

**SYNERGY BRANDS, INC.**

**QUARTERLY REPORT**

**For Quarterly Period Ended March 31, 2010**

**Item 1. Exact Name of the Issuer and the Address of its Principal Executive Offices.**

**Issuer:** Synergy Brands Inc.

**Principal Executive Offices:** 310 Michael Drive  
Syosset, NY 11791

**Website:** www.sybr.com

**Investor Relations Officer:** Mitchell Gerstein, CFO  
310 Michael Drive  
Syosset, NY 11971  
(516) 714-8200  
mg@sybr.com

**Item 2. Shares Outstanding.**

| <b>Securities Authorized and Outstanding as of March 31, 2010</b> |                          |                           |  |  |                                     |
|---|--------------------------|---------------------------|--|--|-------------------------------------|
| <b>Class</b>  | <b>Authorized Shares</b> | <b>Shares Outstanding</b> | <b>Freely Tradable Shares (Public Float)</b> | <b>Number of Beneficial Shareholders</b> | <b>Total Shareholders of Record</b> |
| <b>Common Stock</b>   | <b>25,000,000</b>        | <b>17,320,747</b>         | <b>10,610,378</b>                            | <b>1872</b>                              | <b>130</b>                          |
| <b>Class B Preferred</b>  | <b>100,000</b>           | <b>0</b>                  | <b>0</b>                                     | <b>0</b>                                 | <b>0</b>                            |
| <b>Class B Series A Preferred</b>                                 | <b>500,000</b>           | <b>285,000</b>            | <b>0</b>                                     | <b>7</b>                                 | <b>7</b>                            |
| <b>Class B Series B Preferred</b>                                 | <b>250,000</b>           | <b>80,000</b>             | <b>0</b>                                     | <b>3</b>                                 | <b>3</b>                            |

**Item3. Interim Financial Statements.**

**SYNERGY BRANDS, INC. & SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2010 AND DECEMBER 31, 2009**

| <b><u>ASSETS</u></b>  | <b>March 31, 2010<br/>(Unaudited)</b> | <b>December 31, 2009</b> |
|---|---------------------------------------|--------------------------|
| Current Assets:   |                                       |                          |
| Cash and cash equivalents   | \$63,520                              | \$1,079,227              |
| Accounts receivable trade, less allowance for doubtful<br>accounts of \$167,500 and \$167,500 | 18,943,643                            | 17,731,836               |
| Other receivables   | 519,061                               | 688,295                  |
| Notes Receivable - current  | 1,835,694                             | 447,481                  |
| Inventories   | 10,001,187                            | 4,854,746                |
| Vendor deposits and other current assets  | 3,806,912                             | 8,880,670                |
| Total Current Assets  | 35,170,017                            | 33,682,255               |
| Property and Equipment, net   | 9,644,729                             | 9,703,370                |
| Other Assets  | 3,838,711                             | 3,893,527                |
| Notes Receivable  | 534,583                               | 626,443                  |
| Total Assets  | <u>\$49,188,040</u>                   | <u>\$47,905,595</u>      |

The accompanying notes are an integral part of these statements.

**SYNERGY BRANDS, INC. & SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2010 AND DECEMBER 31, 2009**

| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>March 31, 2010</b><br>(Unaudited) | <b>December 31, 2009</b> |
|---|--------------------------------------|--------------------------|
| Current Liabilities:  |                                      |                          |
| Line of credit  | \$3,792,911                          | \$3,508,590              |
| Notes Payable - current, net of discount of \$89,112, and \$89,112, respectively  | 6,655,721                            | 5,287,870                |
| Accounts Payable and Accrued Expenses   | 5,920,928                            | 6,682,064                |
| Income Tax Payable  | 56,000                               | 56,000                   |
| Deferred income   | 856,054                              | 196,881                  |
| Obligations under Capital Leases, current   | <u>136,746</u>                       | <u>133,673</u>           |
| Total Current Liabilities   | 17,418,360                           | 15,865,078               |
| Notes Payable, net of discount \$103,986 and \$126,264, respectively  | 18,519,999                           | 19,803,444               |
| Obligations under Capital Leases  | <u>245,306</u>                       | <u>280,683</u>           |
| Total Liabilities   | <u>36,183,665</u>                    | <u>35,949,205</u>        |
| Stockholders' Equity:   |                                      |                          |
| 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;<br>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<br>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;<br>17,320,747 and 17,120,747 shares issued   | 17,321                               | 17,121                   |
| Additional paid-in capital  | 51,242,190                           | 51,202,515               |
| Accumulated Deficit   | (38,193,693)                         | (39,201,803)             |
| Accumulated other comprehensive loss  | (8,340)                              | (8,340)                  |
| Less treasury stock, at cost, 60,200 shares, each period  | <u>(53,468)</u>                      | <u>(53,468)</u>          |
| Total Stockholders' Equity  | <u>13,004,375</u>                    | <u>11,956,390</u>        |
| Total Liabilities and Stockholders' Equity  | <u>\$49,188,040</u>                  | <u>\$47,905,595</u>      |

The accompanying notes are an integral part of these statements.

**SYNERGY BRANDS, INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE MONTHS ENDED MARCH 31,**  
**(UNAUDITED)**

|   | <b>2010</b>              | <b>2009</b>              |
|---|--------------------------|--------------------------|
| Net Sales                                     | \$ 23,263,318            | \$ 24,996,210            |
| Cost of Sales                                 |                          |                          |
| Cost of product                               | 19,273,465               | 22,327,003               |
| Shipping and handling costs                   | 324,500                  | 443,646                  |
|   | <u>19,597,965</u>        | <u>22,770,649</u>        |
| Gross Profit                                  | 3,665,353                | 2,225,561                |
| Operating expenses                            |                          |                          |
| Selling, general and administrative expenses  | 1,823,411                | 1,641,670                |
| Depreciation and amortization                 | 54,065                   | 50,543                   |
|   | <u>1,877,476</u>         | <u>1,692,213</u>         |
| Operating Profit                              | 1,787,877                | 533,348                  |
| Other Income (expense)                        |                          |                          |
| Other Income (expense)                        | 1,500                    | 4,650                    |
| Interest Income                               | 9,750                    | 30,291                   |
| Equity in earnings of investee                | 96,666                   | 93,315                   |
| Interest and financing expense                | <u>(853,559)</u>         | <u>(409,388)</u>         |
|   | <u>(745,643)</u>         | <u>(281,132)</u>         |
| Income before income taxes                    | 1,042,234                | 252,216                  |
| Income tax expense                            | <u>34,124</u>            | <u>10,191</u>            |
| Net Income                                    | 1,008,110                | 242,025                  |
| Dividend - Preferred Stock                    | <u>80,125</u>            | <u>80,125</u>            |
| Net income attributable to common stockholder | \$ <u><u>927,985</u></u> | \$ <u><u>161,900</u></u> |
| Basic and diluted net income per common share | \$ <u>0.05</u>           | \$ <u>0.01</u>           |

The accompanying notes are an integral part of these statements.

Synergy Brands, Inc. and Subsidiaries

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

|                                       | Class A<br>Preferred stock |             | Class B – Series A<br>Preferred stock |              | Class B – Series B<br>Preferred stock |             | Common stock      |                 | Additional<br>Paid-in<br>capital | Deficit               | Accumulated<br>Other<br>Comprehensive<br>(loss) | Treasury<br>Stock | Total               |
|---------------------------------------|----------------------------|-------------|---------------------------------------|--------------|---------------------------------------|-------------|-------------------|-----------------|----------------------------------|-----------------------|---|-------------------|---------------------|
|                                       | Shares                     | Amount      | Shares                                | Amount       | Shares                                | Amount      | Shares            | Amount          |                                  |                       |   |                   |                     |
| <b>Balance at January 1, 2009</b>     | <b>93,213</b>              | <b>\$93</b> | <b>285,000</b>                        | <b>\$285</b> | <b>80,000</b>                         | <b>\$80</b> | <b>12,765,937</b> | <b>\$12,766</b> | <b>\$51,029,505</b>              | <b>\$(41,336,380)</b> | <b>\$(8,340)</b>                                | <b>\$(53,468)</b> | <b>\$9,644,541</b>  |
| Common stock issued                   |                            |             |                                       |              |                                       |             | 921,560           | 922             | 433,732                          |                       |   |                   | 434,654             |
| Preferred exchange                    | (93,213)                   | (93)        |                                       |              |                                       |             | 2,931,250         | 2,931           | (2,838)                          |                       |   |                   | -                   |
| Issuance of common stock for Services |                            |             |                                       |              |                                       |             | 502,000           | 502             | 252,616                          |                       |   |                   | 253,118             |
| Preferred stock dividend              |                            |             |                                       |              |                                       |             |                   |                 | (320,500)                        |                       |   |                   | (320,500)           |
| Repurchase of stock warrants          |                            |             |                                       |              |                                       |             |                   |                 | (190,000)                        |                       |   |                   | (190,000)           |
| Net income                            |                            |             |                                       |              |                                       |             |                   |                 |                                  | 2,134,577             |   |                   | 2,134,577           |
| <b>Balance at December 31, 2009</b>   | <b>-</b>                   | <b>-</b>    | <b>285,000</b>                        | <b>\$285</b> | <b>80,000</b>                         | <b>\$80</b> | <b>17,120,747</b> | <b>\$17,121</b> | <b>\$51,202,515</b>              | <b>\$(39,201,803)</b> | <b>\$(8,340)</b>                                | <b>\$(53,468)</b> | <b>\$11,956,390</b> |
| Issuance of common stock for services |                            |             |                                       |              |                                       |             | 200,000           | 200             | 119,800                          |                       |   |                   | 120,000             |
| Preferred stock dividend              |                            |             |                                       |              |                                       |             |                   |                 | (80,125)                         |                       |   |                   | (80,125)            |
| Net income                            |                            |             |                                       |              |                                       |             |                   |                 |                                  | 1,008,110             |   |                   | 1,008,110           |
| <b>Balance at March 31, 2010</b>      | <b>-</b>                   | <b>-</b>    | <b>285,000</b>                        | <b>\$285</b> | <b>80,000</b>                         | <b>\$80</b> | <b>17,320,747</b> | <b>\$17,321</b> | <b>\$51,242,190</b>              | <b>\$(38,193,693)</b> | <b>\$(8,340)</b>                                | <b>\$(53,468)</b> | <b>\$13,004,375</b> |

*The accompanying notes are an integral part of these statements.*

SYNERGY BRANDS, INC. & SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31,**  
**(UNAUDITED)**

|   | <u>2010</u>        | <u>2009</u>         |
|---|--------------------|---------------------|
| Cash Flows From Operating Activities:   |                    |                     |
| Net Income  | \$ 1,008,110       | \$ 242,025          |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities |                    |                     |
| Depreciation and Amortization   | 164,323            | 160,336             |
| Equity in earnings of investee  | (96,666)           | (93,315)            |
| Operating expenses paid with common stock   | 120,000            | 117,205             |
| Changes in Operating Assets and Liabilities:  |                    |                     |
| Net (increase) decrease in:   |                    |                     |
| Accounts receivable and other receivables   | (1,042,573)        | (628,845)           |
| Inventory   | (5,146,441)        | (1,526,218)         |
| Vendor Deposits, related party note receivable and other assets                                   | 5,287,518          | 1,181,306           |
| Net increase (decrease) in:   |                    |                     |
| Accounts payable, related party note payable, accrued expenses and other current liabilities      | (841,136)          | 2,886,643           |
| Deferred Income   | 659,173            | 18,984              |
| Deferred Rent   | 40,000             | 40,000              |
| Net cash provided by operating activities   | <u>152,308</u>     | <u>2,398,121</u>    |
| Cash Flows From Investing Activities:   |                    |                     |
| Purchase of fixed assets  | (105,682)          | (12,486)            |
| Payments received on notes receivable   | 100,278            | 114,936             |
| Issuance of notes receivable  | <u>(1,396,631)</u> | <u>(46,900)</u>     |
| Net cash (used in) provided by investing activities   | <u>(1,402,035)</u> | <u>55,550</u>       |
| Cash Flows From Financing Activities:   |                    |                     |
| Borrowings under line of credit   | 9,678,554          | -                   |
| Repayments under line of credit   | (9,394,233)        | -                   |
| Proceeds from the issuance of notes payable   | 850,000            | 1,000,000           |
| Repayments of notes payable   | (787,872)          | (223,696)           |
| Payment of dividends  | (80,125)           | (80,125)            |
| Repayments of capital lease obligations   | <u>(32,304)</u>    | <u>(29,533)</u>     |
| Net cash provided by financing activities   | <u>234,020</u>     | <u>666,646</u>      |
| Net (decrease) increase in cash   | (1,015,707)        | 3,120,317           |
| Cash and cash equivalents, beginning of period  | <u>1,079,227</u>   | <u>669,221</u>      |
| Cash and cash equivalents, end of period  | <u>\$ 63,520</u>   | <u>\$ 3,789,538</u> |

The accompanying notes are an integral part of these statements.

**SYNERGY BRANDS, INC. & SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31,**  
**(UNAUDITED)**

|   | <b>2010</b>         | <b>2009</b>         |
|---|---------------------|---------------------|
|   | <hr/>               | <hr/>               |
| Supplemental disclosure of cash flow information:                                 |                     |                     |
| Cash paid for interest  | \$ 636,516<br>===== | \$ 197,680<br>===== |
| Cash paid for income taxes  | \$ 34,124<br>=====  | \$ 10,191<br>=====  |
| Supplement disclosures of non-cash operating, investing and financing activities: |                     |                     |
| Common Stock issued for services  | \$ 120,000<br>===== | \$ 117,205<br>===== |
| Common Stock issued for financing cost  | -<br>=====          | \$ 265,200<br>===== |

The accompanying notes are an integral part of these statements.

## **SYNERGY BRANDS, INC. & SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

(Unaudited)

#### **NOTE A - UNAUDITED FINANCIAL STATEMENTS**

The consolidated balance sheet as of March 31, 2010, the consolidated statements of operations for the three months ended March 31, 2010 and 2009, and the consolidated statements of cash flows for three months ended March 31, 2010 and 2009, have been prepared by Synergy Brands, Inc. (“Synergy” or the “Company”) without audit. The balance sheet at December 31, 2009 has been derived from the audited financial statements as of that date. In the opinion of management, all adjustments (which include only normally recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at March 31, 2010 (and for all other periods presented) have been made.

Certain information and note disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Annual Report for the year ended December 31, 2009 filed by the Company. The results of operations for the periods ended March 31, 2010 and 2009 are not necessarily indicative of the operating results for the respective full years.

#### **NOTE B – ADVERTISING EXPENSE**

The Company expenses advertising and promotional costs as incurred. Advertising and promotional costs were approximately, \$9,100 and \$27,500 for the three months ended March 31, 2010 and 2009, respectively.

# SYNERGY BRANDS, INC. & SUBSIDIARIES

## Notes to Consolidated Financial Statements

(Unaudited)

### NOTE C – VENDOR DEPOSITS

At December 31, 2009, the Company had made deposits of \$8,700,000 to vendors for the purchase of merchandise. This merchandise has been delivered in the first quarter of 2010. At March 31, 2010, the Company has made deposits of approximately \$3,475,000 to vendors for the purchase of merchandise.

### NOTE D - INVENTORIES

Inventories as of March 31, 2010 consisted of the following:

|   |                     |
|---|---------------------|
| Grocery, baking mixes, general merchandise and health and beauty products | \$ 8,734,929        |
| Raw Materials   | <u>1,266,258</u>    |
|   | <u>\$10,001,187</u> |

### NOTE E - NOTES RECEIVABLE

In December 2004, the Company sold accounts receivable 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 March 31, 2010 was \$615,915.

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 March 31, 2010 was \$231,681.

At March 31, 2010, the Company entered in a promissory note for \$1,500,000 that matures on March 31, 2011, with interest payments at a rate of 7%. The balance of the note receivable at March 31, 2010 was \$1,381,631.

Note receivable from other parties, originating in the normal course of business, approximated \$141,050 at March 31, 2010.

## SYNERGY BRANDS, INC. & SUBSIDIARIES

### Notes to Consolidated Financial Statements

(Unaudited)

#### NOTE F - INVESTMENT

The Company holds a 20% interest in an investee (“Interline Travel and Tours or ITT”). The Company accounts for this investment under the equity method. The Company recorded equity in the net earnings of investee of \$96,666 and \$93,315 during the three months ended March 31, 2010 and March 31, 2009, respectively. At March 31, 2010, the investment in ITT is \$2,085,987 as included in “Other Assets” on the accompanying balance sheet.

Summarized results of operations of this investee for the three months ended March 31, 2010 and 2009 is as follows:

|                            | <u>2010</u>       | <u>2009</u>       |
|----------------------------|-------------------|-------------------|
| Revenues                   | \$9,171,000       | \$8,126,000       |
| Total expenses             | (8,511,000)       | (7,471,000)       |
| Other income               | <u>68,000</u>     | <u>56,000</u>     |
| Income before income taxes | 728,000           | 711,000           |
| Income tax expense         | <u>(245,000)</u>  | <u>(244,000)</u>  |
| Net income                 | <u>\$ 483,000</u> | <u>\$ 467,000</u> |

#### NOTE G – 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 H – LINE OF CREDIT AND NOTES PAYABLE

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 April 7, 2010, the line of credit was increased to \$4,500,000. The agreement is for one year, subject to renewal, and bears interest at prime plus 3% (6.25% at March 31, 2010), 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 March 31, 2010 was \$3,792,911.

The Company financed a series of secured convertible notes with certain shareholders of ITT since 2004. Borrowing under these notes bear interest at 9%. The outstanding balance as of March 31, 2010 was \$404,007, which matures in July 2011. Principal and interest is paid monthly.

## SYNERGY BRANDS, INC. & SUBSIDIARIES

### Notes to Consolidated Financial Statements

(Unaudited)

#### NOTE H (continued)

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 March 31, 2010). The Company is not required to repay any principal until the maturity date of the note, June 1, 2010. As security for the note, a pledge agreement was entered by a certain Shareholder of ITT. Borrowings at March 31, 2010 were \$750,000.

In October 2005, the Company invested \$1 million in a Private Placement of Senior Subordinated Debentures issued by ITT. The Company financed this investment with a \$1 million fully recourse 5 year, 8% note with a major shareholder. The outstanding balance of the note at March 31, 2010 was \$285,714.

The Company financed a series of secured Notes with Laurus Master Funds (LMF). The remaining note was originally issued in the amount of \$1.75 million on March 14, 2006 with a fixed rate of 10%. In February 2010, the Company paid the outstanding loan of approximately \$203,000.

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 March 31, 2010 was \$8,554,096.

The Company financed an asset acquisition through the issuance by QFB of two 9% secured loans in the total principal amount of \$4,750,000. The first secured loan in the amount of \$2,375,000 matures on May 18, 2012, with principal 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 March 31, 2010 were \$300,000. The balance of the note net of discount was \$1,881,902 at March 31, 2010. 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. In February 2010, the Company paid the outstanding loan of approximately \$350,000.

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, 2010. The second loan is for \$1,000,000 bearing interest at 15% maturing on December 31, 2010.

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.

## SYNERGY BRANDS, INC. & SUBSIDIARIES

### Notes to Consolidated Financial Statements

(Unaudited)

In the fourth quarter of 2009, the Company entered into a promissory note for \$500,000 with an interest rate of 9%. This note matures on January 31, 2011. In the first quarter of 2010, the Company amended the note to \$850,000, with the same terms and conditions. The balance at March 31, 2010 was \$850,000.

On February 4, 2010, the Company entered into a promissory note from a shareholder for \$500,000, bearing interest at 15%, maturing on December 31, 2010, with the principal payments of \$50,000 beginning on February 28, 2010. At March 31, 2010 the outstanding balance was \$400,000.

#### NOTE I – STOCKHOLDERS' EQUITY

During the three months ended March 31, 2010, the Company issued 200,000 shares of common stock in connection with financing, the sale of securities, conversions of debt to equity, services and dividends in connection with Class B Preferred Stock valued at \$ 120,000.

#### NOTE J – 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 period. Incremental weighted diluted shares from assumed exercises of warrants and convertible debt and equity securities for the three months ended March 31, 2010 and 2009, respectively was 490,493 and 864,794.

The following is a table of weighted average primary and diluted shares for the three months ended March 31, 2010 and 2009:

|  | <u>2010</u>       | <u>2009</u>       |
|--|-------------------|-------------------|
| Weighted average common shares                     | 17,140,557        | 14,191,169        |
| Weighted average diluted shares - convertible debt | <u>490,493</u>    | <u>864,794</u>    |
| Total weighed average common and diluted shares    | <u>17,631,050</u> | <u>15,055,963</u> |

## SYNERGY BRANDS, INC. & SUBSIDIARIES

### Notes to Consolidated Financial Statements

(Unaudited)

#### NOTE K – SALE AND LEASEBACK

In November 2008, the Company entered into two sale-leaseback transactions for baking equipment. The leases meet the criteria of the 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. At March 31, 2010 the outstanding balance was \$382,052.

Lease payments at March 31, 2010 are as follows:

| March 31,                          | Total              |
|------------------------------------|--------------------|
| 2011                               | \$ 165,540         |
| 2012                               | \$ 165,540         |
| 2013                               | <u>\$ 98,805</u>   |
|                                    | \$ 429,885         |
| Less: Amount representing interest | <u>(47,833)</u>    |
|                                    | \$ 382,052         |
| Less Current Portion               | <u>\$(136,746)</u> |
| Net Minimum Capital Lease Payments | <u>\$ 245,306</u>  |

#### NOTE L - 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.

## SYNERGY BRANDS, INC. & SUBSIDIARIES

### Notes to Consolidated Financial Statements

(Unaudited)

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 and 2010-1-11. The Company, has implemented all new updates with the exception of Accounting Standards 2009-10-11-14 and 15, which were not applicable

#### NOTE M – SUPPLEMENTARY INFORMATION

##### Three months ended March 2010 and 2009

|   |      | <u>PHS</u>   | <u>QFB</u>   | <u>Corporate</u> | <u>Total</u> |
|---|------|--------------|--------------|------------------|--------------|
| Revenue   | 2010 | \$12,106,096 | \$11,157,222 | -                | \$23,263,318 |
|   | 2009 | \$18,118,936 | \$6,877,274  | -                | \$24,996,210 |
| Net Income (loss) attributable to common shareholders | 2010 | \$603,741    | \$732,470    | \$(408,226)      | \$927,985    |
|   | 2009 | \$487,016    | \$26,946     | \$(352,062)      | \$161,900    |
| Interest and financing expenses                       | 2010 | \$388,991    | \$361,015    | \$103,553        | \$853,559    |
|   | 2009 | \$91,561     | \$149,170    | \$168,657        | \$409,388    |
| Depreciation and amortization                         | 2010 | \$3,990      | \$158,310    | \$2,023          | \$164,323    |
|   | 2009 | \$3,855      | \$154,458    | \$2,023          | \$160,336    |

**Management's Discussion and Analysis of Financial Condition and  
Results of Operation.  
Overview**

**Item 4.**

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 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](http://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](http://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. 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 THREE MONTHS ENDED MARCH 31, 2010  
AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2009.**

|   | <u>2010</u>    | <u>2009</u>    |
|---|----------------|----------------|
| Revenue   | \$ 23,263,318  | \$ 24,996,210  |
| Gross Profit  | 3,665,353      | 2,225,561      |
| SG&A  | 1,823,411      | 1,641,670      |
| Operating Profit  | 1,787,877      | 533,348        |
| Net profit attributable to common shareholders                            | 927,985        | 161,900        |
| Per share   | 0.05           | 0.01           |
| Non Cash Charges  | 475,251        | 446,828        |
| Net Profit before non-cash charges<br>attributable to common shareholders | 1,403,236      | 608,728        |
| Per share   | 0.08           | 0.04           |
| Interest and financing expense  | 853,559        | 409,388        |
| <b>Non Cash Charges *</b>   |                |                |
| Depreciation & Amortization   | 164,323        | 160,336        |
| Operating non-cash charges  | 181,388        | 126,969        |
| Financing charges   | 129,540        | 159,523        |
| <b>Total</b>  | <u>475,251</u> | <u>446,828</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.

## 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 decreased by 7% to \$23,263,318 for the three months ended March 31, 2010 while gross profit increased by 65% to \$3,655,353 for three months ended March 31, 2010 as compared to the same comparable period in 2009. The increase of gross profit is directly attributable to the Michigan operation which had a 62% increase in sales, and a gross profit increase of 115%. SG&A increased by 11% to \$1,823,411 for the three months ended March 31, 2010 as compared to the same comparable period in 2009. Net profit attributable to common shareholders was \$927,985 for the three months ended March 31, 2010 as compared to a profit of \$161,900 in the comparable period in 2009. 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.

## 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 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 months of the calendar year are usually the weakest, since so much demand is created in the fourth quarter.

Item 5. Legal Proceedings.

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that the Company believes could have a material effect on the issuer's business, financial condition, or operations nor any current, past or pending trading suspensions by a securities regulator.

Item 6. Defaults upon Senior Securities.

None.

Item 7. Other Information.

Risk Factors

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A "Risk Factors" in our 2007 form 10-K for the fiscal year ended December 31, 2007, and same should also be reviewed in conjunction with evaluation of the Company's financial business status, except as to Risk Factor No. 8, "Possible Loss of NASDAQ Capital Market Listing" such having now occurred as the Company did delist effective October 2, 2008 and Risk Factor 11 regarding Cigar Operations is not material since the Company has transferred out and does not materially participate in cigar and other tobacco sales.

Item 8. Exhibits.

None.

Item 9. Certifications.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Mitchell Gerstein, chief financial officer of Synergy Brands Inc., certify that:

- a) I have reviewed this quarter disclosure statement of the Company;
- b) 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;
- c) Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly presents in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this disclosure statement, and
- d) Based on my reasonable belief, for at least one year from the date of this certification, the Company has sufficient working capital to continue operations and has the ability to continue to meet its obligations as they become due.

Date: May 14, 2010

/s/Mitchell Gerstein

Mitchell Gerstein  
CFO

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Mair Faibish, chief executive officer of Synergy Brands Inc., certify that:

- e) I have reviewed this quarter disclosure statement of the Company;
- f) 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;
- g) Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly presents in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this disclosure statement, and
- h) Based on my reasonable belief, for at least one year from the date of this certification, the Company has sufficient working capital to continue operations and has the ability to continue to meet its obligations as they become due.

Date: May 14, 2010

/s/ Mair Faibish

Mair Faibish  
CEO