

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

OR

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

For the transition period from _____ to _____

Commission file number 0-9040

METRO TEL CORP.

(Exact name of small business issuer as specified in its charter)

DELAWARE 11-2014231

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

250 South Milpitas Blvd., Milpitas, California 95035

(Address of principal executive offices)

(408) 946-4600

(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed
by Section 13 or 15(d) of the Exchange Act during the past 12 months (or
for such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past
90 days.

Yes No

State the number of shares outstanding of each of the issuer's
classes of common equity as of the latest practicable date:

Common Stock, \$.025 par value per share - 2,004,046 shares
outstanding as of October 15, 1996

=====
Metro Tel Corp.
Statement of Operations
(Unaudited, Note A)

	For the three months ended September 30,	
	1996	1995
Net Sales	\$ 1,016,250	\$ 923,012
Cost of goods sold	626,614	590,719
Gross Profit	389,636	332,293
Selling, general and administrative expenses	280,385	296,814
Research & development	68,603	72,813
Interest and other income	(1,372)	(306)
	347,616	369,321
Earnings (loss) before provision		

for income taxes	42,020	(37,028)
Provision (credit) for income taxes	16,800	(14800)

Net Earnings	\$ 25,220	\$ (22,228)
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Earnings per common share (Note B)	\$.01	\$ (.01)
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Weighted average number of shares outstanding (Note B)	2,004,046	2,004,046
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Metro Tel Corp.
Balance Sheets
(Unaudited, Note A)

ASSETS

	September 30, 1996	June 30, 1996
Current Assets		
Cash and cash equivalents	\$ 367,974	\$ 411,924
Accounts receivable, net	501,363	716,103
Inventories	1,553,195	1,413,379
Prepaid expenses and other	44,644	14,254
Deferred income taxes	31,000	31,000
Total current assets	2,498,176	2,586,660
Property and equipment - at cost		
Machinery and equipment	478,110	470,433
Furniture and fixtures	88,963	88,414
Leasehold improvements	8,765	8,765
	575,838	567,612
Less accumulated depreciation	485,418	477,054
	90,420	90,558
Other assets		
Goodwill, net of accumulated amortization of \$376,893 on September 30, 1996 and \$369,438 on June 30, 1996	815,807	823,262
Other, net	21,233	21,562
	837,040	844,824
	\$3,425,636	\$3,522,042

Metro Tel Corp.
Balance Sheets
(Unaudited, Note A)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 1996	June 30, 1996
Current Liabilities		
Accounts payable	\$ 159,343	\$ 209,968
Accrued liabilities	117,330	174,204
Income taxes payable	4,739	18,866
Total current liabilities	281,412	403,038
Deferred Income Taxes	14,000	14,000

Stockholders' Equity		
Preferred stock, \$1 par value, 200,000 shares authorized, none issued or outstanding		
Common stock, \$.025 par value, 6,000,000 shares authorized, 2,030,296 shares issued, 2,004,046 shares outstanding	50,757	50,757
Additional paid-in capital	2,107,173	2,107,173
Retained earnings	1,041,044	1,015,824
	<hr/>	<hr/>
	3,198,974	3,173,754
Less 26,250 shares of treasury stock - at cost	(68,750)	(68,750)
	<hr/>	<hr/>
	3,130,224	3,105,004
	<hr/>	<hr/>
	\$3,425,636	\$3,522,042

Metro Tel Corp.
Statements of Cash Flows
(Unaudited, Note A)

For the three months ended
September 30,
1996 1995

Cash flows from operating activities		
Net earnings (loss)	\$ 25,220	\$ (22,228)
Adjustments to reconcile net earnings to cash provided by operating activities		
Depreciation and amortization	16,147	18,022
(Increase) decrease in operating assets		
Accounts receivable	214,740	166,689
Inventories	(139,816)	(16,609)
Prepaid expenses and other	(30,390)	(55,753)
Increase (decrease) in operating liabilities		
Accounts payable	(50,625)	(58,608)
Accrued liabilities	(56,873)	17,392
Income taxes payable	(14,127)	(30,965)
	<hr/>	<hr/>
Net cash (used) provided by operating activities	(35,724)	17,940
<hr/>		
Cash flows from investing activities		
Capital expenditures	(8,226)	(15,556)
	<hr/>	<hr/>
Net cash used in investing activities	(8,226)	(15,556)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(43,950)	2,384
Cash and cash equivalents at beginning of year	411,924	297,157
	<hr/>	<hr/>
Cash and cash equivalents at end of period	\$ 367,974	\$ 299,541

Supplement disclosures of cash flow
information
Cash paid during the period for
Income taxes \$ 30,927 \$ 29,540

[FN]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A - General: The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB related to interim period financial statements. Accordingly, these financial statements do not include certain information and footnotes required by generally accepted accounting principles for complete financial statements. However, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary in order to make the financial statements not misleading. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. For further information, refer to the Company's financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 1996.

Note B - Earnings Per Common Share: Earnings per common share is based upon the weighted average number of shares of common stock outstanding during the year. Stock options have not been included in the calculation since their inclusion would not be materially dilutive.

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

Liquidity and Capital Resources

During the three month period ended September 30, 1996, cash decreased by \$43,950. The decrease included \$35,724 used by operating activities and \$8,226 used to purchase capital assets. Cash generated by profits (\$25,220) and depreciation (\$16,147) were used in operations to support changes in operating assets and liabilities, primarily a temporary increase in inventories (\$139,816) and decrease in liabilities (\$121,625), offset in part by a reduction in accounts receivable (\$214,740).

The Company believes that the cash which it expects to generate from operations will be sufficient to meet operational needs.

Results of Operations

Net sales increased by \$93,238 (10.1%) in the first quarter of fiscal 1997 from the same period in fiscal 1996. The increase in sales in the current year's first quarter was mainly due to increased sales of new test equipment products to the Regional Bell Operating Companies (RBOCs). Prices remained constant. Sales of telephone test equipment increased by \$155,559 (19.8%) in the first quarter of fiscal 1997 from the same period in fiscal 1996, with increases in sales of outside plant test sets (23.6%) and installer's test sets (53.4%) being offset, in part, by decreases in transmission test equipment (49.0%). Sales of customer's premise equipment decreased by \$32,514 (46.9%) during the first three months of fiscal 1997 when compared to the same period of fiscal 1996, which period included substantial sales of CSU/DSU products to a large interexchange carrier during fiscal 1996. Sales of miscellaneous products, parts and repairs decreased by \$27,200 (39.9%).

The Company's gross profit margin, expressed as a percentage of sales, improved to 38.3% in the first quarter of fiscal 1997 from 36.0% for the same period of fiscal 1996. The improvement was mainly due to the increased level of sales which permitted the Company to better absorb its fixed expenses and to the retirement of the VP of Manufacturing which reduced indirect labor expenses.

Selling, general and administrative expenses decreased in dollar amount

by \$16,429 (5.5%) for the first quarter of fiscal 1997 from the comparable period of fiscal 1996. The decrease was mainly due to a reduction in sales expense (19.1%) which was partially offset by an increase in certain administration expenses (3.6%). The improvement in the percentage of these categories of expenses to sales (to 27.6% in the first quarter of fiscal 1997 compared to 32.2% in the first quarter of fiscal 1996) was due to a combination of the decreased level of expense and increased level of sales.

Research and development expenses decreased by \$4,210 (5.8%) due to salaries associated with staff changes.

PART 11 - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

At the Company's 1996 Annual Meeting of Stockholders held on November 6, 1996, stockholders re-elected the Company's existing Board of Directors by the following votes:

	For	Withheld
Michael Epstein	1,452,234	9,585
Lloyd Frank	1,452,234	9,585
Venerando J. Indelicato	1,452,722	9,097
Michael Michaelson	1,452,722	9,097

Item 7. Exhibits and Reports on Form 8-K

(a) Exhibits

10. The Company's 1991 Stock Option Plan, as amended. This exhibit is designated as a compensatory plan

27. Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended September 30, 1996.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

METRO-TEL CORP.

Date: November 12, 1996 By: Venerando J. Indelicato
President, Treasurer and
Principal Financial and
Chief Accounting Officer

EXHIBIT INDEX

Exhibit Number	Description
10.	The Company's 1991 Stock Option Plan. This exhibit is designated as a compensatory plan.
27	Financial Data Schedule

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1991 STOCK OPTION PLAN

OF

METRO-TEL CORP.

(AS AMENDED OCTOBER 25, 1996)

1. PURPOSES OF THE PLAN. This stock option plan (the "Plan") is designed to promote the interests of Metro-Tel Corp., a Delaware corporation (the "Company"), and its present and future subsidiary corporations, as defined in Paragraph 19 ("Subsidiaries"), in attracting and retaining key employees (including directors and officers who are key employees) by enabling them to acquire or increase a proprietary interest in the Company, to benefit from appreciation in the value of the Company's Common Stock and, thus, participate in the long-term growth of the Company. The Plan provides for the grant of "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and nonqualified stock options ("NQSOs"), but the Company makes no warranty as to the qualification of any option as an "incentive stock option" under the Code.

2. STOCK SUBJECT TO THE PLAN. Subject to the provisions of Paragraph 12, the aggregate number of shares of Common Stock, \$.025 par value per share, of the Company ("Common Stock") for which options may be granted under the Plan shall not exceed 250,000. Such shares of Common Stock may, in the discretion of the Board of Directors of the Company (the "Board of Directors"), consist either in whole or in part of authorized but unissued shares of Common Stock or shares of Common Stock held in the treasury of the Company. The Company shall at all times during the term of the Plan reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of the Plan. Subject to the provisions of Paragraph 13, any shares of Common Stock subject to an option which for any reason expires, is canceled or is terminated unexercised or which ceases for any reason to be exercisable shall again become available for the granting of options under the Plan.

3. ADMINISTRATION OF THE PLAN. The Plan shall be administered by the Board of Directors which, to the extent it shall determine may delegate its powers with respect to the administration of the Plan to a Committee of the Board of Directors of the Company consisting of not less than two directors, each of whom shall be a "non-employee director" within the meaning of Rule 16b-3 (or any successor rule or regulation) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). References in the Plan to determinations or actions by the Committee shall be deemed to include determinations and actions by the Board of Directors.

Subject to the express provisions of the Plan, the Committee shall have the authority, in its sole discretion, to determine the key employees who shall receive options; the times when they shall receive options; whether an option shall be an ISO or a NQSO; the number of shares of Common Stock to be subject to each option; the term of each option; the date each option shall become exercisable; whether an option shall be exercisable in whole, in part or in installments, and,

if in installments, the number of shares of Common Stock to be subject to each installment, the date each installment shall become exercisable and whether the installments shall be cumulative; whether to accelerate the date of exercise of any option or installment; whether shares of Common Stock may be issued on exercise of an option as partly paid, and, if so, the dates when future installments of the exercise price shall become due and the amounts of such installments; the exercise price of each option; the form of payment of the exercise price; the amount, if any, necessary to satisfy the Company's obligation to withhold taxes; whether to restrict the sale or other disposition of the shares of Common Stock acquired upon the exercise of an option and to waive any such restriction; whether to subject the exercise of all or any portion of an option to the fulfillment of contingencies as specified in the Contract referred to in Paragraph 11 (the "Contract"), including without limitation, contingencies relating to entering into a covenant not to compete

with the Company and its Parent and Subsidiaries, to financial objectives for the Company, a Subsidiary, a division, a product line or other category, and/or the period of continued employment of the optionee with the Company, its Parent or its Subsidiaries, and to determine whether such contingencies have been met; to construe the respective Contracts and the Plan; with the consent of the optionee, to cancel or modify an option, provided such option as modified would be permitted to be granted on such date under the terms of the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; and to make all other determinations necessary or advisable for administering the Plan. The determinations of the Committee on the matters referred to in this Paragraph 3 shall be conclusive.

4. ELIGIBILITY. The Committee may, consistent with the purposes of the Plan, grant options from time to time, to key employees (including directors and officers who are key employees) of the Company or any of its Subsidiaries. Options granted shall cover such number of shares of Common Stock as the Committee may determine; provided, however, that the aggregate market value (determined at the time the option is granted) of the shares of Common Stock for which any eligible person may be granted ISOs under the Plan or any other plan of the Company, or of a Parent or a Subsidiary of the Company, which are exercisable for the first time by such optionee during any calendar year shall not exceed \$100,000. The \$100,000 ISO limitation shall be applied by taking ISOs into account in the order in which they were granted. Any option (or the portion thereof) granted in excess of such amount shall be treated as a NQSO.

5. EXERCISE PRICE. The exercise price of the shares of Common Stock under each option shall be determined by the Committee; provided, however, that the exercise price shall not be less than 100% of the fair market value of the Common Stock subject to such option on the date of grant; and further provided, that if, at the time an ISO is granted, the optionee owns (or is deemed to own under Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, of any of its Subsidiaries or of a Parent, the exercise price of such ISO shall not be less than 110% of the fair market value of the Common Stock subject to such ISO on the date of grant.

The fair market value of the Common Stock on any day shall be (a) if the principal market for the Common Stock is a national securities exchange, the average between the high and low sales prices of the Common Stock on such day as reported by such exchange or on a consolidated tape reflecting transactions on such exchange, (b) if the principal market for the

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Common Stock is not a national securities exchange and the Common Stock is quoted on the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), and (i) if actual sales price information is available with respect to the Common Stock, the average between the high and low sales prices of the Common Stock on such day on NASDAQ, or (ii) if such information is not available, the average between the highest bid and the lowest asked prices for the Common Stock on such day on NASDAQ, or (c) if the principal market for the Common Stock is not a national securities exchange and the Common Stock is not quoted on NASDAQ, the average between the highest bid and lowest asked prices for the Common Stock on such day as reported on the NASDAQ OTC Bulletin Board Service or by National Quotation Bureau, Incorporated or a comparable service; provided that if clauses (a), (b) and (c) of this Paragraph are all inapplicable, or if no trades have been made or no quotes are available for such day, the fair market value of the Common Stock shall be determined by the Committee by any method consistent with applicable regulations adopted by the Treasury Department relating to stock options. The determination of the Committee shall be conclusive in determining the fair market value of the stock.

6. TERM OF OPTIONS. The term of each option granted pursuant to the Plan shall be such term as is established by the Committee, in its sole discretion, at or before the time such option is granted; provided, however, that the term of each ISO granted pursuant to the Plan shall be for a period not exceeding ten (10) years from the date of grant thereof, and further, provided, that if, at the time an ISO is granted, the optionee owns (or is deemed to own under Section 424(d) of the Code) stock possessing more than ten (10%) percent of the total combined voting power of all classes of stock of the Company, of

any of its Subsidiaries or of a Parent, the term of the ISO shall be for a period not exceeding five (5) years from the date of grant. Options shall be subject to earlier termination as hereinafter provided.

7. EXERCISE. An option (or any part or installment thereof), to the extent then exercisable, shall be exercised by giving written notice to the Company (attention: President) at its principal office, stating which ISO or NQSO is being exercised, specifying the number of shares of Common Stock as to which such option is being exercised and accompanied by payment in full of the aggregate exercise price therefor (or the amount due on exercise if the Contract permits installment payments) (a) in cash or by certified check or (b) with the consent of the Committee (in the Contract or otherwise), with previously acquired shares of Common Stock having an aggregate fair market value, on the date of exercise, equal to the aggregate exercise price of all options being exercised, or with any combination of cash, certified check or shares of Common Stock. The Committee may, in its discretion, permit payment of the exercise price of options by delivery of a properly executed exercise notice, together with a copy of irrevocable instructions from the Optionee to a broker (acceptable to the Committee) to deliver promptly to the Company the amount of sale or loan proceeds to pay such exercise price. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms.

A person entitled to receive Common Stock upon the exercise of an option shall not have the rights of a stockholder with respect to such shares of Common Stock until the date of

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issuance of a stock certificate to him for such shares; provided, however, that until such stock certificate is issued, any option holder using previously acquired shares of Common Stock in payment of an option exercise price shall continue to have the rights of a stockholder with respect to such previously acquired shares.

No option may be exercised in an amount less than 100 shares (or the remaining shares then covered by the option if less than 100 shares). In no case may a fraction of a share of Common Stock be purchased or issued under the Plan.

8. TERMINATION OF EMPLOYMENT. Any holder of an option whose employment with the Company (and its Parent and Subsidiaries) has terminated for any reason other than his death or Disability (as defined in Paragraph 19) may exercise such option, to the extent exercisable on the date of such termination, at any time within three months after the date of termination, but not thereafter and in no event after the date the option would otherwise have expired; provided, however, that if his employment shall be terminated either (a) for cause, or (b) without the consent of the Company, said option shall terminate immediately upon termination of employment. Options granted under the Plan shall not be affected by any change in the status of the holder so long as he continues to be a full-time employee of the Company, its Parent or any of the Subsidiaries (regardless of having been transferred from one corporation to another).

For the purposes of the Plan, an employment relationship shall be deemed to exist between an individual and a corporation if, at the time of the determination, the individual was an employee of such corporation for purposes of Section 422(a) of the Code. As a result, an individual on military, sick leave or other bona fide leave of absence shall continue to be considered an employee for purposes of the Plan during such leave if the period of the leave does not exceed 90 days, or, if longer, so long as the individual's right to reemployment with the Company (or a related corporation) is guaranteed either by statute or by contract. If the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed by statute or by contract, the employment relationship shall be deemed to have terminated on the 91st day of such leave.

Nothing in the Plan or in any option granted under the Plan shall confer on any individual any right to continue in the employ of the Company, its Parent or any of its Subsidiaries, or interfere in any way with the right of the Company, its Parent or any of its Subsidiaries to terminate the employee's

employment at any time for any reason whatsoever without liability to the Company, its Parent or any of its Subsidiaries.

9. **DISABILITY OR DEATH OF AN OPTIONEE.** Any optionee whose employment has terminated by reason of Disability may exercise his option, to the extent exercisable upon the effective date of such termination, at any time within one year after such date, but not thereafter and in no event after the date the option would otherwise have expired.

If an optionee dies (a) while he is employed by the Company, its Parent or any of its Subsidiaries, (b) within three months after the termination of his employment (unless such termination

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was for cause or without the consent of the Company or by reason of Disability) or (c) within one year following the termination of his employment by reason of Disability, the option may be exercised, to the extent exercisable on the date of his death, by his executor, administrator or other person at the time entitled by law to his rights under such option, at any time within one year after death, but not thereafter and in no event after the date the option would otherwise have expired.

10. **COMPLIANCE WITH SECURITIES LAWS.** The Committee may require in its discretion, as a condition to the exercise of any option, that either (a) a Registration Statement under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the shares of Common Stock to be issued upon such exercise shall be effective and current at the time of exercise, or (b) in the opinion of counsel for the Company, there is an exemption from registration under the Securities Act for the issuance of such shares. Nothing herein shall be construed as requiring the Company to register shares subject to any option under the Securities Act. The Committee may require the optionee to execute and deliver to the Company his representation and warranty, in form and substance satisfactory to the Committee, that the shares of Common Stock to be issued upon the exercise of the option are being acquired by the optionee for his own account, for investment only and not with a view to the resale or distribution thereof. In addition, the Committee may require the optionee to represent and warrant in writing that any subsequent resale or distribution of shares of Common Stock by such optionee will be made only pursuant to (i) a Registration Statement under the Securities Act which is effective and current with respect to the shares of Common Stock being sold, or (ii) a specific exemption from the registration requirements of the Securities Act, but in claiming such exemption, the optionee shall prior to any offer of sale or sale of such shares of Common Stock provide the Company with a favorable written opinion of counsel, in form and substance satisfactory to the Company, as to the applicability of such exemption to the proposed sale or distribution.

In addition, if at any time the Committee shall determine in its discretion that the listing or qualification of the shares of Common Stock subject to such option on any securities exchange or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition to, or in connection with, the granting of an option or the issue of shares of Common Stock thereunder, such option may not be exercised in whole or in part unless such listing, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

11. **STOCK OPTION CONTRACTS.** Each option shall be evidenced by an appropriate Contract which shall be duly executed by the Company and the optionee, and shall contain such terms and conditions not inconsistent herewith as may be determined by the Committee.

12. **ADJUSTMENTS UPON CHANGES IN COMMON STOCK.** Notwithstanding any other provisions of the Plan, in the event of any change in the outstanding Common Stock by reason of a stock dividend, stock split, stock combination, recapitalization, merger or consolidation in which the Company is the surviving corporation, reorganization or the like, the aggregate number and kind of shares subject to the Plan, the aggregate number and kind of shares

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subject to each outstanding option and the exercise price thereof shall be appropriately adjusted by the Board of Directors, whose determination shall be conclusive.

In the event of (a) the liquidation or dissolution of the Company, (b) a merger or consolidation in which the Company is not the surviving corporation, or (c) any other capital reorganization in which more than 50% of the shares of Common Stock of the Company entitled to vote in the election of directors are exchanged, outstanding options shall terminate, unless other provision is made therefor in the transaction.

13. AMENDMENTS AND TERMINATION OF THE PLAN. The Plan was adopted by the Board of Directors on September 26, 1991. No option may be granted under the Plan after September 25, 2001. The Board of Directors, without further approval of the Company's stockholders, may at any time suspend or terminate the Plan, in whole or in part, or amend it from time to time in such respects as it may deem advisable, including, without limitation, in order that ISOs granted hereunder meet the requirements for "incentive stock options" under the Code, to comply with applicable requirements of the Securities Act and the Exchange Act, and to conform to any change in applicable law or to regulations or rulings of administrative agencies; provided, however, that no amendment shall be effective without the requisite prior or subsequent stockholder approval which would (a) change the class of those eligible to receive options, (b) except as contemplated in Paragraph 12, increase the maximum number of shares of Common Stock for which options may be granted under the Plan, (c) extend the term of the 1991 Plan or (d) materially increase the benefits to participants under the Plan. No termination, suspension or amendment of the Plan shall, without the consent of the holder of an existing option affected thereby, adversely affect his rights under such option. The power of the Committee to construe and administer any options granted under the Plan prior to the termination or suspension of the Plan nevertheless shall continue after such termination or during such suspension.

14. NON-TRANSFERABILITY OF OPTIONS. No option granted under the Plan shall be transferable otherwise than by will or the laws of descent and distribution, and options may be exercised, during the lifetime of the holder thereof, only by him or his legal representatives. Except to the extent provided above, options may not be assigned, transferred, pledged, hypothecated or disposed of in any way (whether by operation of law or otherwise) and shall not be subject to execution, attachment or similar process.

15. WITHHOLDING TAXES. The Company may (i) require the holder of an option to pay, or the Company may withhold, cash, and/or (ii) with the consent of the Committee (in the Contract or otherwise), accept previously acquired shares of Common Stock and/or may withhold shares of Common Stock to be issued with respect to the option having an aggregate fair market value determined on the date of exercise of the option or date of disposition of the shares issued upon exercise of the option determined in accordance with Paragraph 5, in each case equal to the amount which it determines is necessary to satisfy its obligation to withhold Federal, state and local income taxes or other taxes incurred by reason of the grant or exercise of an option or the disposition of the underlying shares of Common Stock, as the case may be. The Company shall not be required to issue

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any shares of Common Stock pursuant to any such option until all required payments have been made.

16. LEGENDS; PAYMENT OF EXPENSES. The Company may endorse such legend or legends upon the certificates for shares of Common Stock issued upon exercise of an option under the Plan and may issue such "stop transfer" instructions to its transfer agent in respect of such shares as it determines, in its discretion, to be necessary or appropriate to (a) prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act, (b) implement the provisions of the Plan or any agreement between the Company

and the optionee with respect to such shares of Common Stock, or (c) permit the Company to determine the occurrence of a "disqualifying disposition," as described in Section 421(b) of the Code, of the shares of Common Stock transferred upon the exercise of an ISO granted under the Plan.

The Company shall pay all issuance taxes with respect to the issuance of shares of Common Stock upon the exercise of an option granted under the Plan, as well as all fees and expenses incurred by the Company in connection with such issuance.

17. USE OF PROCEEDS. The cash proceeds from the sale of shares of Common Stock pursuant to the exercise of options under the Plan shall be added to the general funds of the Company and used for such corporate purposes as the Board of Directors may determine.

18. SUBSTITUTIONS AND ASSUMPTIONS OF OPTIONS OF CERTAIN CONSTITUENT CORPORATIONS. Anything in this Plan to the contrary notwithstanding, the Board of Directors may, without further approval by the stockholders, substitute new options for prior options of a Constituent Corporation (as defined in Paragraph 19) or assume the prior options of such Constituent Corporation.

19. DEFINITIONS.

(a) Subsidiary. The term "Subsidiary" shall have the same definition as "subsidiary corporation" in Section 424(f) of the Code.

(b) Parent. The term "Parent" shall have the same definition as "parent corporation" in Section 424(e) of the Code.

(c) Constituent Corporation. The term "Constituent Corporation" shall mean any corporation which engages with the Company, its Parent or any Subsidiary in a transaction to which Section 424(a) of the Code applies (or would apply if the option assumed or substituted were an ISO), or any Parent or any Subsidiary of such corporation.

(d) Disability. The term "Disability" shall mean a permanent and total disability within the meaning of Section 22(e)(3) of the Code.

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20. GOVERNING LAW. The Plan, such options as may be granted hereunder and all related matters shall be governed by, and construed in accordance with, the laws of the State of Delaware.

21. PARTIAL INVALIDITY. The invalidity or illegality of any provision herein shall not affect the validity of any other provision.

22. STOCKHOLDER APPROVAL. The Plan shall be subject to approval by a majority of the votes present in person or by proxy at the next meeting of the Company's stockholders at which a quorum is present. No options granted hereunder may be exercised prior to such approval, provided that the date of grant of any options granted hereunder shall be determined as if the Plan had not been subject to such approval. Notwithstanding the foregoing, if the Plan is not approved by a vote of the stockholders of the Company on or before September 25, 1992, the Plan and any options granted hereunder shall terminate.

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