

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, 1996

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: \$4,228,556

The aggregate market value as at September 15, 1996 of the Common
Stock of the issuer, its only class of voting stock, held by non-affiliates was
approximately \$1,975,000 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, 1996 was 2,004,046.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the issuer's Proxy Statement relating to its 1996 Annual Meeting of
Stockholders are incorporated by reference into Items 10, 11 and 12 in Part III
of this Report.

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 have, since September 1, 1996, been 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 telephone station 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 station equipment product lines.

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 thereof, 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.

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, 1996:

	1996		1995		1994	
	Amount	%	Amount	%	Amount	%
(dollars in thousands)						
Telephone Test Equipment	\$3,387	80%	\$3,596	85%	\$3,568	88%
Customer Premise Equipment	606	14%	287	7%	284	7%
Other Products and Services	236	6%	346	8%	212	5%
	<u>\$4,229</u>	<u>100%</u>	<u>\$4,229</u>	<u>100%</u>	<u>\$4,064</u>	<u>100%</u>

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 and remote test systems.

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.

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

Competition

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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

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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 16% of the Company's net sales for each of the two years ended June 30, 1996. 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 1996 and 1995, principally salaries, was \$284,000 in both years. All research and development is Company-sponsored, except for products designed for the Company by unaffiliated third parties compensated on a royalty basis.

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

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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, 1996, the Company had in its employ 30 persons on a full-time basis. Of these, 18 were engaged in production, 4 in engineering, 4 in sales and 4 in administration.

Foreign and Government Sales

Export sales were approximately \$283,000 and \$418,000 in fiscal 1996 and 1995, 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 REGISTRANT'S 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 1996 and fiscal 1995, as reported by Nasdaq. The quotations are without retail markups, markdowns or commissions and may not represent actual transactions.

	HIGH	LOW
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
Fiscal 1995		
First Quarter	1	3/4
Second Quarter	1	11/16
Third Quarter	1 1/8	7/8
Fourth Quarter	1 1/8	7/8

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

As of June 30, 1996 there were approximately 1,075 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, 1996, cash increased by \$114,767. Of the cash generated by operating activities (\$166,855), \$124,472 was derived from net income and \$72,158 was derived from non-cash expenses for depreciation and amortization. Additional cash was provided by a reduction in inventories (\$85,183). A portion of such cash was used to support higher receivables (\$107,822). In addition, cash of \$52,088 was used to purchase capital assets. 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 1997.

Results of Operations

Net sales in fiscal 1996 approximated net sales in fiscal 1995. Reference is made to the table on page 3 of this report for information concerning sales by product lines during the three years ended June 30, 1996. Sales of telephone test equipment decreased by \$208,379 (5.8%) in fiscal 1996. This decrease was due to a reduction in sales of older outside plant test sets (8.5%) and transmission test equipment (39.2%) which are primarily sold to telephone operating companies. These decreases were offset by increases in sales of installer's test sets (13.7%) which have a wider market and include sales of a recently approved hand held test set to a Regional Bell Operating Company. Sales of customer premise equipment increased by \$318,902 (111.3%) principally due to sales of CSU/DSU products to a large interexchange telephone carrier. Sales of miscellaneous products and services decreased by \$112,716 (32.4%) due to the completion in fiscal 1995 of an engineering contract with a foreign firm. Prices charged by the Company for its products in fiscal 1996 remained constant although some spare parts did have price adjustments for inflation.

The Company's gross profit margin, expressed as a percentage of sales, decreased to 37.6% in fiscal 1996 from 38.6% in fiscal 1995. This decrease is attributable to higher material costs which, due to competitive pressures, were not passed on to the Company's customers in the form of higher prices. Increases in material costs were partially offset by decreases in direct labor (6.1%) and manufacturing overhead (6.9%).

Selling, general and administrative expenses decreased by \$24,847 (2.1%) in fiscal 1996 from fiscal 1995, primarily caused by a reduction in sales expenses (6.2%) due to the renegotiation of a royalty agreement which reduced royalties. Administrative expenses increased by \$3,246 (less than 1%) as increases in professional fees and payroll were offset by a reduction in the provision for bad debts, due to collection experience, and hospitalization insurance costs.

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Research and development expenses remained at approximately the same level as in fiscal 1995.

Royalty, interest and other income increased by \$3,582 (48.3%) mainly due to the sale of some fully depreciated assets.

The provision for income taxes in fiscal 1996 was \$44,000, or approximately 26.1% of pre-tax profits, compared to \$69,000, or 38.3% of pre-tax profits in fiscal 1995. The lower provision for income taxes was due to the recognition of deferred tax benefits in fiscal 1996.

ITEM 7. FINANCIAL STATEMENTS.

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

	Page
Report of Independent Certified Public Accountants	9
Financial Statements:	
Balance Sheets - June 30, 1996 and 1995	10
Statements of Income - years ended June 30, 1996 and 1995	12
Statement of Changes in Stockholders' Equity - years ended June 30, 1996 and 1995	13
Statements of Cash Flows - years ended June 30, 1996 and 1995	14
Notes to Financial Statements	15

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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, 1996 and 1995, 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, 1996 and 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

GRANT THORNTON LLP

Melville, New York
August 9, 1996

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Metro Tel Corp.

BALANCE SHEETS

June 30,

ASSETS	1996	1995
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 411,924	\$ 297,157
Trade receivables, net of allowance for doubtful accounts of \$10,000 in 1996 and \$20,000 in 1995	716,103	598,281
Inventories	1,413,379	1,498,562
Deferred income taxes	31,000	--
Prepaid expenses and other	14,254	16,141
	-----	-----
Total current assets	2,586,660	2,410,141
PROPERTY AND EQUIPMENT - AT COST		
Machinery and equipment	470,433	450,498
Furniture and fixtures	88,414	88,564
Leasehold improvements	8,765	8,765
	-----	-----
	567,612	547,827
Less accumulated depreciation and amortization	477,054	478,708
	-----	-----
	90,558	69,119
OTHER ASSETS		
Goodwill, net of accumulated amortization of \$369,438 in 1996 and \$339,621 in 1995	823,262	853,079
Other, net	21,562	29,692
	-----	-----
	844,824	882,771
	-----	-----
	<u>\$3,522,042</u>	<u>\$3,362,031</u>

The accompanying notes are an integral part of these statements.

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Metro Tel Corp.

BALANCE SHEETS

June 30,

LIABILITIES AND STOCKHOLDERS' EQUITY	1996	1995
	-----	-----
CURRENT LIABILITIES		
Accounts payable	\$ 209,968	\$ 196,378

Accrued liabilities	174,204	154,156	
Income taxes payable	18,866	30,965	
	-----	-----	
Total current liabilities	403,038	381,499	
DEFERRED INCOME TAXES		14,000	--

COMMITMENTS AND CONTINGENCIES

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	1,015,824	891,352	
	-----	-----	
	3,173,754	3,049,282	
Less 26,250 shares of treasury stock - at cost	(68,750)	(68,750)	
	-----	-----	
	3,105,004	2,980,532	
	-----	-----	
	\$ 3,522,042	\$ 3,362,031	
	=====	=====	

The accompanying notes are an integral part of these statements.

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Metro Tel Corp.

STATEMENTS OF INCOME

Year ended June 30,

	1996	1995	
	----	----	
Net sales	\$ 4,228,556	\$ 4,228,722	
Cost of goods sold	2,638,168	2,597,385	
	-----	-----	
Gross profit	1,590,388	1,631,337	
	-----	-----	
Selling, general and administrative expenses	1,149,089	1,173,936	
Research and development	283,823	284,008	
Interest expense	--	754	
Royalty, interest and other income	(10,996)	(7,414)	
	-----	-----	
	1,421,916	1,451,284	
	-----	-----	
Earnings before provision for income taxes	168,472	180,053	
Provision for income taxes		44,000	69,000
	-----	-----	
NET EARNINGS	\$ 124,472	\$ 111,053	

Earnings per common share	\$.06	\$.06
Weighted average number of common shares outstanding	2,004,046	2,004,046

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, 1996 and 1995

<TABLE>
<CAPTION>

	Common stock \$.025 par value		Additional paid-in capital	Retained earnings	Treasury stock	Total
	Shares	Amount				
Balance at June 30, 1994	2,030,296	\$ 50,757	\$ 2,107,173	\$ 780,299	\$(68,750)	\$2,869,479
Net earnings			111,053	111,053		
Balance at June 30, 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

</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,

	1996	1995
Cash flows from operating activities		
Net earnings	\$ 124,472	\$ 111,053

Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	72,158	75,938
Deferred income taxes	(17,000)	--
Gain on disposition of fixed assets	(3,562)	--
Allowance for doubtful accounts	(10,000)	--
(Increase) decrease in operating assets		
Trade receivables	(107,822)	(19,418)
Inventories	85,183	16,188
Prepaid expenses and other	1,887	4,492
Increase (decrease) in operating liabilities		
Accounts payable	13,590	(17,961)
Accrued liabilities	20,048	(43,447)
Income taxes payable	(12,099)	30,965
	-----	-----
Net cash provided by operating activities	166,855	157,810
	-----	-----
Cash flows from investing activities		
Capital expenditures	(52,088)	(16,306)
	-----	-----
Net cash used in investing activities	(52,088)	(16,306)
	-----	-----
Cash flows from financing activities		
Principal payments of debt	--	(25,000)
	-----	-----
Net cash used in financing activities	--	(25,000)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	114,767	116,504
Cash and cash equivalents at beginning of year	297,157	180,653
	-----	-----
Cash and cash equivalents at end of year	\$ 411,924	\$ 297,157
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid during the year for		
Interest	\$ --	\$ 754
Income taxes	77,486	35,489

The accompanying notes are an integral part of these statements.

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Metro Tel Corp.

NOTES TO FINANCIAL STATEMENTS

June 30, 1996 and 1995

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 \$34,140 and \$37,990 in fiscal 1996 and 1995, respectively.

4. Goodwill

Goodwill, representing cost in excess of the book value of the 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.

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," that established accounting standards for the impairment of long-lived assets, certain intangibles and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of.

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Metro Tel Corp.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1996 and 1995

NOTE A (continued)

SFAS 121 is required to be adopted for fiscal years beginning after December 15, 1995. Consistent with SFAS 121, it is the Company's policy to periodically review and evaluate whether there has been a permanent impairment in the value of intangibles and adjust the carrying value accordingly. Factors considered in the valuation include current operating results, trends and anticipated undiscounted future cash flows. Accordingly, the adoption of SFAS 121 is not expected to have a significant effect on the financial statements of the Company.

5. Income Taxes

Deferred income taxes are recognized for temporary differences between 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 statements of income in the period that includes the enactment date.

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. Stock options have not been included in the earnings per common share calculations since their inclusion would not be materially dilutive.

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 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. Approxi-

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Metro Tel Corp.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1996 and 1995

NOTE A (continued)

mately 49% of the Company's trade receivables were concentrated with five customers at June 30, 1995, with sales to a single distributor representing approximately 16% of net sales during fiscal 1995.

9. Stock-Based Compensation

Adoption of Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation," is required for fiscal years beginning after December 15, 1995 and allows for a choice of the method of accounting used for stock-based compensation. Entities may elect the "intrinsic value" method based on APB No. 25, "Accounting for Stock Issued to Employees" or the new "fair value" method contained in SFAS 123. The Company intends to implement SFAS 123 in fiscal 1997 by continuing to account for stock-based compensation under the guidelines of APB No. 25. As required by SFAS 123, the pro forma effects on net income and income per share will be determined and disclosed in the notes to the financial statements, as if the fair value based method had been applied.

10. 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.

NOTE B - INVENTORIES

The components of inventories are summarized as follows:

	June 30,	
	----- 1996	1995 -----
Raw materials	\$ 644,520	\$ 803,207
Work-in-process	313,273	160,576
Finished goods	455,586	534,779
	-----	-----
	\$ 1,413,379	\$ 1,498,562
	=====	=====

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Metro Tel Corp.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1996 and 1995

NOTE C - STOCK OPTIONS

The Company has granted stock options to key employees and nonemployee directors pursuant to separate stock option plans. Outstanding options are generally exercisable for a period of five years (ten years for directors) from the date of the grant at a price not less than the market value on the date of the grant.

The following is a summary of activity with respect to stock options under the plans:

	Number of shares -----	Option price per share -----
Outstanding at June 30, 1994	222,000	\$.81 to \$1.31

Granted	55,000	1.00
Expired	(31,000)	.81 to 1.31

Outstanding at June 30, 1995	246,000	.81 to 1.31

Granted	--	
Expired	(55,000)	.94 to 1.31

Outstanding at June 30, 1996	191,000	.81 to 1.31

At June 30, 1996, the Company had reserved 291,500 shares under its stock option plans. Options for 169,750 shares are exercisable at June 30, 1996 pursuant to these plans.

In each of June 1991 and May 1993, the Company granted 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 market values on the dates of grant. These options were not granted pursuant to the Company's option plans; 40,000 options are exercisable for a ten-year period and 20,000 options expired in May 1996.

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Metro Tel Corp.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1996 and 1995

NOTE D - INCOME TAXES

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

	Year ended June 30,	
	1996	1995
Current		
Federal	\$ 53,000	\$ 55,000
State	8,000	14,000
Deferred	(17,000)	--
	<u>\$ 44,000</u>	<u>\$ 69,000</u>

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

	June 30,	
	1996	1995
Deferred tax assets (liabilities)		
Inventories	\$ 20,000	\$ 25,000
Vacation accrual	7,000	9,000
Trade receivables	4,000	8,000
Depreciation	(14,000)	(11,000)
	<u>17,000</u>	<u>31,000</u>
Valuation allowance	--	(31,000)
	<u>\$ 17,000</u>	<u>\$ --</u>

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

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Metro Tel Corp.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 1996 and 1995

NOTE D (continued)

	Year ended June 30,	
	1996	1995
Federal statutory rate	34.0%	34.0%
State taxes, net of Federal benefit	4.7	6.6
Amortization of goodwill	6.0	5.6
Effect of graduated Federal tax rates	(4.9)	(3.6)
Change in deferred taxes/valuation allowance	(10.1)	--
Other, net	(3.6)	(4.3)
	26.1%	38.3%

NOTE E - ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	June 30,	
	1996	1995
Payroll and employee benefits	\$ 75,017	\$ 91,152
Profit-sharing contributions	50,709	51,231
Accrued professional fees	35,000	9,466
Other	13,478	2,307
	<u>\$ 174,204</u>	<u>\$ 154,156</u>

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 approximately \$51,000 in both fiscal 1996 and 1995.

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 contributions for this 401(k) retirement plan were \$19,000 and \$22,000 for fiscal 1996 and 1995, respectively.

NOTE G - COMMITMENTS AND CONTINGENCIES

1. Leases

The Company occupies a manufacturing and warehouse facility in California and an office facility in New York pursuant to noncancellable operating leases expiring in March 1999 and February 1997, respectively. These leases do not contain renewal options. The approximate minimum rental commitments under these noncancellable operating leases, at June 30, 1996, are summarized as follows:

	Amount

June 30,	
1997	\$ 146,000
1998	116,000
1999	87,000

	\$ 349,000

Rent expense charged to operations was \$167,000 and \$166,000 for fiscal 1996 and 1995, respectively.

2. Employment Agreement

The Company is obligated under an employment agreement with an officer to pay \$173,000 during each of the five fiscal years ending June 30, 2001.

3. 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 (\$100,000 in fiscal 1995). Payments were \$75,000 and \$100,000 for fiscal 1996 and 1995, respectively.

NOTE H - EXPORT SALES

Export sales were approximately \$283,000 and \$418,000 in fiscal 1996 and 1995, 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, 63, 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, 42, 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, 71, 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, 73, 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, 58, 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 26, 1996) 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:

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Raymond Ma, 48, has been Vice President-Engineering for more than the past five years.

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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 1996 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 1996 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 1996 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 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.
- 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(c)(1)+ The Company's 1991 Stock Option Plan.
- 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, 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,

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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-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, 1996.

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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 27, 1996

By: /s/ 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 -----	President, Treasurer (Principal Executive,	September 27, 1996

Venerando J. Indelicato Financial and Accounting
Officer) and Director

/s/ Michael Epstein Director September 27, 1996

Michael Epstein

/s/ Lloyd Frank Director September 27, 1996

Lloyd Frank

/s/ Michael Michaelson Director September 27, 1996

Michael Michaelson

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EXHIBIT INDEX

Exhibit Number	Description
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*3(b)(1)	Copy of By-Laws of the Company.

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- 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 Financials Data Schedule.

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BY-LAWS

-of-

METRO-TEL CORP.

(A Delaware Corporation)

ARTICLE I

OFFICES

SECTION 1. Registered Office. The Corporation's registered office shall be at 306 South State Street, in the City of Dover, County of Kent, State of Delaware, and the name of the registered agent in charge thereof shall be Registrar and Transfer Company.

SECTION 2. Other Offices. The Corporation may also have an office or offices at such other place or places, within or without the State of Delaware as the Board of Directors may from time to time designate or the business of the Corporation require.

ARTICLE II

STOCKHOLDERS' MEETINGS

SECTION 1. Annual Meetings. The annual meeting of stockholders of the Corporation, commencing with the calendar year 1980, shall be held each year at such time on a business day in the fourth month following the close of the Corporation's fiscal year as shall be designated by the Board of Directors, or if no designation is made, at 10:00 A.M. on the last Friday of the fourth month following the close of the Corporation's fiscal year (or if that is a legal holiday then on the next succeeding business day). Such meeting shall be held at the registered office of the Corporation in the State of Delaware, or at such other place within or without the State of Delaware as may be determined by the Board of Directors and as shall be designated in the notice of said meetings. Such annual meeting shall be for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

If the election of directors shall not be held on the date designated herein for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the stockholders as soon thereafter as convenient. At such meeting the stockholders may elect the directors and transact other business with the same force and effect as at an annual meeting duly called and held.

SECTION 2. Special Meetings. Special meetings of the stockholders shall be held at the registered office of the Corporation in the State of Delaware, or at such other place within or without the State of Delaware as may be designated in the notice of said meeting, upon call of the Board of Directors, the Chairman of the Board or the President, and shall be called by the Chairman of the Board, the President, any Vice President or the Secretary at the request in writing of stockholders owning a majority of the issued and outstanding capital stock of the Corporation then entitled to vote thereat.

SECTION 3. Notice and Purpose of Meetings. Notice of the date, hour and place within or without the State of Delaware of every meeting of stockholders and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given by the Chairman of the Board, the President, or a Vice President, the Secretary or any Assistant Secretary either personally or by mail or by telegraph or by any other lawful means of

communication not less than 10 nor more than 60 days before the meeting, to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to have been given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation. Whenever notice is required to be given, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, need be specified in any written waiver of notice.

SECTION 4. Adjourned Meetings. No notice need be given of any adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At any adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days or if a new record date is fixed for the meeting, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 5. Quorum. A quorum at all meetings of stockholders shall consist of a majority of the shares of capital stock of the Corporation outstanding and entitled to vote at the meeting, present in person or represented by proxy, except as otherwise provided by statute or Certificate of Incorporation in respect of the vote that shall be required for a specified action. In the absence of a quorum at any meeting or any adjournment thereof, a majority of the shares of capital stock of the Corporation present in person or represented by proxy and entitled to vote may adjourn such meeting to another time or times. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

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SECTION 6. Organization. Meetings of stockholders shall be presided over by the Chairman of the Board, or in his absence, by the President, or in both of their absences, by a chairman to be chosen by a majority of the stockholders entitled to vote who are present in person or represented by proxy at the meeting. The Secretary of the Corporation or, in his absence, an Assistant Secretary shall act as secretary of every meeting, but if neither the Secretary nor an Assistant Secretary is present, a majority of the stockholders present in person or represented by proxy and entitled to vote at the meeting shall choose a person to act as secretary of the meeting.

SECTION 7. Voting. Except as otherwise provided by statute or the Certificate of Incorporation, each holder of record of shares of capital stock of the Corporation having voting rights shall be entitled at each meeting of stockholders to one vote for each share of capital stock of the Corporation standing in his name on the records of the Corporation on the date fixed as the record date for the determination of stockholders entitled to notice of and to vote at such meeting. Except as otherwise provided by statute or the Certificate of Incorporation, any corporate action, other than the election of directors, to be taken by vote of the stockholders shall be authorized at a meeting of stockholders by a vote of the majority of the shares of capital stock present in person or represented by proxy and then entitled to vote on such action. Except as otherwise permitted by statute or the Certificate of Incorporation, directors shall be elected by a plurality of the votes cast at a meeting of stockholders by the holders of shares of capital stock of the Corporation present in person or represented by proxy and entitled to vote thereon.

SECTION 8. Proxy Representation. Every stockholder entitled to vote at a meeting stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. Every proxy must be signed by the stockholder or by his attorney-in-fact. No proxy shall be voted or acted upon after three years from its date unless such proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and, if, and only as

long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

SECTION 9. List of Stockholders. A complete list of the stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared by the Secretary or such other officer of the Corporation having charge of the stock ledger. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city, town or village where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present, for any purpose germane to the meeting.

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SECTION 10. Inspectors of Election. At all elections of directors, and in all other matters in which a vote is to be taken, the chairman of the meeting may appoint two inspectors of election. If so appointed, the inspectors of election shall take and subscribe an oath faithfully to execute the duties of inspectors at such meeting with strict impartiality and according to the best of their ability, and shall take charge of the polls and after the vote shall have been taken on all matters on which the inspectors are to so act shall make a certificate of the results thereof.

SECTION 11. Written Consent of Stockholders without a Meeting. Whenever stockholders are required or permitted to take any action by vote, such action may be taken without a meeting, without prior notice and without a vote, on written consent, setting forth the action so taken, signed by stockholders having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III

DIRECTORS

SECTION 1. Powers, Number, Qualification and Term. The property, affairs and business of the Corporation shall be managed by its Board of Directors, which shall consist of not less than three (3) nor more than nine (9) members. The exact number of directors shall be fixed from time to time by resolution of the Board of Directors. Each director shall serve until the next annual meeting of stockholders and until his successor shall be elected and shall qualify or until his earlier resignation or removal. The directors shall have the power, from time to time and at any time, when the stockholders are not assembled at a meeting, to increase or decrease their own number by resolution adopted by the Board of Directors. If the number of directors be increased, all of the additional directors may be elected by a majority of the directors in office at the time of the increase, or, if not so elected prior to the next annual meeting of stockholders, they shall be elected by plurality vote by the stockholders at such annual meeting to serve until the next annual meeting of stockholders and until their respective successors shall be elected and shall qualify. Directors need not be stockholders.

SECTION 2. Committees. An Executive Committee of three (3) or more directors may be designated by resolution passed by a majority of the whole Board of Directors. Whenever the Board of Directors is not in session or whenever a quorum of the Board of Directors fails to attend any regular or special meeting of the Board, said Committee shall advise with, and aid, the officers of the Corporation in all matters concerning its interests and the management of its business and affairs, and generally perform such duties and exercise such powers as may be performed and exercised by the Board of Directors

from time to time, and the Executive Committee shall have the power to authorize the seal of the Corporation to be affixed

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to all papers which may require it and, insofar as may be permitted by law, exercise the powers and perform the obligations of the Board of Directors. The Board of Directors may also designate one or more committees in addition to the Executive Committee by resolution or resolutions passed by a majority of the whole Board of Directors; such committee or committees to consist of three (3) or more directors of the Corporation and, to the extent provided in the resolution or resolutions designating them, shall have or may exercise the specific powers of the Board of Directors in the management of the business and affairs of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified members at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting whether or not they constituted a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

SECTION 3. Meetings. Meetings of the Board of Directors or any committee thereof, shall be held at such place within or outside the State of Delaware as may from time to time be fixed by resolution of the Board of Directors or committee, as the case may be, or as may be specified in the notice of the meeting. Regular meetings of the Board of Directors, or any committee thereof, shall be held at such times as may from time to time be fixed by resolution of the Board of Directors or committee as the case may be, and special meetings may be held at any time upon the call of the Chairman of the Board, the President or a majority of the directors or committee as the case may be, by oral, telegraphic or written notice duly served on or sent or mailed to each director (or in the case of a committee, each member of such committee) not less than one (1) day before the meeting. Notice need not be given of regular meetings of the Board of Directors or any committee thereof. The organizational meeting of the Board of Directors may be held without notice immediately after the annual meeting of stockholders in each year. Any meeting of directors or any committee thereof may be held at any time without notice if all the directors (or in the case of a committee, all the members of such committee) are present, or if at any time before or after the meeting those not present waive notice of the meeting in writing. Whenever notice is required to be given, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors or a committee of directors, need be specified in any written waiver of notice.

SECTION 4. Organization. The Chairman of the Board shall preside at all meetings of the Board of Directors. In his absence, the President, if present and acting, or in his absence any director chosen by the Board, shall preside. Meetings of any committee of the Board of Directors shall be presided over by such member thereof as may be chosen by such committee.

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SECTION 5. Quorum. Except as otherwise provided by statute or the Certificate of Incorporation, the number of directors which shall constitute a quorum of the Board of Directors or committee thereof shall be a majority of the total number of directors comprising the Board of Directors or such committee, but in no case less than two directors. The vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors or committee thereof, as the case may be. At any meeting at which there shall not be a quorum present, a majority of the

directors present, although less than a quorum, may adjourn the meeting without further notice from time to time until a quorum shall be present.

SECTION 6. Resignation and Removal of Directors. Any director may resign at any time upon written notice to the Corporation. At any special meeting of stockholders duly called as provided in these By-Laws, any director or directors may, by the affirmative vote of the holders of a majority of all the shares of capital stock outstanding and then entitled to vote for the election of directors, be removed from office, either with or without cause, and his successor or their successors may be elected at such meeting or the remaining directors may, to the extent vacancies are not filled by such election, fill any vacancy or vacancies created by such removal.

SECTION 7. Vacancies. In case one or more vacancies shall occur in the Board of Directors by reason of death, resignation, increase in number, or otherwise, except insofar as otherwise provided in these By-Laws, the remaining directors, although less than a quorum, may by majority vote elect a successor or successors to fill such vacancies for the unexpired term or terms. When one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

SECTION 8. Informal Action. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee thereof may be taken without a meeting if prior to such action a written consent thereto is signed by all members of the Board or of the committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or the committee.

SECTION 9. Participation by Telephone. Any member or members of the Board of Directors or of any committee designated by the Board may participate in a meeting of the Board, or any such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting.

SECTION 10. Compensation of Directors. Directors may, by resolution of the Board of Directors, be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the

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Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

OFFICERS

SECTION 1. Number. The Board of Directors, as soon as may be after the election thereof held in each year, shall elect a President, a Treasurer and a Secretary, and from time to time may elect a Chairman of the Board of Directors (who must be a director) and one or more Vice-Presidents, Assistant Secretaries, Assistant Treasurers and such other officers, agents and employees as it may deem proper. Any two or more offices may be held by the same person.

SECTION 2. Term, Resignation and Removal. The term of office of all officers shall be one year and until their respective successors are elected and qualified, but any officer may resign at any time upon written notice to the Corporation or may be removed from office, either with or without cause, at any time by the affirmative vote of a majority of the members of the Board of Directors then in office. A vacancy in any office arising from any cause may be filled for the unexpired portion of the term by the Board of

Directors.

SECTION 3. Compensation of Officers. The compensation of the officers of the Corporation for their services as such officers shall be fixed from time to time by the Board of Directors, provided that the Board may delegate to the Chairman of the Board or President the power to fix the compensation of officers and agents appointed by him.

SECTION 4. Voting Corporation's Securities. Unless otherwise ordered by the Board of Directors, the Chairman of the Board, or, in the event of his inability to act, the President shall have full power and authority on behalf of the Corporation to execute powers of attorney, proxies, waivers of notice of meetings, consents and other instruments relating to securities owned by the Corporation and to attend and to act and to vote at any meeting of security holders of corporations in which the Corporation may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which as the owner thereof the Corporation might have possessed and exercised if present. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

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ARTICLE V

DUTIES OF OFFICERS

SECTION 1. Chairman of the Board. The Chairman of the Board, if one has been elected, shall preside at all meetings of the Board of Directors and stockholders. He shall have such other duties as may be assigned to him from time to time by the Board of Directors. During the absence or disability of the President, he shall exercise all the powers and discharge all the duties of the President.

SECTION 2. President. The President shall be the Chief Executive Officer of the Corporation, and he shall have general supervision over the business and affairs of the Corporation. He shall, in the absence of the Chairman of the Board, preside at all meetings of the Board of Directors and stockholders. He shall have the power to execute contracts and other instruments of the Corporation, and such other duties and powers as may be assigned to him from time to time by the Board of Directors.

SECTION 3. Vice Presidents. The Board of Directors may appoint one or more Vice Presidents, each of whom shall have such powers and discharge such duties as may be assigned to him from time to time by the Board of Directors. During the absence or disability of the Chairman of the Board and the President, the Vice Presidents, in the order designated by the Board of Directors, shall exercise all the functions of the President.

SECTION 4. Treasurer. The Treasurer shall cause to be entered regularly in books to be kept for the purpose, a full and accurate account of all moneys received and paid by him on account of the Corporation. Whenever required by the Board of Directors, he shall render an account of all his transactions as Treasurer and of the financial condition of the Corporation. He shall at all reasonable times exhibit his books and accounts to any director of the Corporation upon application at the office of the Corporation during business hours and he shall perform all duties incident to the position of Treasurer, subject to the control of the Board of Directors. He shall give bond for the faithful discharge of his duties if the Board of Directors so requires. He shall do and perform such other duties as may be assigned to him from time to time by the Board of Directors.

SECTION 5. Assistant Treasurers. The Board of Directors may appoint one or more Assistant Treasurers who, in the order of their seniority, shall, in the absence of or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as the Board of Directors shall prescribe.

SECTION 6. Secretary. The Secretary shall attend all meetings of the stockholders and all meetings of the Board of Directors and record all proceedings in a book to be kept for that purpose and shall perform like duties for other committees when so required. He shall give or cause to be given notice of all meetings of stockholders and of the Board of

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Directors and of committees and shall perform such other duties as may be prescribed by the Board of Directors. He shall keep in safe custody the seal of the Corporation and affix the same to any instrument whose execution has been authorized, and when so affixed, it may be attested by the signature of the Secretary. The Board of Directors may give general authority to any officer to affix the seal of the Corporation or to attest the affixing by his signature. The Secretary shall do and perform such other duties as may be assigned to him from time to time by the Board of Directors.

SECTION 7. Assistant Secretaries. The Board of Directors may appoint one or more Assistant Secretaries who, in the order of their seniority, shall, in the absence of or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties as the Board of Directors shall prescribe.

SECTION 8. Inability to act. In the case of absence or inability to act of any officer of the Corporation and of any person herein authorized to act in his place, the Board of Directors may from time to time delegate the powers and duties of such officer to any other officer or any director or any other person whom it may select.

ARTICLE VI

INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS

SECTION 1. General Right to Indemnification. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceedings, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Indemnification in Derivative Actions. Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that

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he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall be indemnified by the Corporation against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the

defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

SECTION 3. Determination of Right to Indemnification. Any indemnification under Sections 1 and 2 of this Article VI (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 and 2. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by a majority vote of a quorum of the stockholders. Anything hereinabove set forth to the contrary notwithstanding, to the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2, or in defense of any claim, issue or matter therein, he shall in any event be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith

SECTION 4. Authority to Advance Expenses. Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to be indemnified to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article.

SECTION 5. Provisions Non-Exclusive. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

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SECTION 6. Authority to Insure. The Corporation is authorized to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article.

SECTION 7. Continuation of Right. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 8. Savings Clause. If this Article VI or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify, and advance expenses to, each director, officer, employee and agent of the Corporation to the full extent permitted by any applicable portion of this Article VI that

shall not have been invalidated and to the full extent permitted by applicable law.

ARTICLE VII

CERTIFICATES OF STOCK

SECTION 1. Form and Transfers. The interest of each stockholder of the Corporation shall be evidenced by certificates for shares of stock, certifying the number of shares represented thereby and in such form not inconsistent with applicable statutes and the Certificate of Incorporation as the Board of Directors may from time to time prescribe.

Transfers of shares of the capital stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, or with a transfer clerk or a transfer agent appointed as in Section 5 of this Article provided, and on surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The Board may, from time to time, make such additional rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for shares of the capital stock of the Corporation.

The certificates of stock shall be signed by the Chairman of the Board, the President or any Vice President and by the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer, and sealed with the seal of the Corporation. Such seal may be a facsimile, engraved or printed. Where any such certificate is signed by a transfer agent or registered by a

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registrar, the signatures of the Chairman of the Board, the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer or any Assistant Treasurer upon such certificate may be facsimiles, engraved or printed. In case any such officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the time of its issue.

SECTION 2. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

SECTION 3. Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no record date is so fixed, such record date shall be determined in accordance with statute.

SECTION 4. Lost, Stolen, Destroyed or Mutilated Certificates. No certificate for shares of stock of the Corporation shall be issued in place of any mutilated certificate or of any certificate alleged to have been lost, destroyed or stolen, except on production of such mutilated certificate or on production of such evidence of such loss, destruction or theft as the Board of Directors may require, and on delivery to the Corporation, if the Board of Directors shall so require, of a bond of indemnity in such amount, upon such terms and secured by such surety as the Board of Directors may in its discretion

deem sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 5. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars, and may require all certificates of stock to bear the signature or signatures of any of them.

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ARTICLE VIII

CORPORATE RECORDS

SECTION 1. Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs, or any other information storage device; provided that the records so kept can be converted into clearly legible written form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

SECTION 2. Examination of Books by Stockholders. The books, accounts and records of the Corporation, except as may otherwise be required by statute, may be kept outside of the State of Delaware at such place or places as the Board of Directors may from time to time determine. The Board of Directors shall determine whether and to what extent the books, accounts and records of the Corporation, or any of them, other than the stock ledger, shall be open to the inspection of stockholders, and no stockholder shall have any right to inspect any book, account or record of the Corporation except as conferred by statute or by resolution of the Board of Directors.

ARTICLE IX

CORPORATE SEAL

The corporate seal shall consist of a die bearing the name of the corporation and the inscription, "Corporate Seal-Delaware 1963." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE X

FISCAL YEAR

The fiscal year of the Corporation shall be July 1 to June 30 or such other fiscal year as the Board of Directors shall fix.

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ARTICLE XI

AMENDMENTS

The By-Laws of the Corporation shall be subject to alteration, amendment or repeal, and new By-Laws not inconsistent with any provision of the Certificate of Incorporation or statute may be made by the affirmative vote of a majority of the whole Board of Directors or the affirmative vote of the holders of a majority of the stock issued and outstanding and entitled to vote thereat, at any regular or special meeting of the stockholders or by the written consent of the holders of a majority of such stock.

1991 STOCK OPTION PLAN

OF

METRO-TEL CORP.

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 non-qualified 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 issuance of a stock certificate to him for such shares; provided, however, that until such stock

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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 was for cause or without the consent of the Company or by reason of Disability) or (c) within one

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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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