SYNERGX SYSTEMS INC
Form 10QSB
August 14, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended June 30, 2006

[ ] 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[X] 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 August 7, 2006, 5,210,950 shares of Registrant's Common Stock were issued and outstanding.

Transitional Small Business Disclosure Format (check one) Yes[ ] No[X]

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SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2006
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 491,630
Accounts receivable, principally trade, less allowance for doubtful accounts of $323,523	5,127,722
Inventories, net	2,396,388
Deferred taxes	312,700
Prepaid expenses and other current assets	343,196
Income Tax Receivable	226,000
TOTAL CURRENT ASSETS	8,897,636
PROPERTY AND EQUIPMENT -at cost, less accumulated depreciation and amortization of $1,537,063	731,731
OTHER ASSETS	590,781
TOTAL ASSETS	$10,220,148

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	June 30, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Note payable to bank	$ 909,138
Notes payable - current portion	$15,106
Accounts payable and accrued expenses	2,003,861
Deferred revenue	732,991
TOTAL CURRENT LIABILITIES	3,661,096
Notes payable - less current portion	46,600
Deferred taxes	90,000
TOTAL LIABILITIES	3,797,696
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
Capital in excess of par	6,803,992
Accumulated deficit	(386,751)
TOTAL STOCKHOLDERS' EQUITY	6,422,452
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$10,220,148

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months 2006

Product sales	$2,455,869
Subcontract sales	126,782
Service revenue	1,348,117
Total revenues	3,930,768
Cost of product sales	1,764,823
Cost of subcontract sales	103,115
Cost of service revenue	701,758
Selling, general and administrative	1,426,133
Interest expense	27,610
Depreciation and amortization	37,461
Loss on equity investment	18,000
	4,078,900
(Loss) income before (benefit) provision for income taxes	(148,132)
(Benefit) provision for income taxes:	
Current	5,000
Deferred	(55,000)
	(50,000)
(Loss) income from continuing operations	(98,132)
Discontinued operations (Note 7):	
(Loss) income from discontinued operations	(12,782)
Income tax (benefit) provision	(4,000)
(Loss) income from discontinued operations	(8,782)
Net (Loss) income	$ (106,914)
(Loss) income per common share	
Basic (loss) income from continuing operations	$ (0.02)
Basic (loss) income from discontinued operations	(0.00)
Basic (loss) income Per Share	($0.02)
Diluted (loss) income from continuing operations	($0.02)
Diluted (loss) income from discontinued operations	(0.00)
Diluted (loss) income Per Share	$ (0.02)
Weighted average number of common shares outstanding	5,210,950
Weighted average number of common and dilutive common share equivalents outstanding	5,210,950

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Nine Months Ended June 2006	2005
Product sales	$ 7,122,271	$ 8,574,341
Subcontract sales	430,067	460,133
Service revenue	3,817,752	3,477,595
Total revenues	11,370,090	12,512,069
Cost of product sales	5,241,970	5,924,552
Cost of subcontract sales	343,755	376,403
Cost of service revenue	2,052,553	2,268,770
Selling, general and administrative	4,016,175	3,657,021
Interest expense	81,189	61,445
Depreciation and amortization	115,657	132,182
Loss on equity investment	60,000	55,000
	11,911,299	12,475,373
(Loss) income before (benefit) provision from income taxes	(541,209)	36,696
(Benefit) provision from income taxes:		
Current	(178,000)	22,000
Deferred	(35,000)	
	(213,000)	22,000
(Loss) income from continuing operations	(328,209)	14,696
Discontinued operations (Note 7):		
Loss from discontinued operations	(147,636)	(113,855
Income tax benefit	(48,000)	(39,000
Loss from discontinued operations	(99,636)	(74,855
Net (loss)	$ (427,845)	$ (60,159
(Loss) Per Common Share:		
Basic (loss) income from continuing operations	($0.06)	$0.00
Basic (loss) from discontinued operations	($0.02)	-$0.01
Basic (loss) Per Share	($0.08)	-$0.01
Diluted (loss) income from continuing operations	($0.06)	$0.00
Diluted (loss) from discontinued operations	($0.02)	-$0.01
Diluted (loss) Per Share	($0.08)	-$0.01

Weighted average number of common shares outstanding	5,204,742	5,164,922
Weighted average number of common and dilutive common share equivalents outstanding	5,204,742	5,164,922

See accompanying Notes to the Condensed Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Mont 2006
OPERATING ACTIVITIES	
Net (Loss) income from continuing operations	$ (328,209)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:	
Depreciation and amortization *	126,352
Deferred tax (benefit)	(35,000)
Loss on equity investment	60,000
Tax benefit from employees stock option exercise	10,000
Changes in operating assets and liabilities:	
Accounts receivable, net	1,965,395
Inventories	(188,729)
Prepaid expenses and other current assets	(75,302)
Income Tax Receivable	(226,000)
Other assets	(66,922)
Accounts payable and accrued expenses	(907,861)
Deferred revenue	178,656
Net cash provided by continuing operations	512,380
Net cash (used by) operating activities of discontinued operation	(369,462)
NET CASH PROVIDED BY OPERATING ACTIVITIES	142,918
INVESTING ACTIVITIES	
Purchases of property and equipment	(198,463)
Net cash (used in) continuing operations	(198,463)
Proceeds from sale of discontinued operations	518,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	319,537
FINANCING ACTIVITIES	
Principal payments on notes payable	(30,723)
Payments and proceeds from note payable bank - net	(540,168)

Proceeds from exercise of stock options and warrants	9,416
NET CASH (USED IN) FINANCING ACTIVITIES	(561,475)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(99,020)
Cash and cash equivalents at beginning of period	590,650
Cash and cash equivalents at end of period	$ 491,630
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid during the period for:	
Income taxes	$ 45,070
Interest	$ 82,150

NON-CASH INVESTING AND FINANCING ACTIVITIES

Included in the nine months ended June 30, 2006, was the purchase of equipment for $54,716 through financing.

* Depreciation of $10,695 and $12,083 is included in cost of product sales for the nine months ended June 30, 2006 and 2005, respectively.

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 nine months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2006. 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, 2005.

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 product along with the integration of technical services at a fixed price under a contract with an electrical contractor or end user customer (building owner and tenant) or customer agent. Product sales are allocated using a constant gross profit percentage over the entire contract, and are 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 June 30, 2006 and 2005 and have been included in accounts receivable. There were no billings in excess of costs and estimated profits at June 30, 2006 and 2005.

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. The subcontract revenue element of the contract (carrying its own gross margin) 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. 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.

3. RECLASSIFICATION

Certain accounts in the prior period financial statements have be reclassified for comparison purposes to conform to the presentation in the current period financial statements. These classifications have no effect on the previously reported net loss.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4. INVENTORIES

Inventories are priced at the lower of cost (first-in, first-out) or market and consist primarily of raw materials and at June 30, 2006 reflects an inventory allowance of $370,000.

5. NOTE PAYABLE TO BANK

The Company has a $3 million revolving credit facility with Hudson United Bank (the "Credit Facility"). The Credit Facility carries an annual interest rate of prime plus 1/4% on outstanding balances (8.25% at June 30, 2006) and expires 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 June 30, 2006, the full amount of the Credit Facility was available under the borrowing base calculation and $909,138 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 June 30, 2006 the Company was not in default with any of its financial covenants.

6. 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 three and nine months ended June 30, 2006.

In December 2005, employees exercised stock options to purchase 18,832 shares of common stock at an exercise price of $.50 per share for a total consideration of $9,416. Stock options for 1,492 shares were not exercised and expired on December 29, 2005.

The Company adopted the disclosure requirements of Statement of Financial Accounting Standard ("SFAS") SFAS No. 123, "Accounting for Stock-Based Compensation," for stock options and similar equity instruments (collectively, "Options") issued to employees; however, the Company will continue to apply the intrinsic value based method of accounting for options issued to employees prescribed by Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issues to Employees," rather than the fair value based method of accounting prescribed by SFAS No. 123. SFAS No. 123 also applies to transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

6. STOCK OPTIONS (CONTINUED)

On December 31, 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, to provide an alternative method of transition to SFAS No. 123's fair value method of accounting for stock based employee compensation. SFAS No.148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the statement does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 123 are applicable to all companies with stock based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123, or the intrinsic value method of APB Opinion 25. As required under SFAS No. 148, the following table presents pro forma net loss and diluted net loss per share as if the fair value-based method had been applied to all awards.

Three Months

	Ended June 30,		
	2006	2005	20
Net (Loss) income as reported	($106,914)	$55,155	($427,
Less: Fair Value of Options Issued to Employees and Directors	(4,713)	--	(14,
Pro Forma Net (Loss) Income	($111,627)	$55,155	$(441,
Weighted Average Basic Shares	5,210,950	5,192,118	5,204,
Weighted Average Diluted Shares	5,210,950	5,192,120	5,204,
Basic Net (Loss) Earnings Per Share as Reported	$(.02)	$.01	$(
Basic Pro Forma Net (Loss) Earnings Per Share	$(.02)	$.01	$(
Diluted Net (Loss) Earnings Per Share as Reported	$(.02)	$.01	$(
Diluted Pro Forma Net (Loss) Earnings Per Share	$(.02)	$.01	$(

The Black-Scholes option valuation model was used to estimate the fair value of the options granted during the year ended September 30, 2005. There were no options granted to employees during the three and nine months ended June 30, 2006. 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. The expected volatility is estimated based on the most recent historical period of time equal to the weighted average life of the options granted. Principal assumptions used in applying the Black-Scholes model along with the results from the model for the year ended September 30, 2005 were as follows:

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

6. STOCK OPTIONS (CONTINUED)

Assumptions:

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

7. DISCONTINUED OPERATIONS

On May 31, 2006, the Company's wholly owned subsidiary, General Sound (Texas) Company ("General Sound") that operated in Dallas/Ft. Worth, Texas sold its inventory, property, trade name, business and operations to LCR Sound, a Texas company. The operations of General Sound are reported as discontinued for all periods presented in the Condensed Consolidated Financial Statements. Under terms of the Asset Purchase Agreement, General Sound received cash proceeds from the buyer of $518,000 for its inventory, property and equipment resulting in a gain of $267,042. The buyer assumed responsibility for the remaining term of the lease for its office and warehouse space. General Sound retained cash and all accounts receivable and remains responsible for all existing liabilities, which have substantially been paid as of June 30, 2006.

The results of the discontinued operations for the three and nine months ended June 30, 2006 and 2005 are as follows:

	Three Months ended June 30, 2006	Three Months ended June 30, 2005	Nine Months ended June 30, 2006	Nine Months ended June 30, 2005
Sales	$ 225,024	$ 853,872	$ 1,397,781	$ 2,016,110
Cost of Sales	273,991	532,247	1,110,681	1,348,324
Operating expenses	230,857	261,687	701,778	781,641
Operating (loss) income	$ (279,824)	$ (59,938)	$ (414,678)	$ (113,855)
Gain on sale of assets	267,042	-0-	267,042	-0-
(Loss) income before taxes	$ (12,782)	$ (59,938)	$ (147,636)	$ (113,855)

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

8. 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.

	Three Months ended June 30, 2006	Three Months ended June 30, 2005	Nine Mo 2006
Net (loss) income from continuing operations available to common stockholders	$(98,132)	$20,217	$(328,209
Net (loss) income from discontinued operations available to common stockholders	(8,782)	34,938	(99,636
Net (loss) income available to common Stockholders	$(106,914)	$55,155	$(427,845

Basic EPS Computation

Weighted average outstanding shares	5,210,950	5,192,118	5,204,742
Basic (Loss) Income Per Share from continuing operation	($.02)	$.00	($.06
Basic (Loss) Income Per Share from discontinued operations	(.00)	.01	(.02
Basic net (loss) income per basic share	($.02)	$.01	($.08
Diluted EPS Computation			
Weighted-average shares-basic	5,210,950	5,192,118	5,204,742
Plus: Incremental shares from assumed conversions			
Employee Stock Options*		12,563	
Warrants*		6,439	
Dilutive common shares		19,002	
Adjusted weighted average shares diluted	5,210,950	5,211,120	5,204,742
Diluted (Loss) Income Per Share from continuing operations	($.02)	$.00	($.06
Diluted (Loss) Income per share from discontinued operations	(.00)	.01	(.02
Diluted net (loss) income per share	($.02)	$.01	($.08

* All options and warrants were antidilutive in the three and nine months ended 2006.

SYNERGX SYSTEMS INC. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(UNAUDITED)

9. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), "Share-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 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 transactions on the financial statements. SFAS No. 123 (revised 2004) is effective for small business issuers for the first 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, results of operations and cash flows.

In July 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). Fin 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This Interpretation shall be effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an enterprise's fiscal year, provided the enterprise has not yet issued financial statements, including financial statements for any interim period for that year. The cumulative effect, if any, of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The Company has commenced the process of evaluating the expected effect of FIN 48 on its Consolidated Financial Statements and is currently not yet in a position to determine such effects.

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 TD Bank North (formerly Hudson United Bank) (the "Credit Facility"). This credit facility carries an interest rate of prime plus 1/4% and expires 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 June 30, 2006, 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 June 30, 2006, $909,138 was owed under the Credit Facility.

Net cash provided by continuing operations for the nine months ended June 30, 2006 amounted to $512,380 as compared to $800,713 for the comparable prior year. The decrease in cash provided by operations was primarily due to a $342,905 increase in the net loss incurred during the nine months of 2006 and from a $53,718 increase in cash inflows related to changes in operating assets and liabilities in 2006. These changes in operating assets and liabilities reflect $894,646 increased collection of accounts receivable, $23,942 decrease in prepaid expenses and other current assets and from a $155,279 increase in deferred revenue. The increase in deferred revenue relates to a change in billing for service contracts to a quarterly basis rather than a monthly basis. These positive changes in operating assets were offset by a $84,509 increase in inventory to take advantage of certain trade discounts, incentive awards, and to purchase material ahead of price increases, and by a $226,000 increase in income tax receivable resulting from the operating losses, by a $607,977 decrease in accounts payable and accrued expense reflecting pay down of balances due to several subcontractors and vendors and by a $60,897 increase in other assets which represents capitalized cost of development of a new interface board for a proprietary fire alarm system. The increase in cash used by operating activities of the discontinued operation is primarily due to an increase in an operating loss caused by a decline in product revenue. The net cash inflow of $142,920 from operations during the 2006 period along with cash on hand and $518,000 of proceeds of sales from discontinued operations was used for equipment purchases of $198,463 and to decrease bank borrowing by $540,168.

The ratio of the Company's current assets to current liabilities decreased to approximately 2.43 to 1 at June 30, 2006 compared to 3.49 to 1 at June 30, 2005. The decrease in the current ratio is due to our bank debt being a current liability in 2006 and being a long term liability in 2005. Had our bank debt remained a long term liability in 2006, the current ratio would have been 3.23 to 1. The company will be discussing with its bank for the extension of the credit facility beyond its June 2007 maturity date. The effect of the extension will be to return the credit facility to a long term liability.

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

Results of Operations

Revenues and Gross Profit

The operations of General Sound are excluded from the table below and are reported as discontinued for all periods presented in the Condensed Consolidated Financial Statements.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2006	2005	2006	2005
	(In thousands of dollars)			
Product Revenue	$ 2,456	$ 2,920	$ 7,122	$ 8,574
Subcontract Revenue	127	155	430	460
Service Revenue	1,348	1,220	3,818	3,478
Total Revenue	$ 3,931	$ 4,295	$11,370	$12,512
Gross Profit Product	691	978	1.880	2,650
Gross Profit Subcontract	24	29	86	84
Gross Profit Service	646	417	1,766	1,209
Total Gross Profit	$ 1,361	$ 1,424	$ 3,732	$ 3,943
Gross Margin Product %	28%	33%	26%	31%
Gross Margin Subcontract %	19%	19%	20%	18%
Gross Margin Service %	48%	34%	46%	35%

Revenues

The Company's product revenues during the three and nine months ended June 30, 2006 decreased 16% and 17% from the respective 2005 periods. These decreases in product revenues primarily resulted from lower shipments with respect to transit products which reflects a lower level of orders and the timing of releases required by customers. Due to the retirement of key personnel in December, 2005 and related changes in the process for securing transit work in New York, the Company had to substantially overhaul the management structure and marketing strategies for transit products. The Company continues to actively bid new orders and has quotations outstanding for several large projects that resulted from the changes noted above. The Company has also added sales personnel and products to its life safety, security, and audio visual product lines.

Subcontract revenue decreased during the current three and nine month periods as the Company was responsible for various small electrical installation projects in both the 2006 and 2005 periods.

Service revenues increased during the three and six month periods of 2006. 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) and from an increase in service contract revenue related to additional customers and higher fees on renewal of contracts compared to the prior year periods.

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

Gross Profit

Gross profit on product revenues for the three and nine months ended June 30, 2006 decreased compared to the respective 2005 periods. The decrease in absolute gross profit is primarily related to the declines in product sales (noted above). The decrease in gross margin percentage during the current three month and nine periods in 2006 is related to lower sales on which to absorb overhead, which is relatively fixed in nature.

Gross profit related to subcontract revenues for the three months ended June 30, 2006, decreased in absolute terms due to the decrease in revenue related to electrical installation during this period. For the nine month period ended June 30, 2006 higher markups were obtained on electrical installations than in the prior year period.

Gross profit on service revenues for the three and nine months ended June 30, 2006, increased due to the increase in call-in service and from higher service contract revenue (noted above). The improvement in absolute gross profit and gross margin percent was primarily related to the additional revenue and was also aided by a decrease in technical staff as the Company reevaluated its customer support staffing level and implemented staff reductions.

Income Before Tax

The decline in income and increase in loss before income taxes during the three and nine months ended June 30, 2006 is primarily due to the decrease in gross profit caused by anticipated lower product revenue. The decrease in product gross profit was partially offset by higher gross profit from service revenues. The improvement in service gross profit was attributed to higher revenue and, in part, by a decrease in technical staff. For the three months ended June 30, 2006, selling, general and administrative expenses increased $140,000 primarily due to $120,000 of budgeted severance payments. Otherwise, the increase in selling, general and administrative costs was minimal compared to the prior year three month period as the Company benefited from certain reductions in work force that were implemented in the first quarter of fiscal 2006. For the nine months ended June 30, 2006, selling, general and administrative expenses increased $359,000 over the prior year period as the Company incurred $66,000 of additional recruitment costs (which total $97,000 as the Company retools its sales, marketing, and project management disciplines) from $185,000 of increases related to additional staff to develop and strengthen our sales and marketing (which is geared to support higher product revenues) and from the $120,000 of budgeted severance cost noted above. Additional severance costs of $56,000 were included in product and service costs for the nine months ended June 30, 2006. Interest expense increased during 2006 due to both higher interest rates and higher average borrowing levels. For the three and nine months of 2006, the Company recorded a loss of $18,000 and $60,000, respectively, on its equity in the operating loss of Secure 724 LP.

Tax Provision

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

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

Discontinued Operations

On May 31, 2006, the Company's wholly owned subsidiary, General Sound (Texas) Company ("General Sound") that operated in Dallas/Ft. Worth, Texas sold its inventory, property, trade name, business and operations to LCR Sound, a Texas company. Under terms of the Asset Purchase Agreement, General Sound received cash proceeds from the buyer of $518,000 for its inventory, property and equipment resulting in a gain of $267,042. The buyer assumed responsibility for the remaining term of the lease for its office and warehouse space. General Sound retained cash and all accounts receivable and remains responsible for all existing liabilities which have substantially been paid as of June 30, 2006.

The operations of General Sound are reported as discontinued for all periods presented in the Condensed Consolidated Financial Statements.

For the three and nine months ended June 30, 2006 and 2005, the loss from discontinued operations consists of the following:

	Three months ended June 30,		Nine months ended June 3	
	2006	2005	2006	2005
Operating (Loss) income	($279,824)	($59,938)	($414,678)	($113,855)
Gain on sales of assets	267,042	--	267,042	--
(Loss) income before taxes	($12,782)	($59,938)	($147,636)	($113,855

Order Position

The Company's order position, excluding service, at June 30, 2006 was $7,007,000 as compared to $7,972,000 at September 30, 2005 and $9,719,000 at June 30, 2005. The order position has been restated to exclude the discontinued operations. 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 is actively seeking orders where the Company would act as a prime contractor and be responsible for management of the project as well as electrical installation. The Company is also looking for potential acquisitions that would enable it to add incremental products and customers to over absorb fixed overheads.

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

(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: August 11, 2006