SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 1997

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 incorporation or organization) | (I.R.S.Employer Identification No.) |

250 South Milpitas Blvd., Milpitas, California 95035

(Adress 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 X. 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 - 2,054,046 shares outstanding as of May 13, 1998

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

| | For the nine months ended March 31, | | For the three months ended March 31, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| Net sales | $2,792,021 | $2,821,220 | $ 772,979 | $1,068,290 |
| Cost of goods sold | 1,777,550 | 1,761,387 | 527,772 | 629,397 |
| Gross profit | 1,014,471 | 1,059,833 | 245,207 | 438,893 |
| Selling, general, and administrative expenses | 921,365 | 899,713 | 291,228 | 309,800 |
| Research and development | 171,137 | 184,075 | 58,948 | 51,980 |
| Interest and other income | (7,704) | (4,362) | (2,349) | (1,692) |
| | 1,084,798 | 1,079,426 | 347,827 | 360,088 |

| | | | | |
|---|---|---|---|---|
| Earnings (loss) before provision (credit) for income taxes | (70,327) | (19,593) | (102,620) | 78,805 |
| Provision (credit) for income taxes | (28,100) | (7,800) | (41,000) | 31,600 |
| Net earnings (loss) | $ (42,227) | $ (11,793) | $(61,620) | $ 47,205 |
| Basic (loss) earnings per common share (Note B) | $ (.02) | $ (.01) | $ (.03) | $ .02 |
| Diluted (loss) earnings per common share (Note B) | $ (.02) | $ (.01) | $ (.03) | $ .02 |
| Weighted average number of shares outstanding (Note B) | 2,054,046 | 2,015,157 | 2,054,046 | 2,037,379 |

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

ASSETS

| | March 31, 1998 | June 30, 1997 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 346,052 | $ 498,615 |
| Accounts receivable, net | 433,042 | 550,457 |
| Inventories | 1,649,919 | 1,516,339 |
| Prepaid expenses and other | 83,247 | 43,696 |
| Deferred income taxes | 27,000 | 27,000 |
| Total current assets | 2,539,260 | 2,636,107 |
| **Property and equipment - at cost** | | |
| Machinery and equipment | 563,731 | 486,683 |
| Furniture and fixtures | 76,927 | 76,883 |
| Leasehold improvements | 8,765 | 8,765 |
| | 649,423 | 572,331 |
| Less accumulated depreciation | 487,460 | 457,671 |
| | 161,963 | 114,660 |
| **Other assets** | | |
| Goodwill, net of accumulated amortization of $421,618 on March 31, 1998 and $399,256 on June 30, 1997 | 771,082 | 793,444 |
| Other, net | 9,676 | 10,465 |
| | 780,758 | 803,909 |
| | $3,481,981 | $3,554,676 |

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

LIABILITIES AND
STOCKHOLDERS' EQUITY

| | March 31, | June 30, |
|---|---|---|

| | 1998 | 1997 |
|---|---|---|
| Current Liabilities | | |
| Accounts payable | $ 133,614 | $ 212,171 |
| Accrued liabilities | 219,969 | 171,880 |
| Total current liabilities | 353,583 | 384,051 |
| Defrred Income Taxes | 7,000 | 7,000 |
| 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, 2,080,296 shares issued, 2,054,046 shares outstanding | 52,007 | 52,007 |
| Additional paid-in capital | 2,152,423 | 2,152,423 |
| Retained earnings | 985,718 | 1,027,945 |
| | 3,190,148 | 3,232,375 |
| Less 26,250 shares of treasury stock - at cost | (68,750) | (68,750) |
| | 3,121,398 | 3,163,625 |
| | $3,481,981 | $3,554,676 |

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

| | For the nine months ended March 31, 1998 | 1997 |
|---|---|---|
| Cash flows from operating activities | | |
| Net earnings (loss) | $ (42,227) | $ (11,793) |
| Adjustments to reconcile net earnings to cash provided by operating activities | | |
| Depreciation and amortization | 52,940 | 48,441 |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 117,415 | 242,101 |
| Inventories | (133,580) | (35,629) |
| Prepaid expenses and other | (39,551) | (54,487) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | (78,557) | (108,668) |
| Accrued liabilities | 48,089 | (409) |
| Income taxes payable | - | (18,866) |
| Net cash provided (used) by operating activities | (75,471) | 60,690 |
| Cash flows used in investing activities | | |
| Capital expenditures | (77,092) | (41,527) |
| Cash flows from financing activities | | |
| Proceeds from exercise of stock options | | 46,500 |
| Net increase (decrease) in cash and cash equivalents | (152,563) | 65,663 |
| Cash and cash equivalents at beginning of year | 498,615 | 411,924 |
| Cash and cash equivalents at end of | | |

| | | |
|---|---|---|
| period | $ 346,052 | $ 477,587 |

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| | | |
|---|---|---|
| Supplement disclosures of cash flow information | | |
| Cash paid during the period for | | |
| Income taxes | $ 1,989 | $ 60,627 |

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METRO TEL CORP.

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 statements 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, 1997.

Note B - Earnings Per Common Share: In 1997, FASB issued Statment No. 128, "Earnings per share". Statment No. 128 replaced the calculation of primary and fully diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of stock options. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Because the Company experienced a loss in some of the reported periods, shares issuable upon the exercise of stock options were not included in the calculation of diluted earnings per share for those periods as their effect would have been anti-dilutive. All earnings per share amounts for all periods have been presented to conform to the Statement No. 128 requirments.

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

Liquidity and Capital Resources

During the nine month period ended March 31, 1997, cash decreased by $152,563. The decrease resulted from $75,471 used by operating activities and $77,092 used in investing activities to purchase capital assets. Of the cash used by operating activities $42,227 was used to fund an operating loss for the period, $133,580 was used to increase inventories, $39,551 was used prepay certain expenses and $78,557 was used to reduce accounts payable. These reductions in cash were partially offset by non cash expenses for depreciation and amortization ($52,940), a decrease in accounts receivable ($117,415) and an increase in accrued expenses ($48,089). The Company believes that its present cash, and the cash it expects to generate from operations, will be sufficient to meet operational needs.

Results of Operations

Net sales for the three and nine month periods ended March 31, 1998 were $295,311 (27.6%) and $29,199 (1.0%), respectively, lower than in the comparable periods of the prior year. The reduction for the three month period was mainly due to unexpected lower foreign and domestic bookings during January and February. The sales reduction in the third quarter offset a gain in sales for the first six months of fiscal 1998 over the same period in fiscal 1997. For the three month period sales reductions were across all products lines; however, for the nine month period sales increases in Outside

Plant Test Equipment and Installer's Test Sets were offset by a reduction in sales of Transmission Test Equipment. Sales of telephone test equipment decreased by $288,629 (28.8%) and $4,821 (.2%), respectively, for the three and nine month periods of fiscal 1998 compared to the same periods of fiscal 1997. Sales of customer premise equipment decreased by $16,278 (50.1%) and $45,725 (46.5%), respectively, for the three and nine month periods of fiscal 1998 when compared to the same periods of fiscal 1997. Sales of spare parts and repairs increased by $9,596 (28.0%) for the three month period and $21,347 (19.3%) for the nine month period. The Company implemented selective price increases during the third quarter of fiscal 1998; however, because of the limited portion of the reported periods in effect the price increases had minimal impact on reported sales.

The Company's gross profit margin, expressed as a percentage of sales, decreased to 31.7% for the third quarter of fiscal 1998 from 41.1% for the same period of fiscal 1997. For the nine month period of fiscal 1998 gross profit margin decreased to 36.3% from 37.6% for the comparable period of fiscal 1997. The decrease for both periods were mainly due to the reduced level of sales which adversely effected the ability of the Company to absorb fixed expenses and an increase in indirect labor.

Selling, general and administrative expenses decreased by $18,572 (6.0%) for the third quarter of fiscal 1998 when compared to the same quarter of fiscal 1997. The decrease was attributed mainly to a decrease in selling expenses (10.9%) while general and administrative expenses remaind flat. For the nine month period of fiscal 1998, selling, general and administrative expenses increased by $21,652 (2.4%) over the same period of fiscal 1997. The increase was due to increases in selling expense (13.7%) which offset a decrease in administrative expenses (6.0%) primarily as a result of closing the Company's New York office in January 1997.

Research and development expenses increased by $6,968 (13.4%) for the three month period while decreasing by $12,938 (7.0%) for the nine month period of fiscal 1998 when compared to like periods of fiscal 1997. All changes were mainly associated with payroll and payroll expenses.

Interest and other income increased by $657 (38.8%) and $3,342 (76.6%), respectively, for the three and nine month periods in fiscal 1998 from the same periods of fiscal 1997 due mainly to increased cash balances invested for most of the 1998 reported periods.

The effective tax rate for each reported period was approximately 40%.

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PART 11 - OTHER INFORMATION

Item 7. Exhibits and Reports on Form 8-K

(a) Exhibits

27. Financial Data Schedule

(b) Reports on Form 8-K

No Reports on Form 8-K were filed during the quarter ended March 31, 1998.

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: May 11, 1998 By: Venerando J. Indelicato<br>President, Treasurer and<br>Principal Financial and<br>Chief Accounting Officer

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EXHIBIT INDEX

| Exhibit Number | Description |
| --- | --- |
| 27 | Financial Data Schedule |

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