

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 1997

OR

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

For the transition period from _____ to _____

Commission file number 0-9040

METRO TEL CORP.

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

DELAWARE 11-2014231

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

250 South Milpitas Blvd., Milpitas, California 95035

(Address of principal executive offices)

(408) 946-4600

(Issuer's telephone number)

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

Yes No

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

Common Stock, \$.025 par value per share - 2,054,046 shares
outstanding as of May 5, 1997

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

	For the nine months ended March 31,		For the three months ended March 31,	
	1997	1996	1997	1996
Net sales	\$2,821,220	\$3,022,791	\$1,068,290	\$1,072,171
Cost of goods sold	1,761,387	1,880,233	629,397	662,801
Gross profit	1,059,833	1,142,558	438,893	409,370
Selling, general, and administrative expenses	899,713	858,137	309,800	280,969
Research and development	184,075	210,106	51,980	68,433
Interest and other income	(4,362)	(9,209)	(1,692)	(2,177)
	1,079,426	1,059,034	360,088	347,225

Earnings (loss) before
provision (credit) for

income taxes	(19,593)	83,524	78,805	62,145
Provision (credit) for income taxes	(7,800)	33,400	31,600	24,900

Net earnings (loss)	\$ (11,793)	\$ 50,124	\$ 47,205	\$ 37,245
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Earnings (loss) per common share (Note B)	\$ (.01)	\$.03	\$.02	\$.02
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Weighted average number of shares outstanding (Note B)	2,015,157	2,004,046	2,037,379	2,004,046
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Metro Tel Corp.
Balance Sheets
(Unaudited, Note A)

ASSETS

	March 31, 1997	June 30, 1996
Current Assets		
Cash and cash equivalents	\$ 477,587	\$ 411,924
Accounts receivable, net	474,002	716,103
Inventories	1,449,008	1,413,379
Prepaid expenses and other	78,526	14,254
Deferred income taxes	31,000	31,000
Total current assets	2,510,123	2,586,660
Property and Equipment - at cost		
Machinery and equipment	510,727	470,433
Furniture and fixtures	89,647	88,414
Leasehold improvements	8,765	8,765
	609,139	567,612
Less accumulated depreciation	502,146	477,054
	106,993	90,558
Other Assets		
Goodwill, net of accumulated amortization of \$391,801 on March 31, 1997 and \$369,438 on June 30, 1996	800,899	823,262
Other, net	10,791	21,562
	811,690	844,824
	\$3,428,806	\$3,522,042

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

LIABILITIES AND
STOCKHOLDERS' EQUITY

	March 31, 1997	June 30, 1996
Current Liabilities		
Accounts payable	\$ 101,300	\$ 209,968
Accrued liabilities	173,795	174,204
Income taxes payable		18,866

Total current liabilities	275,095	403,038
Deferred Income Taxes	14,000	14,000
Stockholders' Equity		
Preferred stock, \$1 par value, 200,000 shares authorized, none issued or outstanding		
Common stock, \$.025 par value, 6,000,000 shares authorized, 2,080,296 shares issued, 2,054,046 shares outstanding	52,007	50,757
Additional paid-in capital	2,152,423	2,107,173
Retained earnings	1,004,031	1,015,824
	3,208,461	3,173,754
Less 26,250 shares of treasury stock - at cost	(68,750)	(68,750)
	3,139,711	3,105,004
	\$3,428,806	\$3,522,042

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

	For the nine months ended	
	March 31,	
	1997	1996
Cash flows from operating activities		
Net earnings (loss)	\$ (11,793)	\$ 50,124
Adjustments to reconcile net earnings to cash provided by operating activities		
Depreciation and amortization	48,441	54,066
(Increase) decrease in operating assets		
Accounts receivable	242,101	(20,950)
Inventories	(35,629)	2,077
Prepaid expenses and other	(54,487)	(18,312)
Increase (decrease) in operating liabilities		
Accounts payable	(108,668)	(22,452)
Accrued liabilities	(409)	20,851
Income taxes payable	(18,866)	(13,542)
Net cash provided by operating activities	60,690	51,862
Cash flows from investing activities		
Capital expenditures	(41,527)	(15,990)
Net cash used in investing activities	(41,527)	(15,990)
Cash flows from financing activities		
Proceeds from sale of stock	46,500	-
Net cash provided by financing activities	46,500	-
Net increase in cash and cash equivalents	65,663	35,872
Cash and cash equivalents at beginning of year	411,924	297,157
Cash and cash equivalents at end of		

period	\$ 477,587	\$ 333,029
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Supplement disclosures of cash flow information

Cash paid during the period for

Income taxes	\$ 60,627	\$ 46,942
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[FN]

METRO TEL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Liquidity and Capital Resources

During the nine month period ended March 31, 1997, cash increased by \$65,663. Of the cash generated by operating activities (\$60,690), \$48,441 was derived from non-cash expense for depreciation and amortization and \$242,101 was generated by the collection of accounts receivable. These sources were used principally to fund the loss of \$11,793, increases in inventories (\$35,629) and prepaid expenses (\$54,487) and decreases in current liabilities (\$127,943) and income taxes payable (\$18,866). Investing activities used \$41,527 to purchase capital assets, while financing activities provided \$46,500 from the exercise of a stock option to purchase 50,000 shares of common stock. The Company believes that the cash it expects to generate from operations will be sufficient to meet operational needs.

Results of Operations

Net sales for the nine and three month period ended March 31, 1997 decreased by \$201,571 (6.7%) and \$3,881 (.4%) respectively, from the comparable periods of fiscal 1996 mainly due to the shipment of a substantial contract for CSU/DSU data devices. Due principally to the shipment of the CSU/DSU contract during fiscal 1996, sales of customer premise equipment decreased by \$324,340 (76.7%) and \$89,980 (73.5%) for the nine and three month periods, respectively, from the comparable periods of fiscal 1996. Sales of telephone test equipment increased by \$190,419 (7.9%) for the nine month period and \$103,730 (11.6%) for the three month period of fiscal 1997 when compared to the same periods of fiscal 1996. The increase in test equipment sales for both periods was due to the marketing of the Company's newer products to a wider telecommunications market. Sales of spare parts, repairs and miscellaneous products decreased by \$63,883 (36.1%) and \$15,991 (31.0%) for the nine and three month periods, respectively. Prices remained mostly constant though all reporting periods.

The Company's gross profit margin, expressed as a percentage of sales, decreased to 37.6% for the nine month period of fiscal 1997 from 37.8% for the same period of fiscal 1996. However, for the third quarter of fiscal 1997, gross profit margin improved to 41.1% from 38.2% in fiscal 1996. The change during the nine the period related primarily to the reduction in sales for the period which affected the ability of the Company to absorb its fixed expenses. The improvement in the third quarter was principally due to a decrease of 11.0% in overhead expenses, primarily a reduction in indirect labor and related payroll costs and taxes.

Selling, general and administrative expenses increased by \$41,576 (4.8%) and \$28,831 (10.3%) for the nine and three month periods, respectively, in fiscal 1997 from fiscal 1996. The increase in both periods was mainly due to increases in selling expense 23.4% for the nine month period and 51.7% for the three month period which offset decreases in general and administrative expenses of 5.8% and 11.7% for the nine and three month periods. These increases were mainly attributed to increases in advertising and staff in the sales group offsetting decreases in rent and salaries in administrative expenses as a result of closing the New York office in January, 1997.

Research and development expenses decreased by \$26,031 (12.4%) and \$16,453 (24.0%) for the nine and three month periods, respectively, in fiscal 1997 from the comparable fiscal 1996 periods due to decreases in staff.

Interest and other income decreased by \$4,847 (52.6%) and \$485 (22.3%) for the nine and three month periods in fiscal 1997 from the same periods in fiscal 1996.

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

PART 11 - OTHER INFORMATION

Item 2. Changes in Securities

On January 22, 1997, Venerando J. Indelicato, President and Chief Executive Officer of the Company, exercised an option to purchase 50,000 shares of the Company's Common Stock at an exercise price of \$.93, 110% of the market value of the Company's Common Stock on January 24, 1992, the date of grant. The option had been granted under the Company's 1991 Employee Stock Option Plan. No underwriters were involved in the issuance. Mr. Indelicato agreed to acquire the above for investment and not for distribution. The Company believes that the exemption from the registration requirements of the Securities Act of 1933, as amended, afforded by Section 4(2) of that Act is applicable to such issuance.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

27. Financial Data Schedule

(b) Reports on Form 8-K

No Reports on Form 8-K were filed during the quarter ended March 31, 1997.

SIGNATURES

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

METRO-TEL CORP.

Date: May 5, 1997

By: Venerando J. Indelicato
President, Treasurer and
Principal Financial and
Chief Accounting Officer

EXHIBIT INDEX

Exhibit Number	Description
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27	Financial Data Schedule
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