

SYNERGX SYSTEMS INC
Form 10QSB
February 14, 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 _____ December 31, 2007 _____

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
(State or jurisdiction of incorporation or organization)
Number) 1-2941299
(IRS employer identification

209 Lafayette Drive, Syosset, New York
(Address of Principal Executive Offices) 11791
(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 January 25, 2008, 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)

| | December 31, 2007 |
|--|-------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash | \$ 538,676 |
| Accounts receivable, principally trade, less allowance for doubtful accounts of \$350,035 | 5,220,848 |
| Inventories, net | 2,211,192 |
| Deferred taxes, less valuation allowance of \$327,500 | 330,100 |
| Prepaid expenses and other current assets | 867,071 |
| TOTAL CURRENT ASSETS | 9,167,887 |
| PROPERTY AND EQUIPMENT -at cost, less accumulated depreciation and amortization of \$1,894,440 | 816,914 |
| OTHER ASSETS | 235,503 |
| TOTAL ASSETS | \$ 10,220,304 |

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEET
 (Unaudited)

| | December 31, 2007 |
|--|----------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES | |
| Notes payable - current portion | \$ 21,310 |
| Accounts payable and accrued expenses | 1,475,973 |
| Deferred revenue | 840,033 |
| TOTAL CURRENT LIABILITIES | 2,337,316 |
| | |
| Note payable to bank | 2,218,123 |
| Notes payable - less current portion | 61,352 |
| TOTAL LIABILITIES | 4,616,791 |
| 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 | 6,839,098 |
| Accumulated deficit | (1,240,796) |
| TOTAL STOCKHOLDERS' EQUITY | 5,603,513 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 10,220,304 |

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 December 31, | |
|--|---|--------------|
| | 2007 | 2006 |
| Product sales | \$ 3,801,208 | \$ 2,322,223 |
| Subcontract sales | 149,612 | 107,189 |
| Service revenue | 1,320,926 | 1,225,683 |
| Total revenues | 5,271,746 | 3,655,095 |
| Cost of product sales | 3,133,778 | 1,434,479 |
| Cost of subcontract sales | 122,600 | 86,160 |
| Cost of service revenue | 576,752 | 718,457 |
| Selling, general and administrative | 1,330,723 | 1,477,432 |
| Depreciation and amortization | 50,001 | 40,023 |
| Total operating expenses | 5,213,854 | 3,756,551 |
| Income (Loss) from operations | 57,892 | (101,456) |
| Interest expense | 47,530 | 24,870 |
| Income (Loss) before provision (benefit) for income taxes | 10,362 | (126,326) |
| Provision (benefit) for income taxes: | | |
| Current | 1,500 | 1,999 |
| Deferred | 0 | (59,000) |
| | 1,500 | (57,000) |
| Net Income (loss) | 8,862 | (69,326) |
| Income (loss) Per Common Share | | |
| Basic income (loss) Per Share | \$ 0.00 | \$ (0.01) |
| Diluted income (loss) Per Share | \$ 0.00 | \$ (0.01) |
| Weighted average number of common shares outstanding | 5,210,950 | 5,210,950 |
| Weighted average number of common and dilutive common share equivalents outstanding | 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 Three Months Ended December 31, | |
|--|---|------------------|
| | 2007 | 2006 |
| OPERATING ACTIVITIES | | |
| Net Income (Loss) from operations | \$ 8,862 | \$ (69,326) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization * | 57,127 | 46,473 |
| Deferred taxes (benefit) | 0 | (59,000) |
| Share-based compensation | 7,157 | 7,857 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 1,245,463 | 580,929 |
| Inventories, net | (169,800) | (291,698) |
| Prepaid expenses and other current assets | (47,317) | (31,587) |
| Income tax receivable | 0 | (936) |
| Other assets | (2,328) | (547) |
| Accounts payable and accrued expenses | (989,574) | (575,983) |
| Deferred revenue | 10,029 | 23,412 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 119,619 | (370,406) |
| INVESTING ACTIVITIES | | |
| Proceeds from note receivable | 68,182 | |
| Purchases of property and equipment | (43,324) | (56,555) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 24,858 | (56,555) |
| FINANCING ACTIVITIES | | |
| Principal payments on notes payable | (6,448) | (6,742) |
| Payments and proceeds from note payable bank - net | 147,557 | 422,581 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 141,109 | 415,839 |
| NET INCREASE (DECREASE) IN CASH | 285,586 | (11,122) |
| Cash at beginning of the period | 253,091 | 272,908 |
| Cash at end of the period | \$ 538,677 | \$ 261,786 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Income taxes | \$ 10,800 | \$ 3,100 |
| Interest | \$ 46,556 | \$ 22,797 |

* Depreciation of \$7,125 and \$6,450 is included in cost of product and service sales for the three months ended December 31, 2007 and 2006, respectively.

See accompanying Notes to the Condensed Consolidated Financial Statements

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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 months ended December 31, 2007 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 \$747,000 at December 31, 2007 and have been included in other current assets. Billings in excess of costs and estimated profits were \$98,000 at December 31, 2007 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. INVENTORIES

Inventories are priced at the lower of cost (first-in, first-out) or market and consist primarily of raw materials and, at December 31, 2007 reflects an inventory allowance of \$437,000 with respect to slow moving or obsolete items.

4. 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 $\frac{1}{4}\%$ on outstanding balances (7.50% at December 31, 2007) 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 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 December 31, 2007, the full amount of the Credit Facility was available under the borrowing base calculation and \$2,218,000 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 December 31, 2007, the Company was in compliance with all of its financial covenants.

5. STOCK OPTIONS

In March 2004, the Company and its stockholders adopted a nonqualified stock option plan (“2004 Plan”), which will expire March 10, 2009, except as to options outstanding under a prior 1997 Plan. Under the 2004 Plan, the Board of Directors may grant options to eligible employees at exercise prices not less than 100% of the fair market value of the common shares at the time the options are granted. The number of shares of Common Stock that may be issued shall not exceed an aggregate of up to 10% of the Company’s issued and outstanding shares from time to time. Options vest at a rate of 20% per year commencing one year after date of grant. Issuances under the 2004 Plan are to be reduced by options outstanding under the prior 1997 nonqualified stock option plan.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Effective October 1, 2006, the Company adopted the fair value recognition provision of Statement of Financial Accounting Standards ("SFAS") No. 123R "Accounting for Share-Based Payment Compensation," (Revised 2004), disclosure requirements of SFAS No. 123R, using the modified-prospective-transition method for stock options and similar equity instruments (collectively, "Options") issued to employees. (As a result, share-based compensation amounted to \$7,157 and \$ 7,857 for the three months ended December 31, 2007 and 2006, respectively).

The Company has \$65,576 of stock based compensation expense remaining to be expensed over the period January 2008 through January 2012.

A summary of the option activity under the plan as of December 31, 2007 and changes during the three months ended December 31, 2007 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 December 31, 2007 | 116,000 | \$ 2.43 | 2.8 Yrs | \$ -0- | \$ 1.24 |
| Exercisable at December 31, 2007 | 42,400 | \$ 2.50 | 2.2 Yrs | \$ -0- | \$ 1.21 |

A summary of the option activity of nonvested shares at December 31, 2007, and changes during the three months ended December 31, 2007 is presented below:

| Average Grant Date | Weighted Fair Value | | |
|---------------------------------|------------------------|--------|--------|
| Nonvested at October 1, 2007 | | 73,600 | \$1.25 |
| Vested | | | -- |
| Granted | | | -- |

Nonvested at December 31,
2007

73,600

\$1.25

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SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

6. EARNINGS (LOSS) PER SHARE

The Financial Accounting Standards Board issued "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.

| | For the Three Months ended December 31, | |
|---|--|-------------|
| | 2007 | 2006 |
| Basic EPS Computation | | |
| Net Income (loss) | \$ 8,862 | \$ (69,326) |
| Weighted average outstanding shares | 5,210,950 | 5,210,950 |
| Basic (Loss) per share | \$ -0- | \$ (.01) |
| Diluted EPS Computation | | |
| Net Income (loss) | \$ 8,862 | \$ (69,326) |
| Weighted-average shares | 5,210,950 | 5,210,950 |
| Plus: Incremental shares from assumed conversions | | |
| Employee Stock Options* | -- | -- |
| Adjusted weighted-average shares | 5,210,950 | 5,210,950 |
| Diluted (Loss) per share | \$ -0- | \$ (.01) |

*All stock options were antidilutive in 2007 and 2006. However, there were 116,000 stock options outstanding at December 31, 2007 that may not be antidilutive in the future.

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.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 December 31, 2007, 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 Company recognized a deferred tax asset of approximately \$565,000 as of December 31, 2007, relating to net operating loss carryovers of approximately \$355,000, allowance for doubtful accounts of \$140,000 and inventory reserves of \$148,000, which are available to offset future taxable income through 2026.

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 amounted to \$327,500 at December 31, 2007. 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.

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.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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.

9. Subsequent Event.

Effective February 13, 2008, an officer of Casey Systems Inc. resigned and the details related thereto will be reported in a Form 8-K filing.

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 was to expire in January, 2008. On December 28, 2007, the Credit Facility was amended to extend the facility to expire on 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 December 31, 2007 the full amount of the Credit Facility was available under the borrowing base calculation and \$2,218,000 was owed under the Credit Facility.

Net cash provided by operations for the three months ended December 31, 2007 amounted to \$119,619 as compared to cash being used in operations of \$370,406 for the comparable prior year. The increase in cash provided by operations was primarily due to an increase of \$665,000 in the net amount of accounts receivable collected compared to collections in the 2006 period.

In 2007, the net cash inflow of \$119,619 from operations plus \$68,182 of cash proceeds from collection of a note receivable was partially used for equipment purchases of \$43,324 and the remaining balance along with an increase in note payable to bank of \$147,557 was added to the Company's cash balance.

The ratio of the Company's current assets to current liabilities decreased slightly to approximately 3.92 to 1 at December 31, 2007 compared to 3.64 to 1 at December 31, 2006. However, working capital increased to \$6.8 million at December 31, 2007 compared to \$6.5 million at December 31, 2006.

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

Results of Operations

Revenues and Gross Profit

| | Three Months Ended December 31, | |
|----------------------------|------------------------------------|----------|
| | 2007 | 2006 |
| | (In thousands of dollars) | |
| Product Revenue | \$ 3,801 | \$ 2,322 |
| Subcontract Revenue | 150 | 107 |
| Service Revenue | 1,321 | 1,226 |
| Total Revenue | \$ 5,272 | \$ 3,655 |
| Gross Profit Product | \$ 667 | \$ 888 |
| Gross Profit Subcontract | 27 | 21 |
| Gross Profit Service | 744 | 507 |
| Total Gross Profit | \$ 1,438 | \$ 1,416 |
| Gross Profit Product % | 18% | 38% |
| Gross Profit Subcontract % | 18% | 20% |
| Gross Profit Service % | 56% | 41% |
| Total Gross Profit % | 27% | 39% |

Revenues

The Company's product revenues increased 64% during the three months ended December 31, 2007 to \$3,801,000 compared to \$2,322,000 for the prior year period. This increase in product revenues primarily resulted from higher transit and audio/visual products particularly from a \$5.0 million project for a New York City subway station security system. Revenues of \$1.2 million from this project were included in the three month period of 2007. There is approximately \$350,000 remaining on the contract and the contract is currently anticipated to be completed by April 1, 2008. Product revenues of \$312,000 were also included in the three month period of 2007 from a large public address system.

Subcontract revenue increased during the current three month period to \$150,000 from \$107,000 in the comparable prior year period. The Company was responsible for various small electrical installations during both the 2007 and 2006 periods.

Service revenues increased 8% during the current three month period primarily due to an increase in call-in-service on fire alarm systems (replacement parts and service required by buildings).

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

Gross Profit

Gross profit from product revenues for the three months ended December 31, 2007 decreased 25% to \$667,000 compared to \$888,000 for the prior year period notwithstanding increased revenues. The decline in absolute gross margin and the 20% decrease in gross margin percentage are primarily related to a shift in product mix to lower margin sales in 2007. In particular, the 2007 period included a very low gross margin public address system. The Company is attempting to increase markups where it offers unique or specialty capabilities while maintaining a focus on revenue growth.

Gross profit related to subcontract revenues for the three months ended December 31, 2007 increased in absolute terms due to the increase in revenue related to electrical installation. However, the gross profit percentage was lower during the three months of 2007 as mark ups on electrical installations were lower than the prior year period.

Gross profit from service revenues increased \$237,000 to \$744,000 during the three months ended December 31, 2007 as a result of a combination of additional revenue from call-in-service on fire alarm systems (replacement parts and service required by buildings) and from certain reductions in the number of service technicians as the Company reduced its customer support staffing levels during 2007.

Income (Loss) Before Tax

The \$137,000 increase in income before income taxes during the three months ended December 31, 2007 reflects an \$213,000 improvement in gross margin from service revenues related to higher call-in-service revenue and the effect of certain staff reductions. This improvement was offset by the decrease in gross margin from product revenues caused by projects with low gross margins. Accordingly, the improvement in income before taxes is primarily attributed to a decrease of \$147,000 or 10% in selling, general and administrative expenses, which resulted from savings related to certain reductions in administrative and marketing personnel. The 2006 three month period include \$96,000 of investment banking and legal expenses related to exploring strategic options. The above selling, general and administrative savings were partially offset by an increase in interest expense caused by higher borrowing levels during 2007.

Tax Provision

The Company's current income tax expense for 2007 represents state and local income taxes. There was no federal income tax provision in 2007 due to the use of the company's net operating loss carryforward and the reduction in the valuation allowance.

Management's Discussion and Analysis of Financial
Condition and Results of Operations

Product Order Position

The Company's order position, excluding service contracts, at December 31, 2007 was \$9,800,000 as compared to \$11,100,000 at September 30, 2007 and \$7,500,000 at December 31, 2006. The Company has secured letters of intent on a number of large projects but contract negotiations continue and there can be no assurance that all or any such work will be secured. 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.

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.

None

Item 5. Other Information.

None

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

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: February , 2008