SYNERGX SYSTEMS INC
Form 10-K
December 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20459

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2009
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 0-17580

SYNERGX SYSTEMS INC.
(Exact name of Small Business Issuer in its charter)

Delaware	11-2941299
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

209 Lafayette Drive, Syosset, New York 11791
(Address of principal executive offices) (zip code)

Issuer's telephone number, including area code: (516) 433-4700

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.001 par value per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of December 28, 2009, the latest practicable date, 5,210,950 shares of the Registrant's common stock were issued and outstanding. The aggregate market value of shares held by non-affiliates of the Registrant on March 31, 2009 was $2,232,374 based on the last sale price on March 31, 2009 of $.62 per share.

SYNERGX SYSTEMS INC.

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. These are statements that relate to future periods and include statements regarding our future strategic, operational and financial plans, anticipated for projected revenues, expenses and operational growth, markets and potential customers for our products and services, plans related to sales strategies and efforts, the anticipated benefits of our relationships with strategic partners, our ability to compete, the adequacy of our current facilities and the performance of our current and future products and services.

You can identify forward-looking statements by those that are not historical in nature, particularly those that use terminology such as "may", "should", "expects", "anticipates", "estimates", "believes", "plans", or "projects". Our actual re differ materially from any forward-looking statements. We caution you not to place undue reliance on these forward-looking statements. The forward-looking events discussed in this annual report may not occur, and actual events and results may differ materially and are subject to risks and uncertainties. The forward-looking statements speak only as of the date hereof, and we expressly disclaim any obligation to publicly revise these forward-looking statements to reflect events or circumstances after the date of this filing.

PART I

ITEM 1. BUSINESS

OVERVIEW. Synergx Systems Inc. ("Synergx" or the "Company") is a Delaware corporation organized in October 1988 to acquire controlling interests in companies engaged in the design, manufacture, distribution, sale and servicing of fire, life safety, security, energy management, intercom, audio-video communication and other systems. Reference to Synergx or the Company include operations of each of its subsidiaries except where the context otherwise requires.

Synergx's business is conducted through subsidiaries in the New York City metropolitan area. Synergx conducts its business in New York principally through Casey Systems Inc. ("Casey") its wholly owned subsidiary located in New York City and Long Island, New York.

CASEY SYSTEMS. Synergx's principal operating subsidiary is Casey. Casey has been in the business of designing, servicing and maintaining building communication systems since 1970. Today Casey is a diversified systems integrator which, in addition to its own proprietary line of life safety and building protection products, also is a premier low-voltage systems provider for a broad range of video, teleconferencing/ multimedia, audio visual, public address, customer information, access control, intercoms, security, closed circuit TV (CCTV) and professional sound systems. In addition, Casey designs, markets and supports these systems for the rail and mass transit industries.

PRINCIPAL PRODUCTS AND SERVICES

Fire and Life Safety. For over 30 years Casey has been providing fire and smoke signaling and detection systems for institutional, municipal, commercial and residential buildings in the New York City metropolitan area. Casey provides services primarily as a sub-contractor to electrical and general contractors. Casey also acts as a general contractor from time to time as well as engages in direct sales of products and services to building owners, managers and other users. New and modified systems must be installed and maintained in compliance with local law requirements. New York City in particular maintains a very comprehensive and detailed body of regulations to govern the installation and operation of fire alarm and life safety systems. Casey markets its expertise in putting systems on line and servicing such systems in compliance with these regulations.

Casey has developed and markets its own proprietary signaling and fire detection technology known as Comtrak, and also acts as a strategic distributor for national manufacturers such as Edwards Systems Technology, a General Electric company. Casey has installed a number of generations of Comtrak and other systems in hundreds of facilities in the New York metropolitan area. Comtrak and other such systems sold by Casey control and monitor smoke detectors, pull stations and other devices, supervise other building systems such as elevators and fans and provide dedicated audio communication channels for building and emergency personnel. In many cases after installation and fire department approval thereof, Casey continues to provide products and services to such facilities related to the changing requirements of tenants in such buildings (e.g. smoke detectors and other devices when tenant spaces are altered) or service contracts to building owners or managers.

Transit. Since 1991 Casey has designed, installed and maintained sound, life safety and security systems for over one hundred transit facilities in the New York City metropolitan area. Casey has expanded its capabilities to handle all low voltage systems and fiber communications systems for mass transit facilities. Our staff consists of experienced sales engineers, project managers, field technicians and administrative support staff who are experienced with the specialized technical, documentary and critical path requirements of this market. Casey markets its products and services to prime contractors and electrical contractors to serve as the required systems integrator on projects for the New York City Transit Authority, Metro-North, The Long Island Railroad, New Jersey Transit, Amtrak and other agencies. In nearly all cases the systems integrator hired by the prime or electrical contractor must be approved by the relevant agency. Our communications engineers are approved by the New York City Transit Authority and other agencies. Casey and its engineers are also certified in most cases as the sole or one of only a limited number of manufacturers of numerous systems specified by these agencies.

Effective November 2009, the Company decided to withhold bidding on major transit-related projects since these projects extend over long periods of time and historically have been subject to extensive delays in equipment approval and acceptance (which is problematic in the need for maintaining staffing levels and project profitability) and are subject to changes in funding by the related agencies for these projects (which requires the Company to maintain a large bank line of credit). However, the Company will continue to bid on projects of very short duration that could be completed quickly, and make box type sales that do not require extensive engineering labor. At September 30, 2009, outstanding orders to electrical contractors (to New York City Transit Authority) for transit projects totaled $5.5 million and completion of these projects is dependent on release and completion dates requested by the transit authority. One project's completion could extend to 2011. Sales of transit projects represented 12% or $2,341,000 and 24% or $4,605,000 respectively of the total sales in the years ended September 30, 2009 and September 30, 2008.

Engineered Sound Systems. Casey has augmented its established position in marketing engineered life safety systems (proprietary and third party) by developing a significant business in engineered sound systems for application to a variety of users including airline terminals, hospitals, educational facilities and transit facilities (e.g. commuter terminals and subway stations). Casey has developed a focused unit with a high level of experience to penetrate this niche market with significant success as a substantial portion of Casey’s revenues and order position derives from this effort. Casey offers simple analog paging systems as well as state-of-the-art computerized systems that emphasize speech intelligibility and high quality music reproduction. Casey is an authorized dealer for many leading manufacturers.

Audio-Visual. Casey’s engineering and sales team work with consultants, architects and construction managers to design, install and integrate audio visual systems in buildings in the New York metropolitan areas. These facilities include museums, auction houses, advertising agencies, houses of worship, health care and educational facilities, financial institutions and law firms. On these projects Casey oversees software integration, selects hardware and oversees all aspects of the project installation and activation. Systems include audio and video conferencing, video projection systems, media streaming and command and control centers. Casey is an authorized supplier of numerous high quality national product lines.

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The Company will complete certain audio/visual projects in 2010 and does not expect to participate in selling these products in the future. At September 30, 2009, orders for audio/visual products amounted to $129,000. Sales of audio/visual products represented 16% or $3,019,000 and 11% or $2,288,000 respectively of the total sales in the years ended September 30, 2009 and September 30, 2008. The Company's two audio/visual salespeople and two project engineers are no longer with the Company. The Company does not believe it can find qualified replacements for these employees. The Company's inability to find qualified employees, coupled with historical low gross margins on audio/visual sales, has resulted in the Company being unable to pursue audio/visual projects in 2010. The Company will complete certain audio/visual projects in 2010 but does not expect to participate in future audio/visual sales.

Security. Casey provides integrated security systems for institutional, municipal, commercial and residential buildings handling design and engineering, product specification, installation, maintenance and personnel training. Customers include commercial and apartment buildings, transportation and educational facilities and medical centers. Products include indoor-outdoor, perimeter, pan-tilt-zoom cameras, monitors, wireless command and remote control and transmission technology. Casey designs and installs a full range of card access control systems including scrambled pad-biometrics, smart cards, swipe cards and proximity readers. Casey has worked with many network technologies including encrypted networks.

Service. Casey continues to put an increasing priority on the development of an integrated and efficient service organization. Sales personnel have been dedicated to securing service contracts and to market service of Comtrak and other projects coming out of warranty and the renewal of such contracts. To provide efficient and productive customer service, Casey maintains an office in New York City which houses its New York service management and offers 24/7 customer support with over 30 manufacturer-trained field service technicians

COMPETITION. Synergx's industry is competitive; some of Synergx's competitors may have greater financial resources and may offer a broader line of fire and life safety products. Synergx also faces competition in the servicing of systems which it sells. Accordingly, even though Synergx may sell and install a fire and life safety and/or communications system, it may not receive the contract to service that system. Synergx, however, believes that it can effectively compete with any entity which conforms to applicable rules and regulations.

CUSTOMERS AND SUPPLIERS. For the fiscal year ended September 30, 2009, no customer accounted for more than 10% of Synergx's revenues and at September 30, 2009, no customer accounted for more than10% of Synergx' s accounts receivable. Only one supplier accounted for more than 10% of Synergx's cost of sales (amounting to 19%) during the year ended September 30, 2009.

For the fiscal year ended September 30, 2008, no customer accounted for more than 10% of Synergx's revenues and at September 30 2008, one customer accounted for more than10% of Synergx' s accounts receivable (amounting to 10.4%). Only one supplier accounted for more than 10% of Synergx's cost of sales (amounting to 16%) during the year ended September 30, 2008.

The Company does business directly and indirectly through electrical contractors to New York City Transit Authority. Sales to this authority represented approximately 12% and 24% respectively of the total sales in the years ended September 30, 2009 and September 30, 2008.

PATENTS AND TRADEMARKS. The Company does not have any patents on its systems, but, it uses proprietary technology which it seeks to protect as trade secrets. The "Firetector," "Casey Systems" and "COMTRAK" trademarks are registered with the United States Patent and Trademark Office.

REGULATIONS. Synergx believes that it complies with applicable building codes, zoning ordinances, occupational, safety and hazard standards and other Federal, state and local ordinances and regulations governing its business activities. Environmental regulations do not have a material effect on any of our businesses.

RESEARCH AND DEVELOPMENT. During the fiscal years ended September 30, 2009 and 2008, Synergx spent approximately $329,000 and $335,000, respectively, for research and development of Synergx's life safety and communication systems.

EMPLOYEES. As of September 30, 2009, Synergx and its subsidiaries had 70 full time employees, including 29 New York hourly employees that are covered by a Collective Bargaining Agreement expiring March 2012.

BUSINESS CONDITIONS. Synergx believes that its labor and material sources are sufficient and that other than normal competitive factors, and what is discussed above or under "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS", Synergx's operations and industry do not have any special characteristics which may have a material impact upon its future financial performance other than those items discussed above. Due to the current economic climate, however, the Company expects to have difficulty instituting price increases to offset increased costs.

RELATIONSHIP WITH FIRECOM, INC. At September 30, 2007, Firecom, Inc. (“Firecom”) (a privately owned company involved in the fire alarm business) owned 1,352,544 shares or approximately 26% of the Company’s outstanding shares of common stock. In June 2008, Firecom purchased an additional 225,568 shares and in January 2009, Firecom purchased another 490,000 shares increasing its beneficial ownership to 2,068,112 shares equal to approximately 40% of the Company’s outstanding common stock.

Mr. Paul Mendez, the Company’s President and Chief Executive Officer also serves as Chairman of the Board of Directors and Chief Executive Officer of Firecom. On June 10, 2008, the Company entered into an employment agreement with Mr. Mendez under which the Company will pay Mr. Mendez an annual base salary of $20,000, not including any performance bonuses or equity compensation that may be approved by the Board of Directors and its compensation committee. The employment agreement was modified in January 2009 to increase Mr. Mendez’s salary, retroactive to October 1, 2008, to an annual base salary of $250,000. Pursuant to the employment agreement, either the Board of Directors of the Company or Mr. Mendez may terminate his employment without cause and at any time. Mr. Mendez devotes approximately 50% of his time to the affairs of the Company. In the employment agreement with the Company, Mr. Mendez has agreed to certain non-competition and confidentially provisions.

Firecom also provides the Company with a full time employee who serves as President of the Company’s fire alarm products and services activities. For the year ended September 30, 2009 the Company paid Firecom $191,000 for the services of this individual, which includes reimbursement for salary, payroll taxes and other employee benefits. These expenses are included in cost of service revenue. For the year ended September 30, 2008 the Company paid Firecom $135,000 for the same services. For the year ended September 30, 2009 the Company paid $50,000 to Firecom for another employee who serves in a fire alarm administrative function, no money was paid for this employee during the year ended September 30, 2008 as the employee began work for the Company in January 2009.

The Company and Firecom have entered into several transactions in the ordinary course of business that are not material to the revenues, gross profit or net income of the Company. Firecom has provided certain sales leads to the Company for products Firecom does not sell. These sales leads have resulted in additional sales of products to customers. The Company has paid Firecom 2% sales commissions related to these sales which amounted to $6,000 for the year ended September 30, 2009 and there were no such transactions for the year ended September 30, 2008. Firecom has manufactured and sold to the Company certain fire alarm equipment made to the Company’s specifications. The cost of this equipment to the Company was $22,000 and $35,000 during the years ended

September 30, 2009 and 2008, respectively. The Company from time to time has purchased and sold certain products used in Firecom's business. During the years ended September 30, 2009 and 2008 these products were sold to Firecom for $395,000 and $85,000, respectively. The Company has a consulting agreement with Firecom pursuant to which Firecom provides certain hardware and software engineering and field trouble-shooting services. The Company has not incurred any expense for these services during the years ended September 30, 2009 and 2008. In offering these services, Firecom has agreed to keep information confidential and refrain from use of the information in its business.

Effective October 1, 2009, the Company entered into a lease with Firecom to lease 1,500 square feet of office space and 500 square feet of warehouse space and use of common areas at Firecom's facility in Woodside, NY. This facility will serve as the Company's new service center for New York City. The lease became effective October 1, 2009 and ends December 31, 2014. Lease payments begin January 1, 2010 with base rent of $2,500 per month ($30,000 per year) and additional rent of approximately $15,000 per year to cover capital improvements and building taxes. The rent payments begin January 1, 2010, and there are no charges for utilities and services.

ITEM 1A. RISK FACTORS.

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act, the Company is not required to provide the information required under this item

ITEM 2. PROPERTIES

The Company leases approximately 16,400 square feet of office, manufacturing and warehouse space in Syosset, New York under a seven year lease that was to expire in June 2007. In 2006, the lease was extended on similar terms to expire June 30, 2012.The rental schedule provides for monthly rent of $19,000 during 2009 with 3.3% yearly increases through the remainder of the term of the lease.

The Company has a lease for its service center in New York City that became effective August 2002 and runs through December 31, 2009. The lease is for office and warehouse space and the yearly rental for 2009, including taxes, fees and escalation amounted to $103,000. In October 2009, the Company began the process of exiting this facility and entered into a new lease with Firecom, Inc. ("Firecom"), a related party (see related party information in Item 1 above) to rent 1,500 square feet of office space and 500 square feet of warehouse space and the use of common areas at Firecom's facility in Woodside, NY. This facility will serve as the Company's new service center for New York City. The lease became effective October 1, 2009 and runs through December 31, 2014. Lease payments begin January 1, 2010 and the annual cost to cover base rent, capital improvements, and utilities and services will be approximately $45,000 per year.

Management believes there is sufficient space at these facilities for its current and intended business.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of its operations, the Company has been, or from time to time may be, named in legal actions seeking monetary damages. While the outcome of these matters cannot be estimated with certainty, and certain matters are in early or discovery stages of litigation, management does not expect, based upon consultation with legal counsel and insurance coverage, that such actions will have a material effect on the Company's business or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The information called for by this item, with respect to our Annual Meeting of Stockholders held on July 28, 2009, is incorporated by reference to our disclosure in Part II, Item 4 of our Quarterly Report on Form 10-Q for the period ended June 30, 2009 filed with the SEC on August 14, 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERSAND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock has been quoted on the Pink Sheets using the "SYNX.PK" symbol since our delisting from the Nasdaq Capital Market, or Nasdaq, on August 17, 2009 for failure to comply with the $1 per share minimum bid price requirement under Marketplace Rule 4310(c)(4). Prior to its delisting on August 17, 2009, Synergx's Common Stock has been traded on NASDAQ since April 11, 1989 under the "FTEC" symbol and since May 2002 under the "SYNX" symbol. The following table shows the high and low bid and ask quotations for each fiscal quarter from October 1, 2007 through August 16, 2009 which quotations were obtained from the National Association of Securities Dealers Inc. The bid and ask quotations from August 17, 2009 to September 30, 2009 were obtained from the Pink OTC Markets Inc. and reflects inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	Ask		Bid	
Quarter Ended	High	Low	High	Low
Fiscal Year Ended September 31, 2008				
December 31, 2007	2.20	1.22	2.30	1.25
March 31, 2008	1.32	0.01	2.13	0.66
June 30, 2008	1.03	0.25	1.43	0.58
September 30, 2008	0.87	0.25	1.00	0.26
Fiscal Year Ended September 30, 2009				
December 31, 2008	0.38	0.16	0.74	0.25
March 31, 2009	0.78	0.27	1.80	0.33
June 30, 2009	0.73	0.31	0.82	0.39
September 30, 2009	0.41	0.16	0.49	0.16

The above quotations represent prices between dealers, do not include retail markups, markdowns or commissions and may not represent actual transactions. As of December 28, 2009, there were approximately 250 record holders of Synergx's Common Stock.

On April 21, 2008 the Company received a letter from the NASDAQ Stock Market notifying the Company that for the last 30 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.

Due to extraordinary market conditions NASDAQ decided to suspend enforcement of the bid price and market value of publicly held shares requirements through January 2009 and again through August 2009.

On August 6, 2009, the Company received a letter from the NASDAQ Listing Qualification Department ("NASDAQ") stating that the Company had not regained compliance with the minimum bid price requirement by August 5, 2009 and, as a result, its common stock would be subject to delisting from The NASDAQ Capital Market unless the "Company requested an appeal before the NASDAQ Hearing Panel. Accordingly unless the Company requested an appeal, trading of the Company's common stock would be suspended at the opening of business on August 17, 2009 and the Company's common stock will be removed from listing and registration on the NASDAQ Stock Market.

After consideration of its options, the Company did not request a hearing before the Panel and its common stock was delisted from NASDAQ at the opening of business on August 17, 2009. The Company determined that it would be unlikely that it would be able to meet the NASDAQ Stock Market's listing criteria on an ongoing basis and it would be in the best interest of the Company and its shareholders to allow its common stock to be delisted.

The Company has not paid any cash dividends on its Common Stock. Payment of cash dividends in the foreseeable future is not contemplated by the Company. Whether dividends are paid in the future will depend on the Company's earnings, capital requirements, financial condition along with economic and market conditions, industry standards and other factors considered relevant to the Company's Board of Directors. Payment of dividends is restricted in certain cases by the Company's credit facilities. Accordingly, no assurance can be given as to the amount or timing of future dividend payments, if any.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act, the Company is not required to provide the information required under this item

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to 2009 and 2008 within the Management’s Discussion and Analysis of Financial Condition and Results of Operations refers to the fiscal years ended September 30, 2009 and September 30, 2008, respectively.

Liquidity and Capital Resources

The ratio of the Company’s current assets to current liabilities (current ratio) decreased to approximately 1.73 to 1 at September 30, 2009 compared to 1.83 to 1 at September 30, 2008. Working capital declined to $3.2 million at September 30, 2009 compared to $3.8 million at September 30, 2008. This decline in working capital and the decrease in the current ratio are principally related to the classification of the $1,497,000 balance drawn on the Company’s $2.5 million dollar revolving credit facility (the “Credit Facility”) as a current liability at September 30, 2009 compared to being a non-current liability at September 30, 2008.

The Company had a $2.5 million revolving credit facility (the “Credit Facility”) with TD Banknorth (“the Bank”). As of September 30, 2009 and 2008, $1,497,000 and $518,000, respectively, was owed to the bank. The Credit Facility had an annual interest rate of prime plus 2% on outstanding balances (5.25% at September 30, 2009) and expired on October 1, 2009. Certain events of default existed under the loan agreement. The bank has not called the loan and has advised the Company that it will not advance any additional funds. In connection with ongoing discussions with the bank, the Company made a $15,000 principal payment on December 15, 2009.

The obligation to the bank is currently payable upon demand. The Company is negotiating with the Bank to provide for a temporary extension of the facility. where the bank will not demand repayment, which provides the Company, among other things, time to satisfy its obligation to the bank. The Company has also sought financing from other lenders. To date, the Company has not entered into any agreement to accomplish the foregoing. Further, there can be no assurance that the Company will be successful in extending the facility or obtaining alternative financing.

The Company’s debt to the bank is secured by all assets of the Company and all of its operating subsidiaries. Outstanding debt to the bank is measured against a borrowing base, which is calculated based on eligible accounts receivable and inventories.

The credit facility includes certain restrictive covenants, which among other things, impose limitations on declaring or paying dividends, acquisitions, and making capital expenditures. The Company is also required to maintain certain financial ratios and tangible net worth covenants. As of September 30, 2009, the Company was not in compliance with certain of its covenants.

As discussed in the accompanying financial statements, the Company has continued to incur losses from operations. In addition, in an attempt to achieve profitability and positive cash flow, management has instituted a cost reduction program that included a reduction in labor and other costs. Further, due to the uncertain economic conditions, recurring losses, and the current unfavorable lending climate, there can be no assurance that the Company will be able to generate sufficient cash flow to pay off its entire bank line or that it will be successful in arranging a new line of credit on acceptable terms for an amount sufficient to continue its operations successfully. As a result, these factors raise substantial doubt with respect to the Company's ability to continue as a going concern.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result should the Company be unable to continue as a going concern.

Cash Flows

Net cash provided by operations for 2009 was $306,000 as compared to $1,739,000 for the comparable prior year period, a year-over-year decrease of $1,443,000. This $1,443,000 decrease in cash provided by operations was primarily due to $2,041,000 less cash generated by net reductions in operating assets and liabilities in 2009 which was partially offset by a net loss in 2009 that was $881,000 lower than the net loss for the comparable period in 2008. The reduction in operating assets and liabilities in 2009 was negatively affected by an increase of approximately $600,000 in inventories for certain projects that will be delivered after September 30, 2009. The reduction in operating assets and liabilities in 2008 primarily resulted from $1,195,000 in collection of accounts receivable due to the timing of payments on long standing projects involving retainage.

In 2009, the net cash inflow of $306,000 from operations less investing activities for equipment purchases of $18,000 (compared to $225,000 of equipment purchases in 2008) and financing activities for note payments of $28,000 resulted in net cash inflow of $260,000. This $260,000 inflow plus additional bank borrowing of $979,000 increased the Company’s cash balance to $1,502,000 at September 30, 2009. In 2008, the Company primarily used cash provided from a reduction in its operating assets and operating liabilities to reduce its bank borrowing to $518,000 at September 30, 2008 and had $263,000 as its cash balance at September 30, 2008.

The current economic recession is making it very difficult to maintain revenue levels and margins as projects are being postponed and customers are asking for price reductions. Since the beginning of the 2009 calendar year, we have incurred losses as a result of slower economic activity and delays in the release of transit project shipments requested by New York City Transit. These delays in transit project shipments continue to affect our revenues, income and liquidity. To offset these price reductions and shipment delays, management has implemented reductions in staffing levels and overheads in order to lower operating expenses and return to profitability. These cost reductions took effect at different periods during 2009, the last being in August 2009, and are expected to approximate $1,700,000 on an annualized basis.

In addition, effective November 2009, the Company decided to withhold bidding on major transit related projects since these projects extend over long periods of time and historically have been subject to extensive delays in equipment approval and acceptance (which is problematic in the need for maintaining staffing levels and project profitability) and are subject to changes in funding by the related agencies for these projects (which requires the Company to maintain a large bank line of credit). However, the Company will continue to bid on projects of very short duration that could be completed quickly, and make box type sales that do not require extensive engineering labor.

Results of Operations

Revenues and Gross Profit

	For the years ended September 30,	
	2009	2008
	(In thousands)	
Product Sales	$11,997	$ 13,075
Subcontract Sales	1,662	1,728

Service Revenue	5,169	5,301
Total Revenue	$18,828	$ 20,104
Product Gross Margin	$2,074	$ 2,314
Subcontract Gross Margin	343	246
Service Gross Margin	1,924	2,584
Total Gross Margin	$4,341	$ 5,144
Gross Profit Product %	17 %	18 %
Gross Profit Subcontractor %	21 %	14 %
Gross Profit Service %	37 %	49 %
Total Gross Profit %	23 %	26 %

Revenues

Product sales decreased $1,078,000 or 8% to $11,997,000 compared to $13,075,000 in 2008. The decrease in product sales resulted from significantly lower shipments of security and communication products in 2009, which primarily resulted from delays in the release of subway station security and communication projects by New York City Transit Authority. These delays contributed to an overall $2.2 million decrease in product sales in 2009. However, this decrease was offset in part by product sales from installation of a large display system at a convention center ($862,000 of product sales in 2009) and from the installation of the Company's new Comtrak system upgrade at a large building in New York City ($292,000 of product sales in 2009). Revenue from this building upgrade began in December 2008 and is ongoing and is expected to be completed in 2012.

Subcontract sales decreased during 2009 due to a decline in subcontract work related to the completion of installation of a fire alarm system at a major new retail outlet center ($532,000 of sales in 2009) in our Long Island, NY territory involving a building owner and tenants (which project had begun in 2008) and due to fewer projects requiring installation by the Company compared to 2008. In addition during 2009, the Company was responsible as prime contractor for the electrical installation of a large display signage at a convention center ($132,000 of subcontract sales). Jobs of this size and nature are unusual for this area and are not expected to occur often.

Service revenues decreased 2% to $5,169,000 in 2009 primarily due to a decrease in call-in service on fire alarm systems (replacement parts and service required by buildings).

Gross Profit

Gross profit margin from product sales decreased 10% to $2,074,000. The decline in absolute gross profit margin was primarily attributable to a major decrease in product revenue from security products in 2009, caused by delay in releases of projects by New York City Transit Authority. Gross profit margin as a percentage of product sales was 17% in 2009 (18% in 2008). In spite of significantly lower product sales in 2009 to absorb overhead, the gross profit percentage only declined 1% to17% due to certain reductions in project engineering and direct labor staff in 2009.

Gross profit margin related to subcontract sales for 2009 increased 39% or $97,000 in absolute terms to $343,000 and as a percentage of sales increased 7% to 21% due to the Company being responsible for the installation of a large display signage at a convention center and completion of fire alarm installations for tenants at a major retail outlet center in 2009 (noted above). The higher gross margin percentage in 2009 is due to a higher margin percentage received on tenant work at the major retail outlet center project.

Gross profit margin from service revenues decreased $660,000 or 26% in absolute terms during 2009 due to a decrease in call-in-service on fire alarm systems (noted above) and for the negative affect of additions in the number of service technicians as the Company increased its customer support staffing levels (during 2009) and rebalanced its staff to better serve customer requirements. In addition, the Company added certain service administration staff, which included a dedicated operating executive (full year in 2009 and part of 2008) whose expenses are included in cost of service. Gross margin as a percentage of revenues primarily declined due to the additional costs of service administration staff in 2009.

Selling, General and Administrative Expenses

Selling, General and Administrative Expenses (“S G & A”) decreased $1,377,000 in 2009 over 2008 primarily due to cost reduction efforts to lower overhead expenses. Savings of $830,000 from this effort came from reductions in personnel in sales, administration, information technology, and research and development and from lower costs for professional fees, insurance premiums (due to negotiated reductions), commissions (due to lower sales). The remainder of the decrease relates to a $547,000 provision in 2008 for separation costs for the resignation of both the Chief Executive Officer and the President of Casey Systems. In 2009, SG&A as a percentage of sales declined 5.3% to 23.3% due to the savings noted above. The Company maintained a high level of developmental costs for modernizing 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.

(Loss) Before Tax

The $555,000 decrease in loss from operations during 2009 is primarily due to the above noted $1,377,000 reduction in selling, general and administration expenses compared to 2008 (which included a $547,000 provision for separation costs noted above). This improvement in SG&A expenses in 2009 was offset by $803,000 of lower gross profit and $19,000 of higher depreciation expenses related to a new computer system. The decline in gross profit was primarily related to a $660,000 decrease in gross profit margin from service revenues caused by a decline in call-in-service on fire alarm systems (replacement parts and service required by buildings) and from an increase in number of service technicians as the Company increased its customer support staffing levels (in 2009) and rebalanced its staff to better serve customer requirements. In addition the Company added certain service administration staff in 2009, which included a dedicated operating executive whose expenses are included in cost of service.

Interest expense decreased $47,000 during 2009 due to the effect of lower average borrowing levels.

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Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company believes that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require subjective or complex judgments, form this basis for the accounting policies deemed to be most critical to us. These relate to inventory valuation and revenue recognition. We believe estimates and assumptions are related to these critical accounting policies are appropriate under the circumstances. However, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial conditions or results of operations.

Order Position

Synergx's order position, excluding service was $9.0 million at September 30, 2009 compared to $12.5 million level at September 30, 2008. The Company expects to fulfill a significant portion of its order position over the next twelve months. Due to the fact that some of the Company's products are sold and installed as part of larger construction or mass transit 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 include 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. However, the Company has not been successful in obtaining any significant new mass transit contracts and in November 2009 decided to withhold bidding on work involving transit authorities (See Plan of Operations).

Plan of Operations

During fiscal 2010, management intends to maintain its cost reduction initiatives and to focus on marketing programs for the sale of fire alarm and security products and to further develop its service contract business. During 2010, management's focus on sale of security products will be to schools and hotels.

Effective November 2009, the Company decided to withhold bidding on major transit related projects since these projects extend over long periods of time and historically have been subject to extensive delays in equipment approval and acceptance (which is problematic in the need for maintaining staffing levels and project profitability) and are subject to changes in funding by the related agencies for these projects (which requires the Company to maintain a large bank line of credit). However, the Company will continue to bid on projects of very short duration that could be completed quickly, and make box type sales that do not require extensive engineering labor. At September 30, 2009, outstanding orders to electrical contractors (to New York City Transit Authority) for transit projects totaled $5.5 million and completion of these projects are dependent on release and completion dates requested by the transit authority. One of these project's completion could extend to 2011. Sales of transit projects represented 12% or $2,341,000 and 24% or $4,605,000 respectively of the total sales in the years ended September 30, 2009 and September 30, 2008.

The Company's two audio/visual salespeople and two project engineers are no longer with the Company. The Company does not believe it can find qualified replacements for these employees. The Company's inability to find qualified employees, coupled with historical low gross margins on audio/visual sales, has resulted in the Company being unable to pursue audio/visual projects in 2010. The Company will complete certain audio/visual projects in 2010 but does not expect to participate in future audio/visual sales.

At September 30, 2009 orders for audio/visual products amounted to $129,000.

Special Committee to Explore Strategic Opportunities

Our credit facility with the Bank expired on October 1, 2009. The bank has not called the loan and has advised the Company that it will not advance any additional funds. The obligation to the bank is currently payable upon demand. The Company is negotiating with the Bank to provide for a temporary extension of the facility and has sought financing from other lenders. However, to date, the Company has not entered into any agreement to accomplish the foregoing. Further, there can be no assurance that the Company will be successful in extending the facility or obtaining alternative financing. As a result, there is a significant uncertainty with respect to the Company's ability to continue as a going concern without implementing a strategic alternative, including, among other things, raising capital through the incurrence of additional debt or the issuance of additional equity capital, the sale of one or more of the Company's lines of business, or the sale of the Company.

In October 2009, with consideration to the Company's working capital requirements, our Board of Directors formed a Special Committee of independent outside directors to explore and consider various strategic alternatives including proposals for additional debt or the issuance of additional equity capital, the sale of one or more of the Company's lines of business or the sale of the Company in an effort to enhance stockholder value. The Special Committee is authorized to negotiate on behalf of the Board of Directors and to consider, pursue and accept or reject any proposals received, subject to required stockholder approval and other terms that the Special Committee determines.

The Special Committee's members include Harris Epstein and Ronald P. Fetzer. The Special Committee has retained Ladenburg Thalmann as its independent financial advisor to assist it in its evaluation of strategic alternatives. The Special Committee has also retained independent legal counsel. There is no assurance that the Special Committee will procure or receive offers for a strategic alternative to address the Company's capital needs, and if it does, that an agreement for a transaction will be reached, approved or consummated. The Company does not intend to provide ongoing disclosure with respect to the progress of its work unless a definitive agreement is approved and executed, or unless the Company believes disclosure is otherwise appropriate.

Inflation

The impact of inflation on the Company's business operations has not been material in the past. Casey's labor costs are normally controlled by union contracts covering a period of three years and its material costs have remained relatively stable.

However, in March of 2009, the Company and its union agreed to a new contract, which expires in March 2012, that provides for wage/benefits increases of approximately 4% in each year, but with no increase in the first year of the contract. Under terms of previous union contracts, certain union members, upon passing certain test requirements, began moving up to higher paying categories that have multiple salary steps per year in excess of the 4% contractual level. In addition, the demand for highly skilled professionals has resulted in the need to assess salary levels in order to remain competitive. The Company will try to mitigate the effect of any increases in labor costs by efficiency initiatives and expense reductions. Due to the current economic conditions, the Company expects to have difficulty instituting price increases to offset increased costs.

Off-Balance Sheet Arrangements

As of September 30, 2009, the Company did not have any off-balance sheet debt nor did it have any material transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant resources or significant components of revenue or expenses.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act, the Company is not required to provide the information required under this item.

ITEM 8. FINANCIAL STATEMENTS

Our financial statements together with accompanying notes and the report of our independent registered public accounting firms are set forth on the pages indicated below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and

Stockholders of Synergx Systems Inc.

We have audited the accompanying consolidated balance sheets of Synergx Systems, Inc. and subsidiaries (the "Company") as of September 30, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and the status of the loan agreement with its bank raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ NUSSBAUM YATES BERG KLEIN & WOLPOW, LLP

Melville, New York

December 29, 2009

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SYNERGX SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2009	September 30, 2008
ASSETS		
CURRENT ASSETS		
Cash	$1,502,000	$263,000
Accounts receivable, principally trade, less allowance for doubtful accounts of $297,000 and $302,000, respectively	4,031,000	5,271,000
Inventories	1,831,000	1,948,000
Prepaid expenses and other current assets	313,000	988,000
TOTAL CURRENT ASSETS	7,677,000	8,470,000
PROPERTY AND EQUIPMENT -at cost, less accumulated depreciation and amortization of $2,354,000 and $2,091,000, respectively	559,000	816,000
OTHER ASSETS	186,000	250,000
TOTAL ASSETS	$8,422,000	$9,536,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable to bank	$1,497,000	$-
Notes payable – current portion	25,000	27,000
Accounts payable and accrued expenses	1,882,000	2,994,000
Deferred revenue	1,045,000	1,613,000
TOTAL CURRENT LIABILITIES	4,449,000	4,634,000
Note payable to bank	-	518,000
Notes payable - less current portion	31,000	57,000
TOTAL LIABILITIES	4,480,000	5,209,000
STOCKHOLDERS' EQUITY		
Preferred stock, 2,000,000 shares authorized, $.01 par vlaue - none issued and outstanding	-	-
Common stock, 10,000,000 shares authorized, $.001 par value; issued and outstanding 5,210,950 shares	5,000	5,000
Additional Paid in Capital	6,862,000	6,850,000

Accumulated deficit	(2,925,000)	(2,528,000)
TOTAL STOCKHOLDERS' EQUITY	3,942,000	4,327,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$8,422,000	$9,536,000

See accompanying Notes to the Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended September 30, 2009	2008
REVENUES		
Product sales	$ 11,997,000	$ 13,075,000
Subcontract sales	1,662,000	1,728,000
Service revenue	5,169,000	5,301,000
Total revenues	18,828,000	20,104,000
COSTS AND EXPENSES		
Cost of product sales	9,923,000	10,761,000
Cost of subcontract sales	1,319,000	1,482,000
Cost of service revenue	3,245,000	2,717,000
Selling, general and administrative	4,382,000	5,759,000
Depreciation and amortization	278,000	259,000
Total costs and operating expenses	19,147,000	20,978,000
(Loss) from operations	(319,000)	(874,000)
OTHER INCOME AND EXPENSE		
Interest expense	(63,000)	(110,000)
Gain on equity investment	-	6,000
	(63,000)	(104,000)
(Loss) before provision for income taxes	(382,000)	(978,000)
(Benefit) provision for income taxes		
Current	15,000	(30,000)
Deferred	-	330,000
	15,000	300,000
Net (Loss)	$ (397,000)	$ (1,278,000)
(Loss) per Share		
Basic and diluted (loss) per Share	$ (0.08)	$ (0.25)
Basic and diluted weighted average number of common shares outstanding	5,210,950	5,210,950

See accompanying Notes to the Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2009 and 2008

	TOTAL STOCKHOLDERS' EQUITY	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT
Balance at September 30, 2007	$ 5,587,000	5,210,950	$5,000	$ 6,832,000	$ (1,250,000)
Net (Loss)	(1,278,000)	-	-	-	(1,278,000)
Stock-based compensation	18,000	-	-	18,000	
Balance at September 30, 2008	4,327,000	5,210,950	5,000	6,850,000	(2,528,000)
Net (Loss)	(397,000)	-	-	-	(397,000)
Stock-based compensation	12,000	-	-	12,000	
Balance at September 30, 2009	$ 3,942,000	5,210,950	$5,000	$ 6,862,000	$ (2,925,000)

See accompanying Notes to the Consolidated Financial Statements

SYNERGX SYSTEMS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended September 30, 2009	2008
OPERATING ACTIVITIES		
Net (Loss)	$(397,000)	$ (1,278,000)
Adjustments to reconcile net (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization *	306,000	288,000
Deferred taxes	-	330,000
Bad debt expense	48,000	-
Stock-based compensation	12,000	18,000
Loss on disposal of equipment	10,000	-
Changes in operating assets and liabilities:		
Accounts receivable, net	1,192,000	1,195,000
Inventories	117,000	93,000
Prepaid expenses and other current assets	675,000	(174,000)
Other assets	23,000	(44,000)
Accounts payable and accrued expenses	(1,112,000)	528,000
Deferred revenue	(568,000)	783,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	306,000	1,739,000
INVESTING ACTIVITIES		
Proceeds from sale of equity investment	-	6,000
Proceeds from note receivable	-	68,000
Purchases of property and equipment, net	(18,000)	(224,000)
NET CASH (USED IN) INVESTING ACTIVITIES	(18,000)	(150,000)
FINANCING ACTIVITIES		
Principal payments on notes payable	(28,000)	(26,000)
Payments and proceeds from note payable bank - net	979,000	(1,553,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	951,000	(1,579,000)
NET INCREASE IN CASH	1,239,000	10,000
Cash at beginning of the year	263,000	253,000
Cash at end of the year	$1,502,000	$ 263,000
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$12,000	$ 23,000
Interest	$49,000	$ 106,000

NON-CASH INVESTING AND FINANCING ACTIVITIES

* Depreciation of $29,000 is included in cost of product and service sales for both years ended September 30, 2009 and 2008.

During the year ended September 30, 2008, the Company purchased equipment of $22,000 through financing.

See accompanying Notes to the Consolidated Financial Statements

Synergx Systems Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years ended September 30, 2009 and 2008

1. Summary of Significant Accounting Policies

Going Concern Uncertainty

As discussed in the accompanying financial statements, the Company has continued to incur losses from operations. In addition, as discussed in Note 3, the Company's $2.5 million revolving credit facility with its bank expired on October 1, 2009 and the Company was in default of certain covenants in its loan agreement. The bank has not called the loan and has advised the Company that it will not advance any additional funds. The obligation to the bank is currently payable upon demand. The Company is negotiating with the Bank to provide for a temporary extension of the facility. However, to date, the Company has not entered into any agreement to accomplish the foregoing. Further, there can be no assurance that the Company will be successful in extending the facility or obtaining alternative financing. As a result, these factors raise substantial doubt with respect to the Company's ability to continue as a going concern.

In an attempt to achieve profitability and positive cash flow, management has instituted a cost reduction program that included a reduction in labor and other costs. The Company's current working capital collateral is in excess of its present and anticipated credit line. However, due to the uncertain economic environment, recurring losses, and the current unfavorable credit market, there can be no assurance that the Company will be able to generate sufficient cash flow to pay off its entire bank line or that it will be successful in arranging a new line of credit on acceptable terms for an amount sufficient to continue its operations successfully.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result should the Company be unable to continue as a going concern.

Business

Synergx Systems Inc. and Subsidiaries (the "Company") operates in one business segment: the design, manufacture, distribution, marketing and service of a variety of data communications products and systems with applications in the fire alarm, life safety, transit, security and communications industry. The Company conducts its business principally in the New York Metropolitan area.

Principles of Consolidation

The consolidated financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of Synergx Systems Inc. and its subsidiaries, all of which are wholly owned. The principal operating subsidiaries are: Casey Systems Inc. ("Casey"), Systems Service Technology Corp. ("SST"), Casey Fire Systems Inc. (its operations commenced October 1, 2009), and Casey Systems Technologies Inc. (its operations commenced October 1, 2009). In addition, the Company has a payroll disbursing subsidiary FT Clearing Inc. and an inactive subsidiary Comco Technologies Inc. All significant intercompany items and transactions have been eliminated in consolidation.

Synergx Systems Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years ended September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (continued)

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 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 at the reporting dates 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 $103,000 and $640,000 at September 30, 2009 and September 30, 2008, respectively and have been included in prepaid expenses and other current assets. Billings in excess of costs and estimated profits were $323,000 and $841,000 at September 30, 2009 and September 30, 2008, respectively and have been included in deferred revenue. Product sales for short term contracts are recognized when the services are performed 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 performed 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include inventory valuation and obsolescence and percentage of completion on long-term contracts.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. We perform on-going credit evaluations of our customers and adjust credit limits based upon payment history and the customer’s current credit worthiness, as determined by our review of current credit information. We estimate bad debt expense based upon specifically identified customer collection issues to adjust the carrying amount of the related receivable to its estimated realizable value.

Synergx Systems Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years ended September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost (first–in, first–out) or market and consist primarily of raw materials and parts for service. The cost elements of inventories include materials, labor and overhead. In evaluating whether inventories are stated at the lower of cost or market, the Company considers such factors as the amount of inventory on hand, estimated time required to sell or use such inventory and current and expected market conditions. Based on this evaluation, the Company records an adjustment to cost of goods sold to reduce inventories to net realizable value, and at September 30, 2009 and September 30, 2008 are reported net of inventory write downs of $710,000 and $613,000 respectively, for slow movement and obsolescence.

Property and Equipment

Property and equipment are stated at historical cost. Depreciation of machinery and equipment and furniture and fixtures is provided primarily by the straight–line method over their estimated useful lives (3 to 10 years). Amortization of leasehold improvements is provided by the straight-line method over the life of the lease or the economic useful life, whichever is shorter.

Other Assets

Other assets primarily consist of $107,000 of database software acquired on September 30, 2009, which will be amortized over three years beginning October 1, 2009, security deposits of $23,000, goodwill related to the acquisition of Casey Systems of approximately $34,000, and deferred costs of $22,000 related to required independent approval for the upgrade to the Company's Comtrak fire alarm system, which is being amortized over the estimated period of sales (five years).

The Company does not amortize goodwill but evaluates whether the carrying value of goodwill has become impaired. This evaluation is performed on an annual basis each fiscal year end. The Company has determined that there was no impairment of goodwill at September 30, 2009 and 2008.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended September 30, 2009 and 2008 amounted to $1,000 and $8,000, respectively.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs for the years ended September 30, 2009 and 2008 amounted to $329,000 and $335,000, respectively. These costs are included in Selling, General and Administrative expenses.

Synergx Systems Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years ended September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Company accounts for income taxes using the asset and liability method to determine deferred tax assets and liabilities based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Loss Per Share

There have been no disagreements with accountants related to accounting and financial disclosures in 2018.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2018. Based on and as of the time of such evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018, based on the framework in Internal Control -Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation our management concluded that our internal control over financial reporting was effective as of December 31, 2018. The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Marcum, LLP, an independent registered public accounting firm, as stated in its attestation report, which is included in Item 8 and is incorporated into this Item 9A by reference.

Changes in Internal Control over Financial Reporting.

No changes in our internal control over financial reporting were identified as having occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth certain information with respect to the directors and executive officers of the Company. All directors of the Company hold office until the next annual meeting of the shareholders or until their successors have been elected and qualified. Executive officers are elected by the Board of Directors to hold office until their successors are elected and qualified.

Name	**Age**	Position Held with Company
Walter C. Johnsen	68	Chairman of the Board and Chief Executive Officer
Brian S. Olschan	62	President, Chief Operating Officer and Director
Paul G. Driscoll	58	Vice President, Chief Financial Officer, Secretary and Treasurer
Rex L. Davidson	69	Director
Richmond Y. Holden, Jr.	65	Director
Susan H. Murphy	67	Director
Stevenson E. Ward III	73	Director

Walter C. Johnsen has served as Chairman of the Board and Chief Executive Officer of the Company since January 1, 2007; President and Chief Executive Officer of the Company from November 30, 1995 to December 31, 2006. Mr. Johnsen previously served as Vice Chairman and a principal of Marshall Products, Inc., a medical supply distributor. Mr. Johnsen has served on the Board of TOMI Environmental Solutions, Inc., a publicly traded company, since February 1, 2016. Mr. Johnsen’s qualifications to serve on the Board of the Company include the in-depth knowledge of all facets of the Company’s business which he has gained during his more than twenty-one years of service as the Company’s Chief Executive Officer.

Brian S. Olschan has served as President and Chief Operating Officer of the Company since January 1, 2007; Executive Vice President and Chief Operating Officer of the Company from January 1999 to December 31, 2006; Senior Vice President - Sales and Marketing of the Company from September 1996 to January 1999; Mr. Olschan previously served as Vice President and General Manager of the Cordset and Assembly Business of General Cable Corporation, an electrical wire and cable manufacturer. Mr. Olschan’s qualifications to serve on the Board include his detailed knowledge of the Company’s operations which he has gained in his capacity as a member of senior management for more than eleven years, including as Chief Operating Officer since January 1999 and President since January 2007.

Paul G. Driscoll has served as Vice President and Chief Financial Officer, Secretary and Treasurer since October 2, 2002. Mr. Driscoll joined Acme as Director of International Finance on March 19, 2001. From 1997 to 2001, he was employed by Ernest and Julio Gallo Winery, including as Director of Finance and Operations in Japan. Prior to Gallo he served in several increasingly responsible finance positions in Sterling Drug Inc. in New York City and Sanofi S.A. in France.

Rex L. Davidson has served as Director since 2006. Executive Director of the Helms Fund since 2013. The Helms Fund provides "gap financing" to socially responsible business ventures for capital expenditures. Additionally, since 2009, Mr. Davidson has served as President of Rex Davidson Associates, LLC, a management consulting service, and Executive Director of Las Cumbres Community Services, which provides developmental disability and mental health services to children, adults and families in Northern New Mexico. From 1982 to 2009, he served as President and Chief Executive Officer of Goodwill Industries of Greater New York and Northern New Jersey, Inc., and President of Goodwill Industries Housing Corporation. Mr. Davidson’s qualifications to serve on the Board include significant management experience at the highest level, having been responsible for the management of Goodwill Industries, an organization with over 2,000 employees and revenues in excess of $100 million. Mr. Davidson’s experience in the areas of compensation of personnel at all levels, his experience relating to retail matters, such as retail trends and pricing, and diversity policies are of significant benefit to the Company.

Richmond Y. Holden, Jr. has served as Director since 1998. Mr. Holden served as President and CEO of INgageHub, a cloud based Marketing SaaS platform, from January 2015 through early 2016; he continues to serve as a senior advisor to the company. From 2007 through 2014, Mr. Holden served in senior executive positions at, School Specialty, Inc., a distributor of school supplies, equipment and curriculum products. He last served as Executive Vice President of School Specialty, Inc., and President of the Curriculum Group, a division of School Specialty Inc., from 2013 to December 2014. He was President of Educational Resources, a division of School Specialty, Inc., from 2010 to 2013. He served as Chairman and Chief Executive Officer of J.L. Hammett Co., a reseller of educational, curriculum, equipment, and products from 1992 to 2006. Mr. Holden served on the Board of Directors of Software Secure, Incorporated, a privately-held company headquartered in Newton, MA, which focused on secure online educational testing technology, from 2007 until its sale in late 2016. He has served on the Board of Directors of Codman Academy Charter Public School in Boston MA since 2012. The qualifications of Mr. Holden to serve on the Board of the Company include his substantial senior executive management experience of large complex companies in the educational markets. In particular, as a result of his experience with School Specialty Inc., then a $650 million publicly held reseller of educational products, Mr. Holden has broad knowledge of educational markets and operational matters relating to developmental strategy, finance, marketing, sales, technology, sourcing, pricing and distribution.

Susan H. Murphy has served as Director since 2003. Vice President Emerita, Cornell University, from which Dr. Murphy retired in 2016 after a 38-year career, commencing in 1978. She served as Dean of Admissions and Financial Aid from 1985 to 1994; Vice President of Student and Academic Services from 1994 to June 2015, and thereafter she worked in Alumni Affairs and Development until her retirement. In 2013, Dr. Murphy became a member of the Board of Trustees of Adelphi University, and, since July 2016, has served as Vice Chair of its Board of Trustees. She also serves on the Board of Directors for Kendal at Ithaca, a not-for-profit continuing care retirement community (since April 2014); Tompkins County Community Foundation (since January 2015 and Chair of the Board of Directors commencing in 2018); and Let's Get Ready, an organization which provides low-income high school students with support services to help them gain admission to and graduate from college (since September 2016). Dr. Murphy received a Ph.D. in Educational Administration from Cornell University. Dr. Murphy has broad senior management level experience in a large, complex organization. In particular, her experience in employee compensation matters and the development and implementation of diversity policies is helpful to the Company.

Stevenson E. Ward III has served as Director since 2001. Mr. Ward served as Vice President and Chief Financial Officer of Triton Thalassic Technologies, Inc. from 2000 until his retirement in 2014. Triton's technology controls and inactivates pathogens in the healthcare and industrial industries. From 1998 through 2000, Mr. Ward served as Senior Vice President-Administration of Sanofi-Synthelabo, Inc., a major multinational pharmaceutical company. He served as Executive Vice President (1996-1998), responsible for legal, tax, treasury, employee benefits and other functions, and Chief Financial Officer (1994-1996) of Sanofi, Inc., the North American holding company for Sanofi. He also served as Vice President-Finance and Administration, Pharmaceutical Group, Sterling Winthrop, Inc. (1992-1994). Prior to joining Sterling, he was employed by General Electric Company in management positions in Purchasing, Corporate Audit and Finance. Mr. Ward's qualifications for service on the Board include his extensive experience in senior executive level positions in finance, corporate audit and administration at two Fortune 100 multinational corporations. He also holds a Masters in Business Administration (MBA) degree.

Code of Conduct

The Company has adopted a Code of Conduct that is applicable to its employees, including the Chief Executive Officer, Chief Financial Officer and Controller. The Code of Conduct is available in the investor relations section on the Company’s website at www.acmeunited.com.

If the Company makes any substantive amendments to the Code of Conduct which apply to its Chief Executive Officer, Chief Financial Officer or Controller, or grants any waiver, including any implicit waiver, from a provision of the Code of Conduct to the Company’s executive officers, the Company will disclose the nature of the amendment or waiver on its website.

Information regarding compliance with Section 16(a) beneficial ownership reporting requirements and certain corporate governance matters is incorporated herein by reference to the sections entitled (i) “Compliance with Section 16(a) of the Securities Exchange Act of 1934”, (ii) “Nominations for Directors”, and (iii) “Audit Committee” contained in the Company’s Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2019 Annual Meeting of Shareholders.

Item 11. Executive Compensation

Information with respect to executive compensation is incorporated herein by reference to the section entitled “Executive Compensation” contained in the Company’s Proxy Statement to be filed with the SEC in connection with the Company’s 2019 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information regarding security ownership of certain beneficial owners, directors and executive officers is incorporated herein by reference to the information in the section entitled “Security Ownership of Directors and Officers” contained in the Company’s Proxy Statement to be filed with the SEC in connection with its 2019 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information regarding certain relationships and related transactions is incorporated herein by reference to the information in the section entitled “Certain Relationships and Related Transactions” contained in the Company’s Proxy Statement to be filed with the SEC in connection with its 2019 Annual Meeting of Shareholders.

Information regarding director independence is incorporated herein by reference to the section entitled “Independence Determinations” contained in the Company’s Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company’s 2019 Annual Meeting of Shareholders.

Item 14. Principal Accounting Fees and Services

Information regarding principal accountant fees and services is incorporated herein by reference to the section entitled "Fees to Auditors" contained in the Company's Proxy Statement to be filed with the SEC in connection with its 2019 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements.

- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Changes in Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm

(a)(2) Financial Statement Schedules

- Schedules other than those listed above have been omitted because of the absence of conditions under which they are required or because the required information is presented in the financial statements or notes thereto.

(a)(3) The exhibits listed under Item 15(b) are filed or incorporated by reference herein.

(b) Exhibits.

The exhibits listed below are filed as part of this Annual Report on Form 10-K. Certain of the exhibits, as indicated, have been previously filed and are incorporated herein by reference.

Exhibit No.	**Identification of Exhibit**
2	Asset Purchase Agreement with First Aid Only, Inc. dated as of June 2, 2014 (1)
3(i)	Certificate of Organization of the Company (2)
	Amendment to Certificate of Organization of Registrant dated September 24, 1968 (2)
	Amendment to Certificate of Incorporation of the Company dated April 27, 1971 (3)
	Amendment to Certificate of Incorporation of the Company dated June 29, 1971 (3)
3(ii)	Bylaws (11)
4	Specimen of Common Stock certificate (3)
10.3	2002 Acme United Employee Stock Option Plan as amended (12)
10.4	Severance Pay Plan dated September 28, 2004* (15)
10.5(a)	Salary Continuation Plan dated September 28, 2004, as amended (14)*

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10.6(a)	2005 Non-Salaried Director Stock Option Plan, amended (6)
10.6(b)	Amendment to the 2005 Non-Salaried Director Stock Option Plan (12)
10.7	2017 Non-Salaried Director Stock Option Plan (9)
10.8	Deferred Compensation Plan dated October 2, 2007* (16)
10.9(a)	2012 Acme United Employee Stock Option Plan (11)
10.9(b)	Amendment to the 2012 Acme United Employee Stock Option Plan* (12)
10.10(a)	Revolving Loan Agreement with HSBC, dated April 5, 2012 (13)
10.10(b)	Amendment No. 1 to Revolving Loan Agreement with HSBC Dated (14)
10.10(c)	Amended and restated secured revolving note (14)
10.10(d)	Amendment No. 2 to Revolving Loan Agreement with HSBC dated October 2013 (15)
10.10(e)	Amendment No. 4 to Revolving Loan Agreement with HSBC dated May 6, 2016 (12)
10.10(f)	Second amended and restated secured revolving note (12)
10.10(g)	Amendment No. 5 to Revolving Loan Agreement with HSBC dated January 2017 (16)
10.10(h)	Amendment No. 6 to Revolving Loan Agreement with HSBC dated March 2018
10.11	Change in Control Plan as amended dated February 24, 2011* (17)
21	Subsidiaries of the Registrant
23.1	Consent of Marcum LLP, Independent Registered Public Accounting Firm
31.1	Certification of Walter Johnsen pursuant to Rule 13a-14(a) and 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Paul Driscoll pursuant to Rule 13a-14(a) and 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Walter Johnsen pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Paul Driscoll pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates a management contract or a compensatory plan or arrangement

(1) Previously filed as an Exhibit to the Company's Form 8-K/A filed on August 19, 2014.

(2) Previously filed in S-1 Registration Statement No. 230682 filed with the Commission on November 7, 1968 and amended by Amendment No. 1 on December 31, 1968 and by Amendment No. 2 on January 31, 1969.

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(3) Previously filed as an exhibit to the Company’s Form 10-K filed in 1971.
(4) Previously filed in the Company’s Form 8-K filed on March 3, 2006.
(5) Previously filed in the Company’s Proxy Statement for the 2005 Annual Meeting of Shareholders.
(6) Previously filed in the Company’s Proxy Statement filed on March 29, 2005. This plan expired in 2015.
(7) Previously filed in the Company’s Form 8-K filed on December 21, 2010.
(8) Previously filed as an exhibit to the Company’s Form 10-K filed on March 17, 2005.
(9) Previously filed as an exhibit to the Company’s Proxy Statement filed on March 22, 2017.
(10) Previously filed as an exhibit to the Company’s Form 10-K filed on March 12, 2008.
(11) Previously filed as an exhibit to the Company’s Form 10-Q filed on August 14, 2012.
(12) Previously filed as an exhibit to the Company’s Form 10-Q filed on May 13, 2016.
(13) Previously filed as an exhibit to the Company’s Form 10-Q filed on May 14, 2012.
(14) Previously filed as an exhibit to the Company’s Form 10-Q filed on May 10, 2013.
(15) Previously filed as an exhibit to the Company’s Form 10-K filed on March 6, 2014.
(16) Previously filed as an exhibit to the Company’s Form 10-Q filed on August 4, 2017.
(17) Previously filed as an exhibit to the Company’s Form 10-K filed on March 11, 2011.

Item 16. Form 10-K Summary

Not applicable.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2019.

ACME UNITED CORPORATION

(Registrant)

Signatures:	**Titles:**
/s/ Walter C. Johnsen Walter C. Johnsen	Chairman and Chief Executive Officer
/s/ Brian S. Olschan Brian S. Olschan	President, Chief Operating Officer and Director
/s/ Paul G. Driscoll Paul G. Driscoll	Vice President, Chief Financial Officer, Secretary and Treasurer
/s/ Rex Davidson Rex Davidson	Director
/s/ Richmond Y. Holden, Jr. Richmond Y. Holden, Jr.	Director
/s/ Susan H. Murphy Susan H. Murphy	Director
/s/ Stevenson E. Ward III Stevenson E. Ward III	Director