

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

DECTRON INTERNATIONALE INC
Form 10-Q/A
April 30, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For The Quarter Ended July 31, 2003 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For The Transition Period from _____to_____

Commission File Number 001-14503

DECTRON INTERNATIONALE INC.

(Exact name of registrant as specified in its charter)

Quebec, Canada

N/A

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

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

4300 Poirier Blvd., Montreal, Quebec, Canada

H4R 2C5

(Address of principal executive offices)

(Zip Code)

Registrants' 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 an accelerated filer as defined in Rule 12b-2 of the Exchange Act. Yes | | No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: September 10, 2003, 2,969,500 shares of Common Stock outstanding

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

DECTRON INTERNATIONALE INC.

PART I - FINANCIAL INFORMATION

- Item 1. Financial Statements.....
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations...
- Item 3. Quantitative and Qualitative Disclosures About Market Risk.....
- Item 4. Controls and Procedures.....

PART II - OTHER INFORMATION

- Item 1. Legal Proceedings.....
- Item 2. Changes in Securities and Use of Proceeds.....
- Item 3. Defaults Upon Senior Securities.....
- Item 4. Submission of Matters to a Vote of Security Holders.....
- Item 5. Other Information.....
- Item 6. Exhibits and Reports on Form 8-K.....

SIGNATURES.....

EXPLANATORY NOTE

Dectron is filing this amendment to its Form 10-QSB filed for the fiscal period ended July 31, 2003 on Form 10-Q/A to reflect that it was as of such date not a "Small Business Issuer" as defined in Item 10 of Reg S-B. In consequence thereof, Dectron has revised the disclosure contained in its Form 10-QSB to comply with the requirements of Reg S-K. Dectron's financial statements were filed in compliance with Reg S-K and are thus not included in this Form 10-Q/A.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein including, without limitation, those concerning (i) the strategy of Dectron Internationale Inc. ("Dectron"), (ii) Dectron's expansion plans and (iii) Dectron's capital expenditures, contain forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") concerning Dectron's operations, economic performance and financial condition. Because such statements involve risks and uncertainties, actual results may differ materially

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

from those expressed or implied by such forward-looking statements. Factors that could cause such differences include, but are not limited to, those discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." Dectron undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

See Form 10-QSB filed with the Commission on September 16, 2003 as well as the Explanatory Note hereto.

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

Critical Accounting Policies

Our 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:

- o Revenue Recognition
- o Deferred Revenue
- o Intangible Assets and Goodwill
- o Foreign currency translation
- o Accounting for Income Taxes

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), as amended by SAB 101A and 101B. SAB 101 requires that four basic criteria must be

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

Deferred Revenue

The company 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.

1

Intangible Assets and Goodwill

The company 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 the Company 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. 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 represents the excess of purchase price over the fair value of identifiable assets acquired in a purchase business combination. For the years 2002 and 2001, goodwill was amortized using the straight-line method, over a period of 10 years.

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

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

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

The Company 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.

2

Results of Operations

Six month period ended July 31, 2003 compared to Six month period ended July 31, 2002.

Revenues for the six month period ended July 31, 2003 were \$22,490,485, a 15.1% increase over prior year of \$19,545,319.

Gross profit increased by \$577,601 to \$6,033,282 over the same period in 2002. Gross profit increased by 10.6% compared to an increase in sales of 15.1% for the six month period ended July 31, 2003.

Selling expenses increased by \$378,206 for the six month period ended July 31, 2003 from \$2,378,460 to \$2,756,666. As a percentage of revenues, selling and marketing expenses increased from 12.17% to 12.26% during the six months ended July 31, 2003.

General and administrative expenses increased by \$734,744 from \$1,296,792 to \$2,031,536. As a percentage of revenues, general and administrative increased from 6.63% to 9.03%.

Amortization expenses increased by \$104,178 from \$694,117 to \$798,295. As a percentage of revenues, amortization expenses remained stable at 3.55%

Financing expenses decreased by \$290,006 from \$550,135 to \$260,129.

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

As a percentage of revenues, financing expenses decreased from 2.81% to 1.16%.

Earnings before income taxes was \$186,656, a decrease of \$349,521 compared to the six month period ended July 31, 2002. Relative to sales, earnings before income taxes decreased from 2.74% for the six month period ended July 31, 2002 to 0.83 % in the six month period ended July 31, 2003.

Provisions for Income tax as a percentage of taxable earnings increased from 28% for the six month ended July 31, 2002 to 31.16% for 2003.

As a result of the above factors, the Company's net earnings decreased from \$386,048 to \$128,494.

Three month period ended July 31, 2003 compared to Three month period ended July 31, 2002.

Revenues for the three month period ended July 31, 2003 were \$12,343,154, a 17.60% increase over prior year revenues of \$10,496,214.

Gross profit increased by \$456,418 to \$3,100,950 over the same period. This represents an increase of 17.26%, expressed in relation to sales. Gross profit increased by 17.26% compared to an increase in sales of 17.6%.

Selling expenses increased by \$203,775 in the three month period ended July 31, 2003. As a percentage of revenues, selling and marketing expenses decreased from 11.77% to 11.66%.

General and administrative expenses increased by \$418,170 to \$963,663. As a percentage of revenues, general and administrative increased from 5.20% to 7.81%.

Amortization expenses increased by \$9,491 from \$377,409 to \$386,900. As a percentage of revenues, amortization expenses decreased from 3.6% to 3.13%.

Financing expenses decreased by \$53,182 from \$264,354 to \$211,172. As a percentage of revenues, financing expenses decreased from 2.52% to 1.71%.

Earnings before income taxes were \$99,381 a decrease of \$121,836 compared to the three month period ended July 31, 2002. Relative to sales, earnings before income taxes decreased from 2.11% for the three month period ended July 31, 2002 to 0.81% in the three month period ended July 31, 2003.

3

Provisions for Income tax as a percentage of taxable income increased from 28.0% for the three month ended July 31, 2002 to 31.16% for 2003. Therefore the tax expenses has decreased by \$30,959.

As a result of the above factors, the Company's net earnings decreased from \$159,601 to \$68,724, a decrease of 57%.

Six-month period ended July 31, 2002 compared to Six-month period ended July 31, 2001.

Revenues for the six-month period ended July 31, 2002 were \$19,545,319, a 6.61% increase over prior year of \$18,333,139.

Gross profit decreased by \$1,084,495 to \$5,455,681 over the same period in 2001. This represents a decrease of 16.58%, expressed in relation to sales.

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

Gross profit decreased by 16.58% compared to an increase in sales of 6.61% for the six month period ended July 31, 2002.

Selling and marketing expenses decreased by \$208,950 for the six-month period ended July 31, 2002 from \$2,587,410 to \$2,378,460. As a percentage of revenues, selling and marketing expenses decreased from 14.11% to 12.17% during the six months ended July 31, 2002.

General and administrative expenses decreased by \$149,624 from \$1,446,416 to \$1,296,792. As a percentage of revenues, general and administrative expenses decreased from 7.89% to 6.63%.

Amortization expenses decreased by \$79,067 from \$773,184 to \$694,117. As a percentage of revenues, amortization expenses decreased from 4.22% to 3.55%

Financing expenses decreased by \$270,962 from \$821,097 to \$550,135. As a percentage of revenues, financing expenses decreased from 4.48% to 2.81%.

Earnings before income taxes was \$536,177, a decrease of \$375,892 compared to the six-month period ended July 31, 2001. Relative to sales, earnings before income taxes decreased from 4.97% for the six-month period ended July 31, 2001 to 2.74% in the six-month period ended July 31, 2002.

Provisions for Income tax as a percentage of taxable earnings increased from 12.51% for the six month ended July 31, 2001 to 28% for 2002. Tax expenses increased by \$36,037 because of the increase in applicable tax rate.

As a result of the above factors, Dectron's net earnings decreased from \$797,977 to \$386,048 a decrease of 51.62%.

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

Revenues for the three-month period ended July 31, 2002 were \$10,496,214, a 20.74% increase over prior year revenues of \$8,693,307.

Gross profit decreased by \$533,818 to \$2,644,532 over the same period. This represents a decrease of 16.8%, expressed in relation to sales. Gross profit decreased by 16.8% compared to an increase in sales of 20.74%.

Selling and marketing expenses decreased by \$48,371 in the three-month period ended July 31, 2002. As a percentage of revenues, selling and marketing expenses decreased from 14.77% to 11.77%.

General and administrative expenses decreased by \$109,283 to \$545,493. As a percentage of revenues, general and administrative expenses decreased from 7.53% to 5.20%.

Amortization expenses decreased by \$15,786 from \$393,195 to \$377,409. As a percentage of revenues, amortization expenses decreased from 4.52% to 3.6%.

Financing expenses decreased by \$137,131 from \$401,485 to \$264,354. As a percentage of revenues, financing expenses decreased from 4.62% to 2.52%.

Earnings before income taxes were \$221,667 a decrease of \$223,247 compared to the three-month period ended July 31, 2001. Relative to sales,

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

earnings before income taxes decreased from 5.12% for the three-month period ended July 31, 2001 to 2.11% in the three-month period ended July 31, 2002.

Provisions for Income tax as a percentage of taxable income increased from 12.5% for the three-month ended July 31, 2001 to 28% for 2002. Therefore the tax expenses has increased by \$6,368.

As a result of the above factors, Dectron's net earnings decreased from \$389,216 to \$159,601, a decrease of 59%.

Liquidity and Capital Resources

The Company had a positive net change in cash of \$996,457 for the six month period ended July 31, 2003. The principal sources of cash were from an increase in accounts payable in the amount of \$1,444,296, advances of bank loans in the amount of \$3,292,721, and depreciation and amortization of \$798,295. Principal uses of cash were an increase in accounts receivable in the amount of \$ 2,058,994, acquisition of assets in the amount of 1,088,027 and increase in inventory in the amount of \$1,763,995.

Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Contractual Obligations and Commercial Commitments

The Company's significant contractual obligations as of July 31, 2003 are for debt and operating leases. Debt by year of maturity and future rental payments under operating lease agreements are presented below. As of July 31, 2003, the Company has an outstanding balance on its line of credit of \$11,568,391 and does not have any purchase obligations. The Company has not engaged in off-balance sheet financing, commodity contract trading or significant related party transactions.

Contractual Obligations	Payments Due by Period				
	Total	Less than one year	1-3 years	4-5 years	After 5 years
Balance of Sale	234,908	117,454	117,454		
Capital Lease	1,128,515	344,336	399,998	391,181	0
Long-term debt	5,388,082	799,711	2,072,621	2,466,163	49,587
Operating lease	2,580,776	632,105	1,156,204	792,467	-

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to fluctuations in interest rates on its debt. Increase in prevailing interest rates could increase the Company's interest payment obligations relating to variable rate debt. For example, a 100 basis point increase in interest rates would increase the Company's annual interest expense by \$120,000.

ITEM 4. 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 April 30, 2003 (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.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. CHANGES IN 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 AND REPORTS ON FORM 8-K

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

(a) Exhibits

99.1 Certification pursuant to 18 U.S.C. Section 1350 by Ness Lakdawala
99.2 Certification pursuant to 18 U.S.C. Section 1350 by Mauro Parissi

(b) Reports on Form 8-K.

There were no reports filed on Form 8-K during the period covered by this report.

6

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.

April 30, 2004

By: /s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer

7

CERTIFICATION

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-Q/A 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

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

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: April 30, 2004

By: /s/ Ness Lakdawala

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

8

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q/A 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

Edgar Filing: DECTRON INTERNATIONALE INC - Form 10-Q/A

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: April 30, 2004

By: /s/ Mauro Parissi

Mauro Parissi
Chief Financial Officer