

DECTRON INTERNATIONALE INC
Form 10-K
May 22, 2006

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

FORM 10-K

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

Or

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

For the year ended January 31, 2006

Commission File Number 001-14503

DECTRON INTERNATIONALE INC.

(Exact name of registrant as specified in its charter)

Quebec, Canada

N/A

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

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

4300 Poirier Blvd., Montreal, Quebec, Canada

(Address of principal executive offices)

H4R 2C5

(Zip Code)

(514) 334-9609

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, No Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in
Rule 405 of the Securities Act.

Yes ___ No X

Indicate by check mark if the registrant is not required to file reports pursuant to
Section 13 or Section 15(d) of the Act.

Yes ___ No X

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 X | No |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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 Act).

Yes No

The issuer's revenues for the most recent fiscal year were \$ 47,366,204

There is no non-voting common equity. The aggregate market value of the common stock held by nonaffiliates (based upon the closing price of \$4.29 for the shares on the NASDAQ Capital Market on March 31, 2006) was approximately \$13,534,950, as of March 31, 2006. For this purpose, shares of the registrant's common stock known to the registrant to be held by its executive officers, directors, certain immediate family members of the registrant's executive officers and directors and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is required by Form 10-K and shall not be deemed to constitute an admission that any such person is an affiliate and is not necessarily conclusive for other purposes.

As of March 31, 2006, there were 3,155,000 shares of Common Stock, no par value per share, outstanding.

Documents incorporated by reference: None.

DECTRON INTERNATIONALE, INC.

2006 ANNUAL REPORT ON FORM 10-K

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Signatures

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

THE FEDERAL SECURITIES LAWS PROVIDE FOR A SAFE HARBOR FOR CERTAIN FORWARD-LOOKING STATEMENTS. THIS SAFE HARBOR PROTECTS US FROM LIABILITY IN A PRIVATE ACTION ARISING UNDER EITHER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, FOR FORWARD-LOOKING STATEMENTS THAT ARE IDENTIFIED AS SUCH AND ACCOMPANIED BY MEANINGFUL CAUTIONARY STATEMENTS OR ARE IMMATERIAL.

WHEN USED IN THIS FORM 10-K, THE WORDS OR PHRASES ESTIMATE , INTENDS , MAY EVALUATING OR SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, AS AMENDED. SUCH STATEMENTS ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES, INCLUDING BUT NOT LIMITED TO, FUTURE EARNINGS AND OTHER MEASUREMENTS OF FINANCIAL PERFORMANCE, FUTURE CASH FLOW AND USES OF CASH, THE EFFECT OF ECONOMIC DOWNTURNS OR GROWTH IN PARTICULAR REGIONS, THE EFFECT OF CHANGES IN THE LEVEL OF ACTIVITY IN PARTICULAR INDUSTRIES OR MARKETS, PRODUCT DEVELOPMENTS AND NEW BUSINESS OPPORTUNITIES, RESTRUCTURING COSTS AND SAVINGS, THE OUTCOME OF CONTINGENCIES, FUTURE LEVELS OF INDEBTEDNESS AND CAPITAL SPENDING, THE SUCCESSFUL IDENTIFICATION OF STRATEGIC BUSINESS PARTNERS, THE SUCCESSFUL EXECUTION OF AGREEMENTS WITH STRATEGIC BUSINESS PARTNERS REQUIRED FOR THE IMPLEMENTATION OF BUSINESS PLANS AND THE SUCCESSFUL IDENTIFICATION, ACQUISITION AND INTEGRATION OF ADDITIONAL TARGET BUSINESSES. SUCH FACTORS COULD AFFECT OUR COMPANY S, INCLUDING THAT OF OUR SUBSIDIARIES , FINANCIAL PERFORMANCE AND COULD CAUSE OUR ACTUAL RESULTS FOR FUTURE PERIODS TO DIFFER MATERIALLY FROM ANY OPINION OR STATEMENTS EXPRESSED HEREIN WITH RESPECT TO FUTURE PERIODS. AS A RESULT, WE CAUTION READERS NOT TO PLACE UNDUE RELIANCE ON ANY SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE MADE.

THE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS OF THE DATE ON WHICH THEY ARE MADE AND, EXCEPT AS REQUIRED BY LAW, WE UNDERTAKE NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENT TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE ON WHICH THE STATEMENT IS MADE OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. IN ADDITION, WE CANNOT ASSESS THE IMPACT OF EACH FACTOR ON OUR BUSINESS OR THE EXTENT TO WHICH ANY FACTOR OR COMBINATION OF FACTORS MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTAINED IN ANY FORWARD-LOOKING STATEMENTS.

Foreign Exchange Rate Data

Dectron Internationale, Inc. maintains its book of accounts in Canadian dollars. The information provided in this Form 10-K is in the currency of the United States (US Dollars), on the basis of generally accepted accounting principles applying in the United States. Dectron Internationale, Inc.'s audit by external parties has been conducted in accordance with United States generally accepted auditing standards. Unless otherwise indicated, all references to dollar amounts in this Form 10-K are in US dollars.

The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in New York City for cable transfers in Canadian dollars. Such rates are the number of United States dollars per one Canadian dollar and are the inverse of rates quoted by the Federal Reserve Bank of New York for Canadian dollars per US\$1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. On March 31, 2006, the exchange rate was Cdn\$1.167 per US\$ 1.00.

YEAR ENDED DECEMBER 31	2001	2002	2003	2004	2005
Rate at end of period	\$ 0.63	\$ 0.66	\$ 0.77	\$ 0.83	\$ 0.86
Average rate during period	\$ 0.64	\$ 0.64	\$ 0.71	\$ 0.77	\$ 0.83
High	\$ 0.67	\$ 0.66	\$ 0.78	\$ 0.85	\$ 0.87
Low	\$ 0.62	\$ 0.62	\$ 0.63	\$ 0.72	\$ 0.79

PART I**ITEM 1.****BUSINESS**

Unless otherwise indicated, references to Dectron, us, our and we refer to Dectron Internationale, Inc. and wholly-owned subsidiaries the significant ones being: (i) Dectron Inc. (ii) RefPlus Inc., (iii) Thermoplus Air Inc., (iv) Circul-Aire Inc.(v) Purafil Canada Inc., and (vi) International Water Makers Inc. (IWM).

General

We are a global provider of highly engineered HVAC-R products and services to the building systems, food processing, petrochemical and various industrial and commercial markets. Our core businesses are classified into four principal areas: Dectron, Inc., RefPlus, Circul-Aire, and Thermoplus. Dectron, Inc., Circul-Aire and Thermoplus serve customers in commercial and residential buildings through a network of manufacturers' representatives, dealers and each such subsidiary's internal sales force. Circul-Aire and Dectron, Inc. also serve industrial customers. RefPlus serves commercial refrigeration customers through a network of wholesalers in Canada and dealers in the US.

The products manufactured and supplied include energy recycling dehumidifiers, refrigeration packages, air purification and filtration systems, heating, ventilation and air conditioning equipment. More recently, we introduced moisture recovery systems currently used for on-line turbine cleaning applications in offshore oil drilling operations.

Demand for our products is influenced by national, international and regional economic and demographic factors. The commercial and industrial new construction market is subject to cyclical fluctuations with a lag factor of 6-12 months.

We believe that we have structured our company to minimize absolute reliance on external supplier for certain key components.

Although the sales cycle from conception to delivery can take up to 8-10 months, the production cycle (manufacturing of equipments) can last up to 2 months. Accordingly the Company may have significant working capital tied up on larger orders. The Company has a current backlog in excess of \$16.5 million (60% higher than the prior year).

While most of the Company's sales are in Canada, significant portions are exported as further detailed in note 17 of the accompanying financial statements.

Description of Business Units

Dectron Inc.

Dectron, Inc., the largest of the subsidiaries, was incorporated in 1977 to develop, manufacture and market standard as well as custom design dehumidification equipment for Indoor Pool applications. This product line has experienced considerable success in North America and as a result has allowed us to become a leader in North America's indoor pool dehumidification business. We believe that Dectron is now one of North America's leading manufacturers of dehumidification and closed looped energy recycling systems.

Dectron Inc., through its subsidiary Dectron USA, operates a sales office in the United States located in Roswell, Georgia. This office supports the efforts of Dectron Inc.'s network of trained manufacturer's representatives who sell Dectron Inc.'s products throughout the United States. Dectron Inc. also has sales representatives throughout Canada and overseas. We invite our independent sales representatives and their technicians to be trained and certified by Dectron Inc.'s own technical staff at no cost to the attendees at a training school run by Dectron in our Niagara Falls, NY facility. We also use the training school both to market our products and to demonstrate to potential buyers, first hand, the technical qualifications our employees have to offer as a service to our customers. We believe that customer service and technical expertise are a large part of what sets us apart from our competitors. We also market our products in trade magazines, through industry associations and by attending trade shows where we display and demonstrate many of our products.

RefPlus Inc.

RefPlus was incorporated in 1993 to manufacture high quality modular commercial and industrial refrigeration and air conditioning equipment for commercial and special applications. Its products include refrigeration systems, condensers, coils, walk-in storage coolers and freezers. RefPlus' primary customers are supermarkets, food processors and large-scale food retail outlets. RefPlus also supplies customized solution for niche applications such as in fruit storage facilities, industrial baking and blast chillers for meat processing plants.

RefPlus markets its products through a network of agents in the US and a network of independent wholesalers in Canada. We believe that our RefPlus product lines offer an excellent opportunity for future expansion as RefPlus continues to gain market share in the Canadian and US markets.

Thermoplus Air Inc

Established in 1987, as KeepKool Transfer de Chaleur Inc. Thermoplus markets a variety of HVAC product lines through a network of Canadian wholesalers.

Thermoplus' present product lines include dehumidification equipment, water source air conditioners and heat pumps, portable or mobile air conditioning equipment, industrial air handlers, air to fluid heat exchangers and IAQ filtration products. These product lines are also sold through a network of agents in the US.

Circul-Aire Inc.

In 1998, we acquired Circul-Aire Inc. Circul-Aire is considered one of the pioneers of the air treatment industry and is a worldwide recognized leader in the advanced technologies of gas-phase filtration and energy recovery. Circul-Aire's reputation has been built on years of research and development and growing numbers of satisfied customers. Circul-Aire has a laboratory and team of experienced engineers that offer a systematic integrated approach in solving difficult environmental control problems. Unique systems are designed and manufactured in our facilities to suit specific applications.

Circul-Aire's Multi-Mix™ media and integrated systems are used to reduce the odor and corrosion frequently associated with commercial, institutional, sewage treatment and industrial environments. Combined with air-to-air heat exchanger options, Circul-Aire's systems recuperate valuable energy from various air streams. All Circul-Aire systems are engineered and manufactured to withstand the most severe industrial environments, including those containing corrosive gases.

International Water Makers Inc.

In July 2002, we acquired intellectual property and other assets of International Water Makers Inc. (IWM), including a patented process to extract significant amounts of moisture from the air. We believe that this technology surpasses any other water-generation technology currently on the market, given that it provides filtered, de-mineralized water to a variety of applications while requiring minimal energy.

Other Matters Relating to Our Business as a Whole

Employees

As of January 31, 2006, we employed a total of approximately 400 full-time employees. Our subsidiary Thermoplus has an in-house union that represents approximately 22 employees. Certain terms of their employment are part of a collective bargaining agreement that expires in December 2011. Management considers its relations with its employees to be satisfactory.

Patents and Trademarks

We have six United States and two Canadian patents as well as patent applications for the turbine washing. The patents expire between 2007 and 2015. The patents relate to swimming pool dehumidifiers, to the collection and dispensing of water from air and to the method and apparatus for controlling heat rejection in a refrigeration system.

We have trademarked the names *Dectron* and *Dry-O-Tron* in both the United States and Canada. The trademarks come up for renewal between 2007 and 2016. We also hold the trademark in *MultiMix* and *MM Multi-Mix* in the United States and Canada. The *MultiMix* and *MM Multi-Mix* trademarks will be due for renewal in the year 2014. In addition, we hold the trademark in *CIRCUL-AIRE* in the United States and Canada, which was renewed in 1999.

Business Strategy

Dectron designs and manufactures indoor air treatment solutions to maximize health, productivity, comfort and overall quality of life. Although the HVAC industry is mature, Dectron aims to increase its market share by providing its customers with customized products, fast delivery and excellent before and after-sales support, at very competitive prices. In addition, the Company wants to better benefit from its capacity to deliver complete systems, including heating, ventilation, air conditioning, humidity control and air purification. Dectron's unique one-stop-shop offers many advantages to customers, engineers and architects alike and creates numerous market opportunities.

Even though the Company's current driving force is still its indoor air quality business, Dectron is banking on the development of two major areas for future growth:

-

indoor air security; and

-
water generation for industrial and drinking applications.

Management believes that the world faces three rising issues: the lack of clean water; the threat from the intentional and accidental release of chemical, biological and radioactive toxins; and the spread of viral infections on a global scale. Therefore, Dectron's growth will be derived from the development and the marketing of solutions that will contribute to the security of indoor air and to the sustainability and availability of clean water.

Growth will also come from the Company's globalization strategy of offering its products in various areas worldwide, including South America, Europe and the Middle East.

The Corporation's core businesses are classified into five principal areas: Dectron, Inc., RefPlus, Circul-Aire, ThermoPlus and IWM. Dectron, Inc., Circul-Aire and ThermoPlus serve customers in commercial and residential buildings through a network of manufacturers' representatives, dealers and each of the subsidiary's internal sales force.

Dectron, Inc. and Circul-Aire also serve industrial customers. RefPlus serves commercial refrigeration customers through a network of wholesalers in Canada and dealers in the United States.

Demand for the Corporation's products is influenced by national, international and regional economic and demographic factors. The commercial and industrial new construction market is subject to cyclical fluctuations in that it is generally tied to housing starts but has a lag factor of approximately six to twelve months.

Competition

Although some of the markets that are served by Dectron's subsidiaries are not fully commercialized, most are subject to heavy competition and differentiation. Among Dectron's major competitors in North America are Engineered Air Systems, Inc., Poolpak, Inc. and Desert-Aire Corp. in the sector of dehumidification; Cancoil Thermal Corp. and Keeprite in the sector of refrigeration; Purafil, Inc. in the sector of air purification; and Liebert Corporation in the sector of precision air conditioning.

Dectron competes primarily on the basis of total value, quality, function, serviceability, innovation and brand recognition and acceptability of its distribution channels. Since most of Dectron's products are linked to new construction, where the contractor is the purchasing decision maker, Dectron is often at a competitive disadvantage on sales of its products because of the emphasis placed on initial cost.

Major Customer and Distribution

Dectron's major customers include several major HVAC wholesale and distribution outfits in Canada and approximately 80 independent manufacturer representative organizations with several offices to market its products in the United States and more recently in the Middle East. Dectron is not particularly reliant on any one customer or distributor for the sale or distribution of its products.

Sources and Availability of Raw Materials

The most important raw materials purchased by Dectron are steel, copper and aluminum, which are obtained from domestic suppliers. Dectron also purchases from other domestic manufacturers certain components, including compressors, electric motors and electrical controls used in its products. The Corporation endeavors to obtain the lowest possible cost in its purchases of raw materials and components, consistent with meeting specified quality standards. Dectron is not dependent upon any one source for its raw materials or major components of its manufactured products. By having multiple suppliers, the Corporation believes that it will have adequate sources of supplies to meet its manufacturing requirements for the foreseeable future.

ITEM 1A.

RISK FACTORS

The following are certain risk factors and uncertainties which Dectron faces:

UNCERTAINTY OF MARKET ACCEPTANCE. The business segments in which Dectron competes are extremely competitive. Although Dectron seeks to establish its products as the preferred solution for IAQ problems, demand and market acceptance for newly introduced products and services is subject to a high level of uncertainty. Dectron has not yet commenced significant marketing activities relating to its new product lines such as its moisture recovery systems. Potential customers may elect to utilize other products which they believe to be more efficient or have other advantages over Dectron's products, or may otherwise be reluctant to purchase Dectron's products. Achieving market acceptance for Dectron's products will require substantial marketing efforts and expenditure of significant funds to create awareness and demand by potential consumers as to the perceived benefits and distinctive characteristics of Dectron's products. There can be no assurance that Dectron will have available resources necessary to achieve such acceptance.

CYCLICAL DEMAND. The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate. The markets we serve are sensitive to fluctuations in

general business cycles and domestic and foreign economic conditions and events. For example, demand for our products is dependent upon several factors, including capital investment and product innovations. A reduction in these factors would reduce orders for our products and reduce our sales.

COMPETITION. The industries in which Dectron competes are all highly competitive. Dectron competes against a number of local, regional and national manufacturers in each of its business segments, many of which have been in existence longer than Dectron and some of which have substantially greater financial resources than Dectron. Dectron believes that competition from new entrants, especially in the IAQ markets will come, if at all, from large corporations which may be able to compete with Dectron on the basis of price and as a result may have a material adverse affect on the results of operations of Dectron. In addition, there can be no assurance that other companies will not develop new or enhanced products that are either more effective than Dectron's or would render Dectron's products non-competitive or obsolete.

DEPENDENCE ON KEY PERSONNEL. Dectron is highly dependent on the experience of its management and key personnel in the continuing development of its retail operations. The loss of the services of certain of these individuals could have a material adverse effect on the Corporation's business. Dectron's future success will depend in part on its ability to attract and retain qualified personnel to manage the development and future growth of Dectron. There can be no assurance that it will be successful in attracting and retaining such personnel. The failure to recruit additional key personnel could have a material adverse effect on Dectron's business, financial condition and results of operations.

CONTINUED CONTROL BY MANAGEMENT. Management of Dectron beneficially owns approximately 60% of Dectron's outstanding Common Shares. Dectron's stockholders do not have the right to cumulative voting in the election of directors. Accordingly, present stockholders will be in a position to exert control over the business and operations of Dectron, including the election of all directors of Dectron.

DEPENDENCE UPON THIRD-PARTY SUPPLIERS. Although Dectron is not dependent on any one supplier, it is dependent on the ability of its third-party suppliers to supply Dectron's raw materials as well as certain specific component parts. Failure by Dectron's third-party suppliers to meet Dectron's requirements could have a material adverse effect on Dectron. There can be no assurance that Dectron's third-party suppliers will dedicate sufficient resources to meet Dectron's scheduled delivery requirements or that Dectron's suppliers will have sufficient resources to satisfy Dectron's requirements during any period of sustained demand. Failure of manufacturers or suppliers to supply, or delays in supplying, Dectron with raw materials or certain components, or allocations in the supply of certain high demand raw components could materially adversely affect Dectron's operations and ability to meet its own delivery schedules on a timely and competitive basis.

PATENTS, TRADEMARKS AND PROPRIETARY INFORMATION. Dectron holds six United States patents and two Canadian patents. The patents expire between 2007 and 2015. The patents relate to swimming pool dehumidifiers, to the method and apparatus for controlling heat rejection in refrigeration systems and to the extraction of moisture from air. Dectron may apply for additional patents relating to other aspects of its products. There can be no assurance as to the breadth or degree of protection which existing or future patents or trademarks, if any, may afford Dectron, that any patent or trademark applications will result in issued patents or trademarks, that Dectron's patents or trademarks will be upheld, if challenged, or that competitors will not develop similar or superior methods or products outside the protection of any patent issued to Dectron. Although Dectron believes that its patents, trademarks and products do not and will not infringe patents or trademarks or violate the proprietary rights of others, it is possible that Dectron's existing patent or trademark rights may not be valid or that infringement of existing or future patents, trademarks or proprietary rights may occur. In the event Dectron's products infringe patents or proprietary rights of others, Dectron may be required to modify the design of its products, change the name of its products or obtain a license for certain technology. There can be no assurance that Dectron will be able to do so in a timely manner, upon acceptable terms and conditions or at all. Failure to do any of the foregoing could have a material adverse effect upon Dectron. In addition, there can be no assurance that Dectron will have the financial or other resources necessary to enforce or defend a patent or trademark infringement or proprietary rights violation action which may be brought against it. Moreover, if Dectron's products infringe patents, trademarks or proprietary rights of others, Dectron could, under certain circumstances, become liable for damages, which also could have a material adverse effect on Dectron.

INTERNATIONAL OPERATIONS. Our operations in foreign countries expose us to political risks and adverse changes in local legal, tax and regulatory schemes. In 2006, almost 48% of our consolidated revenue was from customers outside of our home market of Canada. We expect international operations and export sales to continue to contribute to our earnings for the foreseeable future. Both the sales from international operations and export sales are subject in varying degrees to risks inherent in doing business outside of Canada. Such risks include, without limitation, the following:

•

the possibility of unfavorable circumstances arising from host country laws or regulations;

•

potential negative consequences from changes to significant taxation policies, laws or regulations;

•

changes in tariff and trade barriers and import or export licensing requirements; and

•

political or economic instability, insurrection, civil disturbance or war.

NATURAL DISASTER. Our facilities could be damaged by catastrophes which could reduce our production capacity and result in a loss of customers. We conduct our operations in facilities located throughout North America. Any of these facilities could be damaged by fire, floods, earthquakes, power loss, telecommunication and information systems failure or similar events. Although we carry property insurance, including business interruption insurance, our inability to meet customers' schedules as a result of catastrophe may result in a loss of customers or significant additional costs such as penalty claims under customer contracts.

CURRENCY AND COMMODITY FLUCTUATIONS. Fluctuations in exchange rates between Canadian and United States dollars may have a material adverse effect upon Dectron's results of operations. Similarly fluctuations in the price of certain commodity metals could adversely affect future results. The impact of future exchange rate or commodity price fluctuations on Dectron's results of operations cannot be accurately predicted. To date, Dectron has not sought to hedge the risks associated with fluctuation in exchange rates and does not have a policy relating to hedging. There can be no assurance that any hedging techniques that might be implemented by Dectron in the future would be successful or that Dectron's results of operations will not be materially adversely affected by exchange rate or commodity price fluctuations.

ITEM 2.**PROPERTIES**

	Location	Owned/ Leased	Manufacturing Area (ft ²)	Office Area (ft ²)	<i>Total</i>	<i>Expiry</i>
Dectron Inc.	Montreal, QC	Leased	28,000	5,750	33,750	2011
Dectron Inc.	Roswell, GA	Leased	-	1,225	1,225	Open
Circul-aire	Montreal, QC	Leased	88,000	10,000	98,000	2016
Circul-aire	Montreal, QC	Leased	25,000	1,680	26,680	2011
Circul-aire	Mississauga, ON	Leased	-	3,700	3,700	2008
Circul-aire	Niagara Falls, NY	Leased	2,000	1,500	3,500	2010
Refplus	Boucherville, QC	Owned	58,000	10,000	68,000	-
Refplus	St. Hubert, QC	Leased	57,000	5,000	62,000	2010
Refplus	Boucherville, QC	Leased	11,000	675	11,675	2008
ThermoPlus	St. Jerome, QC	Owned	45,000	5,000	50,000	-
IWM	Boynton Beach, FL	Leased	-	150	150	Open
Totals			314,000	44,680	358,680	

We maintain executive offices and manufacturing facilities at leased and owned premises. All of our manufacturing facilities are located in or near Montreal, Quebec. The facilities are in good condition and do not require any significant capital expenditure. We maintain property insurance on the two owned manufacturing facilities in an amount that we believe to be sufficient.

ITEM 3.**LEGAL PROCEEDINGS**

There are no material legal proceedings pending or threatened against us.

ITEM 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the vote of the security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5.

MARKET FOR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares of common stock have traded on the Nasdaq Capital Market and the Toronto Stock Exchange since our initial public offering on October 5, 1998. Our common stock trades under the symbol "DECT" on Nasdaq and on the Toronto Stock Exchange under the Symbol "DTL."

The following table sets forth the high and low sales prices for our common stock as reported on Nasdaq:

	HIGH	LOW
Fiscal year ended January 31, 2006:	\$9.23	\$3.00
First quarter (2/1/05 - 4/30/05)	\$4.86	\$3.64
Second quarter (5/1/05 - 7/31/05)	\$3.76	\$3.10
Third quarter (8/1/05 - 10/31/05)	\$9.23	\$3.00
Fourth quarter (11/1/05 - 1/31/06)	\$4.87	\$3.91
Fiscal year ended January 31, 2005:	\$4.93	\$3.02
First quarter (2/1/04 - 4/30/04)	\$4.93	\$3.02
Second quarter (5/1/04 - 7/31/04)	\$4.75	\$3.44
Third quarter (8/1/04 - 10/31/04)	\$4.16	\$3.30
Fourth quarter (11/1/04 - 1/31/05)	\$4.58	\$3.60

As of March 31, 2006 there were approximately 600 shareholders of record of the 3,155,000 shares of our common stock issued and outstanding.

On March 31, 2006, the last sale price of our common stock as reported by Nasdaq was \$4.29

Dividend Policy

Our policy does not currently provide for the declaration or payment of dividends on our common stock. The payment of cash dividends, if any, in the future, will be at the discretion of our board of directors and will depend on our earnings, capital requirements, financial condition and other relevant factors. We presently intend to retain future earnings for use in our business.

Certain Material Canadian Income Tax Consequences

This summary of material Canadian federal income tax consequences is based on the Income Tax Act (Canada) (the Tax Act), the Canada-U.S. Tax Convention (the Convention), regulations, administrative rulings and practice and judicial precedent, each as in effect at the date of this annual report, all of which are subject to changes.

The following discussion applies only to a holder of our shares of common stock who, for purposes of the Tax Act is neither resident nor deemed to be resident in Canada at any time does not use or hold, and is not deemed to use or hold our shares of common stock in connection with a trade or business that the holder carries on, or is deemed to carry on, in Canada at any time (each a non-resident holder).

The following discussions on Canadian federal income tax consequences of ownership of our shares of common stock does not purport to be a complete description of all potential tax consequences. This discussion does not address: (i) any potential tax effects to non-U.S. Holders (as defined below); (ii) all potential tax effects that may be relevant to U.S. Holders subject to special Canadian tax treatment, or (iii) the effect of potentially applicable state, provincial, local or foreign (other than Canadian) tax laws.

A U.S. Holder means a holder of our shares of common stock that is: (i) a citizen or resident of the U.S.; (ii) a corporation or other entity taxable as a corporation created or organized under the laws of the U.S. or any political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income tax regardless of its source, or; (iv) in general, a trust if a U.S. court can exercise primary supervision over the administration of such trust, and one or more U.S. persons have the authority to control all of the substantial decisions of such trust. A non-U.S. Holder means a holder of our shares of common stock who is not a U.S. Holder .

Subject in its entirety to the foregoing, there are no governmental laws, decrees or regulations in Canada, where the registrant is incorporated, that restrict the export or import of capital, including but not limited to, foreign exchange controls, or that affect the remittance of dividend or other payments to non-resident holders of our shares of common stock.

Dividends

Dividends paid or credited or deemed to be paid or credited to a non-resident will be subject to Canadian non-resident withholding tax at the rate of 25% of the gross amount of such dividends under the Tax Act. This rate may be reduced under an applicable income tax treaty between Canada and such non-resident holder's country of residence. In the case of a non-resident holder which is the beneficial owner of such dividends and a resident of the United States for the purposes of the Convention, the rate of non-resident withholding tax in respect of dividends will generally be reduced to a rate of 15% of the gross amount of such dividends.

Dispositions

A non-resident holder will not be subject to tax under the Tax Act in respect of capital gains realized on the disposition or deemed disposition of our shares of common stock unless such securities are "taxable Canadian property" (within the meaning of the Tax Act) to the holder at the time of the disposition. Our shares of common stock will generally not constitute taxable Canadian property to a non-resident holder provided they are listed on a prescribed stock exchange (which currently includes the Nasdaq) on the date of disposition and, at any time during the five-year period immediately preceding the disposition or deemed disposition of our shares of common stock, the non-resident holder, persons with whom such holder did not deal at arm's length or the non-resident holder and such persons has not owned or had an interest in or an option to acquire 25 per cent or more of the issued shares of any class or series of the capital stock of our company.

This summary does not discuss all aspects that may be relevant to any particular investors in light of their particular circumstances. Investors are urged to consult their own tax advisors with respect to their own particular circumstances and with respect to the specific tax consequences of ownership of our shares of common stock, including the applicability and effect of national, federal, state, provincial, and local tax laws, estate tax laws and proposed changes in applicable laws.

Securities Authorized for Issuance Under Equity Plans

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY PLANS

Number of securities to be issued upon exercise of outstanding options	Exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
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Equity compensation plans approved by security holders- the 2001 Stock Option Plan	108,500	\$4.20	391,500
Equity compensation plans not approved by security holders	-	-	-
Total	108,500	\$4.20	391,500

Recent Sales of Unregistered Securities

During the past three years, there have been no sales of unregistered securities.

Issuer Repurchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA.

YEAR ENDED JANUARY 31,

(In thousands, except EPS data)

	2006	2005	2004	2003	2002
Consolidated Statement of Operations Data:					
Net revenues	\$47,366	\$40,911	\$39,655	\$34,425	\$29,115
Costs of revenues	\$34,736	\$29,261	\$25,284	\$22,032	\$16,968
Gross profit	\$12,630	\$11,650	\$14,371	\$12,393	\$12,148
Operating expenses	\$11,540	\$11,514	\$12,293	\$9,713	\$9,831
Income from operations	\$1,090	\$136	\$2,078	\$2,680	\$2,317
Provision for income taxes	\$651	\$585	\$235	\$577	\$351
Write-down of Loan Receivable	\$66	-	-	-	-
Net loss from discontinued operations, net of tax	(\$898)	(\$1,429)	(\$3,631)	(\$1,557)	(\$1,919)
Gain on disposal of discontinued operations, net of tax	\$231	\$890	\$90	\$591	\$0
Net (loss) income available to common stockholders	(\$294)	(\$988)	(\$1,698)	\$1,136	\$47
Earnings (loss) per share - basic	(\$0.09)	(\$0.32)	(\$0.57)	\$0.40	\$0.02
Earnings (loss) per share fully diluted	(\$0.09)	(\$0.32)	(\$0.57)	\$0.40	\$0.02
Weighted average shares outstanding	3,155	3,067	2,974	2,816	2,795
Weighted average shares outstanding - fully diluted	3,155	3,067	2,974	2,849	2,795
	2006	2005	2004	2003	2002
Consolidated Balance Sheet Data:					
Working capital	\$4,021	\$4,417	\$4,285	\$5,073	\$3,986
Total assets	\$36,449	\$35,688	\$39,129	\$34,330	\$30,561
Long-term debt	\$1,534	\$2,371	\$5,155	\$5,322	\$5,170
Total liabilities	\$24,256	\$24,371	\$27,309	\$22,497	\$20,710
Stockholders' equity	\$12,193	\$11,317	\$11,820	\$11,833	\$9,850

ITEM 7.**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion and analysis should be read in conjunction with the selected historical financial data, financial statements and notes thereto and the other historical financial information of Dectron Internationale contained elsewhere in this Annual Report on Form 10-K. The statements contained in this Annual Report on Form 10-K that are not historical 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's expectations, intentions, beliefs or strategies regarding the future. 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 annual report of Form 10-K 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.

All amounts in thousands of Dollars, except earnings per share data.

Overview

Dectron develops, manufactures and markets heating, ventilation and air conditioning (HVAC) products and services for various industrial and commercial applications, namely real estate construction, food processing, offshore oil platforms and others. Its core business consists of energy recycling dehumidifiers, refrigeration, air purification and filtration systems, heating, ventilation and air conditioning equipment. Each product can be sold separately or combined with other products to create a complete system, giving Dectron a strong competitive edge in the marketplace. The Company also benefits from two high-growth avenues related to indoor air security and water generation. Dectron has indeed designed and manufactured water generation systems that extract moisture from the air, which are currently used for online turbine cleaning applications in offshore oil drilling operations. 51.6% of the Company's sales are recorded in Canada, 43.3% in the United States and 5.1% are outside North America. Dectron employs approximately 400 full-time employees and maintains approximately 350,000 square feet of manufacturing facilities in the Montreal region.

Business Environment

The HVAC industry is mature and can be affected by various industrial, economic, demographic and political factors, which are mostly favourable at present. However, two factors are currently in Dectron's disfavour: the appreciation in the Canadian dollar in comparison with the U.S. dollar and the increase in the cost of various raw materials. As for the Company's indoor air security and water generation operations, they represent two emerging and very promising markets. Safe air related to terrorism and air pollution is becoming a serious concern that will eventually create significant market opportunities. As for water generation, the market is unexploited and presents huge potential for industrial and drinking applications.

Results of Operations