

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

Gales Industries Inc  
Form 8-K/A  
June 08, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
-----

FORM 8-K/A  
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CURRENT REPORT  
(Amendment No. 1)  
Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): April 24, 2007  
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GALES INDUSTRIES INCORPORATED  
(Exact Name of Registrant as Specified in its Charter)  
-----

Delaware                                      000-29245                                      20-4458244  
State of Incorporation                      Commission File Number                      IRS Employer I.D. Number

1479 North Clinton Avenue  
Bayshore, New York 11706  
Address of principal executive offices

Registrant's telephone number: (631) 968-5000

(Former Name or Former Address, if Changed Since Last Report)  
-----

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Explanatory Note

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, in which we disclosed the completion of our acquisition of all the outstanding capital stock of Sigma Metals, Inc., to file the financial statements and other information required by Item 9.01.

Item 9.01 Financial Statements and Exhibits

Financial Statements.

- (a) Financial statements of Sigma Metals, Inc.
- (b) Unaudited Pro Forma Condensed Consolidated Financial Information and Notes.

SIGMA METALS, INC.

FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED  
DECEMBER 31, 2006  
DECEMBER 31, 2005

SIGMA METALS, INC.

Table of Contents

For the Years Ended  
December 31, 2006  
December 31, 2005

|  | PAGES |
|--|-------|
|  | ----- |
| Auditors' Report                                       | 1     |
| Comparative Balance Sheets                             | 2-3   |
| Comparative Statements of Income and Retained Earnings | 4     |
| Comparative Statements of Cash Flows                   | 5-6   |
| Notes to Financial Statements                          | 7-11  |
| Supplementary Information:                             |       |
| Comparative Schedules of Expenses                      | 12-13 |

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## Independent Auditors' Report

Board of Directors  
Sigma Metals, Inc.

We have audited the accompanying Comparative Balance Sheets of Sigma Metals, Inc. as of December 31, 2006 and December 31, 2005 and the related Statements of Income and Retained Earnings, and Cash Flows for each of the years then ended. These financial statements are the responsibility of the Sigma Metals, Inc. management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sigma Metals, Inc. as of December 31, 2006 and December 31, 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying schedules of expenses is presented only for supplementary analysis purposes. Such information has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Respectfully submitted,

BILDNER & GIANNASCO, LLP  
Certified Public Accountants

Jericho, New York  
March 19, 2007

2

### SIGMA METALS, INC.

#### Comparative Balance Sheets

| ASSETS<br>-----           | DECEMBER 31, 2006<br>----- | DECEMBER 31, 2005<br>----- |
|---------------------------|----------------------------|----------------------------|
| CURRENT ASSETS            |                            |                            |
| Cash and Cash Equivalents | \$ 44,798                  | \$ 21,477                  |
| Accounts Receivable       | 2,392,947                  | 975,951                    |
| Inventory                 | 2,812,873                  | 1,355,606                  |

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|                                |             |             |
|--------------------------------|-------------|-------------|
| Prepaid Expenses               | 27,818      | 16,325      |
|                                | -----       | -----       |
| TOTAL CURRENT ASSETS           | \$5,278,436 | \$2,369,359 |
|                                | -----       | -----       |
| FIXED ASSETS - AT COST         |             |             |
| Property and Equipment         | \$ 290,775  | \$ 200,320  |
| Less: Accumulated Depreciation | 158,780     | 135,018     |
|                                | -----       | -----       |
| FIXED ASSETS - NET             | \$ 131,995  | \$ 65,302   |
|                                | -----       | -----       |
| OTHER ASSETS                   |             |             |
| Security Deposits              | \$ 22,763   | \$ 19,117   |
| Other Assets                   | 851         | 400         |
|                                | -----       | -----       |
| TOTAL OTHER ASSETS             | \$ 23,614   | \$ 19,517   |
|                                | -----       | -----       |
| TOTAL ASSETS                   | \$5,434,045 | \$2,454,178 |
|                                | =====       | =====       |

The accompanying audit report and notes are an integral part of these statements.

3

SIGMA METALS, INC.

Comparative Balance Sheets

| LIABILITIES AND<br>STOCKHOLDERS' EQUITY | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
|---|-------------------|-------------------|
| -----                                   | -----             | -----             |
| CURRENT LIABILITIES                     |                   |                   |
| Accounts Payable                        | \$2,035,030       | \$1,081,994       |
| Notes Payable - SBA                     | 7,345             | 17,054            |
| Notes Payable - State Bank - Software   | 26,196            | --                |
| Notes Payable - State Bank              | 897,800           | 666,702           |
| Lease Payable                           | --                | 3,061             |
| Accrued Operating Expenses              | 282,592           | 157,552           |
|   | -----             | -----             |
| TOTAL CURRENT LIABILITIES               | \$3,248,963       | \$1,926,363       |
|   | -----             | -----             |
| LONG-TERM LIABILITIES                   |                   |                   |
| Advances from Stockholders              | \$ 257,000        | \$ 250,000        |
| Notes Payable - SBA                     | --                | 7,338             |
|   | -----             | -----             |
| TOTAL LONG-TERM LIABILITIES             | \$ 257,000        | \$ 257,338        |
|   | -----             | -----             |
| TOTAL LIABILITIES                       | \$3,505,963       | \$2,183,701       |

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|  |             |             |
|--|-------------|-------------|
| COMMITMENTS AND CONTINGENCIES  |             |             |
| STOCKHOLDERS' EQUITY   |             |             |
| Common Stock (\$300 par value;<br>100 shares authorized and outstanding) | \$ 30,000   | \$ 30,000   |
| Retained Earnings  | 1,898,082   | 240,477     |
| TOTAL STOCKHOLDERS' EQUITY   | \$1,928,082 | \$ 270,477  |
| TOTAL LIABILITIES AND<br>STOCKHOLDERS' EQUITY                            | \$5,434,045 | \$2,454,178 |

4

SIGMA METALS, INC.

Comparative Statements of Income and Retained Earnings

FOR THE YEAR ENDED

|                            | DECEMBER 31, 2006 | DECEMBER 31, 2005 |
|----------------------------|-------------------|-------------------|
| REVENUE                    | \$ 17,979,414     | \$ 11,783,651     |
| COST OF GOODS SOLD         |                   |                   |
| Inventory, Beginning       | 1,355,606         | \$ 753,041        |
| Purchases                  | 13,375,354        | 8,769,224         |
| Testing & Tolling          | \$ 295,646        | \$ 194,838        |
| Manufacturing Overhead     | 608,761           | 542,239           |
|                            | \$ 15,635,367     | \$ 10,259,342     |
| Less: Inventory, Ending    | 2,812,873         | 1,355,606         |
| COST OF GOODS SOLD         | \$ 12,822,494     | \$ 8,903,736      |
| GROSS PROFIT               | \$ 5,156,920      | \$ 2,879,915      |
| EXPENSES                   |                   |                   |
| Selling                    | 923,847           | 770,409           |
| General and Administrative | 2,218,053         | 1,865,417         |
| Interest                   | 129,490           | 139,553           |
| Franchise Tax              | 425               | 425               |
| TOTAL EXPENSES             | \$ 3,271,815      | \$ 2,775,804      |
| NET INCOME FOR YEAR        | \$ 1,885,105      | \$ 104,111        |
| DISTRIBUTIONS              | (227,500)         | (66,000)          |

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|                                      |              |            |
|--------------------------------------|--------------|------------|
| RETAINED EARNINGS, BEGINNING OF YEAR | 240,477      | 202,366    |
|                                      | -----        | -----      |
| RETAINED EARNINGS, END OF YEAR       | \$ 1,898,082 | \$ 240,477 |
|                                      | =====        | =====      |

The accompanying audit report and notes are an integral part of these statements.

5

SIGMA METALS, INC.

Comparative Statements of Cash Flows

|   | FOR THE YEAR ENDED   |                      |
|---|----------------------|----------------------|
|   | DECEMBER 31,<br>2006 | DECEMBER 31,<br>2005 |
|   | -----                | -----                |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                      |                      |
| Net Income for Year   | \$ 1,885,105         | \$ 104,111           |
| Adjustments to Reconcile Net Income to Net<br>Cash Provided (Used) by Operating Activities: |                      |                      |
| Depreciation  | 23,761               | 17,338               |
| Changes in Assets and Liabilities:  |                      |                      |
| (Increase) Decrease In -  |                      |                      |
| Accounts Receivable   | (1,416,996)          | 225,960              |
| Inventory   | (1,457,267)          | (602,565)            |
| Prepaid Expenses  | (11,493)             | 1,315                |
| Other Current Assets  | (451)                | (400)                |
| Deposits  | (3,646)              | (4,847)              |
| Increase (Decrease) In -  |                      |                      |
| Accounts Payable  | 953,037              | 101,237              |
| Lease Payable   | (3,061)              | 3,061                |
| Accrued Operating Costs   | 125,040              | 87,604               |
|   | -----                | -----                |
| NET CASH PROVIDED (USED) BY<br>OPERATING ACTIVITIES (Forward)                               | \$ 94,029            | \$ (67,186)          |
|   | -----                | -----                |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                      |                      |
| Purchase of Equipment   | \$ (90,455)          | \$ (26,123)          |
|   | -----                | -----                |
| NET CASH (USED) BY<br>INVESTING ACTIVITIES (Forward)  | \$ (90,455)          | \$ (26,123)          |
|   | -----                | -----                |

6

SIGMA METALS, INC.

Comparative Statements of Cash Flows

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(Continued)

|   | FOR THE YEAR ENDED   |                      |
|---|----------------------|----------------------|
|   | DECEMBER 31,<br>2006 | DECEMBER 31,<br>2005 |
|   | -----                | -----                |
| NET CASH PROVIDED (USED) BY<br>OPERATING ACTIVITIES (Forward) | \$ 94,029            | \$ (67,186)          |
|   | -----                | -----                |
| NET CASH (USED) BY<br>INVESTING ACTIVITIES (Forward)          | \$ (90,455)          | \$ (26,123)          |
|   | -----                | -----                |
| CASH FLOWS FROM FINANCING ACTIVITIES                          |                      |                      |
| Increase in Bank Debt   | \$ 231,098           | \$ 179,500           |
| Increase (Decrease) in Notes Payable Equipment                | 9,149                | (16,365)             |
| Increase in Shareholders Loans                                | 7,000                | 10,626               |
| Distributions   | (227,500)            | (66,000)             |
|   | -----                | -----                |
| NET CASH PROVIDED BY<br>FINANCING ACTIVITIES                  | \$ 19,747            | \$ 107,761           |
|   | -----                | -----                |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                     | \$ 23,321            | \$ 14,452            |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR                  | 21,477               | 7,025                |
|   | -----                | -----                |
| CASH AND CASH EQUIVALENTS, END OF YEAR                        | \$ 44,798            | \$ 21,477            |
|   | =====                | =====                |
| Supplemental Disclosure of Cash Flow Information:             |                      |                      |
| Interest Paid   | \$ 122,490           | \$ 139,553           |
|   | -----                | -----                |
| Income Taxes Paid   | \$ 425               | \$ 425               |
|   | -----                | -----                |

The accompanying audit report and notes are an integral part of these statements.

7

SIGMA METALS, INC.

Notes to Financial Statements  
For the Years Ended  
December 31, 2006  
December 31, 2005

1- SIGNIFICANT ACCOUNTING POLICIES

Background of Company

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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.

8

### 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 |



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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."

9

### 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,

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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.

| Raw Material (Sheet Metal) | 2006        | 2005        |
|----------------------------|-------------|-------------|
|                            | ----        | ----        |
|                            | \$2,812,873 | \$1,355,606 |

### 3- PROPERTY AND EQUIPMENT

A schedule of Property and Equipment as of December 31, 2006 and December 31, 2005 is set forth below:

|  | 2006       | 2005       |
|--|------------|------------|
|  | ----       | ----       |
| Tools, Machinery and Equipment           | \$ 107,702 | \$ 92,724  |
| Furniture, Fixtures and Office Equipment | 112,578    | 59,337     |
| Transportation Equipment                 | 17,006     | 7,006      |
| Leasehold Improvements                   | 53,489     | 41,253     |
| Total Property, and Equipment            | \$ 290,775 | \$ 200,320 |
| Less: Accumulated Depreciation           | (158,780)  | (135,018)  |
| Property. and Equipment. Net             | \$ 131,995 | \$ 65,302  |

Depreciation and amortization expense for the years ended December 31, 2006 and December 31, 2005 was \$23,761 and \$17,338, respectively.

### 4- LINES OF CREDIT

The Company had a Bank Line of Credit expiring 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 December 31, 2006 and December 31, 2005 was 8.25% and 7.25% respectively. 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 is due to expire on May 31, 2007. As of December 31, 2006 and 2005 the balance was \$897,800 and \$666,702, respectively.

10

### 4- LINES OF CREDIT - (Continued)

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 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 \$26,196. Interest incurred amounted to \$2,311.37.

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

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|                   |          |
|-------------------|----------|
| December 31, 2007 | \$25,980 |
| December 31, 2008 | 216      |

### 6- LONG TERM DEBT

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 matures in May of 2007.

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

|                   | 2006    | 2005     |
|-------------------|---------|----------|
|                   | ----    | ----     |
| December 31, 2006 | --      | \$17,054 |
| December 31, 2007 | \$7,345 | 7,345    |

### 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

11

### Retirement Plan -- (Continued)

**DISABILITY:** 100% of the Total Account

**EMPLOYEES CONTRIBUTIONS:** Up to 100% of Annual Compensation. (Maximum \$14,000)

**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        |

The contributions for December 31, 2006 and December 31, 2005 were \$76,790 and

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\$76,551 respectively.

### 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.

### 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.

### 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 is scheduled to occur in April of 2007 or on such other date as the Company and the Shareholders may agree. 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, 2007, until the closing, subject to certain adjustments as set forth in the Sigma Agreement.

## SUPPLEMENTARY INFORMATION

12

### SIGMA METALS, INC.

#### Comparative Schedules of Expenses

|                               | FOR THE YEAR ENDED |                   |
|-------------------------------|--------------------|-------------------|
|                               | DECEMBER 31, 2006  | DECEMBER 31, 2005 |
| <b>MANUFACTURING OVERHEAD</b> |                    |                   |
| Material, Tools and Supplies  | \$ 22,663          | \$ 19,358         |
| Warehouse Expense             | 28,963             | 32,850            |
| Rent                          | 70,441             | 56,385            |
| Light and Power               | 25,429             | 19,277            |
| Factory Maintenance           | 28,616             | 32,441            |
| Equipment Rental              | --                 | 3,080             |
| Truck Rental                  | 15,869             | 14,791            |
| Depreciation - Machinery      | 14,631             | 13,230            |
| Employee Benefits             | 27,197             | 21,027            |
| Payroll Taxes                 | 26,633             | 21,982            |
| Insurance                     | 60,097             | 55,023            |
| Group Insurance               | 21,892             | 32,973            |

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|                              |           |           |
|------------------------------|-----------|-----------|
| Labor - Warehouse            | 266,330   | 219,822   |
|                              | -----     | -----     |
| TOTAL MANUFACTURING OVERHEAD | \$608,761 | \$542,239 |
|                              | =====     | =====     |
| SELLING EXPENSES             |           |           |
| Commissions - Outside        | \$103,916 | \$ 69,541 |
| Commissions                  | 438,782   | 338,398   |
| Shipping Supplies            | 122,098   | 136,945   |
| Meetings and Conferences     | 102,212   | 85,670    |
| Automotive Expenses          | 73,534    | 54,216    |
| Trade Shows                  | 5,750     | 11,509    |
| Payroll Taxes                | 43,878    | 33,840    |
| Group Insurance              | 33,677    | 40,290    |
|                              | -----     | -----     |
| TOTAL SELLING EXPENSES       | \$923,847 | \$770,409 |
|                              | =====     | =====     |

The accompanying audit report and notes are an integral part of these statements.

13

SIGMA METALS, INC.

Comparative Schedules of Expenses

|   | FOR THE YEAR ENDED |                   |
|---|--------------------|-------------------|
|   | -----              | -----             |
|   | DECEMBER 31, 2006  | DECEMBER 31, 2005 |
|   | -----              | -----             |
| GENERAL AND ADMINISTRATIVE EXPENSES     |                    |                   |
| Officers' Salaries                      | \$ 802,435         | \$ 706,385        |
| Office Salaries                         | 960,207            | 797,080           |
| Rent                                    | 65,966             | 53,160            |
| Telephone                               | 35,477             | 34,582            |
| Payroll Taxes                           | 78,149             | 67,767            |
| Profit Sharing Plan                     | 76,790             | 76,551            |
| Professional Fees                       | 54,317             | 42,339            |
| Office Expenses                         | 28,832             | 23,643            |
| Group Insurance                         | 97,198             | 40,137            |
| Sundry                                  | 3,527              | 4,786             |
| Depreciation - Office                   | 9,130              | 4,108             |
| Donations                               | 6,025              | 2,609             |
| Bad Debt                                | --                 | 12,270            |
|   | -----              | -----             |
| TOTAL GENERAL & ADMINISTRATIVE EXPENSES | \$2,218,053        | \$1,865,417       |
|   | =====              | =====             |

The accompanying audit report and notes are an integral part of these statements.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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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 year ended December 31, 2006 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 December 31, 2006.

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 December 31, 2006 and 2005 of Sigma Metals, Inc. filed here with.

Gales Industries Incorporated  
Unaudited Pro Forma Consolidated Comparative Condensed Balance Sheet  
December 31, 2006

|  | Gales<br>Industries<br>----- | Sigma<br>-----    |
|--|------------------------------|-------------------|
| <b>ASSETS</b>  |                              |                   |
| Current Assets   |                              |                   |
| Cash and Cash Equivalents  | \$ --                        | \$ 44,7           |
| Accounts Receivable (Net of Allowance for Doubtful Accounts of \$176,458 for Gales and \$25,000 for Sigma@ 12/31/2006) | 3,508,957                    | 2,392,9           |
| Inventory  | 15,257,641                   | 2,812,8           |
| Prepaid Expenses and Other Current Assets  | 232,749                      | 27,8              |
| Deposits   | 180,456                      |                   |
|  | -----                        |                   |
| Total Current Assets   | 19,179,803                   | 5,278,4           |
| Property, Plant, and Equipment, net  | 3,565,316                    | 131,9             |
| Deferred Financing Costs   | 369,048                      |                   |
| Other Assets   | 63,522                       | 8                 |
| Goodwill   | 1,265,963                    |                   |
| Deposits   | 448,530                      | 22,7              |
|  | -----                        |                   |
| <b>TOTAL ASSETS</b>  | <b>\$ 24,892,182</b>         | <b>\$ 5,434,0</b> |
|  | =====                        |                   |
| Current Liabilities  |                              |                   |

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|   |               |            |
|---|---------------|------------|
| Accounts Payable and Accrued Expenses   | \$ 7,648,426  | \$ 2,317,6 |
| Notes Payable Current Portion   | 127,776       | 33,5       |
| Notes Payable - Revolver  | 5,027,463     | 897,8      |
| Notes Payable - Sellers AIM - Current Portion   | 192,400       |            |
| Capital Lease Obligations - Current Portion   | 407,228       |            |
| Due to Sellers AIM  | 53,694        |            |
| Dividends Payable   | 120,003       |            |
| Deferred Gain on Sale - Current Portion   | 38,033        |            |
| Income Taxes Payable  | 653,426       |            |
|   | -----         |            |
| Total current liabilities   | 14,268,449    | 3,248,9    |
| Long term liabilities   |               |            |
| Due to Sellers - Sigma - Net of Current Portion   | 257,000       |            |
| Notes Payable - Net of Current Portion  | 645,458       |            |
| Notes Payable - Sellers AIM - Net of Current Portion  | 1,290,562     |            |
| Notes Payable - Sellers Sigma - Net of Current Portion  | --            |            |
| Capital Lease Obligations - Net of Current Portion  | 552,589       |            |
| Deferred Tax Liability  | 512,937       |            |
| Deferred Gain on Sale - Net of Current Portion  | 713,118       |            |
| Deferred Rent   | 39,371        |            |
|   | -----         |            |
| TOTAL LIABILITIES   | \$ 18,022,484 | \$ 3,505,9 |
| Series B Convertible Preferred - \$.001 Par value, 2,000,000<br>Shares Authorized, 802,300 Shares Issued and Outstanding<br>with an initial liquidation value of \$8,023,000<br>'(Authorized, Issued and Outstanding for the Proforma<br>December 31, 2006) | \$ --         | \$         |
| Common Stock - \$.001 Par value, 120,055,746 Shares Authorized,<br>57,269,301 Shares Issued and Outstanding as of December 31, 2006<br>on a pro forma basis 65,314,694 Shares Issued and Outstanding as of<br>December 31, 2006                             | 57,269        | 30,0       |
| Additional Paid-In Capital  | 7,898,702     |            |
| Additional Paid-In Capital Series B Preferred   |               |            |
| Additional Paid-In Capital: Sigma Shares  |               |            |
| Retained Earnings (Accumulated Deficit)   | (1,086,273)   | 1,898,0    |
|   | -----         |            |
| Total Stockholders' Equity  | 6,869,698     | 1,928,0    |
|   | -----         |            |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 24,892,182 | \$ 5,434,0 |
|   | =====         |            |

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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.

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- (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.

Gales Industries Incorporated  
Pro Forma Combined Statement Of Income  
For the Year Ended December 31, 2006

|   | Gales<br>Industries<br>----- | Sigma<br>----- |
|---|------------------------------|----------------|
| Net Sales   | \$ 33,044,996                | \$ 17,979,414  |
| Cost of Sales                                       | 28,002,942                   | 12,822,494     |
|   | -----                        | -----          |
| Gross Profit  | 5,042,054                    | 5,156,920      |
| Operating costs and expenses                        |                              |                |
| Selling and marketing                               | 601,011                      | 923,847        |
| General and administrative                          | 3,789,587                    | 2,218,053      |
|   | -----                        | -----          |
| Income (Loss) from operations                       | 651,456                      | 2,015,020      |
| Other (income) and expenses:                        |                              |                |
| Interest & financing costs                          | 1,040,108                    | 129,490        |
| Gain on Sale of Life Insurance Policy               | (53,047)                     | --             |
| Gain on Sale of Real Estate                         | (300,037)                    | --             |
| Other Income  | (435,627)                    | --             |
| Other Expenses                                      | 246,659                      | 425            |
|   | -----                        | -----          |
| Net Income (Loss) before provision for income taxes | 153,400                      | 1,885,105      |
| Provision for income taxes                          | 489,969                      | 767,396        |
|   | -----                        | -----          |
| Net Income (Loss)                                   | \$ (336,569)                 | \$ 1,130,686   |



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Pro Forma dividend attributable to preferred stockholders

Pro Forma net earnings attribute 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 \$4,349,318 portion of the \$8,023,000 Series B Convertible Preferred Stock used to purchase Sigma.

SIGNATURES

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 8, 2007

GALES INDUSTRIES INCORPORATED

By: /s/ Peter D. Rettaliata  
Name: Peter D. Rettaliata  
Title: Chief Executive Officer