
Synergy Brands Inc.

Annual Information and Disclosure Statement

For the Year Ended

December 31, 2009

SYNERGY BRANDS INC.
ANNUAL INFORMATION & DISCLOSURE STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009

Reference is made to the Synergy Brands Inc.'s (the "Company") filed 2007 10K report and subsequent Securities and Exchange Commission filings and OTCQX reports for basic information on matters discussed herein and for other miscellaneous Company business information, including but not limited to Risk Factors, which reports for such purposes are incorporated by reference hereto

Part A **General Company Information**

Item I **The exact name of the issuer and its predecessor.**

Synergy Brands Inc. ("SYBR", the "Company")

Item II **The address of the issuer's principal executive offices.**

Principal Executive Offices: 310 Michael Drive
Syosset, NY 11791

Telephone: (516) 714-8200

Facsimile: (516) 714-8160

Website: www.sybr.com

Investor Relations Officer: Mitchell Gerstein, CFO
310 Michael Drive
Syosset, NY 11791
(516) 714-8200

Item III **The jurisdiction and date of the issuer's incorporation or organization.**

State of Incorporation: Delaware

Date of Incorporation: 1988

Part B **Share Structure**

Item IV **The exact title and class of securities outstanding.**

A. Common

Title: Synergy Brands Inc.
Class: Common
CUSIP: 87159E402
Trading Symbol: SYBR

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B. Preferred

Title: Synergy Brands Inc.
Class: A Preferred
CUSIP: None
Trading Symbol: None

Title: Synergy Brands Inc.
Class: B Preferred
CUSIP: None
Trading Symbol: None

Title: Synergy Brands Inc.
Class: B Series A Preferred
CUSIP: None
Trading Symbol: None

Title: Synergy Brands Inc.
Class: B Series B Preferred
CUSIP: None
Trading Symbol: None

Item V Par or stated value and description of the security.

There have been no material changes to the information relevant to this item from that contained in the Company's previously filed and updated public reports filed with the Securities and Exchange Commission or the OTCQX News & Disclosure Service, same being incorporated by reference herein.

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Item VI The number of shares or total amount of the securities outstanding for each class of securities authorized.

The following table sets forth information concerning the equity securities of the Company for the years ending December 31, 2009 and December 31, 2008.

Class	Year	Authorized Shares	Outstanding Shares	Public Float	Beneficial Shareholders	Shareholders of Record
Common	2009	25,000,000	17,120,747	10,610,378	1,872 ¹	130
	2008	14,000,000	12,765,937	8,847,581	1,975 ²	206
Class A Preferred	2009	100,000	0	0	0	0
	2008	100,000	93,213	0	1	1
Class B Preferred	2009	150,000	0	0	0	0
	2008	150,000	0	0	0	0
Class B Series A Preferred	2009	500,000	285,000	0	7	7
	2008	500,000	285,000	0	7	7
Class B Series B Preferred	2009	250,000	80,000	0	3	3
	2008	250,000	80,000	0	3	3

Part C Business Information

Item VII The name and address of the transfer agent.

American Stock Transfer & Trust Co LLC
6201 15th Avenue
Brooklyn NY 11219

Item VIII The nature of the issuer's business.

Item IX The nature of products or services offered.

Item X The nature and extent of the issuer's facilities

Synergy Brands (SYBR or the Company) is a holding Company that operates through two wholly owned subsidiaries. The Company tries to create a balance among Brands it manufactures or co-packs in the grocery business and integrate such brands with well known national grocery brands. The core operations of Synergy Brands include the baking mix manufacturing, spice business and grocery packaged meal business located in Michigan, and operated by Quality Food Brands (QFB), which is 100% owned by PHS Group (PHS) and the grocery and HBA wholesale business located in New York which is directly operated by PHS. The Company expanded its Michigan operations to over 200,000 square feet in three facilities located in Monroe, Michigan.

¹ Beneficial shareholders as of March 8, 2010

² Beneficial shareholders as of March 13, 2009

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The Company has significantly changed its business model and is now focused on developing its proprietary brands in Michigan and using its warehousing and distribution infrastructure to gain national access to major chains throughout North America and selected international markets. The market focus of the Company includes national retail outlets, institutional customers, wholesale customers and trading partners.

The Company believes that as it expands its Michigan operations, and especially as it builds traction in its manufactured and co-packed goods, it may add franchise value to labels and trademarks that the Company owns. QFB currently manufactures baking mixes under the “Paula Deen”, “Loretta” , “Gourmet Select”, “Rich & Moist” “Rich & Fluffy”, “Country Value”, and “County Fare” labels. It manufactures packaged grocery products and spices under the “Paula Deen”, “Loretta” and “Gourmet Select” labels. QFB also manufactures private label brands, which it sells to selected national chains. The Company believes that it is well positioned to expand its operations with the infrastructure that it has developed over the past few years in the United States and Canada as well as to enter into licensing arrangements in other parts of the world. The most significant transaction for QFB in FY 2009 was the acquisition of the Paula Deen Collection (PDC). Paula Deen is a nationally known personality on the Food Network (for more information go to www.pauladeen.com). QFB entered into a 25 year licensing agreement to market PDC products that it developed in all of its manufacturing categories, as well as co-packing arrangements. QFB believes that the integration of its current lines with PDC should provide its customers with complimentary category management that can be retailed in Dollar Based chains, Mass merchandisers, Drug chains and convenience stores as well as supermarkets. Information on QFB can be found at www.qfbi.net.

In addition to its Michigan operations, the Company continues to grow its wholesaling business in New York. The Company believes that it is one of the largest independent wholesalers for P&G products based in the Long Island region of New York and continues to grow and expand its distribution of other nationally branded products, which include Clorox, Kimberley Clark, and Marcal, among others, in the northeastern region of the United States. The Company’s wholesaling focus is the distribution of nationally recognized consumer products in large quantities through retail and wholesale based promotional programs. Key products distributed by the Company include Bounty, Tide, Gillette, Pringles, Marcal, Clorox, Scott and Duracell. The Company limits its distribution to about 1,000 nationally recognized brands and uses its logistical advantages to streamline its costs to its customers from its 55,000 square feet facilities in New York. The Company is creating a logistical corridor between its New York and Michigan operations that has allowed for efficient distribution that offsets shipping and warehousing costs. In addition, the Company’s New York operation began distributing the products that are directly manufactured by the Company in Michigan to its customers in the New York region. Leveraging upon its newly formulated operating structure is critical to the Company’s efficiency and profitability and the benefits of this synergy can clearly be seen through expanding operating margins.

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The Company also owns approximately 20% of the outstanding common stock of Interline Travel and Tours, Inc. (aka: PERX.com). PERX provides cruise and resort hotel packages through a proprietary reservation system to airline employees and their retirees. PERX is believed to be the largest Company in this sector of the travel industry. Information on PERX can be found at www.perx.com. The Company believes that its capital investment in this unique travel company should provide for material future capital appreciation. Synergy Brands does not manage PERX's day-to-day operations.

Part D Management Structure and Financial Information

Item XI The name of the chief executive officer, members of the board of directors, as well as control persons.

CEO: Mair Faibish

Directors: Mair Faibish
Lloyd Miller III
William Rancic
Joel Sebastian
Frank A. Bellis, Jr.

Further biographical information is as stated in the Company's Proxy Statement for 2008 as on file with the Securities and Exchange Commission with no material changes thereto. There are no material related party transactions beyond the lending activities regarding Lloyd I. Miller III and his affiliated entities all as further disclosed in the Company's prior filed Securities and Exchange Commission reports as increased in the principal amount of such financing as disclosed in debt structure provided in Notes to Financials within financial statements included in this report.

Compensation structure for affiliates is not changed materially from that disclosed in previous most recent Securities and Exchange Commission filings regarding such information as incorporated herein by reference.

Item XII Financial information for the issuer's most recent fiscal period.

Item XIII Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

See Audited Financial Statements attached.

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Item XIV Beneficial owners.

The following table sets forth as of December 31, 2009 information regarding the beneficial ownership of the Company's voting securities (i) by each person who is known to the Company to be the owner of more than five percent of the Company's voting securities, (ii) by each of the Company's directors, and (iii) by all directors and executive officers of the Company as a group each share of Common Stock being entitled to one vote and Class A Preferred Stock being entitled to 13 votes per share:

Name and Address of Beneficial Owner	Common Stock	Preferred Stock
Mair Faibish 310 Michael Drive Syosset, NY 11791	1,404,900	0
Mitchell Gerstein 310 Michael Drive Syosset, NY 11791	0	0
Lloyd I. Miller III 4550 Gordon Dr. Naples, FL 34102	4,912,705	0
Frank A. Bellis, Jr. 310 Michael Drive Syosset, NY 11791	66,698	0
Joel Sebastian 310 Michael Drive Syosset, NY 11791	0	0
William Rancic 310 Michael Drive Syosset, NY 11791	126,066	0
All Beneficial Owners as a Group	6,510,369	0

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Item XV **The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure.**

Investment Banker:

None

Promoter:

None

Counsel:

Law Offices of Randall J. Perry
44 Union Ave.
P.O. Box 108
Rutherford, New Jersey 07070
Telephone: (201) 939-7200
Facsimile: (201) 939-7348
Website: www.randalljperry.com

Auditor:

Holtz Rubenstein Reminick LLP
LONG ISLAND
125 Baylis Road
Melville, NY 11747-3823
Tel: 631.752.7400

Public Relations Consultant:

None

Investor Relations Consultant:

Martin E Janis & Company, Inc.
401 N. Michigan Ave.
Suite 2920
Chicago, IL 60611

Other advisor(s) that assisted, advised, prepared or provided information with respect to the disclosure documentation:

None

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Item XVI Management's discussion and analysis or plan of operation

Synergy Brands (SYBR or the Company) is a holding Company that operates through two wholly owned subsidiaries. The Company tries to create a balance among Brands it manufactures or co-packs in the grocery business and integrate such brands with well known national grocery brands. The core operations of Synergy Brands include the baking mix manufacturing, spice business and grocery packaged meal business located in Michigan, and operated by Quality Food Brands (QFB), which is 100% owned by PHS Group (PHS) and the grocery and HBA wholesale business located in New York which is directly operated by PHS. The Company expanded its Michigan operations to over 200,000 square feet in three facilities located in Monroe, Michigan. The Company has significantly changed its business model and is now focused on developing its proprietary brands in Michigan and using its warehousing and distribution infrastructure to gain national access to major chains throughout North America and selected international markets. The market focus of the Company includes national retail outlets, institutional customers, wholesale customers and trading partners.

The Company believes that as it expands its Michigan operations, and especially as it builds traction in its manufactured and co-packed goods, it may add franchise value to labels and trademarks that the Company owns. QFB currently manufactures baking mixes under the "Paula Deen", "Rich & Moist" "Rich & Fluffy", "Country Value", and "County Fare" labels. It manufactures packaged grocery products and spices under the "Paula Deen", "Loretta" and "Gourmet Select" labels. QFB also manufactures private label brands, which it sells to selected national chains. The Company believes that it is well positioned to expand its operations with the infrastructure that it has developed over the past few years in the United States and Canada as well as to enter into licensing arrangements in other parts of the world. The most significant transaction for QFB in FY 2009 was the acquisition of the Paula Deen Collection (PDC) license. Paula Deen is a nationally known personality on the Food Network (for more information go to www.pauladeen.com). QFB entered into a 10 year (as may be extended on certain conditions being adhered to) licensing agreement to market PDC products that it developed in all of its manufacturing categories, as well as co-packing arrangements. QFB believes that the integration of its current lines with PDC should provide its customers with complimentary category management that can be retailed in Dollar Based chains, Mass merchandisers, Drug chains and convenience stores as well as supermarkets. Information on QFB can be found at www.qfbi.net.

In addition to its Michigan operations, the Company continues to grow its wholesaling business in New York. The Company believes that it is one of the largest independent wholesalers for P&G products based in the Long Island region of New York, and continues to grow and expand its distribution of other nationally branded products, which include Clorox, Kimberley Clark, and Marcal, among others, in the northeastern region of the United States. The Company's wholesaling focus is the distribution of nationally recognized consumer products in large quantities through retail and wholesale based promotional programs. Key products distributed by the Company include Bounty, Tide, Gillette, Pringles, Marcal, Clorox, Scott and Duracell. The

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Company limits its distribution to about 1,000 nationally recognized brands and uses its logistical advantages to streamline its costs to its customers. The Company is creating a logistical corridor between its New York and Michigan operations that has allowed for efficient distribution that offsets shipping and warehousing costs. In addition, the Company's New York operation began distributing the products that are directly manufactured by the Company in Michigan to its customers in the New York region. Leveraging upon its newly formulated operating structure is critical to the Company's efficiency and profitability and the benefits of this synergy can clearly be seen through expanding operating margins.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31,
2009
AS COMPARED TO THE YEAR ENDED DECEMBER 31, 2008

	<u>2009</u>	<u>2008</u>
Revenue	\$108,959,535	\$96,032,867
Gross Profit	10,867,951	9,457,776
SG&A	6,762,609	6,847,743
Operating Profit	3,901,777	2,408,890
Net profit		
attributable to common shareholders	1,814,077	38,342
Per share	0.12	0.00
Non Cash Charges*	2,076,215	2,000,335
Net Profit before non-cash charges		
attributable to shareholders	3,890,292	2,038,677
Per share	0.25	0.17
Interest and financing expense	2,360,855	2,193,435
Non Cash Charges *		
Depreciation & Amortization	642,897	636,178
Operating non-cash charges	895,686	812,373
Financing charges	537,632	551,784
Total	<u>2,076,215</u>	<u>2,000,335</u>

* Management believes such non-GAAP financial presentation better reflects fundamental business performance for the period, but such non-GAAP measures should be viewed in addition to, and not as an alternative for the Company's results prepared and presented in accordance with GAAP.

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Synergy Brands

Synergy Brands Inc. operates as a holding Company, which owns PHS Group, Quality Food Brands as well as a 20% stake it owns in Interline Travel and Tours (aka PERX). Revenues increased by 13% to \$108,959,535 for the year ended December 31, 2009 while gross profit increased by 15% to \$10,867,951 for the year ended December 31, 2009 as compared to the same comparable period in 2008. The increase of sales and gross profit is directly attributable to the Michigan operation, which increased by 60% from the prior year. SG&A decreased by 1% to \$6,762,609 for the year ended December 31, 2009 as compared to the same comparable period in 2008. SG&A as a percentage of sales was lower predominately due to a reduction of corporate expenses saved by the Company since its delisting from NASDAQ and deregistration from SEC reporting obligations as well as economic scale gained from higher sales. Net profit attributable to common shareholders was \$1,814,077 for the year ended December 31, 2009 as compared to a profit of \$38,342 in the comparable period in 2008. The increase in profit is directly related to an increase in its Michigan revenues and related gross profit. Management believes that the Company is starting to gain benefits from the integration of the brands that it offers to its customers. Three years ago the Company was only focused on the distribution of national brands. In three years the Company has blended its business whereby it markets brands that it manufactures together with nationally recognized brands. This has allowed the Company to have a meaningful expansion of gross profit which resulted in the record net profit the Company generated in FY 2009. In order to continue its growth, the Company must execute on its PDC license as well as grow its proprietary brands so that the Company can reduce its financing costs and overall leverage.

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LIQUIDITY AND CAPITAL RESOURCES

December 31,	2009	2008
Working Capital	\$ 17,817,177	\$ 7,088,163
Assets	47,905,595	32,419,737
Liabilities	35,949,205	22,775,196
Equity	11,956,390	9,644,541
Receivable turnover (days)	38	16
Inventory Turnover (days)	16	15
Net cash (used in) provided by operating activities	(11,568,307)	466,776
Net cash (used in) provided by investing activities	(122,889)	162,832
Net cash provided (used in) in financing activities	12,101,202	(448,862)

The Company's working capital increased by \$10,700,000 at December 31, 2009 to \$17.8 million predominately due to higher operating profits as well as an increase in long term debt. Liquidity for the Company requires the need to finance accounts receivable, inventory, and fixed costs. The cash flow realized from the Company's gross profit has been sufficient to cover the Company's operation expenses. The Company generated a net profit attributable to Common Shareholders of approximately \$1,800,000 for the year ended December 31, 2009. Financing costs totaled \$2,360,855 in 2009 and non-cash charges totaled approximately \$2,100,000 for the year. Reductions in certain financing expenses through equity conversions and debt repayments through operating capital transactions have been and should continue to be beneficial to the Company's performance. In order to maintain and grow its operations, the Company may need to increase its lines of credit since receivables; inventory and fixed assets are expected to grow at a faster rate than operating cash flow.

The capital resources that were utilized by the Company consisted of \$19.8 million in long-term notes, \$5.3 million in short term notes \$3.5 million in line of capital and \$3.65 million of non-redeemable preferred stock, as of December 31, 2009. The Company's objectives are to reduce its debt through the issuance of equity, cash flow from operations, dispositions of assets as well as refinancing its current obligations at lower rates. Such plans are dependent upon economic and market conditions.

The Company's liquidity relies in material part on the turnover of it inventory and accounts receivable. The Company turns its receivables on average every 38 days and the Company has turned its overall inventory on average approximately every 16 days. The Company believes that its collection procedures and procurement policies are consistent with industry standards. However, 47% of the Company's assets consist of trade receivables and inventory. The Company must maintain a strict policy on insuring collections of receivables and adequate procurement based upon customer demands to optimize its profit potential. The Company's sales are reliant in significant part on extending credit that ranges from 10 to 90 days. As a result, the Company must have financing facilities that will continue to allow the Company to procure

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inventory and extend accounts receivable credits as well as purchase and sustain capital equipment. The Company has strict credit policies and reviews; however credit extensions may pose material financial risks to the Company. In addition the Company relies on performance incentives from its manufacturers that are based upon sales. Provided the Company maintains its performance standards with the manufacturers with whom it contracts for procurement of goods its estimates of incentives that are due should remain accurate. However, if the respective manufacturer changes their policies or the Company does not meet the manufacturer standards, incentives may be reduced and may cause a material problem for the company.

Management believes that continued cost containment, improved financial and operating controls, debt reduction, and a focused sales and marketing effort should provide sufficient cash flow from operations in the near term and the Company is working toward reliance on such financial sources and attributes to cover its cash flow requirements but achievement of these goals, however, will likely continue to be dependent upon the Company's attainment of increased revenues, improved operating costs, reduced financing cost and trade support levels that are consistent with management's plans. Such operating performance will likely continue to be subject to financial, economic and other factors likely to be beyond its control, and there can be no assurance that the Company's goals will be achieved. In the interim while such goals are being pursued achievement of positive cash flow has been and continues to be reliant on equity and debt financing, including the Company's exchange of notes payable for common shares and its issuance of further common and preferred stock in private placements and the Company is hopeful that the market will continue to recognize the Company's stature so that such financing method will continue to be available in the future because, at least in the near future, the Company is likely to continue to use such financing opportunities to maintain adequate cash flow.

SEASONALITY

Sales by PHS Group usually peak at the end of the calendar quarter, when the Company's suppliers offer promotions which lower prices and, in turn, the Company is able to lower its prices and increase sales volume. Suppliers tend to promote at quarter end and as a result reduced products costs may increase sales. QFB sales peak during Easter and Thanksgiving periods. However, package meals usually peak during the spring and summer months. This combination secures optimization for QFB's packaging line. However in both PHS and QFB the first two month of the calendar year are usually the weakest, since so much demand is created in the Fourth quarter.

INFLATION

The Company believes that inflation, under certain circumstances, could be beneficial to the Company's major business, PHS Group. When inflationary pressures drive product costs up, the Company's customers sometimes purchase greater quantities of product to expand their inventories to protect against further pricing increases. This enables the Company to sell greater quantities of products that are sensitive to inflationary pressures. However, inflationary pressures

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frequently increase interest rates. Since the Company is dependent on financing, any increase in interest rates will increase the Company's credit costs, thereby reducing its profits. However, inflation increases prices which maybe a natural hedge to an increase in interest in the Company's consumer business. However, in certain times rising prices may cause a decline in sales that would result in a reduced operating profit. Because of the Company's entry into the baking mix market, spice business and packaged meals it relies on commodities such as wheat, corn, flour and sugar. In addition, rise in fuel prices causes additional freight and shipping costs. Inflationary trends in these commodities may cause price increases as well as supply problems. The Company believes it has adequate systems in place to insure supply, but inflationary trends may make the Company's products less attractive to its customers. The Company uses commodity contracts to insure that it sales are matched with commodity costs that achieve an acceptable gross profit.

Forward Looking Statements

All statements except historical statements contained herein constitute "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Forward Looking Act of 1995. This Annual Report and other written and oral statements that we make from time to time contain such forward-looking statements that may anticipate results based on management's plan and assumptions. We have tried wherever possible to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance in connection with any discussion of future operating or financial performance. Nonetheless, all statements except historical statements contained herein may be deemed to constitute "forward-looking statements." Forward-looking statements are inherently uncertain and are based only on current expectations and assumptions that are subject to future developments that may cause results to differ materially. Readers should carefully consider: (i) economic, competitive, technological and governmental factors affecting the Company's operations, customers, markets, services, products and prices, and (ii) other factors discussed in the Company Annual Report, Information and Disclosure Statements and other documents posted from time to time on the OTCQX website and formerly on the SEC EDGAR site, including without limitation, the description of the nature of the Company's business and its management discussion and analysis of financial condition and results of operations for reported periods. The Company undertakes no obligation to update, and is not responsible for updating, the information contained herein beyond the publication date, whether as a result of new information or future events, or to conform the statement to actual results or changes in the Company's expectations, or otherwise, or for changes made to this document by wire services or Internet services.

As of December 31, 2009, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

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Part E Issuance History

Item XVII List of securities offerings and shares issued for services in the past two years.

No securities offerings during the relevant period other than shares issued per outstanding lender rights in connection with Company borrowings

Part F Exhibits

Item XVII Material Contracts.

There have been no material contracts entered into by the Company from those reported in the Company's previously filed and updated public reports filed with the Securities and Exchange Commission or the OTCQX News & Disclosure Service except of special note is that on September 1, 2009 the Company entered into a license agreement for selected food products with Paula Deen Enterprises, LLC. whereby Paula Deen Enterprises, LLC., agrees to license the Paula Deen name likeness and trademarks to Quality Food Brands (QFB), a subsidiary of the Company for use solely in connection with such production, marketing and sales until August 31, 2019 (as may be extended on certain conditions being adhered to) (refer to Note I of the financial statements infra for further details, the license agreement being withheld as an Exhibit to maintain confidentiality as required under the terms of such agreement).

Item XIX Articles of Incorporation and Bylaws.

The information required by this item was included in the Company's initial application for listing on the OTCQX Prime and is herein incorporated by reference from that document. There have been no amendments to the articles of incorporation or the bylaws from the date of the Company's initial application through the time period covered by this information and disclosure statement.

Item XX Purchases of equity securities by the issuer and affiliated purchasers.

None for the relevant period.

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Item XXI Issuer Certifications.

I, Mair Faibish, certify that:

1. I have reviewed this annual disclosure statement of Synergy Brands Inc.
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement

Date: March 30, 2010

/s/ Mair Faibish
Mair Faibish
Chief Executive Officer

I, Mitchell Gerstein, certify that:

4. I have reviewed this annual disclosure statement of Synergy Brands Inc.
5. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
6. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement

Date: March 30, 2010

/s/ Mitchell Gerstein
Mitchell Gerstein
Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Synergy Brands Inc. and Subsidiaries
Syosset, New York

We have audited the accompanying consolidated balance sheets of Synergy Brands Inc. and Subsidiaries as of December 31, 2009 and 2008 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Synergy Brands Inc. and Subsidiaries as of December 31, 2009 and 2008 and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

/S/ HOLTZ RUBENSTEIN REMINICK LLP

New York, New York
March 30, 2010

Synergy Brands, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

ASSETS

CURRENT ASSETS	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$1,079,227	\$ 669,221
Accounts receivable trade, less allowance for doubtful accounts of \$167,500 and \$127,500 at year-end	17,731,836	3,969,824
Other receivables	688,295	7,432,879
Notes receivable - current	447,481	430,928
Inventories	4,854,746	4,026,603
Vendor deposits and other current assets	<u>8,880,670</u>	<u>1,492,490</u>
Total Current Assets	33,682,255	18,021,945
 PROPERTY AND EQUIPMENT, NET	 9,703,370	 9,844,599
 OTHER ASSETS	 3,893,527	 3,151,972
 NOTES RECEIVABLE	 626,443	 1,401,221
 TOTAL ASSETS	 <u>\$47,905,595</u>	 <u>\$32,419,737</u>

The accompanying notes are an integral part of these statements.

Synergy Brands, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2009 and 2008

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	<u>2009</u>	<u>2008</u>
Line of Credit	\$3,508,590	\$ -
Notes payable – current, net of discount of \$89,112 and \$25,185, respectively	5,287,870	4,392,137
Accounts payable	5,854,457	5,400,851
Accrued expenses	827,607	688,698
Income taxes payable	56,000	-
Deferred income	196,881	329,887
Obligations under capital leases, current	<u>133,673</u>	<u>122,209</u>
 Total Current Liabilities	 15,865,078	 10,933,782
 NOTES PAYABLE, net of discount of \$126,264 and \$304,488, respectively	 19,803,444	 11,427,058
 OBLIGATIONS UNDER CAPITAL LEASES	 280,683	 414,356
 COMMITMENTS AND CONTINGENCIES		
 STOCKHOLDERS' EQUITY		
Class A preferred stock - \$.001 par value; 100,000 shares authorized; 0 and 93,213 shares issued and outstanding; liquidation preference of \$10.50 per share	-	93
Class B preferred stock - \$.001 par value; 150,000 shares authorized, none issued	-	-
Class B Series A Preferred stock-\$.001 par value; 500,000 shares authorized; 285,000 and 285,000 shares issued and outstanding; liquidation preference of \$10.00 per share	285	285
Class B Series B Preferred stock-\$.001 par value, 250,000 shares authorized; 80,000 and 80,000 shares issued and outstanding; liquidation preference of \$10.00 per share	80	80
Common stock - \$.001 par value; 25,000,000 shares authorized in 2009, 14,000,000 in 2008 17,120,747 and 12,765,937 shares issued	17,121	12,766
Additional paid-in capital	51,202,515	51,029,505
Accumulated Deficit	(39,201,803)	(41,336,380)
Accumulated other comprehensive loss	<u>(8,340)</u>	<u>(8,340)</u>
	12,009,858	9,698,009
 Less treasury stock, at cost, 60,200 shares, each period	 <u>(53,468)</u>	 <u>(53,468)</u>
 Total Stockholders' Equity	 <u>11,956,390</u>	 <u>9,644,541</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$47,905,595</u>	 <u>\$32,419,737</u>

The accompanying notes are an integral part of these statements.

Synergy Brands, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31,

	<u>2009</u>	<u>2008</u>
Net sales	\$108,959,535	\$96,032,867
Cost of sales		
Cost of product	96,249,475	84,653,742
Shipping and handling costs	<u>1,842,109</u>	<u>1,921,349</u>
	<u>98,091,584</u>	<u>86,575,091</u>
Gross profit	<u>10,867,951</u>	<u>9,457,776</u>
Operating expenses		
Advertising and promotional	132,007	130,965
General and administrative	6,630,602	6,716,778
Depreciation and amortization	<u>203,571</u>	<u>201,143</u>
	<u>6,966,180</u>	<u>7,048,886</u>
Operating Profit	<u>3,901,771</u>	<u>2,408,890</u>
Other income (expense)		
Interest income	143,616	126,623
Other income	160,817	7,274
Equity in earnings of investee	371,426	284,017
Interest and financing expenses	<u>(2,360,855)</u>	<u>(2,193,435)</u>
	<u>(1,684,996)</u>	<u>(1,775,521)</u>
Income from continuing operations before income taxes	2,216,775	633,369
Income tax expense	<u>82,198</u>	<u>20,928</u>
Income from continuing operations	<u>2,134,577</u>	<u>612,441</u>
Discontinued operations		
Loss from operations of discontinued component	-	(258,099)
Income tax expense	-	-
Loss from discontinued operations	-	(258,099)
Net Income	2,134,577	354,342
Dividend – Preferred Stock	<u>320,500</u>	<u>316,000</u>
Net Income attributable to common stockholders	<u>\$ 1,814,077</u>	<u>\$ 38,342</u>
Basic and diluted net income per common share from continuing operations:	\$ 0.12	\$ 0.02
Basic and diluted net loss per common share from discontinued operations:	<u>0.00</u>	<u>(0.02)</u>
Basic and diluted net income per share:	<u>\$0.12</u>	<u>\$0.00</u>
Weighted average shares used in the computation of income (loss) per common shares:		
Basic	<u>15,498,939</u>	<u>11,976,583</u>
Diluted	<u>16,207,458</u>	<u>11,996,727</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Years ended December 31, 2009 and 2008

	Class A Preferred stock Shares	Class B - Series A Preferred stock Shares	Class B - Series B Preferred stock Shares	Common stock Shares	Additional Paid-in capital	Deficit	Accumulated Other Comprehensive (loss)	Treasury Stock
Balance at January 1, 2008	93,213	285,000	80,000	11,328,764	\$50,712,481	\$(41,690,722)	\$(8,340)	\$(5,000)
Common stock issued				914,427	279,519			
Issuance of common stock for note conversion				200,000	119,600			
Issuance of common stock for Services				322,746	238,905			
Preferred stock dividend				(5,000)	(5,000)			(48,468)
Treasury stock						354,342		
Net income								
Balance at December 31, 2008	<u>93,213</u>	<u>285,000</u>	<u>80,000</u>	<u>12,765,937</u>	<u>\$51,029,505</u>	<u>\$(41,336,380)</u>	<u>\$(8,340)</u>	<u>\$(53,468)</u>
Common stock issued				921,560	433,732			
Preferred exchange	(93,213)			2,931	(2,838)			
Issuance of common stock for Services				502,000	252,616			
Preferred stock dividend					(320,500)			
Repurchase of stock warrants					(190,000)			
Net income						2,134,577		
Balance at December 31, 2009	<u>-</u>	<u>285,000</u>	<u>80,000</u>	<u>17,120,747</u>	<u>\$51,202,515</u>	<u>\$(39,201,803)</u>	<u>\$(8,340)</u>	<u>\$(53,468)</u>

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS (continued)

Years ended December 31, 2009 and 2008

Total
\$ 9,020,206

Balance at January 1, 2008

Common stock issued	280,434
Issuance of common stock for note conversions	119,800
Issuance of common stock for services	239,227
Preferred stock dividend	(316,000)
Issuance of common stock for warrant conversion	(53,468)
Issuance of common stock for loan inducement	354,342
Net income	

Balance at December 31, 2008

\$9,644,541

Common stock issued	434,654
Preferred exchange	-
Issuance of common stock for services	253,118
Preferred stock dividend	(320,500)
Repurchase of Warrants	(190,000)
Net income	<u>2,134,577</u>

Balance at December 31, 2009

\$11,956,390

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net profit	\$2,134,577	\$354,342
Adjustments to reconcile net income to net cash (used in)		
provided by operating activities		
Depreciation and amortization	642,897	636,178
Amortization of financing cost	-	86,046
Equity in earnings of investee	(371,426)	(284,017)
Slow moving and obsolete inventory	270,000	-
Bad debt expense	40,000	-
Deferred rent	238,744	176,004
Operating expenses paid with common stock	379,847	299,506
Changes in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable trade and other receivables	(7,057,428)	(2,565,805)
Inventories	(1,098,143)	(1,042,833)
Vendor deposits, related party note receivable and other assets	(8,404,166)	2,623,224
Increase (decrease) in		
Accounts payable, accrued expenses, related party note payable,		
and other current liabilities	1,670,297	193,627
Income tax payable	56,000	-
Deferred Income and other liabilities	(69,506)	(76,141)
Net assets of discontinued operations	-	<u>66,645</u>
Net cash (used in) provided by operating activities	<u>(11,568,307)</u>	<u>466,776</u>
Cash flows from investing activities		
Payment of security deposit	(69,246)	(25,350)
Purchase of property and equipment	(501,668)	(925,973)
Payments received on notes receivable	888,525	592,346
Issuance of notes receivable	(130,300)	(62,326)
Investee dividend received	639,800	29,800
Investment in investee	(950,000)	-
Proceeds from sale of fixed assets	-	<u>554,335</u>
Net cash (used in) provided by investing activities	<u>(122,889)</u>	<u>162,832</u>

The accompanying notes are an integral part of these statements.

Synergy Brands, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years ended December 31,

	<u>2009</u>	<u>2008</u>
Cash flows from financing activities		
Borrowings under line of credit	21,792,778	-
Repayments under line of credit	(18,406,688)	-
Purchase of treasury stock	-	(50,000)
Proceeds from the issuance of notes payable	12,850,000	1,700,000
Repayments of notes payable	(3,692,179)	(2,332,306)
Borrowings under capital lease obligations	-	554,335
Repayments of capital lease obligations	(122,209)	(17,770)
Proceeds from issuance of common stock	-	12,879
Payment of dividends	(320,500)	(316,000)
Net cash provided by (used in) financing activities	<u>12,101,202</u>	<u>(448,862)</u>
Net Increase In Cash	410,006	180,746
Cash and cash equivalents, beginning of year	<u>669,221</u>	<u>488,475</u>
Cash and cash equivalents, end of year	<u>\$1,079,227</u>	<u>\$ 669,221</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for		
Interest	<u>\$1,399,382</u>	<u>\$1,665,355</u>
Income taxes paid	<u>\$ 26,198</u>	<u>\$ 20,928</u>
Supplemental disclosures of non-cash, investing and financing activities:		
Common stock issued for note conversions	-	<u>\$ 119,800</u>
Common stock issued for financing cost	<u>\$363,200</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

NOTE A - DESCRIPTION OF THE BUSINESS

Synergy Brands Inc. (“Synergy”) is a holding company that principally operates through a wholly owned subsidiary, PHS Group Inc. (“PHS”), in the wholesale distribution of Groceries and Health and Beauty Aid (HBA) products and, through Quality Food Brands Inc. (“QFB”), a Nevada corporation and subsidiary of PHS, in the manufacturing and retail/wholesale distribution of proprietary baking mix products and spices. The Company principally focuses on the sale of nationally known brand name consumer products manufactured by major U.S. manufacturers and has also entered the grocery private label market in 2006 and proprietary baking mix and spice market in 2007. The Company also owns 20% of a travel company, Interline Travel and Tour, Inc. (“ITT”). Synergy was incorporated on September 26, 1988 in the State of Delaware.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:

1. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Synergy, its wholly-owned subsidiaries (collectively, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. The equity method of accounting is used for investments in 50% or less owned companies over which the Company has the ability to exercise significant influence.

2. Cash and Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

3. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company 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 the reported amounts of revenues and expense during the reporting period. The most significant estimates relate to reserves for accounts receivable, inventories, and deferred tax assets, and valuation of long-lived assets. Actual results could differ from those estimates.

4. Accounts Receivable Trade

The Company's accounts receivable trade are due from businesses engaged in the distribution of grocery, health and beauty products. Credit is extended based on evaluation of a customers' financial condition and, generally, collateral is not required. Accounts receivable are due within 10 – 90 days and are stated at amounts generally due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. Estimates are used in determining the allowance for doubtful accounts based on the Company's historical collections experience, current trends, credit policy and a percentage of its accounts receivable by aging category. In determining these percentages, the Company looks at historical write-offs of its receivables. The Company also looks at the credit quality of its customer base as well as changes in its credit policies. The Company continuously monitors collections and payments from its customers. The Company writes off accounts receivable when they become uncollectible.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE B (continued)

Changes in the Company's allowance for doubtful accounts during the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 127,500	\$ 127,500
Provision for doubtful account	<u>40,000</u>	<u>-</u>
Ending balance	<u>\$167,500</u>	<u>\$127,500</u>

5. *Business and Credit Concentrations*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, and accounts receivable. The Company places its cash and cash equivalents with financial institutions it believes to be of high credit quality. Cash balances in excess of federally insured limits at December 31, 2009 and 2008 totaled approximately \$0 and \$270,000, respectively.

During the year ended December 31, 2009, sales two customers accounted for 41% and 10% of total sales. Three customers accounted for 21%, 20% and 16% of accounts receivable at December 31, 2009.

During the year ended December 31, 2008, sales to two customers accounted for 29% and 11% of total sales. Two customers accounted for 23% and 18%, of accounts receivable at December 31, 2008.

During the year ended December 31, 2009, the Company purchased approximately 42% and 15% of its products from two suppliers, and for the year ended December 31, 2008, the Company purchased approximately 41% of its products from one supplier. If the Company were unable to maintain this relationship, it might have a material impact on future operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE B (continued)

6. *Inventory*

Inventory is stated at the lower of cost or market. The Company uses the first-in, first-out ("FIFO") cost method of valuing its inventory.

7. *Property and Equipment*

Property and equipment are stated at cost. Depreciation of property and equipment is computed using the straight-line method over the asset's estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term.

Maintenance and repairs of a routine nature are charged to operations as incurred. Betterments and major renewals that substantially extend the useful life of an existing asset are capitalized and depreciated over the asset's estimated useful life.

8. *Vendor Allowances*

For the years ended December 31, 2009 and 2008, the Company recognized \$1,288,196 and \$4,832,138 in vendor allowances arising from arrangements with a major supplier that met the criteria for being fixed and determinable. Vendor allowances from manufacturers, included in other receivables in the accompanying consolidated balance sheet aggregated \$688,295 and \$7,432,879 at 2009 and 2008, respectively. In the fourth quarter 2009, the Company sold the other receivable of \$7,958,133 relating to vendor allowances from manufacturers. Effective October 1, 2009, the Company recognizes vendor allowances and rebates from manufactures when earned as a reduction of cost of sales.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE B (continued)

9. *Long-lived Assets*

Long-lived assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition. To the extent impairment has occurred, the carrying amount of the asset would be written down to an amount to reflect the fair value of the asset.

10. *Revenue Recognition*

The Company recognizes revenue upon shipment of goods when title and risk of loss passes to the customer. Net sales include gross revenue from product sales and related shipping fees, net of discounts and provision for sales returns, and other allowances. Cost of sales consists primarily of costs of products sold to customers, including outbound and inbound shipping costs.

Payments received from customers prior to shipment of goods are recorded as deferred revenue. At December 31, 2009, approximately \$197,000 was received by the Company for goods to be shipped in January 2010 and at December 31, 2008 \$264,837 was received by the Company for goods to be shipped in January 2009. In addition, at December 31, 2009 and December 31, 2008 the balance for deferred revenue was \$ 0 and \$63,500 from ITT (see Note F).

11. *Advertising*

The Company expenses advertising and promotional costs as incurred.

12. *Income Taxes*

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities and net operating loss carry forwards for which income tax expenses or benefits are expected to be realized in future years. A valuation allowance is established if it is more likely than not that all, or some portion, of deferred tax assets will not be realized. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company adopted the provisions of the current accounting guidance, as a result of which, the Company did not recognize a material adjustment to the liability for unrecognized income tax benefits. The Company classifies interest and penalties related to income taxes as income tax expense in its financial statements.

13. *Net Income per Share*

Basic and diluted income per share is calculated by dividing the net income attributable to common shareholders by the weighted-average number of common shares outstanding during each year. Incremental weighted diluted shares from assumed exercises of warrants and convertible debt and equity securities for the year ended December 31, 2009 and 2008 was 708,519 and 20,144.

Synergy Brands, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE B (continued)

The following is a table of weighted average primary and diluted shares for the years ended December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Weighted average common shares	15,498,939	11,976,583
Weighted average diluted shares - convertible debt	<u>708,519</u>	<u>20,144</u>
Total weighed average common and diluted shares	<u>16,207,458</u>	<u>11,996,727</u>

14. Stock-Based Compensation Plans

The Company's previous S-8 plan was extinguished when the Company de-registered from SEC reporting in October 2008. No stock-based compensation expense was recognized, for 2009 and 2008 since there were no stock options granted in 2009 and 2008.

15. Comprehensive income (loss)

Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles in the United States of America are included in comprehensive income (loss) but are excluded from net income (loss) as these amounts are recorded directly as an adjustment to stockholders' equity. Comprehensive income (loss) was equivalent to net income (loss) for all periods presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE B (CONTINUED)

16. Recent Accounting Pronouncements

In May 2009, FASB issued SFAS No. 165, "Subsequent Events". The objective of this Statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth:

1. The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
2. The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements
3. The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. We have reviewed events for inclusion for the financial statements through the filing date.

In June 2009, The FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162." The FASB Accounting Standards Codification™ (Codification) will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has implemented this statement.

Effective July 1, 2009, changes to the source of authoritative U.S. GAAP, the FASB Accounting Standards Codification™ (FASB Codification), are communicated through an Accounting Standards Updated (ASU). ASUs will be published for all authoritative U.S. GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the FASB Codification (e.g., FASB Statements, EITF Abstracts, FASB Staff Positions, etc.). ASUs also will be issued for amendments to the SEC content in the FASB Codification as well as for editorial changes.

Presently, the FASB has issued Accounting Standards Updates 2009-1-17. The Company, has implemented all new updates with the exception of Accounting Standards 2009-10-11-14 and 15, which were not applicable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE C - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, marketable securities and accounts receivable and accounts payable approximates fair value due to the short-term maturities of the instruments. The carrying amounts of borrowings under the line of credit agreement and notes receivable and notes payable approximate their fair values. Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), for financial assets and liabilities measured at fair value on a recurring basis. SFAS 157 applies to all financial assets and liabilities that are being measured and reported on a fair value basis, and establishes a framework for measuring the fair value of assets and liabilities and expands disclosures about fair value measurements. The adoption of SFAS 157 had no impact to our consolidated financial statements.

Effective July 1, 2009, this standard was incorporated into FASB ASC Section 810, Fair Value Measurements and Disclosures (FASB ASC 820). FASB ASC 820 requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial instruments determined using prices for recently traded financial instruments with similar underlying terms as well as directly or indirectly observable inputs, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3: Financial instruments that are not actively traded on a market exchange. This category includes situations where there is little, if any, market activity for the financial instrument. The prices are determined using significant unobservable inputs or valuation techniques.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurements in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE D - INVENTORIES

Inventories as of December 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Grocery, baking mixes, general merchandise and health and beauty products	\$3,716,436	\$2,969,822
Raw materials	<u>1,138,310</u>	<u>1,056,781</u>
	<u>\$4,854,746</u>	<u>\$4,026,603</u>

The allowance for slow moving and obsolete inventory approximated \$295,000 and \$25,000 at December 31, 2009 and 2008, respectively.

NOTE E - VENDOR DEPOSITS

At December 31, 2009, the Company has made deposits of approximately \$8,700,000 to vendors for the purchase of merchandise. This merchandise has been delivered in 2010.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Office machinery and equipment	\$ 948,314	\$ 469,959
Furniture and fixtures	8,703	8,703
Leasehold improvements	9,923,553	9,900,239
Capital equipment leases	<u>554,335</u>	<u>554,335</u>
	11,434,905	10,993,236
Less accumulated depreciation and amortization	<u>(1,731,535)</u>	<u>(1,088,637)</u>
	<u>\$9,703,370</u>	<u>\$9,844,599</u>

Depreciation and amortization expense on property and equipment for the years ended December 31, 2009 and 2008 was approximately \$643,000 and \$636,000, respectively.

NOTE G - OTHER ASSETS

Other assets consist of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investment (a)	\$1,989,320	\$1,193,394
Investment in warrants (b)	-	114,300
Deferred financing net of accumulated amortization of \$1,100,260 and \$774,877(c)	762,440	724,622
Prepaid rent and other cost net of accumulated amortization of \$250,030 and \$80,397 (d)	982,470	1,029,603
Other	<u>159,297</u>	<u>90,053</u>
	<u>\$3,893,527</u>	<u>\$3,151,972</u>

- (a) In December 2001, the Company made an investment in ITT for approximately 20% of the outstanding common stock. In December 2009, the Company exercised the purchase of 190,000 ITT warrants at \$5.00 per warrant. ITT provides cruise and resort hotel packages through a proprietary reservation system to airline employees and their retirees. The Company recorded equity in the net earnings of investee of \$371,426 and \$284,017 during the years ended December 31, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

Summarized audited financial information of this investee as of December 31, 2009 and 2008 and for the years then ended is as follows:

Financial position:	<u>2009</u>	<u>2008</u>
Current assets	\$7,361,000	\$6,086,000
Property and equipment	299,000	315,000
Other assets	<u>5,097,000</u>	<u>4,872,000</u>
Total assets	<u>\$12,757,000</u>	<u>\$11,273,000</u>
Current liabilities	\$4,991,000	\$4,310,000
Long-term debt	<u>389,000</u>	<u>1,848,000</u>
Total liabilities	<u>\$5,380,000</u>	<u>\$6,158,000</u>
Results of operations:	<u>2009</u>	<u>2008</u>
Revenues	\$33,817,000	\$39,962,000
Total expenses	(31,162,000)	(37,967,000)
Other income	<u>205,000</u>	<u>132,000</u>
Income before income taxes	2,860,000	2,127,000
Income tax expense	<u>(1,013,000)</u>	<u>(707,000)</u>
Net income	<u>\$1,847,000</u>	<u>\$1,420,000</u>

- (b) In October, 2005 SYBR.com Inc., a wholly owned subsidiary of the Company, invested \$1 million in a Private Placement of Senior Subordinated Debentures issued by ITT. The investment consists of a five year 8% Note (ITT Note), and 200,000 warrants exercisable into 200,000 common shares of ITT stock at \$5.00 per share (ITT Warrants). The Company financed this investment with a \$1 million fully recourse note with a major Shareholder under the same terms and conditions as the ITT Note and assigned to such shareholder the ITT Warrants. As consideration for the financing, the Company has retained the benefit to be derived from 100,000 of the warrants received from ITT (see Note I) of the deferred income. In relation to the ITT warrants, Company has recorded deferred income of \$31,750 in 2008. In 2009 the Company recognized \$63,500 of the deferred income (see Note G(a)).
- (c) Cost associated with 2007 debt financing (see Note J).
- (d) Cost associated with LBMP assets acquisition (Note Q).

NOTE H- NOTES RECEIVABLE

In December 2004, the Company sold accounts receivable attributable to West Coast Supplies, Inc. for \$2,200,000. This promissory note, which is secured by the accounts receivable, requires monthly payments of principal and interest at 4% for seven years, beginning in January 2005. The balance of the Note Receivable at December 31, 2009 was \$699,115.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE H- NOTES RECEIVABLE – (continued)

In October, 2005 SYBR.com Inc., a wholly owned subsidiary of the Company, invested \$1 million in a Private Placement of Senior Subordinated Debentures issued by ITT. The investment consists of a five year 8% Note (ITT Note), and 200,000 warrants exercisable into 200,000 common shares of ITT stock at \$5.00 per share (ITT Warrants). The Company financed this investment with a \$1 million fully recourse note with a major Shareholder Director under the same terms and conditions as the ITT Note and assigned to such shareholder the ITT Warrants. As consideration for the financing, the Company has retained the benefit to be derived from 100,000 of the warrants received from ITT (see Note J). In December 2009 a major shareholder director assigned 100,000 ITT Warrants back to the Company. In relation to the ITT warrants, Company has recorded deferred income of \$31,750 and \$63,500 for the years December 31, 2008 and 2009. As of December 31, 2009 and 2008, the outstanding loan was \$0 and \$428,571, respectively.

On April 14, 2008, the Company entered in an agreement to sell the cigar segment of the business. The sale price consisted of a cash down payment of \$50,000 and a \$350,000 promissory note with principal and interest payments at a rate of 5%. The balance of the note receivable at December 31, 2009 was \$248,459.

Note receivable from other parties, originating in the normal course of business, approximated \$126,350 and \$66,327 at December 31, 2009 and 2008, respectively.

NOTE I – LICENSE AGREEMENT

On September 1, 2009, the Company entered into a license agreement for selected food products with Paula Deen Enterprises, LLC. Paula Deen Enterprises, LLC., agrees to license the Paula Deen, name likeness and trademarks to Quality Food Brands (QFB), a subsidiary of the Company for use solely in connection with such production, marketing and sales until August 31, 2019.

NOTE J- LINE OF CREDIT AND NOTES PAYABLE

The Company financed a series of secured notes with certain shareholders of ITT since 2004. In February 2008, \$119,800 of the outstanding debt was converted. Borrowing under these notes bears interest at 9%. These notes mature in June 2011. Principle and interest is paid monthly. The outstanding balance at December 31, 2009 was \$478,878.

In January 2005, the Company entered into a promissory note with a major regional bank for \$1,000,000, which was increased to \$1,500,000 in September 2007. Borrowing under the note bears interest at prime minus .5% (2.75% at December 31, 2009). The Company is not required to repay any principal until the maturity date of the note, June 1, 2009, which was amended and the maturity date was extended to June 1, 2010. As security for the note, a pledge agreement was entered by a certain Shareholder of ITT. Borrowings at December 31, 2009 were \$750,000.

In October 2005, SYBR.com Inc., a wholly owned subsidiary of the Company, received \$1 million, pursuant to the issuance of one senior secured promissory note from a certain stockholder and director. Borrowings under the note bear interest at 8%, and the note is due October 2, 2010. The Company had secured this borrowing with a \$1 million wholly recourse note from ITT (see Note H) which was paid in 2009. As a result this note was amended and is now unsecured. The balance at December 31, 2009 and 2008 was \$285,714 and \$428,571, respectively.

On March 14, 2006, the Company closed a \$1.75 million junior secured three year loan bearing a fixed interest rate of 10%. Payments are being made at a rate of \$32,000 per month since October 1, 2006. The lender was issued a warrant to acquire 270,000 shares of the Company's common stock valued at \$362,000. The relative fair value of the warrant of \$362,000 is being charged to operations as additional interest over the term of the loan. The Company repaid \$683,000 and \$384,000 in 2009 and 2008, respectively. At December 31, 2009 and 2008 the outstanding balance, net of discount was \$203,000 and \$860,815, respectively. In 2010, the Company paid the outstanding loan of approximately \$203,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE J- LINE OF CREDIT AND NOTES PAYABLE (continued)

In addition, the Company has two secured short term financing loans totaling \$2,050,000 from shareholders. The first loan is for \$1,050,000 bearing interest at 15%, maturing on December 31, 2009. The second loan is for \$1,000,000 bearing interest at 15% maturing on December 31, 2009. The maturity dates for these loans has been extended to December 31, 2010.

On April 15, 2007, Synergy Brands Inc. completed an \$8.0 million secured financing with a major shareholder and a director for its main operating subsidiary PHS Group Inc. The financing consisted of long term notes to be amortized over a 5 year period, at an interest rate of 11.75%. The agreement further involved a securities purchase agreement, under which 1,075,000 common shares of Synergy Brands was issued to this shareholder as a financing cost and all warrants beneficially owned by this shareholder were retired. On January 30, 2009, the Company completed a \$1.0 million second financing, and amended the April 15, 2007 agreement. 520,000 common shares of Synergy Brands were issued to this stockholder as a financing cost. On December 23, 2009, the Company completed a \$1.0 million third financing, and amended the April 15, 2007 agreement. 200,000 common shares of Synergy Brands were issued to this stockholder as a financing cost. Principal payments of \$71,284 begin on January 31, 2011 with a balloon payment of \$7,698,686 due in January 2012. The balance at December 31, 2009 and December 31, 2008 was \$8,554,096 and \$6,554,097, respectively.

The Company financed an asset acquisition through the issuance by QFB of two 9% secured loans in the total principle amount of \$4,750,000. The first secured loan in the amount of \$2,375,000 matures on May 18, 2012, with principle payment that began December 1, 2007. In addition, in December 2007, the Company issued 480,000 shares valued at \$393,600. The relative fair value of these shares is being charged to operations as additional interest over the term of the loan. Total repayments at December 31, 2009 were \$240,000. The balance of the note net of discount was \$1,919,624 at December 31, 2009. The second secured loan in amount of \$2,375,000 has been amended and matures on April 1, 2010, with principal payments that began December 1, 2007. Total repayments at December 31, 2009 were \$2,025,000. The balance of the note approximated \$350,000 at December 31, 2009. In 2010, the Company paid the outstanding loan of approximately \$350,000.

On July 6, 2009 QFB was approved for a \$3,500,000 line of credit based on the sum of 80% of eligible accounts receivable. On November 10, 2009, the line of credit was increased to \$4,000,000. The agreement is for one year, subject to renewal, and bears interest at prime plus 3% (6.25% at December 31, 2009), and at no time shall the rate be less than 7%, or more than 9%. Outstanding borrowings are guaranteed by PHS Group Inc., and Synergy Brands, Inc. The outstanding balance at December 31, 2009 was \$3,508,590.

On December 31, 2009, QFB entered in a 5 year note with a bank for \$10,000,000 at an interest rate of 7%. The note requires monthly interest payments from January 1, 2010 to April 30, 2010. On May 1, 2010, payments of principle and interest will begin, and the note matures on May 1, 2015.

In the fourth quarter of 2009, QFB entered into a promissory note for \$500,000 with an interest rate of 9%. This note matures on January 31, 2011. The balance at December 31, 2009 was \$500,000.

Principal repayments of notes payable at December 31, 2009 are as follows:

Year Ending December 31,	
2010	\$ 5,287,869
2011	3,546,573
2012	11,370,707
2013	2,085,090
2014	2,235,821
2015	<u>780,630</u>
	\$ 25,306,690
Discounts and rounding	\$ <u>(215,376)</u>
Total	<u>\$ 25,091,314</u>

Synergy Brands, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE K - STOCKHOLDERS' EQUITY

For the year ended December 31, 2009 and 2008, the Company issued 4,354,810 and 1,437,173 shares of common stock in connection with financing, the sale of securities, conversions of debt to equity, services, other expenses, and payments of dividends in connection with Class B Preferred Stock valued at \$683,510 and \$683,024. No S-8 issuances were made in 2009 as the Company's S-8 plan was extinguished when the Company delisted from NASDAQ and de-registered in October 2008. Details of issuance are listed in the consolidated changes in Stockholders Equity and Comprehensive (Loss)/Income (F-6).

There are no options outstanding at December 31, 2009 and 2008.

In 1994, Synergy adopted the 1994 Services and Compensation Plan (the "Plan"). Under the Plan, as amended, 8,500,000 shares of common stock have been reserved for issuance. The Plan terminated by its terms with respect to the granting of common stock and options in 2009, and although not formally withdrawn the S-8 Plan was extinguished when the Company de-registered and went non-SEC reporting, and began reporting on OTCQX in October 2008.

The following is a summary of transactions involving warrants to purchase common stock for the years ended December 31, 2009 and 2008.

	<u>Number of shares</u>	<u>Weighted- average exercise price</u>
Outstanding at January 1, 2008	186,844	\$ 2.85
Granted	-	-
Exercised	-	\$ -
Cancelled/Forfeited	<u>-</u>	<u>-</u>
Outstanding at December 31, 2008	<u>186,844</u>	<u>\$ 2.85</u>
Outstanding at January 1, 2009	186,844	\$ 2.85
Granted	-	-
Exercised	-	-
Cancelled/Forfeited	<u>-</u>	<u>-</u>
Outstanding at December 31, 2009	<u>186,844</u>	<u>\$ 2.85</u>

The following table summarizes information concerning currently outstanding and exercisable stock purchase warrants:

<u>Ranges of exercise prices</u>	<u>Warrants outstanding</u>			<u>Warrants exercisable</u>	
	Number outstanding at December 31, 2009	Weighted- average remaining contractual life (years)	Weighted- average exercise price	Number exercisable at December 31, 2009	Weighted- average exercise price
\$0.00-\$0.99	20,178	2.25	\$0.0010	20,178	\$0.0010
\$1.00-\$4.00	<u>166,666</u>	<u>3.16</u>	<u>\$3.20</u>	<u>166,666</u>	<u>\$3.20</u>
	<u>186,844</u>	<u>2.70</u>	<u>\$2.85</u>	<u>186,844</u>	<u>\$2.85</u>

Synergy Brands, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE L - RETIREMENT PLAN

On January 1, 2002, the Company established the Synergy Brands, Inc. 401(k) Plan (the "Plan") covering employees 21 years of age and older who have completed six months of continuous service. For the year ended 2009 and 2008 the Company expense related to this plan was \$41,845 and \$46,293.

NOTE M - COMMITMENTS AND CONTINGENCIES

1. Lease Commitments

The Company and its subsidiaries lease office and warehouse space under operating leases expiring at various dates through May 2035. The Company is also leasing vehicles and equipment under operating leases. Future minimum lease payments under noncancelable operating leases as of December 31, 2009 were as follows:

Year ending December 31,	
2010	\$ 1,686,348
2011	1,666,925
2012	1,479,250
2013	1,044,581
2014	1,028,271
thereafter	<u>13,809,829</u>
	<u>\$20,715,204</u>

Rent expense under operating leases for the years ended December 31, 2009 and 2008 was \$1,230,000 and \$1,018,000 respectively.

2. Litigation

The Company is subject to legal proceedings and claims, which arise, in the ordinary course of its business. In the opinion of management, the amount of ultimate liability, if any, with respect any of these current actions will not materially affect the Company's financial position, results of operations or cash flows.

3. Contracts

The Company has entered into several short term and long term contracts to purchase commodities for its baking mix operation in Michigan.

4. NASDAQ Listing

On October 2, 2008, the Company received notice from NASDAQ informing the Registrant that effective October 2, 2008, NASDAQ had determined to delist the shares of Synergy Brands from the NASDAQ stock market because the Registrant's common stock closed below the minimum \$1.00 per share NASDAQ requirement. The Company announced relocation from NASDAQ to the OTCQX tier market, and the deregistering of Synergy Brands Inc. This listing was approved by OTCQX effective October 14, 2008.

Synergy Brands, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE N – Discontinued Operations

In the first quarter of 2008 the Company instituted a plan to sell the Company's Cigar segment. Accordingly, the operating results of the Cigar segment have been presented as discontinued operations in 2008. Net assets and liabilities to be disposed of or liquidated have been separately classified with the December 31, 2008 and statement of cash flows.

Summarized financial information of the Cigar segment as discontinued operations for each of the two years ended are as follows:

	<u>Year ended</u> <u>Dec.31, 2009</u>	<u>Year ended</u> <u>Dec.31, 2008</u>
Net Sales	-	289,059
Cost of sales		
Cost of product	-	157,814
Shipping and handling costs	<u>-</u>	<u>22,727</u>
	-	180,541
Gross Profit	-	108,518
Operating expenses:		
General and administrative	-	161,120
Depreciation and amortization	-	5,136
	-	166,256
Operating loss	-	(57,738)
Other Income (expenses):	-	6
Loss on disposal	<u>-</u>	<u>(200,367)</u>
	<u>-</u>	<u>(200,361)</u>
Net (loss) before income taxes	<u>-</u>	<u>(258,099)</u>
Income tax expense	<u>-</u>	<u>-</u>
Net (loss) from discontinued operations	<u>-</u>	<u>(258,099)</u>

Synergy Brands, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE O - INCOME TAXES

At December 31, 2009, the Company had a net operating loss carry forward of approximately \$37,000,000 which, if not utilized, will begin expiring in 2011. Utilization of these losses may be limited if the Company undergoes an ownership change pursuant to Internal Revenue Code Section 382. The components of the deferred tax asset at December 31, 2009 and 2008 were approximately as follows:

	<u>2009</u>	<u>2008</u>
Net operating loss carry forwards	\$12,300,000	\$ 13,308,000
Allowance for doubtful accounts	57,000	43,000
Inventory	187,000	80,000
Capital losses	221,000	221,000
Other	(64,000)	(82,000)
Deferred Rent	180,000	98,000
Valuation allowance	<u>(12,881,000)</u>	<u>(13,668,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance decreased by approximately \$787,000 in 2009.

Income taxes expense for the years ended December 31, 2009 and 2008 including amounts attributable to discontinued operations consisted, of the following:

	<u>2009</u>	<u>2008</u>
Federal	\$56,000	-
State and local	<u>\$26,198</u>	<u>\$20,928</u>
Total	<u>\$82,198</u>	<u>\$20,928</u>

A reconciliation of income tax expense and the Company's effective tax rate for the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Federal income tax expense at statutory rate	34%	34%
State tax expense	1.2%	3.3%
Travel, entertainment and life insurance	1.5%	4.0%
Change in valuation allowance	<u>(33)%</u>	<u>(38)%</u>
	<u>3.7%</u>	<u>3.3%</u>

The Company believes that there's no outstanding issues related to compliance under with uncertain tax issues under ASC codification topic 740.

Synergy Brands, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE P – SALE AND LEASEBACK

In November 2008, the Company entered into two sale-leaseback transactions for baking equipment. The leases meet the criteria of a capital lease and as a result, the Company recorded a capital asset and a liability for the present value of the minimum lease payments aggregating to \$554,335. The noncancelable leases require monthly payments of \$13,795 for 48 months commencing from November 2008. The balance of the liability at December 31, 2009 was \$414,356.

Lease payments at December 31, 2009 are as follows:

Year Ending December 31,

	Total
2010	\$ 165,540
2011	165,540
2012	<u>140,190</u>
	\$ 471,270
Less: Amount representing interest	<u>(56,914)</u>
	\$ 414,356
Less Current Portion	<u>\$ 133,673</u>
Net Minimum Capital Lease Payments	<u>\$ 280,683</u>

Synergy Brands, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Years ended December 31, 2009 and 2008

NOTE Q – SUPPLEMENTARY INFORMATION

Year ended December 31, 2009 and 2008

		<u>PHS</u>	<u>QFB</u>	<u>Corporate</u>	<u>Total</u>
Revenue	2009	\$74,596,629	\$34,362,906	-	\$108,959,535
	2008	\$74,489,175	\$21,543,692	-	\$96,032,867
Net Income (loss) attributable to common shareholders from continuing operations	2009	\$1,886,982	\$1,117,226	\$(1,190,131)	\$1,814,077
	2008	\$2,581,543	\$(46,447)	\$(2,238,655)	\$296,441
Interest and financing expenses	2009	\$1,184,162	\$743,248	\$433,445	\$2,360,855
	2008	\$1,177,416	\$524,702	\$491,317	\$2,193,435
Depreciation and amortization	2009	\$15,689	\$619,116	\$8,092	\$642,897
	2008	\$15,420	\$612,666	\$8,092	\$636,178