

Edgar Filing: Gales Industries Inc - Form 8-K/A

This amendment supplements the Current Report on Form 8-K filed by Gales Industries Incorporated ("we," "our," "us," "Gales" or the "Company") with the Securities and Exchange Commission on April 18, 2007, as previously amended, in which we disclosed the completion of our acquisition of all the outstanding capital stock of Sigma Metals, Inc., to include in such report the financial statements of Sigma Metals, Inc. for the period ended March 31, 2007, required by Item 9.01(a) and the pro forma financial information for the quarter ended March 31, 2007 required by Item 9.01(b).

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

SIGMA METALS, INC.

Financial Information for the quarter ended March 31, 2007
(Unaudited)

SIGMA METALS, INC.

Balance Sheet

ASSETS	MARCH 31, 2007

	(unaudited)
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 26,895
Accounts Receivable	2,734,910
Inventory	2,874,510
Prepaid Expenses	32,234

TOTAL CURRENT ASSETS	\$5,668,549

FIXED ASSETS - AT COST	
Property and Equipment	\$ 298,218
Less: Accumulated Depreciation	168,378

FIXED ASSETS - NET	\$ 129,840

OTHER ASSETS	
Security Deposits	\$ 22,763
Other Assets	63

TOTAL OTHER ASSETS	\$ 22,826

TOTAL ASSETS	\$5,821,215
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The accompanying notes are an integral part of these statements

SIGMA METALS, INC.

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Balance Sheet

LIABILITIES AND STOCKHOLDERS' EQUITY	MARCH 31, 2007

	(unaudited)
CURRENT LIABILITIES	
Accounts Payable	\$2,162,808
Notes Payable - SBA	4,451
Notes Payable - State Bank - Software	19,889
Notes Payable - State Bank	897,800
Accrued Operating Expenses	79,713

TOTAL CURRENT LIABILITIES	\$3,164,661

LONG-TERM LIABILITIES	
Advances from Stockholders	\$ 257,000

TOTAL LONG-TERM LIABILITIES	\$ 257,000

TOTAL LIABILITIES	\$3,421,661

COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Common Stock (\$300 par value; 100 shares authorized and outstanding)	\$ 30,000
Retained Earnings	2,369,554

TOTAL STOCKHOLDERS' EQUITY	\$2,399,554

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$5,821,215
	=====

The accompanying notes are an integral part of these statements

SIGMA METALS, INC.

Statements of Income and Retained Earnings

	THREE MONTHS ENDED MARCH 31, 2007

	(unaudited)
REVENUE	\$5,186,868

COST OF GOODS SOLD	
Inventory, Beginning	\$2,812,873
Purchases	3,503,662

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Testing & Tolling	80,974
Manufacturing Overhead	206,807

	\$6,604,316
Less: Inventory, Ending	2,874,510

COST OF GOODS SOLD	\$3,729,806

GROSS PROFIT	\$1,457,062

EXPENSES	
Selling	\$ 442,454
General and Administrative	505,120
Interest	37,591
Franchise Tax	425

TOTAL EXPENSES	\$ 985,590

NET INCOME FOR PERIOD	\$ 471,472
RETAINED EARNINGS, BEGINNING OF PERIOD	1,898,082

RETAINED EARNINGS, END OF PERIOD	\$2,369,554
	=====

The accompanying notes are an integral part of these statements

SIGMA METALS, INC.

Statements of Cash Flows

	THREE MONTHS ENDED
	MARCH 31,
	2007

	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income for Period	\$ 471,472
Adjustments to Reconcile Net Income to Net	
Cash Used in Operating Activities:	
Depreciation	9,598
Changes in Assets and Liabilities:	
(Increase) Decrease In -	
Accounts Receivable	(341,963)
Inventory	(61,637)
Prepaid Expenses	(4,416)
Other Current Assets	788
Increase (Decrease) In -	
Accounts Payable	127,778
Accrued Operating Costs	(202,879)

NET CASH USED IN	

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OPERATING ACTIVITIES (Forward)	\$ (1,259)

CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Equipment	\$ (7,443)

NET CASH USED IN	
INVESTING ACTIVITIES (Forward)	\$ (7,443)

The accompanying notes are an integral part of these statements

SIGMA METALS, INC.

Statements of Cash Flows
(Continued)

	THREE MONTHS ENDED MARCH 31, 2007
	----- (unaudited)
NET CASH PROVIDED (USED) BY	
OPERATING ACTIVITIES (Forward)	\$ (1,259)

NET CASH (USED) BY	
INVESTING ACTIVITIES (Forward)	\$ (7,443)

CASH FLOWS FROM FINANCING ACTIVITIES	
Increase (Decrease) in Notes Payable Equipment	(9,201)

NET CASH PROVIDED BY	
FINANCING ACTIVITIES	\$ (9,201)

NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ (17,903)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	44,798

CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 26,895
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Supplemental Disclosure of Cash Flow Information:	
Interest Paid	\$ 37,591

Income Taxes Paid	\$ 425

The accompanying notes are an integral part of these statements

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SIGMA METALS, INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

1- SIGNIFICANT ACCOUNTING POLICIES

BACKGROUND OF COMPANY

Sigma Metals, Inc. ("The Company") is a stocking aircraft metals warehouse with value added capability. The Company also services the critical needs of aircraft manufacturers and the major airlines. The Company is located in Deer Park, New York. Its customer base consists of both foreign and domestic Corporations.

CASH & CASH EQUIVALENTS

Cash and cash equivalents include all highly liquid debt instruments with an original maturity of three month or less. Cash consists of aggregate cash balances in the Company's bank accounts and cash equivalents consist primarily of money market accounts.

ACCOUNTS RECEIVABLE

Accounts receivable are presented at face value, net of the allowance for doubtful accounts. The allowances for doubtful accounts are established through provisions charged against income and are maintained at a level believed adequate by management to absorb estimated bad debts based on current economic conditions. Management considers all accounts to be collectible and, therefore, has not established a provision for uncollectible accounts.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist of trade accounts receivable. The Company grants credits to its customers, which are located in and out of the United States. The Company does have foreign sales, but they are primarily with large corporations that the Company has done business with for a number of years. The majority of these transactions are insured.

INVENTORY

Inventories are stated at the lower of cost (first-in, first-out) or market.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost less accumulated depreciation and amortization. The Company maintains a policy to capitalize all property and equipment purchases in excess of \$1,000. Expenditures for repairs and improvements in excess of \$1,000 that add to the productive capacity or extend the useful life of an asset are capitalized. Repair and maintenance charges are expensed as incurred. Property under a capital lease is capitalized and amortized over the lease terms. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in earnings. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

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PROPERTY AND EQUIPMENT - (Continued)

Depreciation and Amortization are provided by charges to operations over the estimated useful lives, principally on the straight-line method. The estimated useful lives are:

Tools	5 Years
Furniture, Fixtures and Office Equipment	5 Years
Transportation Equipment	5 Years
Machinery and Equipment	7 Years
Leasehold Improvements	3-15 Years

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment at the facility level annually or when events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the assets compared to their carrying value. If impairment is recognized, the carrying value of the impaired asset is reduced to their fair value, based on discounted estimated future cash flows.

FINANCE COSTS

Costs connected with obtaining and executing debt arrangements are capitalized and amortized on the straight-line basis over the term of the related debt.

REVENUE RECOGNITION

The Company generally recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

EXPENSES

Selling, general, and administrative costs are charged to expense as incurred.

USE OF ESTIMATES

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant management estimates are the useful lives of property and equipment, provisions for inventory obsolescence, unamortized finance costs, accrued expenses, and various contingencies. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments."

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FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

Management of the Company believes that the fair value of financial instruments, consisting of cash, accounts receivable, accounts payable and accrued liabilities, approximates carrying value due to the immediate or short-term maturity associated with these instruments and that the notes payable is carried at fair value in that it carries interest rates that are comparable to similar instruments with similar maturities.

INCOME TAXES

The Company has elected to be taxed as a Small Business Corporation and, consequently, no Federal tax liability is reflected on the Comparative Statements of Income and Retained Earnings.

2- INVENTORY

Inventory consists primarily of sheet metal and is considered all raw materials.

	2007

Raw Material (Sheet Metal)	\$2,874,510

3- PROPERTY AND EQUIPMENT

A schedule of Property and Equipment as of March 31, 2007 is set forth below:

Tools, Machinery and Equipment	\$ 107,702
Furniture, Fixtures and Office Equipment	120,021
Transportation Equipment	17,006
Leasehold Improvements	53,489

Total Property and Equipment	\$ 298,218
Less: Accumulated Depreciation	(168,378)

PROPERTY, AND EQUIPMENT, NET	\$ 129,840
	=====

Depreciation and amortization expense for the three months ended was \$9,598.

4- LINES OF CREDIT

The Company had a Bank Line of Credit that expired on May 31, 2006 with a maximum borrowing limit of \$800,000 and interest at one and one half over prime. The prime interest rate at March 31, 2007 was 8.25%. The Line of Credit was renewed for a maximum borrowing limit of \$900,000 and interest at one and one half over prime. This new Line of Credit expired on May 31, 2007. As of March 31, 2007 the balance was \$897,800. Subsequent to the Balance Sheet date, as part of the stock purchase agreement (see Note 10), the line of credit was satisfied. The Line of Credit is secured by a first security interest in all assets. The Line of Credit is due on demand or, if no demand is made, in one payment of all outstanding principal plus accrued unpaid interest on May 31, 2007, at which time it is subject to annual review, pending receipt of the subject's financial statements.

5- NOTES PAYABLE - SOFTWARE

In March of 2006, the Company financed the purchase of new computer

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software with State Bank of Long Island in the amount of \$50,000. The terms of the Note are 2 years at 8% payable monthly in the amount of \$2,261.36. As of the Balance Sheet date, the current balance was \$19,889.

Scheduled amortization payments for the following years are set forth below:

December 31, 2007	\$19,673
December 31, 2008	216

6- NOTES PAYABLE - SBA

The Company has an SBA Loan of \$50,000, payable in monthly installments of \$1,477 that started on June 17, 2004 with an interest rate of 4%. The loan is secured by the Company's assets. This loan matured in May of 2007.

7- RETIREMENT PLAN

The Company adopted a 401(k) Profit Sharing Plan effective June 6, 1994. The terms of the Plan are as follows:

CONTRIBUTION:	Up to 25% of Plan Participations' Compensation.
ALLOCATION- EMPLOYER:	3.32% of Annual Compensation greater than Cov. Comp. plus 3.32070% of Annual Compensation. Cov. Comp. is based upon \$72,001 year.
NORMAL RETIREMENT AGE:	65 or 5 years of Participation, if later.
FORFEITURES:	Allocated to Participants' Accounts.
ELIGIBILITY:	All Non-Union Employees over the Age of 21 who completed 1 year of service.
DEATH BENEFIT:	100% of the Total Account
DISABILITY:	100% of the Total Account
EMPLOYEES CONTRIBUTIONS:	Up to 100% of Annual Compensation. (Maximum \$15,000)
MATCHING CONTRIBUTIONS:	0.00% of Employee deferral up to 0.00% of Compensation deferred.

VESTING SCHEDULE

YEAR -----	PCT VESTED -----
1	0
2	20
3	40
4	60
5	80
6-15	100

8- SHAREHOLDER LOANS

Two of the major shareholders have advanced the Company \$125,000 each for working capital. These notes are payable on demand and bear interest at a rate of 6%. They also have been subordinated to State Bank of Long Island.

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9- COMMITMENTS AND CONTINGENCIES

The Company presently leases manufacturing and office facilities under a lease expiring January 31, 2008, at an annual rental of approximately \$22,000, plus annual real estate tax and utilities by the lessee.

This lease is between the Company and Giaquinto - Lusting Associates, LLC, a Limited Liability Company.

10- SUBSEQUENT EVENTS

On January 2, 2007, the Company entered into a Stock Purchase Agreement (the "Sigma Agreement") with Gales Industries Incorporated, a Delaware Corporation and the holders of all of the outstanding shares of Sigma Metals (the "Shareholder"). Pursuant to the Sigma Agreement, subject to the satisfaction of various terms and conditions, the Company will acquire from the Shareholders all of the issued and outstanding capital stock of Sigma Metals.

The closing of the Agreement occurred in April of 2007. The purchase price for all of the shares is \$5,008,204, plus an amount equal to Sigma Metals' earnings for the period from January 1, 2006, until the closing, subject to certain adjustments as set forth in the Sigma Agreement.

(b) Pro forma financial information

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial statements and related notes are presented to show the pro forma effects of the acquisition of Sigma Metals, Inc. and the issuance of Series B Convertible Preferred Stock having an initial liquidation value of \$8,023,000. The pro forma condensed consolidated statement of operations for the quarter ended March 31, 2007 is presented to show income from continuing operations as if the acquisition of Sigma Metals, Inc. and the issuance of the Series B Convertible Preferred Stock had occurred as of the beginning of the period. The pro forma condensed consolidated balance sheet is based on the assumption that the acquisition of Sigma Metals, Inc. and the issuance of the Series B Convertible Preferred Stock had occurred effective March 31, 2007.

Pro forma condensed consolidated financial statements and related notes to show the pro forma affects of the acquisitions of Sigma Metals, Inc. and the issuance of the Series B Convertible Stock referred to above on the results of the registrant as at and for the year ended December 31, 2006, were previously filed.

Pro forma data are based on assumptions and include adjustments as explained in the notes to the unaudited pro forma condensed consolidated financial statements. The pro forma data are not necessarily indicative of the financial results that would have been attained had the acquisition of Sigma Metals, Inc. and the issuance of the Series B Convertible Preferred Stock occurred on the dates referenced above and should not be viewed as indicative of operations in future periods. The unaudited pro forma condensed consolidated financial statements should be read in conjunction with the notes thereto, our consolidated financial statements as of and for the year ended December 31, 2006 included in our Annual Report on Form 10-KSB for the year ended December 31, 2006 and the consolidated financial statements as of and for the years ended

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December 31, 2006 and 2005 of Sigma Metals, Inc. filed as part of this Report.

Gales and Sigma Proforma
3/31/2007

Balance Sheet

	GALES March 31, 2007 (unaudited)	SIGMA March 31, 2007 (unaudited)
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ --	\$ 26,895
Accounts Receivable, Net of Allowance for Doubtful Accounts of 204,566 and 25,000	2,672,799	2,734,910
Inventory	15,866,131	2,874,510
Prepaid Expenses and Other Current Assets	455,958	32,234
Deposits	776,673	--
Total Current Assets	19,771,561	5,668,549
Property, Plant, and Equipment, net	3,399,089	129,840
Deferred Financing Costs	338,294	--
Other Assets	65,122	--
Goodwill	1,265,963	--
Deposits	495,632	22,826
TOTAL ASSETS	\$ 25,335,661	\$ 5,821,215
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts Payable and Accrued Expenses	\$ 7,544,130	\$ 2,242,521
Notes Payable - Revolver	5,352,845	897,800
Notes Payable - Current Portion	127,776	24,340
Notes Payable - Sellers - Current Portion	192,400	--
Capital Lease Obligations - Current Portion	413,463	--
Due to Sellers	53,694	--
Dividends Payable	120,003	--
Deferred Gain on Sale - Current Portion	38,033	--
Income Taxes Payable	769,396	--
Total current liabilities	14,611,740	3,164,661
Long term liabilities		
Due to Sellers - Sigma - Net of Current Portion	--	257,000
Notes Payable - Net of Current Portion	613,514	--
Notes Payable - Sellers AIM - Net of Current Portion	577,200	--
Notes Payable - Sellers Sigma - Net of Current Portion	--	--
Capital Lease Obligations - Net of Current Portion	524,053	--
Deferred Tax Liability	461,731	--
Deferred Gain on Sale - Net of Current Portion	703,609	--
Deferred Rent	86,929	--

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Total liabilities	17,578,776	3,421,661
Commitments and contingencies		
Stockholders' Equity		
Series B Convertible Preferred - .001 Par Value, 2,000,000 Shares Authorized, 802,300 Shares Issued and Outstanding with an intial liquidation value of \$8,023,000 '(Authorized, Issued and Outstanding for the Proforma March 31, 2007	--	--
Common Stock - .001 Par, 120,055,746 Shares Authorized 59,579,998 and 57,269,301 Shares Issued and Outstanding as of March 31, 2007; on a pro forma basis 65,314,694 shares issued and outstanding as of March 31, 2007	59,580	30,000
Additional Paid-In Capital	8,855,065	--
Additional Paid-In Capital Series B Preferred	--	--
Additional Paid-In Captial: Sigma Shares	--	--
Accumulated Deficit	(1,157,760)	2,369,554
	-----	-----
Total Stockholders' Equity	7,756,885	2,399,554
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 25,335,661	\$ 5,821,215
	=====	=====

Notes to Unaudited Pro Forma Consolidated Comparative Condensed Balance Sheet

- (a) Represents the net cash from sale of Series B Convertible Preferred Stock remaining after using a portion of the proceeds for the purchase of the stock of Sigma Metals, Inc. and paying soft costs associated with the acquisition.
- (b) Represents the goodwill resulting from the excess of the purchase price paid for the stock of Sigma over the value of the assets acquired less the liabilities assumed.
- (c) Represents the revolving loan facility put in place to pay the amounts due third parties and the former Officers of Sigma for borrowed money.
- (d) Represents the current and long term portions of the notes issued by Gales Industries as part of the purchase price for the stock of Sigma.
- (e) Represents the par value of the shares of Gales Industries Series B Convertible Preferred stock issued, in part, to finance the purchase of the stock of Sigma.
- (f) Represents the elimination of Sigma's Stockholders' Equity (\$30,000) partially offset by the par value (\$8,045) of the 8,045,393 shares issued to the sellers as part of the purchase price for the stock of Sigma.
- (g) Represents the excess of amounts paid by investors over the par value of shares of Gales Industries Series B Convertible Preferred stock net of the soft costs associated with the issuance of such shares.
- (h) Represents the excess over par value of the fair value of the common stock issued as part of the purchase price for the stock of Sigma.
- (i) Represents the eliminations of Sigma's accumulated surplus.

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Gales and Sigma Proforma Statement of Income
for the three months ended 3/31/2007

	GALES 3/31/2007 (unaudited)	SIGMA 3/31/2007 (unaudited)	Adju (una
Net sales	7,488,130	5,186,868	
Cost of Sales	6,239,484	3,729,806	
	-----	-----	
Gross profit	1,248,646	1,457,062	
Operating costs and expenses:			
Selling and marketing	95,342	442,879	
General and administrative	1,031,450	505,120	
	-----	-----	
Income from operations	121,854	509,063	
Other (Income) and Expenses			
Interest and financing costs	130,954	37,591	
Gain on Sale of Real Estate	(9,509)	--	
Other Income	(1,446)	--	
Other Expenses	8,578	--	
	-----	-----	
Net (Loss) income before provision for income taxes	(6,723)	471,472	(
Provision for income taxes	64,764	188,683 (a)	
	-----	-----	
Net (Loss) Income	(71,487)	282,789	(
	-----	-----	
Pro Forma dividend attributable to preferred stockholders			1
Pro forma net earnings attributable to common stockholders			

Notes to Pro Forma Combined Statement Of Income

- (a) Represents the pro forma income tax expense for Sigma, as if it were taxable as a "C" not an "S" corp.
- (b) Represents one year's interest expense on \$1,084,213 of notes issued as part of purchase price for Sigma stock, being amortizing monthly with an interest rate of 7%.
- (c) Represents the 8% preferred stock dividend for the \$8,023,000 Series B Convertible Preferred Stock used to purchase Sigma.

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to its Current Report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 28, 2007

GALES INDUSTRIES INCORPORATED.

By: /s/ Louis A.Giusto.

Name: Louis A.Giusto.

Title: Vice Chairman and Chief Financial Officer