

SYNERGX SYSTEMS INC
Form 10QSB
May 15, 2008

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
2008

March 31,

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)
Number)

(IRS employer identification

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

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) 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 15, 2007, 5,210,950 shares of Registrant's Common Stock were issued and outstanding.

Transitional Small Business Disclosure Format (check one) Yes No

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SYNERGX SYSTEMS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	March 31, 2008
ASSETS	
CURRENT ASSETS	
Cash	\$ 562,080
Accounts receivable, principally trade, less allowance for doubtful accounts of \$348,101	4,846,041
Inventories, net	1,734,268
Deferred taxes, less valuation allowance of \$444,800	280,100
Prepaid expenses and other current assets	876,521
TOTAL CURRENT ASSETS	8,299,010
 PROPERTY AND EQUIPMENT -at cost, less accumulated depreciation and amortization of \$1,953,564	 828,902
 OTHER ASSETS	 138,844
TOTAL ASSETS	\$ 9,266,756

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

March 31,
 2008

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Note payable to bank	\$ 787,504
Notes payable - current portion	26,005
Accounts payable and accrued expenses	2,052,379
Deferred revenue	1,186,440

TOTAL CURRENT LIABILITIES 4,052,328

Notes payable - less current portion	71,871
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TOTAL LIABILITIES 4,124,199

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 5,210,950 shares	5,211
Additional Paid in Capital	6,846,255
Accumulated deficit	(1,708,909)

TOTAL STOCKHOLDERS' EQUITY 5,142,556

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 9,266,756

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

For the Three Months Ended March 31,

2008

2007

Product sales	\$	3,433,356	\$	2,718,668
Subcontract sales		353,155		59,511
Service revenue		1,311,946		1,285,596
Total revenues		5,098,457		4,063,775
Cost of product sales		2,883,271		2,103,219
Cost of subcontract sales		307,224		48,227
Cost of service revenue		671,400		699,632
Selling, general and administrative		1,559,271		1,321,570
Depreciation and amortization		58,621		41,523
Total operating expenses		5,479,787		4,214,171
(Loss) from operations		(381,330)		(150,396)
Other income (expenses)				
Interest expense		(35,284)		(39,732)
Gain on equity investment				82,673
		(35,284)		42,941
(Loss) before provision for income taxes		(416,614)		(107,455)
Provision for income taxes:				
Current		3,000		
Deferred		50,000		47,000
		53,000		47,000
Net (loss)		(469,614)		(154,455)
(Loss) Per Common Share				
Basic and diluted (loss) Per Share	\$	(0.09)	\$	(0.03)
Weighted average number of common share equivalents outstanding basic and dilutive		5,210,950		5,210,950

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Six Months ended March 31,	
	2008	2007
Product sales	\$ 7,234,564	\$ 5,040,891
Subcontract sales	502,767	166,700
Service revenue	2,632,872	2,511,279
Total revenues	10,370,203	7,718,870
Cost of product sales	6,017,049	3,537,698
Cost of subcontract sales	429,824	134,387
Cost of service revenue	1,248,152	1,418,089
Selling, general and administrative	2,889,994	2,799,002
Depreciation and amortization	108,622	81,546
Total operating expenses	10,693,641	7,970,722
(Loss) from operations	(323,438)	(251,852)
Other income (expenses):		
Interest expense	(82,814)	(64,602)
Gain on equity investment	-	82,673
	(82,814)	18,071
(Loss) before provision for income taxes	(406,252)	(233,781)
(Benefit) provision for income taxes:		
Current	3,000	2,000
Deferred	50,000	(12,000)
	53,000	(10,000)
Net (loss)	\$ (459,252)	\$ (223,781)
(Loss) Per Common Share:		
Basic and diluted (loss) Per Share	\$ (0.09)	\$ (0.04)
Weighted average number of common share equivalents outstanding basic and dilutive	5,210,950	5,210,950

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,	
	2008	2007
OPERATING ACTIVITIES		
Net (loss) from operations	\$ (459,252)	\$ (223,781)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization *	122,872	95,796
Deferred taxes (benefit)	50,000	(12,000)
Share-based compensation	14,314	15,716
Gain on sale of equity investment		(82,673)
Changes in operating assets and liabilities:		
Accounts receivable, net	1,620,270	825,586
Inventories, net	307,124	(254,174)
Prepaid expenses and other current assets	68,233	(446,215)
Other assets	(37,290)	(635)
Accounts payable and accrued expenses	(413,168)	(215,958)
Deferred revenue	356,436	16,088
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,629,540	(282,250)
INVESTING ACTIVITIES		
Proceeds from note receivable	68,182	9,218
Purchases of property and equipment	(92,639)	(151,327)
NET CASH (USED IN) INVESTING ACTIVITIES	(24,457)	(142,109)
FINANCING ACTIVITIES		
Principal payments on notes payable	(13,032)	(13,519)
Payments and proceeds from note payable bank - net	(1,283,062)	463,693
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,296,094)	450,174
NET INCREASE IN CASH	308,989	25,815
Cash at beginning of the period	253,091	272,908
Cash at end of the period	\$ 562,080	\$ 298,723

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:

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Income taxes	\$	10,800	\$	4,700
Interest	\$	80,937	\$	66,613

* Depreciation of \$14,250 is included in cost of product and service sales for the six months ended March 31, 2008 and 2007.

During the three months ended March 31, 2008, the Company purchased equipment of \$21,798 through financing.

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. BASIS OF PRESENTATION

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 not to make the financial statements misleading have been included. Results for the three and six months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008. 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, 2007.

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 (train station platforms and on board systems) and communication (paging, announcement and audio/visual). Product sales represent sales of products along with the integration of technical services at a fixed price under a contract with an electrical contractor or end user customer (building owner or tenant), or customer agent. Product sales for long term contracts are recognized, using the percentage-of-completion method of accounting. 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 \$305,000 at March 31, 2008 and have been included in other current assets. Billings in excess of costs and estimated profits were \$411,000 at March 31, 2008 and have been included in deferred revenue. Product sales for short term contracts are recognized when the services are preformed or the product has been delivered, which is when title to the product and risk of loss have been substantially transferred to the customer and collection is reasonably assured.

Subcontract sales principally represent revenues 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. Revenue is recognized when these services are preformed at the job site.

Service revenue from separate maintenance contracts is recognized on a straight-line basis over the terms of the respective contract, which is generally one year. The unearned service revenue from these contracts is included in current liabilities as deferred revenue. Non-contract service revenue is recognized when services are performed.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3. SIGNIFICANT CUSTOMERS

The Company does business directly and indirectly through electrical contractors to New York City Transit Authority. Net sales to this authority represented approximately 29% and 26%, respectively of total net sales in the three and six months ended March 31, 2008. Net sales with this authority represented approximately 16% and 15%, respectively of total net sales in the three and six months ended March 31, 2007. One customer provided sales of 10% or more of total sales in the six months ended March 31, 2008 and another customer provided sales of 10% or more of total sales in the three months ended March 31, 2007. Accounts receivable from significant customers amounted to \$736,000 at March 31, 2008.

4. INVENTORIES

Inventories are priced at the lower of cost (first-in, first-out) or market and consist primarily of raw materials and, at March 31, 2008 reflect an inventory allowance of \$455,000 with respect to slow moving or obsolete items.

5. NOTE PAYABLE BANK

The Company has a \$3.5 million revolving credit facility with TD Banknorth (“the Bank”) (the “Credit Facility”). The Credit Facility has an annual interest rate of prime plus ¼% on outstanding balances (5.50% at March 31, 2008) and was to expire in January 2008. On December 28, 2007, the credit facility was extended to expire on January 31, 2009. In connection with this extension, the Company agreed to pay 1% of the credit facility (\$35,000) as a commitment and closing fee. This fee will be amortized from February 1, 2008 through January 31, 2009. The Company intends to extend or refinance the credit facility by its expiration date. In view of the Company’s ample working capital collateral, which is far in excess of its present and anticipated credit line, the Company believes suitable financing will be available from its present lender or another lender, if necessary. 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 accounts receivable and inventories.

At March 31, 2008, the full amount of the Credit Facility was available under the borrowing base calculation and \$787,504 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, 2008, the Company did not meet one of its financial covenants related to its net worth requirement. However, the requirement of this covenant was waived by the Bank as of March 31, 2008. There can be no assurance that future waivers will be secured if required

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

6. STOCK OPTIONS

A summary of the option activity under the plan as of March 31, 2008 and changes during the six months ended March 31, 2008 are presented below:

Options

	2007	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Weighted Average Intrinsic Value	Weighted Average Grant Date Fair Value
Outstanding October 1, 2007	116,000	\$ 2.43			1.21
Granted	--				
Exercised	--				
Outstanding March 31, 2008	116,000	2.43	2.8 Yrs	-0-	1.21
Exercisable at March 31, 2008	65,600	2.48	2.0 Yrs	-0-	1.21

A summary of the option activity of nonvested shares at March 31, 2008, and changes during the six months ended March 31, 2008 is presented below:

	Weighted Average Grant Date Fair Value		Weighted Average Grant Date Fair Value
Nonvested at October 1, 2007	73,600		\$1.25
Vested	23,200	1.21	
Nonvested at March 31, 2008	50,400		\$1.21

The Company has \$58,419 of stock based compensation expense remaining to be expensed over the period April 2008 through January 2012.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 7. INCOME TAXES

Effective October 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. Differences between tax positions taken or expected to be taken in a tax return and the benefit recognized and measured pursuant to the interpretation are referred to as "unrecognized benefits". A liability is recognized (or amount of net operating loss carry forward or amount of tax refundable is reduced) for an unrecognized tax benefit because it represents an enterprise's potential future obligation to the taxing authority for a tax position that was not recognized as a result of applying the provisions of FIN 48.

In accordance with FIN 48, interest costs related to unrecognized tax benefits are required to be calculated (if applicable) and would be classified as "Interest" expense in the consolidated statements of operations. Penalties would be recognized as a component of "Other administrative expenses".

The adoption of the provisions of FIN 48 did not have a material impact on the Company's financial position and results of operations. As of March 31, 2008, no liability for unrecognized tax benefits was required to be recorded. However, there are certain tax years that remain subject to examination by relevant tax authorities. The Company files income tax returns in the United States (federal) and in various state and local jurisdictions in which the Company does its business. The Company is no longer subject to federal, state and local income tax examinations by tax authorities for years prior to the fiscal year ended September 30, 2004. The Company believes that its income tax positions and deductions would be sustained on audit and does not anticipate any adjustments that would result in a material change to its financial position.

The components of deferred taxes assets and liabilities at March 31, 2008 consists of the following:

Deferred Tax Assets	
Allowance for doubtful accounts	\$ 140,000
Inventory reserve	162,000
Net operating loss carryforward (through 2026)	486,700
Other	(63,800)
Total Deferred Tax Asset	\$ 724,900
Valuation Allowance	(444,800)
Net Deferred Tax Asset	\$ 280,100

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers projected future taxable income and tax planning strategies in making this assessment. The Company anticipates profitable operations to resume at a level that will result in the utilization of a portion of the deferred tax assets. Accordingly, a partial valuation allowance in the amount of \$330,000 was established during the year ended September 30, 2007 and such reserve amount was increased to \$444,800 at March 31, 2008. The valuation allowance will be maintained until

sufficient positive evidence exists to support the reversal of any portion or all of the valuation allowance net of appropriate reserves.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 8 RECENT PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). SFAS 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. Upon adoption of SFAS 160, the Company would be required to report any noncontrolling interests as a separate component of stockholders' equity. The Company would also be required to present any net income allocable to noncontrolling interests and net income attributable to the stockholders of the Company separately in its consolidated statements of income. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 shall be applied prospectively. SFAS 160 would have an impact on the presentation and disclosure of the noncontrolling interests of any non wholly-owned businesses acquired in the future.

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141R, "Business Combinations" ("SFAS 141R"), which replaces SFAS No. 141, "Business Combinations." SFAS 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. SFAS 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS 141R will be applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R would have an impact on accounting for any businesses acquired after the effective date of this pronouncement.

NOTE 9. SUBSEQUENT EVENT

On April 21, 2008, the Company received a letter (the "Letter") from The NASDAQ Stock Market ("NASDAQ") notifying the Company that for the last 30 consecutive days, the bid price of the Company's common stock has closed below the minimum \$1.00 per share requirement for continued inclusion under Marketplace Rule 4310(c)(4) (the "Rule"). The Company has been provided with 180 calendar days (until October 20, 2008) to regain compliance. The Letter states that if, at any time before October 20, 2008, the bid price of the Company's common stock closes at \$1.00 per share for a minimum of 10 consecutive business days, then NASDAQ will provide the Company with written notification that it has complied with the Rule.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 9. SUBSEQUENT EVENT (continued)

If compliance with the Rule cannot be demonstrated by October 20, 2008, then NASDAQ will decide whether the Company meets NASDAQ's listing criteria set forth in Marketplace Rule 4310(c), except for the bid requirement. The Letter states that, if the Company meets these criteria, then the Company will be granted an additional 180 calendar day compliance period. If the Company is not granted an additional 180 calendar period, the NASDAQ will provide written notification that the Company's securities will be delisted.

Management and the Board of Directors will consider available strategies in order to satisfy the minimum bid price requirement, however there can be no assurance that the Company will be able to maintain the listing of its common stock on the NASDAQ Global market.

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

Liquidity and Capital Resources

The Company has a \$3.5 million revolving credit facility with TD Banknorth, N.A. ("the Bank") (the "Credit Facility"). The Credit Facility has an annual interest rate of prime plus $\frac{1}{4}\%$ and expires January, 31, 2009. Advances under the Credit Facility are measured against a borrowing base calculated on eligible receivables and inventory. 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, 2008, the Company did not meet one of its financial covenants related to its net worth requirement. However, the requirement of this covenant was waived by the Bank as of March 31, 2008. There can be no assurance that future waivers will be secured if required. At March 31, 2008, the full amount of the Credit Facility was available under the borrowing base calculation and \$787,504 was owed under the Credit Facility.

Net cash provided by operations for the six months ended March 31, 2008 amounted to \$1,629,540 as compared to cash being used in operations of \$282,250 for the comparable prior year. The increase in cash provided by operations was primarily due to \$1,863,139 being provided from operating assets and liabilities (net) as compared to a use of \$75,308 during the prior year period. This improvement in 2008 primarily resulted from a \$1,620,270 reduction of accounts receivable even though sales were higher during the 2008 six month period. This resulted from higher collection of accounts receivable compared to collections in the 2007 period. In addition, inventories decreased \$307,124 during 2008 as compared to an increase of \$254,174 during 2007. These improvements result from enhanced procedures relating to collection and inventory management and the completion of long standing projects involving retainage.

In 2008, the net cash inflow of \$1,629,540 from operations plus \$68,182 of cash proceeds from collection of a note receivable was partially used for equipment purchases of \$92,639 and the remaining balance primarily used to reduce the note payable to bank by \$1,283,062 with \$314,000 being added to the Company's cash balance.

The ratio of the Company's current assets to current liabilities decreased slightly to approximately 2:05 to 1 at March 31, 2008 compared to 2.18 to 1 at March 31, 2007. Working capital declined to \$4,246,682 million at March 31, 2008 compared to \$4,961,245 million at March 31, 2007. This decline is related to funding operations during the past twelve month period.

The Company expects to extend or refinance its bank loan before its maturity on January 31, 2009. In view of the Company's working capital collateral, which is in excess of its present and anticipated credit line, the Company believes suitable financing will be available from its present lender or another lender, if necessary. The Company anticipates that its existing capital resources and funds expected to be received from operations will be sufficient to satisfy its cash flow requirements through March 31, 2009.

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

Results of Operations

Revenues and Gross Profit

	Three Months Ended March 31, 2008		Six Months Ended March 31, 2008	
	2007	2007	2008	2007
	(In thousands of dollars)			
Product Revenue	\$ 3,433	\$ 2,719	\$ 7,235	\$ 5,041
Subcontract Revenue	353	60	503	167
Service Revenue	1,312	1,285	2,633	2,511
Total Revenue	\$ 5,098	\$ 4,064	\$ 10,370	\$ 7,719
Gross Profit Product	550	616	1,218	1,503
Gross Profit Subcontract	46	12	73	33
Gross Profit Service	641	585	1,385	1,093
Total Gross Profit	\$ 1,237	\$ 1,213	\$ 2,676	\$ 2,629
Gross Margin Product %	16%	23%	17%	30%
Gross Margin Subcontract%	13%	20%	15%	20%
Gross Margin Service %	49%	46%	53%	44%

Revenues

The Company's product revenues, during the three and six months ended March 31, 2008, increased 26% and 44% from the respective 2007 periods. These increases in product revenues primarily resulted from higher transit products particularly from a \$5.0 million project for a New York City subway station security system. Revenues of \$262,000 and \$1.5 million from this project were included in the three and six month periods of 2008, respectively.

Subcontract revenue increased during the current three and six month periods as the Company was responsible for one large electrical installation project and several small projects in the 2008 periods.

Service revenues increased 2% and 5% during the three and six month periods of 2008 compared to the respective 2007 periods. The increase in both periods is due to an increase in call-in-service on fire alarm systems (replacement parts and service required by buildings).

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

Gross Profit

Gross profit on product revenues for the three months ended March 31, 2008 decreased 7% to \$550,000 compared to the respective 2007 period notwithstanding increased revenues. Gross profit on product revenues for the six months ended March 31, 2008 decreased 13% to \$1,218,000. The decline in absolute gross profit margin and the decreases in gross margin percentage are primarily attributable to a shift in product mix to lower margin sales of audio visual and transit projects in 2008. While recent audio-visual and transit projects do involve a lower gross profit percent than the Company's product mix over the last few years (which was weighted more to life safety), the Company has not yet begun to benefit from the greater revenue levels commensurate with its increased order position which should result in stronger gross margin dollars, notwithstanding the lower gross profit percent.

Gross profit related to subcontract revenues for the three and six months ended March 31, 2008, increased in absolute terms due to the increase in revenue related to electrical installation during these periods.

Gross profit on service revenues for the three and six months ended March 31, 2008, primarily increased as a result of a combination of additional revenue from call-in-service on fire alarm systems (replacement parts and service required on buildings) and from certain reductions in the number of service technicians as the Company reduced its customer support staffing levels during 2008. These support levels for certain service activities have been review and are expected to increase for future periods.

Loss from Operations

The \$231,000 increase in loss from operations during the three months ended March 31, 2008 includes \$24,000 of higher gross profit margin compared to the prior year period (principally from service revenues as noted above) that was offset by an increase of \$237,000 in selling, general & administrative costs, which includes a provision of \$192,000 for separation costs related to the resignation of the President of Casey System Inc. and additional costs for a development program to modernize components of the Company's proprietary Comtrak fire alarm system. This program is expected to generate future revenue and is designed to allow a building owner to enhance the capabilities of its fire alarm system at a fraction of the cost of a new system replacement and is expected to generate future revenues to the Company as well as extend the useful life of the installed base of the Company's proprietary Comtrak system. Depreciation expense increased in 2008 primarily due to a new computer system implementation. The \$72,000 increase in loss from operations during the six months ended March 31, 2008 occurred notwithstanding a \$47,000 improvement in gross profit margin compared to the prior year period. The improvement in gross profit was primarily due to higher service revenues and related gross margin and reductions in customer support staffing. The improvement in gross profit margin was offset by a \$91,000 increase in selling, general, and administrative expenses, which included the \$192,000 provision for separation costs (noted above) and from additional developmental costs for modernizing the Comtrak fire alarm system. In contrast the six month period of 2007 included \$96,000 of investment banking and legal expenses related to exploring strategic options. Depreciation expense also increased for the six months of 2008 and is related to the improvements to the Company's computer operating system.

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

Interest expense decreased during the three months ended March 31, 2008 due to a decline in interest rates. Interest expense increased during the six months ended March 31, 2008 due to the effect of higher average borrowing levels throughout the period.

For the six month period of 2007, the Company recorded a gain of \$82,673 on the sale of its investment in Secure 724 LP, which investment was fully impaired in September 2006.

Tax Provision

The Company's deferred income tax expense for the three and six months periods of 2008 includes a \$50,000 valuation allowance for the future utilization of the Company's deferred tax asset. In addition, no current income tax benefit was recorded for the operating loss in 2008. Therefore the valuation allowance for the six months ended March 31, 2008 was increased by \$114,000.

Order Position

The Company's order position, excluding service, at March 31, 2008 was \$12,900,000 as compared to \$11,100,000 at September 30, 2007 and \$13,300,000 at March 31, 2007. The order position at March 31, 2008 resulted from the Company receiving recent new orders for transit projects. This order position includes large orders received for several subway complexes which will be deliverable over several years as the projects are released. 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.

Significant Customers

The Company does business directly and indirectly through electrical contractors to New York City Transit Authority. Net sales to this authority represented approximately 29% and 26%, respectively of total net sales in the three and six months ended March 31, 2008. Net sales with this authority represented approximately 16% and 15%, respectively of total net sales in the three and six months ended March 31, 2007. However, one customer provided sales of 10% or more of total sales in the six months ended March 31, 2008. Accounts receivable from significant customers amounted to \$736,000 at March 31, 2008.

Other

On April 21, 2008, the Company received a letter from the NASDAQ Stock Market notifying the Company that for the last 30 consecutive days, the bid price of the Company's common stock has closed below the minimum \$1.00 per share requirement for continued inclusion in the NASDAQ Stock Market. The Company has been provided with 180 calendar days (until October 20, 2008) to regain compliance.

Management and the Board of Directors will consider available strategies in order to satisfy the minimum bid price requirement, however there can be no assurance that the Company will be able to maintain the listing of its common

stock on the NASDAQ Global Market.

Item 3. Controls and Procedures Evaluation of disclosure controls and procedures.

At the period end of this 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.

There have been no changes in the Company's internal controls over financial reporting 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.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Because of the inherent limitations in all control systems no evaluation of control can provide absolute assurance that all control issues, if any, within a company have been detected. Such limitations include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures, such as simple errors or mistakes or intentional circumvention of the established process.

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 27, 2008. 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 & Kliegman LLP as Synergx's independent auditors for the fiscal year ending September 2008

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	4,383,790	161,435	8,412
John Poserina	4,381,432	163,793	8,408
Harris Epstein	4,447,507	97,718	8,535
Peter Barotz	4,447,407	97,818	8,535
Ronald Fetzer	4,441,060	104,165	8,522
Auditors	4,462,693	69,673	12,858

Item 5. Other Information.

None

Item 6. 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

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

Chief Financial Officer
(Principal Accounting and
Financial Officer), Secretary
And Director

John A. Poserina,

Date: May 14, 2008