

Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

SYNERGX SYSTEMS INC  
Form 10QSB  
May 12, 2005

U.S. SECURITIES AND EXCHANGE  
COMMISSION  
Washington, D. C. 20549  
U.S. SECURITIES AND EXCHANGE  
COMMISSION Washington,  
D. C. 20549  
  
FORM 10-QSB

(Mark One)

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

For the fiscal quarter ended March 31, 2005  
-----

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT  
For the transition period from to

Commission file number 0-17580  
-----

SYNERGX SYSTEMS INC.

(Exact name of small business issuer as specified in its charter)

Delaware  
-----

11-2941299  
-----

(State or jurisdiction of incorporation or  
organization)

(IRS employer identification  
Number)

209 Lafayette Drive, Syosset, New York 11791  
(Address of Principal Executive Offices) (Zip code)

(516) 433-4700  
-----

(Issuer's telephone number)

Check whether the issuer (1) has filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for  
such shorter period that registrant was required to file such reports), and (2)  
has been subject to such filing requirements for the past 90 days.

Yes  No

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date: As of May 4, 2005, 5,192,118  
shares of Registrant's Common Stock were issued and outstanding.

Transitional Small Business Disclosure Format (check one) Yes  No

INDEX

Part I - Financial Information (unaudited)	Page
Item 1. Financial Statements.	
Condensed Consolidated Balance Sheet at March 31, 2005	3

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

Condensed Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2005 and 2004	5
Condensed Consolidated Statements of Cash Flows for the Three and Six Months Ended March 31, 2005 and 2004	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis or Plan of Operations	13
Item 3. Controls and Procedures	17
Part II - Other Information	
Item 1. Legal Proceedings.	18
Item 2. Changes in Securities.	18
Item 3. Defaults Upon Senior Securities.	18
Item 4. Submission of Matters to a Vote of Security Holders.	18
Item 5. Other Information.	18
Item 6. Exhibits and Reports on Form 8-K	18
Signatures	20

### SYNERGX SYSTEMS INC. AND SUBSIDIARIES

#### CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	March 31, 2005
	-----
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 582,262
Accounts receivable, principally trade, less allowance for doubtful accounts of \$323,523	5,702,704
Inventories	2,588,783
Deferred taxes	265,200
Prepaid expenses and other current assets	480,113
<b>TOTAL CURRENT ASSETS</b>	<b>9,619,062</b>
PROPERTY AND EQUIPMENT -at cost, less accumulated depreciation and amortization of \$1,598,732	621,449
OTHER ASSETS	645,146

Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

TOTAL ASSETS	----- \$10,885,657 =====
--------------	--------------------------------

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

March 31,  
2005  
-----

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Notes and capital leases payable - current portion	\$ 21,938
Accounts payable and accrued expenses	2,466,700
Deferred revenue	543,898
	-----
TOTAL CURRENT LIABILITIES	3,032,536

Note payable to bank	1,215,676
Notes and capital leases payable - less current portion	11,509
Deferred taxes	65,500
	-----
TOTAL LIABILITIES	4,325,221

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock, 2,000,000 shares authorized- none issued and outstanding	
Common stock, 10,000,000 shares authorized, \$.001 par value; issued and outstanding 5,192,118 shares	5,192
Capital in excess of par	6,759,595
Accumulated deficit	(204,351)
	-----

TOTAL STOCKHOLDERS' EQUITY	6,560,436
	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$10,885,657 =====
--	-----------------------

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

(Unaudited)

	For the Six Months Ended March 31,	
	2005	2004
	-----	-----
Product sales	\$6,816,678	\$7,179,266
Subcontract sales	305,533	143,535
Service revenue	2,257,139	2,269,176
	-----	-----
Total revenues	9,379,350	9,591,977
	-----	-----
Cost of product sales	4,789,938	4,918,277
Cost of subcontract sales	250,066	119,668
Cost of service revenue	1,466,132	1,634,977
Selling, general and administrative	2,873,591	2,870,519
Interest expense	37,422	40,495
Depreciation and amortization	115,515	88,447
Loss on equity investment	22,000	32,000
	-----	-----
	9,554,664	9,704,383
	-----	-----
(Loss) before (benefit) from income taxes	(175,314)	(112,406)
	-----	-----
(Benefit) from income taxes:		
Current	(55,000)	(27,800)
Deferred	(5,000)	(17,200)
	-----	-----
	(60,000)	(45,000)
	-----	-----
Net (Loss)	\$ (115,314)	\$ (67,406)
	=====	=====
(Loss) Per Common Share:		
Basic (Loss) Per Share	\$ (0.02)	\$ (0.02)
	=====	=====
Diluted (Loss) Per Share	\$ (0.02)	\$ (0.02)
	=====	=====
Weighted average number of common shares outstanding	5,151,324	4,441,037
Weighted average number of common and dilutive common share equivalents outstanding	5,151,324	4,441,037

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

For the Three Months

Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

	Ended March 31,	
	2005	2004
	-----	-----
Product sales	\$3,568,295	\$4,160,318
Subcontract sales	207,400	64,600
Service revenue	1,136,752	1,165,253
	-----	-----
Total revenues	4,912,447	5,390,171
	-----	-----
Cost of product sales	2,320,722	2,815,526
Cost of subcontract sales	170,385	54,153
Cost of service revenue	745,598	837,695
Selling, general and administrative	1,515,400	1,507,778
Interest expense	14,521	21,125
Depreciation and amortization	57,758	40,004
Loss on equity investment	12,000	12,000
	-----	-----
	4,836,384	5,288,281
	-----	-----
Income before provision for income taxes	76,063	101,890
	-----	-----
Provision for income taxes:		
Current	24,000	34,400
Deferred	12,000	8,600
	-----	-----
	36,000	43,000
	-----	-----
Net Income	\$ 40,063	\$ 58,890
	=====	=====
Income per common share		
Basic income per share	\$ 0.01	\$ 0.01
	=====	=====
Diluted income per share	\$ 0.01	\$ 0.01
	=====	=====
Weighted average number of common shares outstanding	5,165,787	4,718,991
Weighted average number of common and dilutive common shares outstanding	5,216,424	5,178,703

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the Six Months  
Ended March 31,

Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

	2005 -----	2004 -----
OPERATING ACTIVITIES		
Net (loss)	\$ (115,314)	\$ (67,406)
Adjustments to reconcile net (loss)to net cash provided by(used in) operating activities:		
Depreciation and amortization	115,515	88,447
Deferred tax (benefit)	(5,000)	(17,200)
Loss on equity investment	22,000	32,000
Changes in operating assets and liabilities:		
Accounts receivable, net	690,128	(27,944)
Inventories	73,035	(672,493)
Prepaid expenses and other current assets	(201,439)	(209,936)
Other assets	(5,757)	(25,204)
Accounts payable and accrued expenses	(40,010)	161,591
Deferred revenue	37,898	(25,638)
	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	571,056	(763,783)
	-----	-----
INVESTING ACTIVITIES		
Purchases of property and equipment	(211,466)	(30,004)
	-----	-----
NET CASH (USED IN) INVESTING ACTIVITIES	(211,466)	(30,004)
	-----	-----
FINANCING ACTIVITIES		
Principal repayments on notes payable and capital lease obligations	(33,463)	(89,435)
Payments and proceeds from note payable bank - net	(700,000)	590,174
Proceeds from exercise of stock options and warrants	27,628	351,610
	-----	-----
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(705,835)	852,349
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(346,245)	58,562
Cash and cash equivalents at beginning of period	928,507	293,186
	-----	-----
Cash and cash equivalents at end of period	\$582,262	\$351,748
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$ 5,455	\$130,519
Interest	\$ 40,163	\$ 48,277

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

1. BASIS OF PRESENTATION

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary in order to make the financial statements not misleading have been included. Results for the six months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in Synergx Systems Inc. ("Synergx" or "the Company") and Subsidiaries' annual report on Form 10-KSB for the year ended September 30, 2004.

### 2. REVENUE RECOGNITION

Product sales include sales of systems, which are similar in nature, that involve fire alarm, life safety and security (CCTV and card access), transit (on board systems) and communication (paging, announcement and audio/visual). Product sales represent sales of product along with the integration of technical services at a fixed price under a contract with an electrical contractor or end user customer or customer agent. Product sales are allocated using a constant gross profit percentage over the entire contract, and recognized, using the percentage-of-completion method of accounting. The Company utilizes a units-of-work performed method to measure progress towards completion of the contract. The effects of changes in contract terms are reflected in the accounting period in which they become known. Contract terms provide for billing schedules that differ from revenue recognition and give rise to costs and estimated profits in excess of billings, and billings in excess of costs and estimated profits. Costs and estimated profits in excess of billing were not material at March 31, 2005 and 2004 and have been included in accounts receivable. There were no billings in excess of costs and estimated profits at March 31, 2005 and 2004.

Subcontract sales principally represent revenue related to electrical installation of wiring and piping performed by others for the Company when the Company acts as the prime contractor and sells its products along with electrical installation. Subcontract revenue is also recognized during the entire project using the percentage-of-completion method of accounting as electrical installation is performed at the job site.

Service revenue from separate service contracts is recognized on a straight-line basis over the term of the respective contract, which is generally one year. Non-contract service revenue is recognized when services are performed.

## SYNERGX SYSTEMS INC. AND SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

### 3. INVENTORIES

Inventories are priced at the lower of cost (first-in, first-out) or market and consist primarily of raw materials.

### 4. LONG TERM DEBT

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

The Company has a \$3 million revolving credit facility with Hudson United Bank (the "Credit Facility"). The Credit Facility carries an interest rate of prime plus 1/4% on outstanding balances (5.75% at March 31, 2005) which was to expire in October 2005. In April, 2005, the Company and its bank agreed to an extension in its credit facility until June 1, 2007. The Credit Facility is secured by all assets of the Company and all of its operating subsidiaries. Advances under this Credit Facility are measured against a borrowing base calculated on eligible trade receivables and inventories.

At March 31, 2005, the full amount of the Credit Facility was available under the borrowing base calculation and \$1,215,676 was outstanding under this facility.

The Credit Facility includes certain restrictive covenants, which among other things, impose limitations on declaring or paying dividends, acquisitions, and capital expenditures. The Company is also required to maintain certain financial ratios and tangible net worth covenants. At March 31, 2005 the Company was not in default with any of its financial covenants.

### 5. STOCK OPTIONS

In February 2005 the Board of Directors approved a grant of 130,000 stock options with a fair market value of \$157,094 to certain employees, officers and directors of the Company under the 2004 Stock Option Plan. The stock options vest ratably over five years and are exercisable at \$2.50 per share, which exercise price was above market at the time of grant. There were no stock options granted during the six months ended March 31, 2004.

In October 1995, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation: (SFAS 123)" prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights. SFAS 123 requires compensation expense to be recorded (i) using the new fair value method or (ii) using the existing accounting rules prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations with pro forma disclosure of what net income and earning per share would have been had the Company adopted the new fair value method. The Company intends to continue to account for its stock based compensation plans in accordance with the provisions of APB 25.

## SYNERGX SYSTEMS INC. AND SUBSIDIARIES

### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

SIX MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

### 5. STOCK OPTIONS (Continued)

The Company adopted SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure. This statement amended SFAS 123, "Accounting for Stock-Based Compensation." As permitted under SFAS 123, the Company continues to apply APB 25. As required under SFAS 148, the following table presents pro forma net income (loss) attributable to and diluted net income (loss) per shares as if the fair value-based method had been applied to all awards.



Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

	Three Months Ended March 31,		Six Months En
	2005	2004	2005
Net (Loss) Income	\$40,063	\$58,890	\$(115,314)
Fair Value of Options issued to employees and directors	5,237		5,237
	-----		-----
Pro Forma Net Loss	\$34,826	\$58,890	\$(120,551)
Weighted Average Shares Outstanding	5,165,787	4,718,991	5,151,324
Pro Forma Net Income (Loss)	\$.01	\$.01	\$(.02)

The Black-Scholes option valuation model was used to estimate the fair value of the options granted during the six months ended March 31, 2005. There were no options granted to employees during the six months ended March 31, 2004. The model includes subjective input assumptions that can materially affect the fair value estimates. The model was developed for use in estimating the fair value of traded options that have no vesting restrictions and that are fully transferable. For example, the expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted. Options issued under the Company's option plans have characteristics that differ from traded options. In the Company's opinion, this valuation model does not necessarily provide a reliable single measure of the fair value of its employee stock options. Principal assumptions used in applying the Black-Scholes model along with the results from the model were as follows:

Assumptions:

Risk-free interest rate	3.58
Dividend	0
Expected life in years	5 years
Expected volatility	84%

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

SIX MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

6. EARNINGS (LOSS) PER SHARE

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", which requires companies to report basic and diluted earnings per share ("EPS") computations. Basic EPS excludes dilution and is based on the weighted-average common shares outstanding and diluted EPS gives effect to potential dilution of securities that could share in the earnings of the Company. Diluted EPS reflects the assumed issuance of shares with respect to the Company's employee stock option plan and warrants.

	Three Months ended March 31,		Six Mon
	2005	2004	2005
Basic EPS Computation	-----	-----	-----

Net Income (Loss) available to common

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

stockholders	\$40,063	\$58,890	\$(115,314)
Weighted average outstanding shares	5,165,787	4,718,991	5,151,324
Basic Earnings (Loss) Per Share	\$.01	\$.01	(\$ .02)
	=====	=====	=====
Diluted EPS Computation			
Net Income (Loss) available to common stockholders	\$40,063	\$58,890	\$(115,314)
	=====	=====	=====
Weighted-average shares-basic	5,165,787	4,718,991	5,151,324
	-----	-----	-----
Plus: Incremental shares from assumed conversions			
Employee Stock Options*	33,123	147,680	
Warrants*	17,514	312,032	
	-----	-----	
Dilutive common shares	50,637	459,712	
	-----	-----	
Adjusted weighted average shares diluted	5,216,424	5,178,703	5,151,324
	-----	-----	-----
Diluted Earning (Loss) Per Share	\$.01	\$.01	(\$ .02)
	=====	=====	=====

\* All options and warrants were antidilutive in the six months ended 2005 and 2004.

### 7. RECENT ACCOUNTING PRONOUNCEMENT

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Shared-Based Payment", which addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123 (revised 2004) requires an entity to recognize the grant-date fair-value of stock options and other equity-based

#### SYNERGX SYSTEMS INC. AND SUBSIDIARIES

#### NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

SIX MONTHS ENDED MARCH 31, 2005 AND 2004

(UNAUDITED)

### 7. RECENT ACCOUNTING PRONOUNCEMENT (continued)

compensation issued to employees in the income statement. SFAS No. 123 (revised 2004) generally requires that an entity account for such transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB 25, which was permitted under SFAS No. 123, as originally issued. The revised statement also requires entities to disclose information about the nature of the share-based payment transactions and the effects of those

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

transactions on the financial statements. SFAS No. 123 (revised 2004) is effective for small business issuers for the first interim or annual reporting period that begins after December 15, 2005. The Company is currently evaluating the impact that this statement will have on its financial condition, or results of operations and cash flows.

### Item 2. Management's Discussion and Analysis or Plan of Operations

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has a \$3 million revolving credit facility with Hudson United Bank (the "Credit Facility"). This credit facility carries an interest rate of prime plus 1/4% which was to expire in October 2005. In April 2005, the Company and its bank agreed to an extension in its credit facility until June 1, 2007. Advances under the Credit Facility are measured against a borrowing base calculated on eligible trade receivables and inventories. The Credit Facility is secured by all assets of the Company and all of its operating subsidiaries.

The Credit Facility includes various covenants, which among other things, impose limitations on declaring or paying dividends, acquisitions and capital expenditures. The Company is also required to maintain certain financial ratios and tangible net worth covenants. At March 31, 2005, the Company was not in default with any of its financial covenants and at such time the full amount of the Credit Facility was available under the borrowing base calculation. At March 31, 2005, \$1,215,676 was owed under the Credit Facility.

Net cash provided by operations for the six months ended March 31, 2005 amounted to \$571,056 as compared to cash used in operations of \$763,783 for the comparable prior year. The increase in cash provided by operations was primarily due to a \$718,072 increase in collection of accounts receivable and from a \$745,528 decrease in inventory purchases. The net cash inflow of \$571,056 from operations during the 2005 period along with cash on hand was used for equipment purchases of \$211,000 and to decrease bank borrowing by \$700,000. During the six months of 2005, proceeds of \$27,628 were received from the exercise of stock options by employees to purchase common stock under the Company's stock options plan. During the prior year six month period financing activities included \$316,200 of proceeds from the exercise of warrants to purchase common stock by Genterra Inc. and \$35,410 from the exercise of stock options by employees to purchase common stock under the Company's stock option plan.

The ratio of the Company's current assets to current liabilities increased to approximately 3.17 to 1 at March 31, 2005 compared to 2.88 to 1 at March 31, 2004.

### Item 2. Management's Discussion and Analysis or Plan of Operations

Results of Operations

Revenues and Gross Profit

Three Months Ended	Six Months Ended
March 31,	March 31,

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

	2005 ----	2004 ----	2005 ----	2004 ----
	(In thousands of dollars)			
Product Revenue	\$3,568	\$4,160	\$6,817	\$7,179
Subcontract Revenue	207	65	306	144
Service Revenue	1,137	1,165	2,257	2,269
Total Revenue	4,912	5,390	9,380	9,592
Gross Profit Product	1,247	1,345	2,027	2,261
Gross Profit Subcontract	37	10	56	24
Gross Profit Service	391	328	791	634
Total Gross Profit	1,675	1,683	2,874	2,919
Gross Margin Product %	35%	32%	30%	31%
Gross Margin Subcontract %	18%	15%	18%	17%
Gross Margin Service %	34%	28%	35%	28%

### Revenues

The Company's product revenues during the three and six months ended March 31, 2005 decreased 14% and 5% from the respective 2004 periods. These decreases in product revenues resulted from slow economic activity in both the Company's principal New York City market and its Dallas, Texas market. The major decrease in product revenue during the three and six months periods is from a decline in product shipments in the Dallas, Texas market area. In the Dallas market area, the Company has put into effect certain cost reduction initiatives with a view towards pricing aggressively in that competitive market place and has realized increased bookings over the past 30 days.

Subcontract revenue increased during the current three and six month periods as the Company was responsible for several large electrical installations during the 2005 periods compared to various small electrical installation projects in 2004 periods.

Service revenues decreased slightly during the three and six month periods of 2005. The decrease in both periods is primarily due to a decrease in call-in service revenue compared to the prior periods.

## Item 2. Management's Discussion and Analysis or Plan of Operations

### Gross Profit

Gross profit on product revenues for the three and six months ended March 31, 2005 decreased 7% and 10% compared to the respective 2004 periods. The decrease in absolute gross profit is primarily related to lower product sales from the Dallas, Texas market (noted above). The increase in gross margin percentage during the current three month period is related to several projects having higher than normal gross margins. The decrease in the gross margin percentage during the six month period is due to lower sales with increased overhead.

Gross profit related to subcontract revenues for the three and six months ended March 31, 2005, increased in absolute terms as the Company was responsible for larger electrical installation projects. In addition, the gross margin percentage was higher during the three and six months of 2005 as higher markups were obtained on electrical installations.

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

Gross profit on service revenues for the three and six months ended March 31, 2005, increased even though there was a slight decline in service revenues. The increase in gross profit and gross margin percentage for these periods was due to certain reductions in service technicians.

### Income Before Tax

The decline in income and increase in loss before income taxes during the three and six months ended March 31, 2005, respectively is primarily due to the decrease in gross profit related to lower product sales from the Dallas, Texas market area. The decrease in product gross profit was partially offset by higher gross profit from subcontract and service revenues. The increase in service gross profit was caused in part by a decrease in technical staff. In addition, selling, general and administrative expenses remained at approximately the same levels as the prior year periods and are geared to support higher product revenues. Interest expense decreased during 2005 due to lower borrowing levels. Depreciation expense increased during the 2005 periods from recent investments in a new computer operating software system which will enable the Company to better manage project costs in the future. For the three and six month periods of 2005 the Company recorded a loss of \$12,000 and \$22,000, respectively, on its equity in the operating loss of Secure 724 LP.

### Tax Provision

The Company's current income tax provision represents federal, state and local income taxes. Deferred taxes represent the net change in deferred tax assets and in a non current deferred tax liability as it related to differences between financial reporting and tax bases of assets and liabilities.

## Item 2. Management's Discussion and Analysis or Plan of Operations

### Order Position

The Company's order position, excluding service, at March 31, 2005 amounted to \$11,100,000 as compared to \$12,800,000 at September 30, 2004 and \$15,800,000 at March 31, 2004. This order position reflects large orders received for several subway complexes which will be deliverable over several years as the projects are released. In addition, the backlog includes \$1.0 million of orders for communication and announcement systems from several transit car manufacturers, that will be shippable over the next 24 month period. While quotation activity is brisk, there is no assurance when orders will be received and whether the order position will increase. Due to the fact that the Company's products are sold and installed as part of larger mass transit construction projects, there is typically a delay between the booking of the contract and its revenue realization. The order position includes and the Company continues to bid on projects that might include significant subcontractor labor (electrical installation performed by others). The Company expects to be active in seeking orders where the Company would act as a prime contractor and be responsible for management of the project as well as electrical installation.

## Item 3. Controls and Procedures

Evaluation of disclosure controls and procedures. At the period end of this

## Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

Quarterly Report on Form 10-QSB, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the quarter covered by this report, that:

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified.

That Company's disclosure controls and procedures are effective to ensure that such information is accumulated and communicated to the Company's management, and made known to the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decision regarding the required disclosure.

Changes in internal control over financial reporting.  
There have been no changes in the Company's internal controls over financial report that have materially affected, or is reasonably likely to materially affect the Company's internal controls over financial reporting during the period covered by this Quarterly Report.

### Part II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

Not Applicable

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable

#### Item 3. Defaults Upon Senior Securities.

Not applicable

#### Item 4. Submission of Matters to a Vote of Security Holders.

The Registrant's Annual Meeting of Stockholders was held on March 10, 2005. At the meeting, Stockholders considered and voted upon:

- (1) the election of seven (7) directors to Synergx's Board of Directors,
- (2) the selection of Marcum & Kleigman LLP as Synergx's independent auditors for the fiscal year ending September 2005

The seven nominees for director were unopposed and were, accordingly elected by the Stockholders. The following table details the votes cast for, against and abstained from voting on each matter considered by the Stockholders.

MATTER	FOR	AGAINST	ABSTAINED
Daniel Tamkin	4,354,648	315,368	N/A
John Poserina	4,621,224	48,792	N/A
Henry Schnurbach	4,386,844	283,172	N/A
Joseph Vitale	4,361,458	308,558	N/A
Dennis McConnell	4,346,706	323,310	N/A
J Ian Dalrymple	4,621,890	48,126	N/A
Mark I. Litwin	4,621,258	48,758	N/A

Edgar Filing: SYNERGX SYSTEMS INC - Form 10QSB

Auditors	4,633,831	35,799	386
----------	-----------	--------	-----

Item 5. Other Information.

Item 6. Exhibits and Reports on form 8-K.

(a) Exhibits

31.1 Certification of Daniel S. Tamkin pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of John A. Poserina pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certifications of Daniel S. Tamkin and John A. Poserina pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Part II - OTHER INFORMATION

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYNERGX SYSTEMS INC  
(Registrant)

/s/ John A. Poserina

-----  
John A. Poserina,  
Chief Financial Officer  
(Principal Accounting and  
Financial Officer), Secretary  
And Director

Date: May 12, 2005