

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended June 30, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____.

Commission file number 0-9040

METRO-TEL CORP.
(Name of small business issuer in its charter)

Delaware	11-2014231
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
250 South Milpitas Boulevard, Milpitas, CA	95035
-----	-----
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: 408-946-4600

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, \$.025 par value

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

State issuer's revenues for its most recent fiscal year: \$3,882,818

The aggregate market value as at September 15, 1997 of the Common Stock of the issuer, its only class of voting stock, held by non-affiliates was approximately \$1,908,000 calculated on the basis of the closing price of such stock on the National Association of Securities Dealers Automated Quotation System on that date. Such market value excludes shares owned by all executive officers and directors (but includes shares owned by their spouses); this should not be construed as indicating that all such persons are affiliates.

The number of shares outstanding of the issuer's Common Stock as at September 15, 1997 was 2,054,046.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the issuer's Proxy Statement relating to its 1997 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11 and 12 in Part III of this Report.

Transitional Small Business Disclosure Format Yes No

PART I

ITEM 1. BUSINESS.

General

Metro-Tel Corp. (the "Company") was incorporated under the laws of the State of Delaware on June 30, 1963. Its executive offices are located at 250 South Milpitas Boulevard, Milpitas, California 95035, and its telephone number is 408-946-4600.

Since its inception, the Company has been engaged in the manufacture and sale of telephone test and customer premise equipment utilized by telephone and telephone interconnect companies in the installation and maintenance of telephone equipment. Through internal research and development and through acquisition, the Company has added various product lines to its telephone test and customer premise product lines.

The Company has engaged the investment banking firm of Slusser Associates, Inc. as the Company's financial advisor to assist the Company in evaluating strategic alternatives for enhancing shareholder value, including acquisitions, mergers or the sale of the Company.

The following table sets forth the approximate net sales of each of the Company's two products lines and of its other products and services, as a group, and the percentages which such sales bear to total net sales during each of the three years ended June 30, 1997:

	1997		1996		1995	
	Amount	%	Amount	%	Amount	%
(dollars in thousands)						
Telephone Test Equipment	\$3,602	93%	\$3,387	80%	\$3,596	85%
Customer Premise Equipment	121	3%	606	14%	287	7%
Other Products and Services	160	4%	236	6%	346	8%
	<u>\$3,883</u>	<u>100%</u>	<u>\$4,229</u>	<u>100%</u>	<u>\$4,229</u>	<u>100%</u>

The downsizing of the Regional Bell Operating Companies ("RBOCs") during the past several years has reduced the number of telecom craft personnel who are potential users of the Company's test equipment and, accordingly, the Company's sales. To reduce the impact that has occurred as a result of the downsizing of the RBOCs, through research and development, the Company has begun introducing new products aimed at reducing its dependence on the RBOCs and

is entering into new markets, principally the public utility and data industry, for its existing and new products.

Telephone Test Equipment. The Company manufactures and sells a line of telephone test equipment which includes portable test sets, which are designed for use in locating high resistance faults resulting from moisture in exchange cables and by cable splicers on exchange and toll cables for

identification of cable wires and other tone testing purposes; linemen's rotary and/or touch tone testing handsets and portable line test sets for use by telephone installers, repairmen and central office personnel; hand and pole exploring coils which are used in cable fault finding; solid state conversion amplifier kits; Volt-Ohmmeter test sets; and Cable Hound(R), a portable electronic unit that locates and determines the depth of underground cable and metal pipes primarily for the telephone, utility and construction industries.

In addition, the Company manufactures a line of transmission test equipment used in telephone company central office installations by operating companies, long distance telephone resellers and large companies who own their own networks. Among these products are digital and analog rack-mounted test systems, portable transmission test sets, remote test systems and fiber optic test sets.

Customer Premise Equipment. The Company manufactures and markets a line of telephone station and peripheral products, including telephone call sequencers (which answer calls on up to 12 incoming unattended lines, provide the caller with an appropriate message and place the calls in queue until answered by an attendant) and a line of digital announcers (which provide a pre-programmed message with the ability to ring through at the end of the message if so desired by the caller). This product line also includes a series of specialty telephone products, including call diverters (call forwarding devices used both by end-users and in telephone company central offices), speed dialers, specialty telephones and amplified handsets for the hearing impaired.

In addition, the Company has begun distributing a line of Channel Service Units/Data Service Units (CSU/DSU) for the data industry. These devices are used to terminate a digital channel on a customer's premises and enable computer data to be transmitted and received at high speeds over the telephone line without the use of a modem.

Other Products and Services. In addition, the Company sells a variety of accessory products, primarily head sets and alligator clips. The Company also sells spare parts for its product lines and provides repair services for its products.

Methods of Distribution.

The Company presently sells its products through its own regional sales managers and sales representatives who assist the Company's national telephone equipment distributors. Sales managers are presently based in Georgia and California and a sales representative is based in New York. In addition, the Company maintains in-house sales staffs at its facilities in Milpitas, California.

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Competition

Competition is high with respect to each of the Company's product lines. However, as the products contained in such lines are varied and similar products contain varying features, neither the Company nor any of its competitors is a dominant factor in any product line market, except for linemen's test sets for which Dracon, a division of Harris Corporation, is dominant.

The principal method of competition for each of the Company's products is price and product features, with service and warranty having a relatively less significant impact. The Company believes its product lines are competitively priced. Many of the Company's competitors have greater financial resources and have more extensive research and development and marketing staffs than the Company.

Raw Materials

The basic materials used in the manufacture of the Company's

telephone test equipment and telephone station and peripheral telephone equipment consist of electronic components. The Company utilizes many suppliers and is not dependent on any supplier. Its raw materials generally are readily available from numerous suppliers.

Patents and Trademarks

The Company has obtained a number of patents and has a number of trademarks which are used to identify its product lines. No patent or trademark is considered to be material to the Company's overall operations.

The Company also pays royalties to third parties under arrangements permitting the Company to manufacture various items in its product lines.

Principal Customers

The Company is not dependent upon any single customer. However, North Supply Company, a national distributor of telephone products, accounted for approximately 19% and 16% of the Company's net sales for the years ended June 30, 1997 and 1996, respectively. The Company believes that, should it for any reason lose this distributor, the Company would not be adversely impacted since these sales would be absorbed by other distributors.

Research and Development

The Company is regularly engaged in the design of new products and improvement of existing products for all of its product lines. The amount specifically allocated to research and development activities in fiscal 1997 and 1996, principally salaries, was \$238,000 and \$284,000, respectively. All research and development is Company-sponsored, except for products designed for the Company by unaffiliated third parties compensated on a royalty basis.

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The Company intends to continue its policy of reviewing potential acquisitions of new product lines, additional products for its existing product lines and the enhancement of its production and distribution capabilities. Such acquisitions could lead to the issuance of notes, use of the general working capital of the Company and/or issuance of shares of the Company's capital stock.

Compliance with Environmental and Other Governmental Laws and Regulations

Certain of the Company's customer premise equipment products that connect to public telephone networks need Federal Communications Commission (or, in the case of foreign sales, the equivalent agency in the foreign country in which they will be sold) approval prior to their sale. The Company does not believe that compliance with Federal, state and local environmental and other laws and regulations which have been adopted have had, or will have, a material effect on its capital expenditures, earnings or competitive position.

Employees

As at August 31, 1997, the Company had in its employ 30 persons on a full-time basis. Of these, 16 were engaged in production, 3 in engineering, 5 in sales and 6 in administration.

Foreign and Government Sales

Export sales were approximately \$252,000 and \$283,000 in fiscal 1997 and 1996, respectively. Such export sales were made principally to Europe, Canada and South America. Most export sales are made primarily through distributors and agents. Foreign sales are affected by the strength of the

United States dollar. Revenues from sales to the United States government (none of the contracts relating thereto being subject to renegotiation of profits or termination at the election of the government) are immaterial.

ITEM 2. PROPERTIES.

The Company's manufacturing operations are conducted in approximately 21,500 square feet of space in Milpitas, California (which includes warehouse and administrative facilities and which, since September 1, 1996, has also housed the Company's executive offices) under a lease expiring on March 31, 1999. The Company believes its facilities, including machinery and equipment, are suitable and adequate for its present operations. The Company does not anticipate unusual capital expenditures due to aging, repair or replacement of machinery and equipment.

ITEM 3. LEGAL PROCEEDINGS.

Not applicable.

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

Not applicable.

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PART II

ITEM 5. MARKET FOR THE COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock is traded in the over-the-counter market and is quoted on the Nasdaq Stock Market-Small Cap Market under the symbol MTRO. The following table sets forth the high and low bid prices for the Company's Common Stock for each quarterly period during fiscal 1997 and fiscal 1996, as reported by Nasdaq. The quotations are without retail markups, markdowns or commissions and may not represent actual transactions.

	HIGH	LOW
Fiscal 1997		
First Quarter	1 1/4	1
Second Quarter	1 1/4	1
Third Quarter	1 1/4	1 1/16
Fourth Quarter	1 1/8	5/8
Fiscal 1996		
First Quarter	1 3/8	13/16
Second Quarter	1 3/8	7/8
Third Quarter	1 3/16	3/4
Fourth Quarter	1 1/4	15/16

No dividends have been paid on the Company's Common Stock during either of the last two fiscal years.

As of September 15, 1997 there were approximately 990 holders of record of the Company's Common Stock.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS.

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report.

Financial Condition

During the year ended June 30, 1997, cash increased by \$86,691. Of the cash generated by operating activities (\$101,033), \$12,121 was derived from net income and \$66,558 was derived from non-cash expenses for depreciation and amortization. Additional cash from operating activities was provided by a reduction in receivables (\$165,646) which was offset, in large part, by an increase in inventories (\$102,960) to support new products and certain other changes in operating assets and liabilities. Cash of \$60,842 was used to purchase capital assets, while \$46,500 was raised through the issuance of stock due to the exercise of a stock option. The Company has no commitments for capital expenditures, although it intends to continue to purchase capital assets in the ordinary course of operations. The Company believes that the cash which it expects to generate from operations will be sufficient to meet operational needs for fiscal 1998.

Results of Operations

Net sales were \$345,738 (8.2%) lower in fiscal 1997 than in fiscal 1996. Fiscal 1996 sales included non-recurring shipments of CSU/DSU data devices to an interexchange company completed in the last quarter of fiscal 1996. Reference is made to the table on page 3 of this report for information concerning sales by product lines during the three year period ended June 30, 1997. Sales of telephone test equipment increased by \$214,508 (6.3%) in fiscal 1997, encompassing all test equipment categories, with transmission test equipment increasing 35.5%, outside plant test sets 3.3% and installer's test sets 1.1%. These increases were attributable to the introduction of new products in each category, which more than offset the decline in sales of mature products. In fiscal 1997, sales of customer premise equipment decreased by \$484,579 (80.0%) due to the completion of the CSU/DSU data devices sales discussed above. Sales of miscellaneous products and services decreased by \$75,667 (32.1%) principally due to lower foreign sales of headsets and lower sales of spare parts. Price changes in fiscal 1997 were not material to overall sales, as prices, except for some adjustments for outside plant equipment, remained relatively constant.

The Company's gross profit margin, expressed as a percentage of sales, improved slightly to 37.8% in fiscal 1997 from 37.6% in fiscal 1996, with improvements in material costs (largely due to a change in the product mix of sales), manufacturing overhead expenses (largely due to lower indirect labor costs) offsetting an increase in direct labor costs.

Selling, general and administrative expenses increased in fiscal 1997 by \$63,272 (5.5%) and as a percentage of sales to 31.2% in fiscal 1997 from 27.2% in fiscal 1996. These increases were primarily the result of the hiring of an Executive Vice President whose responsibilities are to reestablish growth in marketing and sales. In addition, there were increases in advertising expenses

and royalties and commissions paid by the Company. These increases offset reductions in administrative expenses, consisting mostly of decreases in rent and payroll, due to the consolidation of the administrative and sales functions formerly conducted in New York with those conducted in the Company's Milpitas, California facility.

Research and development expenses decreased by \$45,762 (16.1%) in fiscal 1997 mainly due to lower salaries and payroll expenses resulting from a restructuring in engineering staff.

Royalties, interest and other income were \$4,742 (43.1%) lower in fiscal 1997 than in fiscal 1996 when the sale of some fully depreciated assets produced certain non-recurring other income.

The provision for income taxes in fiscal 1997 was \$13,000, or approximately 51.7% of pre-tax profits, compared to \$44,000, or 26.1% of pre-tax profits in fiscal 1996. The provision in fiscal 1997 was higher than the statutory 34% rate due to state taxes, non-deductible charges to earnings, principally goodwill, and other rate adjustments. The provision in fiscal 1996 was lower than the statutory rate due to recognition of deferred tax benefits.

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ITEM 7. FINANCIAL STATEMENTS.

The following financial statements of the Company are contained on the pages indicated:

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Report of Independent Certified Public Accountants	10
Financial Statements:	
Balance Sheets - June 30, 1997 and 1996	11
Statements of Income - years ended June 30, 1997 and 1996	13
Statement of Changes in Stockholders' Equity - years ended June 30, 1997 and 1996	14
Statements of Cash Flows - years ended June 30, 1997 and 1996	15
Notes to Financial Statements	16

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Metro Tel Corp.

We have audited the accompanying balance sheets of Metro Tel Corp. as of June 30, 1997 and 1996, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on

our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit 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 financial statements referred to above present fairly, in all material respects, the financial position of Metro Tel Corp. as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

/s/ GRANT THORNTON LLP

San Jose, California
August 20, 1997

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Metro Tel Corp.

BALANCE SHEETS

June 30,

ASSETS

	1997	1996
	----	----
CURRENT ASSETS		
Cash and cash equivalents	\$ 498,615	\$ 411,924
Trade receivables, net of allowance for doubtful accounts of \$10,000 in 1997 and 1996	550,457	716,103
Inventories	1,516,339	1,413,379
Deferred income taxes	27,000	31,000
Prepaid expenses and other	43,696	14,254
	-----	-----
Total current assets	2,636,107	2,586,660
PROPERTY AND EQUIPMENT - AT COST		
Machinery and equipment	486,683	470,433
Furniture and fixtures	76,883	88,414
Leasehold improvements	8,765	8,765
	-----	-----
	572,331	567,612
Less accumulated depreciation and amortization	457,671	477,054
	-----	-----
	114,660	90,558
	-----	-----
OTHER ASSETS		
Goodwill, net of accumulated amortization of \$399,255 in 1997 and \$369,438 in 1996	793,444	823,262
Other, net	10,465	21,562
	-----	-----
	803,909	844,824
	-----	-----
	<u>3,554,676</u>	<u>3,522,042</u>

The accompanying notes are an integral part of these statements.

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Metro Tel Corp.

BALANCE SHEETS (continued)

June 30,

LIABILITIES AND STOCKHOLDERS' EQUITY

	1997	1996
	----	----
CURRENT LIABILITIES		
Accounts payable	\$ 212,171	\$ 209,968
Accrued liabilities	171,880	174,204
Income taxes payable	--	18,886
	-----	-----
Total current liabilities	384,051	403,038
DEFERRED INCOME TAXES		7,000 14,000

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Common stock, \$.025 par value, 6,000,000 shares authorized, 2,080,296 shares issued and 2,054,046 shares outstanding in 1997, 2,030,296 shares issued and 2,004,046 outstanding in 1996	52,007	50,757
Additional paid-in capital	2,152,423	2,107,173
Retained earnings	1,027,945	1,015,824
	-----	-----
	3,232,375	3,173,754
Less 26,250 shares of treasury stock - at cost	(68,750)	(68,750)
	-----	-----
	3,163,625	3,105,004
	-----	-----
	\$ 3,554,676	\$ 3,522,042
	=====	=====

The accompanying notes are an integral part of these statements.

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Metro Tel Corp.

STATEMENTS OF INCOME

Year ended June 30,

<TABLE>
<CAPTION>

	1997	1996
	---	---
	<C>	<C>
Net sales	\$ 3,882,818	\$ 4,228,556
Cost of goods sold	2,413,529	2,638,168
	-----	-----
Gross profit	1,469,289	1,590,388
Selling, general and administrative expenses	1,212,361	1,149,089
Research and development	238,061	283,823
Interest and other income	(6,254)	(10,996)
	-----	-----
	1,444,168	1,421,916
	-----	-----
Earnings before provision for income taxes	25,121	168,472
Provision for income taxes	13,000	44,000
	-----	-----
NET EARNINGS	\$ 12,121	\$ 124,472
	=====	=====
Earnings per common share	\$.01	\$.06
	=====	=====
Weighted average number of common shares outstanding	2,025,711	2,004,046
	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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Metro Tel Corp.

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended June 30, 1997 and 1996

<TABLE>
<CAPTION>

	Common Stock \$.025 Par Value		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
	Shares	Amount				
	-----	-----	-----	-----	-----	-----
	<C>	<C>	<C>	<C>	<C>	<C>
Balance at July 1, 1995	2,030,296	\$ 50,757	\$ 2,107,173	\$ 891,352	\$ (68,750)	\$ 2,980,532
Net earnings	--	--	124,472	--	124,472	
	-----	-----	-----	-----	-----	-----
Balance at June 30, 1996	2,030,296	50,757	2,107,173	1,015,824	(68,750)	3,105,004
Net earnings	--	--	12,121	--	12,121	

Stock option exercised	50,000	1,250	45,250	--	--	46,500
	-----	-----	-----	-----	-----	-----
Balance at June 30, 1997	2,080,296	\$ 52,007	\$2,152,423	\$1,027,945	\$ (68,750)	\$3,163,625
	=====	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of this statement.

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Metro Tel Corp.

STATEMENTS OF CASH FLOWS

Year ended June 30,

	1997	1996
	----	----
Cash flows from operating activities:		
Net earnings	\$ 12,121	\$ 124,472
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	66,558	72,158
Deferred income taxes	(3,000)	(17,000)
Gain on disposition of fixed assets	--	(3,562)
Allowance for doubtful accounts	--	(10,000)
(Increase) decrease in operating assets:		
Trade receivables	165,646	(107,822)
Inventories	(102,960)	85,183
Prepaid expenses and other assets	(18,345)	1,887
Increase (decrease) in operating liabilities:		
Accounts payable	2,203	13,590
Accrued liabilities	(2,324)	20,048
Income taxes payable	(18,866)	(12,099)
	-----	-----
Net cash provided by operating activities	101,033	166,855
Cash flows from investing activities:		
Capital expenditures	(60,842)	(52,088)
Cash flows from financing activities:		
Issuance of common stock	46,500	--
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	86,691	114,767
	-----	-----
Cash and cash equivalents at beginning of year	411,924	297,157
	-----	-----
Cash and cash equivalents at end of year	\$ 498,615	\$ 411,924
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid during the year for:

The accompanying notes are an integral part of these statements.

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METRO TEL CORP.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1997 AND 1996

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Metro Tel Corp. (the "Company") is a Delaware corporation engaged principally in the manufacture and sale of telephone test equipment and customer premise equipment, as well as related accessories. The principal market for the Company's products is the United States. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Revenue Recognition

Sales are recorded as products are shipped.

2. Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined by the weighted average method, which approximates the first-in, first-out ("FIFO") method. Market value is determined on the basis of replacement cost or net realizable value.

3. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives (generally 5 to 10 years), on a straight-line basis. Depreciation and amortization of property and equipment was \$36,740 and \$34,140 in fiscal 1997 and 1996, respectively.

4. Goodwill

Goodwill, representing cost in excess of the book value of net assets acquired, is being amortized on a straight-line basis over a period of 40 years. On an ongoing basis, management reviews the valuation and amortization of goodwill to determine possible impairment by comparing the carrying value to the undiscounted future cash flows of the related assets.

5. Income Taxes

Deferred income taxes are recognized for temporary differences between the financial statement and income tax bases of assets and liabilities and loss carryforwards and tax credit carryforwards for which income tax benefits are expected to be realized in future years. A valuation allowance would be established to reduce deferred tax assets if it is more likely than not that all, or some portion, of such deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rates is recognized in the statement of income in the period that includes the enactment date.

METRO TEL CORP.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 1997 AND 1996

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Earnings Per Common Share

Earnings per common share is based upon the weighted average number of shares of common stock outstanding during the year. Common stock equivalents are included in the weighted average number of common shares outstanding when their effect is dilutive.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. SFAS No. 128 simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings Per Share and is effective for financial statements issued for periods ending after December 15, 1997, including interim periods; earlier adoption is not permitted. The Company does not expect the adoption of SFAS No. 128 to have a significant impact to its reported results.

7. Cash Equivalents

The Company considers certificates of deposit and time deposits with original maturities of three months or less to be cash equivalents for purposes of the statements of cash flows.

8. Principal Customers

The Company sells its products principally to companies in the telecommunications industry and to distributors, with its credit risk being dependent on the economic conditions of the industry and generally prevailing economic conditions. The Company performs ongoing credit evaluations of its customers and does not generally require collateral. Approximately 40% of the Company's trade receivables were concentrated with three customers at June 30, 1997, with sales to one distributor representing approximately 19% of net sales during fiscal 1997. Approximately 31% of the Company's trade receivables were concentrated with three customers at June 30, 1996, with sales to two distributors representing approximately 28% of net sales during fiscal 1996.

9. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required 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, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

METRO TEL CORP.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 1997 AND 1996

NOTE B - INVENTORIES

The components of inventories are summarized as follows:

	June 30,	
	----- 1997	1996 -----
	----	----
Raw materials	\$ 692,368	\$ 644,520
Work-in-process	232,818	313,273
Finished goods	591,153	455,586
	-----	-----
	\$1,516,339	\$1,413,379
	=====	=====

NOTE C - STOCK OPTIONS

The Company has in effect a 1991 Stock Option Plan and a 1994 Non-Employee Director Stock Option Plan which authorize the grant of options to purchase 350,000 shares of the Company's common stock to key management employees of the Company and members of the Company's Board of Directors, respectively. The plans provide that option prices will not be less than the fair market value per share on the date the option is granted. Accordingly, no compensation cost has been recognized for options granted under the plans. Had compensation cost for the plans been determined based on the fair value of the options at the grant dates consistent with the method prescribed in SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net earnings and earnings per share would have been reduced in fiscal 1997 to the pro forma amounts indicated below. Pro forma amounts for 1997 and 1996 may not be indicative of pro forma results in future periods because the pro forma amounts below do not include pro forma compensation cost for options granted prior to fiscal 1996.

	1997	1996
	-----	-----
Net earnings		
As reported	\$ 12,121	\$ 124,472
Pro forma	\$ 2,087	\$ 124,472
Per share		
As reported	\$ 0.01	\$ 0.06
Pro forma	\$ 0.00	\$ 0.06

The fair value of each option grant is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted-average assumptions used for grants in 1997 (there were no grants in 1996): no expected dividends; expected volatility of 90%; risk-free interest rate of 5.9%; and expected lives of 4 years.

In addition, in each of June 1991 and May 1993, the Company granted stock options to purchase 30,000 shares of its common stock to nonemployee directors at an exercise price of \$1.19 and \$1.00 per share, respectively, the fair market values on the dates of grant. These options were not granted pursuant to the Company's stock option plans. The remaining options to purchase 40,000 shares are exercisable over a ten-year period. Options for 20,000 shares expired in May 1996.

A summary of the status of the Company's stock options plans, along with grants to non-employee directors prior to the 1994 Plan, as of June 30, 1997 and 1996, and changes during the years ending on those dates is presented below.

<TABLE>
<CAPTION>

	1997		1996		
	WEIGHTED AVERAGE EXERCISE SHARES	PRICE	WEIGHTED AVERAGE EXERCISE SHARES	PRICE	
<S>	<C>	<C>	<C>	<C>	
Outstanding at beginning of year		231,000	\$0.98	306,000	\$ 1.00
Granted	90,000	0.90	--	--	
Exercised	(50,000)	0.93	--	--	
Canceled	(46,000)	0.85	(75,000)	1.04	
	225,000	\$0.98	231,000	\$ 0.98	
Weighted average fair value of options granted during the year		\$0.65		\$--	

The following information applies to options outstanding at June 30, 1997:

Range of exercise prices	\$0.81-\$1.19
Options outstanding	225,000
Weighted average exercise price	\$0.98
Weighted average remaining contractual life (years)	9
Options exercisable	195,000
Weighted average exercise price	\$0.98

NOTE D - INCOME TAXES

The provision (benefit) for income taxes is summarized as follows:

	June 30,	
	1997	1996
Current		
Federal	\$ 11,000	\$ 53,000
State	5,000	8,000
Deferred	(3,000)	(17,000)
	\$ 13,000	\$ 44,000

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METRO TEL CORP.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 1997 AND 1996

NOTE D - INCOME TAXES (CONTINUED)

The tax effects of temporary differences which give rise to deferred tax assets (liabilities) are summarized as follows:

	June 30,	
	1997	1996
Deferred tax assets (liabilities)		

Inventory capitalization	\$ 15,500	\$ 20,000
Vacation accrual	8,500	7,000
Trade receivables	3,000	4,000
Depreciation	(7,000)	(14,000)
	-----	-----
	20,000	17,000
Valuation allowance	-	-
	-----	-----
Net deferred tax asset	\$ 20,000	\$ 17,000
	=====	=====

The following is a reconciliation of the provision for income taxes to the Federal statutory income tax rate:

	June 30,	
	-----	-----
	1997	1996
	-----	-----
Federal statutory rate	34.0%	34.0%
State taxes, net of Federal benefit	6.5	4.7
Amortization of goodwill	13.2	6.0
Effect of graduated Federal tax rates	(11.9)	(4.9)
Change in valuation allowance	-	(10.1)
Other, net	9.9	(3.6)
	-----	-----
	51.7%	26.1%
	=====	=====

NOTE E - ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	June 30,	
	-----	-----
	1997	1996
	----	----
Payroll and employee benefits	\$ 80,934	\$ 75,017
Profit-sharing contributions	49,589	50,709
Accrued professional fees	36,000	35,000
Other	5,357	13,478
	-----	-----
	\$ 171,880	\$ 174,204
	=====	=====

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METRO TEL CORP.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 1997 AND 1996

NOTE F - EMPLOYEE BENEFIT PLANS

The Company maintains a profit-sharing plan which covers substantially all employees. Annual contributions, which are determined at the discretion of the Board of Directors, were \$49,589 in fiscal 1997 and \$50,709 in fiscal 1996.

The Company also maintains a 401(k) retirement plan which covers substantially all employees and provides for voluntary employee contributions with employer matching contributions up to 2% of the

employee's compensation. The Company's matching contribution for this 401(k) retirement plan was \$19,000 for both fiscal 1997 and 1996.

NOTE G - COMMITMENTS AND CONTINGENCIES

Leases

The Company occupies a manufacturing and warehouse facility in California pursuant to a noncancelable operating lease expiring in March 1999. This lease does not contain a renewal option. The approximate minimum rental commitment under this lease, at June 30, 1997, is summarized as follows:

Year ending June 30,

1998	\$ 116,000
1999	87,000

	\$ 203,000
	=====

Rent expense charged to operations (including rent under a noncancelable lease for an office facility in New York which expired in February 1997) was \$147,000 and \$167,000 for fiscal 1997 and 1996, respectively.

Employment Agreements

The Company is obligated under an employment agreement, expiring June 30, 2001, with an officer to pay \$173,000 per annum. The Company is also a party to an employment arrangement with another executive officer pursuant to which he received \$94,711 in fiscal 1997, is receiving a salary of \$150,000 per annum since July 1, 1997 and may receive bonuses in fiscal 1998 if sales reach certain levels.

Royalty Agreement

The Company is presently obligated pursuant to a royalty agreement to pay the greater of 10% of sales of certain products or \$75,000 per year. Payments were \$79,800 and \$75,000 for fiscal 1997 and 1996, respectively. The Company is also obligated pursuant to a second royalty agreement to pay 10% of annual sales of certain other products. Payments were \$27,000 and \$13,000 for fiscal 1997 and 1996, respectively.

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METRO TEL CORP.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 1997 AND 1996

NOTE H - EXPORT SALES

Export sales were approximately \$242,000 and \$257,000 in fiscal 1997 and 1996, respectively.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH
----- ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL
----- PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

The following information is presented with respect to the background of each of the directors and executive officers of the Company:

Venerando J. Indelicato, 64, has been President and Treasurer of the Company for more than the past five years. Mr. Indelicato has been a director of the Company since 1966.

Richard A. Wildman, 43, has been Executive Vice President of the Company since September 1996. For more than five years prior to joining the Company, Mr. Wildman served in various sales and marketing capacities with AT&T Corp., most recently directing its western phone store operations.

Lloyd Frank, 72, has been a member of the law firm of Parker Chapin Flattau & Klimpl for more than the past five years. Mr. Frank has been a director of the Company since 1977. The Company retained Parker Chapin Flattau & Klimpl during the Company's last fiscal year and is retaining that firm during the Company's current fiscal year. Mr. Frank is also a director of Park Electrochemical Corp.

Michael Michaelson, 74, has been an independent publishing and marketing consultant for more than the past five years. Mr. Michaelson has been a director of the Company since 1978.

Michael Epstein, 59, has been an independent investor since December 1993. For more than five years prior thereto Mr. Epstein was an investment banker with the investment banking firm of Allen & Company Incorporated.

There are no family relationships among any of the directors and executive officers of the Company. All directors serve until the next annual meeting of stockholders (scheduled to be held on or about November 5, 1997) and until the election and qualification of their respective successors. All officers serve at the pleasure of the Board of Directors.

The following information is presented with respect to the background of each person who is not an executive officer but who is expected to make a significant contribution to the Company:

Howard Perera, 45, has served as the Company's Director of Engineering, engaged in the design and development of new products since joining the Company in September

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1993. For approximately five years prior to joining the Company, Mr. Perera served as a product manager for DCM Corp.

Jon D. Robinette, 40, has, since July 1995, served as General Manager of the Company, responsible for managing and coordinating operations in the Company's Milpitas, California facility. Prior thereto, Mr. Robinette served as Operations Manager for the Company from October 1984.

ITEM 10. EXECUTIVE COMPENSATION.

The information called for by this Item will be contained in the Company's definitive Proxy Statement with respect to the Company's 1997 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is incorporated herein by reference to such information.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information called for by this Item will be contained in the Company's definitive Proxy Statement with respect to the Company's 1997 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is incorporated herein by reference to such information.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by this Item will be contained in the Company's definitive Proxy Statement with respect to the Company's 1997 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, and is incorporated herein by reference to such information.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

3(a)(1) Copy of Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on June 30, 1963. (Exhibit 1.1 to the Company's Registration Statement on Form 10, File No. 0-9040).

3(a)(2) Copy of Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on March 27, 1968. (Exhibit 1.2 to the Company's Registration Statement on Form 10, File No. 0-9040).

3(a)(3) Copy of Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on November

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4, 1983 (Exhibit 3(a)(3) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1995, File No. 0-9040).

3(a)(4) Copy of Certificate of Amendment to the Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on November 5, 1986 (Exhibit 3(a)(4) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1995, File No. 0-9040).

3(a)(5) Copy of Certificate of Change of Location of Registered Office and of Agent, as filed with the Secretary of State of the State of Delaware on December 31, 1986 (Exhibit 3(a)(5) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1995, File No. 0-9040).

3(b)(1) Copy of By-Laws of the Company (Exhibit 3(b)(1) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1996, File No. 0-9040).

10(a)(1) Lease dated April 1, 1991 between the Company and CB Institutional Fund VII with respect to the Company's facilities at 240 South Milpitas Boulevard, Milpitas, California. (Exhibit 10(a)(2) to the Company's Annual Report on Form 10-K for the year ended June 30, 1991, File No. 0-9040).

10(b)(1)(i) Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(1)(i) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1995, File No. 0-9040).

10(b)(1)(ii)+ Amendment No. 1 dated July 1, 1983 to the Employment Agreement dated July 1, 1981 between the Company and Venerando J. Indelicato. (Exhibit 10(b)(1)(ii) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1995, File No. 0-9040).

*10(b)(2)+ Letter agreement dated August 29, 1996 between the Company and Richard A. Wildman.

10(c)(1)+ The Company's 1991 Stock Option Plan (Exhibit 10(c)(1) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1996, File No. 0-9040).

10(c)(2)(a)+ The Company's 1984 Non-Employee Director Stock Option Plan, as amended. (Exhibit 10(d)(2) to the Company's Annual Report on Form 10-K for the year ended June 30, 1987, File No. 0-9040).

10(c)(2)(b)+ The Company's 1994 Non-Employee Director Stock Option Plan. (Exhibit A to the Company's Proxy Statement dated October 14, 1994 used in connection with the Company's 1994 Annual Meeting of Stockholders, File No. 0-9040).

10(c)(3)+ Form of Stock Option Agreement dated June 25, 1991 entered into between the Company and each of Sheppard Beidler, Lloyd Frank and Michael Michaelson,

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together with a schedule identifying the details in which the actual agreements differ from the exhibit filed herewith. (Exhibit 10(c)(4) to the Company's Annual Report on Form 10-K for the year ended June 30, 1991, File No. 0-9040).

10(c)(4)+ Form of Stock Option Agreement dated May 4, 1993 entered into between the Company and each of Sheppard Beidler, Lloyd Frank and Michael Michaelson, together with a schedule identifying the details in which the actual agreements differ from the exhibit filed herewith. (Exhibit 10(c)(4) to the Company's Annual Report on Form 10-KSB for the year ended June 30, 1993, File No. 0-9040).

*27 Financial Data Schedule.

* Filed herewith. All other exhibits are incorporated herein by reference to the filing indicated in the parenthetical reference following the exhibit description.

+ Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

No Reports on Form 8-K were filed by the Company during the last fiscal quarter of the Company's fiscal year ended June 30, 1997. Following the close of the fiscal year, the Company filed a Current Report on Form 8-K dated (Date of earliest event reported) August 4, 1997 reported Item 5 (Other Events) and Item 7. No financial statements were filed with that Report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

METRO-TEL CORP.

Dated: September 26, 1997

By: VENERANDO J. INDELICATO

Venerando J. Indelicato,
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	CAPACITY	DATE
-----	-----	----
/s/ VENERANDO J. INDELICATO ----- Venerando J. Indelicato	President, Treasurer (Principal Executive, Financial and Accounting Officer) and Director	September 26, 1997
/s/ MICHAEL EPSTEIN ----- Michael Epstein	Director	September 26, 1997
/s/ LLOYD FRANK ----- Lloyd Frank	Director	September 26, 1997
/s/ MICHAEL MICHAELSON ----- Michael Michaelson	Director	September 26, 1997

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EXHIBIT INDEX

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-----	-----
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- 28-
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- *27 Financial Data Schedule.

* Filed herewith. All other exhibits are incorporated herein by reference to the filing indicated in the parenthetical reference following the exhibit description.

+ Management contract or compensatory plan or arrangement.

METRO-TEL CORP.
[Letterhead]

August 29, 1996

Mr. Richard Wildman
210 Likely Dr.
Alamo, CA 94507

Dear Dick:

It was a pleasure to meet with you and discuss your views on how you could help Metro Tel improve its future growth. Your impression on my board was favorable. Therefore, we would like to have you join us at Metro Tel and I would like to set forth in this letter certain matters about the position we discussed.

POSITION - The position carries the title of "Executive Vice President". You will be reporting to me and to the Metro Tel Board of Directors. All other employees of Metro Tel will report to you. Of course, as with those other employees, your service with the Company is at the Boards discretion.

RESPONSIBILITIES - Your responsibilities will be to direct the day to day operations of the company with special emphasis on sales and marketing.

COMPENSATION - You will start with an initial salary of \$125,000 per year, plus you will receive options to purchase 25,000 shares of Metro Tel stock, in accordance with the Metro Tel's employee stock option plan, at a price equivalent to the market price set on the close of business of the first day of your employment. In addition, your salary will be increased to \$150,000 per year on July 1, 1997 and an additional option to purchase 25,000 shares of Metro Tel stock will be awarded to you in accordance with the employee stock option plan, at a price equivalent to the market price on the close of business on June 30, 1997.

As an incentive, a \$5000 bonus will be awarded to you, should you, by your efforts, increase Metro Tel's second half fiscal 1997 (Jan 97 - June 97) sales by \$250,000 over the second half of fiscal 1996. An additional \$5000 will be awarded to you if you also increase sales by \$250,000 for the first half of fiscal 1998 (July 97-Dec 97) over the comparable period of fiscal 1997.

In addition, should sales increase by \$500,000 for the total period from Jan 97 to Dec 97 over the previous year's comparable period, an additional \$10,000 bonus will be awarded to you. All bonus awards are payable during the month following the end of period.

Not included in the above bonus calculations is a pending contract from GTE on the RTS-1 and the ARONTS system, unless you contribute substantially to increasing the quantities specified on the current proposals.

Should your performance continue to be satisfactory, at some time no later than July 1, 1998, you will be named President of Metro Tel Corp.

All other employee benefits will be extended to you, including participation in the Metro Tel profit sharing plan, 401K plan and hospitalization plan.

I believe the above accurately reflects the matters we discussed. Your response to the foregoing should be communicated to me by Tuesday, September 3, 1996.

I look forward to having you join Metro Tel Team.

Sincerely,

Metro Tel Corp.

/s/ Venerando Indelicato

Venerando Indelicato
President

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