in United States Dollars)

	October 31, 2002	January 31, 2002
	-----	-----
Assets		
Current		
Cash	\$ 602,368	\$ 86,727
Accounts receivable	9,626,126	8,056,304
Income taxes receivable	--	58,313
Inventory	8,935,798	9,186,114
Prepaid expenses and sundry assets	570,425	555,327
Deferred income taxes	46,546	46,546
	-----	-----
	19,781,263	17,989,331
Loans receivable	522,904	517,164
Property, plant and equipment	10,153,186	9,804,587

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Intangibles	193,827	139,048
Goodwill	1,326,729	1,298,942
Deferred income taxes	812,791	811,566
	-----	-----
	\$ 32,790,700	\$ 30,560,638
	=====	=====

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

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DECTRON INTERNATIONALE INC.

Interim Consolidated Balance Sheets

As at October 31, 2002 and January 31, 2002

(Amounts Expressed in United States Dollars)

	October 31, 2002	January 31, 2002
	-----	-----
Liabilities		
Current		
Bank loans	\$ 8,634,752	\$ 8,326,166
Accounts payable and accrued expenses	4,877,112	4,341,533
Current portion of long-term debt	929,380	1,336,058
Income tax payable	171,837	--
	-----	-----
	14,613,081	14,003,757
Long-term debt	5,453,834	5,170,364
Loan payable	124,322	192,355
Deferred revenue	1,760,685	1,343,816
	-----	-----
	21,951,922	20,710,292
	-----	-----
Stockholders' equity		
Capital stock	6,962,836	6,752,933
Treasury stock	(88,780)	(88,780)
Accumulated other comprehensive loss	(402,122)	(591,822)

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Retained earnings	4,366,844	3,778,015
	-----	-----
	10,838,778	9,850,346
	-----	-----
Total liabilities and stockholders' equity	\$ 32,790,700	\$ 30,560,638
	=====	=====

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

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DECTRON INTERNATIONALE INC.

Interim Consolidated Statements of Earnings

For the Nine Month Period Ended October 31, 2002 and 2001

(Amounts Expressed in United States Dollars)

	Nine Months Ended October 31, 2002	Nine Months Ended October 31, 2001
	-----	-----
Net Sales	\$ 29,738,616	\$ 28,299,060
Cost of sales	21,260,162	18,159,308
	-----	-----
Gross profit	8,478,454	10,139,752
	-----	-----
Operating expenses		
Selling	3,806,318	3,886,551
General and administrative	2,010,008	2,418,703
Depreciation and amortization	1,028,214	1,148,136
Interest expense	816,096	1,170,819
	-----	-----
	7,660,636	8,624,209
	-----	-----
Earnings before income taxes	817,818	1,515,543
Income taxes	228,989	189,443
	-----	-----
Net Earnings	\$ 588,829	\$ 1,326,100
	=====	=====
Net earnings per common share, basic and diluted	0.21	0.47
	=====	=====

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Weighted average number of common shares outstanding 2,814,444 2,795,000
=====

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

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DECTRON INTERNATIONALE INC.

Interim Consolidated Statements of Earnings

For the Three Month Period Ended October 31, 2002 and 2001

(Amounts Expressed in United States Dollars)

	Three Months Ended October 31, 2002	Three Months Ended October 31, 2001
	-----	-----
Net Sales	\$ 10,193,297	\$ 9,965,921
Cost of sales	7,170,524	6,366,345
	-----	-----
Gross profit	3,022,773	3,599,576
	-----	-----
Operating expenses		
Selling	1,427,858	1,299,141
General and administrative	713,216	972,287
Depreciation and amortization	334,097	374,952
Interest expense	265,961	349,722
	-----	-----
	2,741,132	2,996,102
	-----	-----
Earnings before income taxes	281,641	603,474
Income taxes	78,860	75,351
	-----	-----
Net earnings	\$ 202,781	\$ 528,123
	=====	=====
Net earnings per common share, basic and diluted	0.07	0.19
	=====	=====
Weighted average number of common shares outstanding	2,814,444	2,795,000
	=====	=====

The accompanying notes are an integral part of these interim consolidated

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financial statements.

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DECTRON INTERNATIONALE INC.

Interim Consolidated Statements of Cash Flows

For the Nine Month Period Ending October 31, 2002 and 2001

(Amounts Expressed in United States Dollars)

Operating activities:

Net earnings

Adjustments to reconcile net earnings to net cash provided by operating activities:

- Depreciation and amortization
- Increase in accounts receivable
- Decrease in income taxes receivable
- Decrease (increase) in inventory
- Increase (decrease) in prepaid expenses and sundry assets
- Increase (decrease) in accounts payable and accrued expenses
- Increase in income taxes payable
- Increase in deferred revenue
- Increase in deferred income taxes

Net cash provided by operating activities

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

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DECTRON INTERNATIONALE INC.

Interim Consolidated Statements of Cash Flows

For the Nine Month Period Ending October 31, 2002 and 2001

(Amounts Expressed in United States Dollars)

Investing activities:

Acquisition of property, plant and equipment
Acquisition of patents and trademarks

Net cash used in investing activities

Financing activities

Issuance of capital stock
Advances from long-term debt
Repayments (Advances) from share purchase plan receivable
Repayments from directors
Advances from loans receivable
Advances from bank loans
Repayments of note payable
Repayments of long-term debt
Advances from (repayments of) loan payable

Net cash provided by financing activities

Effect of foreign currency exchange rate changes

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

DECTRON INTERNATIONALE INC.

Interim Consolidated Statements of Cash Flows

For the Nine Month Period Ending October 31, 2002 and 2001

(Amounts Expressed in United States Dollars)

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NET INCREASE IN CASH AND CASH EQUIVALENTS

Cash and cash equivalents, beginning of period

CASH AND CASH EQUIVALENTS, END OF PERIOD

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid

Income taxes paid

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

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DECTRON INTERNATIONALE INC.

Interim Consolidated Statements of Stockholders' Equity

For the Nine Month Period Ending October 31, 2002

(Amounts Expressed in United States Dollars)

	Number	Amount	Cumulative Retained Earnings
	-----	-----	-----
Balance January 31, 1999	2,795,000	\$ 6,867,529	\$ 1,746,
	=====	=====	=====
Purchase of 20,000 common shares	--	\$ --	\$ --
Share purchase plan receivable	--	(499,946)	--
Deferred tax benefit	--	482,026	--
Foreign currency translation	--	--	--
Net earnings for the year	--	--	1,126,
	-----	-----	-----
Balance January 31, 2000	2,795,000	\$ 6,849,609	\$ 2,873,
	=====	=====	=====
Share purchase plan receivable	--	\$ (131,099)	\$ --
Foreign currency translation	--	--	--
Net earnings for the year	--	--	857,

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Balance January 31, 2001	2,795,000	\$ 6,718,510	\$ 3,730,
Share purchase plan receivable	--	\$ 34,423	\$ --
Foreign currency translation	--	--	--
Net earnings for the year	--	--	47,
Balance January 31, 2002	2,795,000	\$ 6,752,933	\$ 3,778,
Issuance of 50,000 shares	50,000	\$ 278,800	\$ --
Share purchase plan receivable	--	(68,897)	--
Foreign currency translation	--	--	--
Net earnings for the period	--	--	588,
Balance October 31, 2002	2,845,000	\$ 6,962,836	\$ 4,366,

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

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DECTRON INTERNATIONALE INC.

Notes to Interim Consolidated Financial Statements

As at October 31, 2002 and January 31, 2002

(Amounts Expressed in United States Dollars)

1. Summary of significant accounting policies

a) 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 Maker's 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 IPAC 2000 Inc. As of February 1st, 2002, Fiber Mobile Ltd. and Le Groupe Prodapec (2000) Inc. were wound up in Dectron Inc.

Circul-aire Group is comprised of Cascade Technologies Inc., and of its wholly-owned subsidiaries, Circul-Aire Inc. Purafil Canada Inc. As of February 1st, 2002, 9048-3140 Quebec Inc. was wound up into Dectron Internationale Inc. and 122248 Canada Inc. was wound up into Cascade Technologies Inc.

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

b) 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.

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DECTRON INTERNATIONALE INC.

Notes to Interim Consolidated Financial Statements

As at October 31, 2002 and January 31, 2002

(Amounts Expressed in United States Dollars)

2. Segmented information

a) The breakdown of sales by geographic area is as follows:

Canada
United States of America
International

b) The breakdown of identifiable assets by geographic area is as follows:

Canada

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United States of America

3. Subsequent Event

Subsequent to October 31, 2002, Dectron Internationale sold a division for a total consideration of \$2,200,000 CDN.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto and the other historical financial information of Dectron Internationale Inc. contained elsewhere in this Form 10-QSB. The statements contained in this Form 10-QSB that are not historical and are 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, including statements regarding Dectron Internationale Inc. expectations, intentions, beliefs or strategies regarding the future. Forward-looking statements include Dectron Internationale Inc.'s statements regarding liquidity, anticipated cash needs and availability and anticipated expense levels. All forward-looking statements included in this Form 10-QSB are based on information available to Dectron Internationale Inc. on the date hereof, and Dectron Internationale Inc. assumes no obligation to update any such forward-looking statement. It is important to note that Dectron Internationale Inc's actual results could differ materially from those in such forward-looking statements. All dollar amounts stated throughout this Form-10QSB are in US dollars unless otherwise indicated.

Results of Operations

Nine-month period ended October 31, 2002 compared to Nine-month period ended October 31, 2001.

Revenues for the nine-month period ended October 31, 2002 were \$29,738,616 a 5.09% increase over the nine-month period ended October 31, 2001 of \$28,299,060.

Gross profit decreased for the nine-month period ended October 31, 2002 by \$1,661,298 to \$8,478,454 over the same period in 2001. This represents a decrease of 16.38%, expressed in relation to sales.

Selling expenses decreased by \$80,233 for the nine-month period ended October 31, 2002 from \$3,886,551 to \$3,806,318. As a percentage of revenues, selling expenses decreased from 13.73% to 12.80% during the nine-month period ended October 31, 2002.

General and administrative expenses decreased by \$408,695 from \$2,418,703 to \$2,010,008. As a percentage of revenues, general and administrative decreased from 8.55% to 6.76%.

Depreciation and amortization expenses decreased by \$119,922 from \$1,148,136 to \$1,028,214. As a percentage of revenues, depreciation and amortization

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expenses decreased from 4.06% to 3.46%.

Financing expenses decreased by \$354,723 from \$1,170,819 to \$816,096. As a percentage of revenues, financing expenses decreased from 4.14% to 2.74%.

Earnings before income taxes were of \$817,818, a decrease of \$697,725 compared to the nine-month period ended October 31, 2001. Relative to sales, earnings before income taxes decreased from 5.36% for the nine-month period ended October 31, 2001 to 2.75% in the nine-month period ended October 31, 2002.

Provision for Income taxes as a percentage of taxable earnings increased from 12.50% for the nine-month period ended October 31, 2001 to 28% for 2002. Tax expenses increased by \$39,546 because of the increase in tax rate applicable.

As a result of the above factors, the Company's net earnings decreased from \$1,326,100 to \$588,829 a decrease of \$737,271 or 55.60%.

Three-month period ended October 31, 2002 compared to Three-month period ended October 31, 2001.

Revenues for the three-month period ended October 31, 2002 were \$10,193,297 a 2.28% increase over revenue for the three-month period ended October 31, 2001 of \$9,965,921.

Gross profit decreased by \$576,803 to \$3,022,773 over the same period. Gross profit decreased by 16.02% compared to an increase in sales of 2.28%.

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Selling expenses increased by \$128,717 in the three-month period ended October 31, 2002. As a percentage of revenues, selling expenses increased from 13.04% to 14.01%

General and administrative expenses decreased by \$259,071 to \$713,216. As a percentage of revenues, general and administrative decreased from 9.76% to 7.00%.

Depreciation and amortization expenses decreased by \$40,855 from \$374,952 to \$334,097. As a percentage of revenues, depreciation and amortization expenses decrease from 3.76% to 3.28%.

Financing expenses decreased by \$83,761 from \$349,722 to \$265,961. As a percentage of revenues, financing expenses decreased from 3.51% to 2.61%.

Earnings before income taxes were of \$281,641, a decrease of \$321,833 compared to the three-month period ended October 31, 2001. Relative to sales, income before income taxes decreased from 6.06% for the three-month period ended October 31, 2001 to 2.76% in the three-month period ended October 31, 2002.

Provision for income taxes as a percentage of taxable earnings increased from 12.49% for the three-month period ended October 31, 2001 to 28.00% for the three-month period ended October 31, 2002.

As a result of the above factors, the Company's net earnings decreased from \$528,123 to \$202,781, a decrease of 61.60%.

Liquidity and Capital Resources

The Company had a positive net change in cash of \$515,641 for the nine-month period ended October 31, 2002. The principal sources of cash were net earnings

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in the amount of \$588,829, and depreciation and amortization of \$1,028,214. Principal uses of cash were an increase in accounts receivable in the amount of \$1,569,822 and acquisition of equipment in the amount of \$1,174,107.

As at October 31, 2002, the Company had an available line of credit of \$10,400,00 of which \$7,920,010 was used bearing interest at the Canadian prime lending rate plus 0.25% per annum.

ITEM 3. CONTROLS AND PROCEDURES

Immediately following the signature page of this report is the Certification that is required under Section 302 of the Sarbanes-Oxley Act of 2002. This section of the report contains information concerning the controls evaluation referred to in the Section 302 Certifications and the information contained herein should be read in conjunction with the Certification.

Internal controls are designed with the objective of ensuring that assets are safeguarded, transactions are authorized, and financial reports are prepared on a timely basis in accordance with generally accepted accounting principles in the United States. The disclosure procedures are designed to comply with the regulations established by the Securities and Exchange Commission.

Internal controls, no matter how designed, have limitations. It is the Company's intent that the internal controls be conceived to provide adequate, but not absolute, assurance that the objectives of the controls are met on a consistent basis. Management plans to continue its review of internal controls and disclosure procedures on an ongoing basis.

The Company's principal executive officer and principal financial officer, after supervising and participating in an evaluation of the effectiveness of the Company's internal and disclosure controls and procedures as of October 31, 2002 (the "Evaluation Date"), have concluded that as of the Evaluation Date, the Company's internal and disclosure controls and procedures were effective.

There were no significant changes in the Company's internal and disclosure controls or in other factors that could significantly affect such internal and disclosure controls subsequent to the date of their evaluation.

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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.

Dated: December 13, 2002

By: /s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer

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CERTIFICATION

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I, Ness Lakdawala, Chairman of the Board, Chief Executive Officer and President, of Dectron Internationale Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dectron Internationale Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 13, 2002

By: /s/ Ness Lakdawala

Ness Lakdawala, Chairman of the Board,
Chief Executive Officer and President

CERTIFICATION

I, Mauro Parissi, Chief Financial Officer, of Dectron Internationale Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Dectron Internationale Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 13, 2002

By: /s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer