

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT
OF 1934

FOR THE FISCAL YEAR ENDED: OCTOBER 31, 1996,

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 0-13063

AUTOTOTE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

81-0422894

(I.R.S. EMPLOYER IDENTIFICATION NO.)

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

750 LEXINGTON AVENUE, 25TH FLOOR NEW YORK, NEW YORK 10022
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER:
(212) 754-2233

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Class A Common Stock, \$.01 par value

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such report), and (2) has been subject to such
filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to
the best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

The aggregate market value of voting stock held by nonaffiliates of the
registrant as of January 22, 1997, was approximately \$45,029,178 (based on the
last sale price of such stock on such date as reported by the American Stock
Exchange). AS OF JANUARY 22, 1997, 34,437,214 SHARES OF THE REGISTRANT'S CLASS
A COMMON STOCK, \$.01 PAR VALUE PER SHARE ("CLASS A COMMON STOCK"), WERE ISSUED
AND OUTSTANDING.

EXHIBIT INDEX APPEARS ON PAGE 60

[LOGO OF AUTOTOTE APPEARS HERE]

1996 ANNUAL REPORT AND FORM 10-K

AUTOTOTE CORPORATION provides computerized wagering equipment, computer software, facilities management and satellite broadcast services for on-track, off-track, and inter-track pari-mutuel wagering at thoroughbred, harness and greyhound racetracks, jai alai frontons, government-sponsored lotteries and legalized sports betting facilities. The Company's systems are in use in the United States, Europe, Canada, Mexico, Latin America, New Zealand, and the Far East.

PART I

When used herein, the words "believe," "anticipate," "think," "intend," "will be" and similar expressions identify forward-looking statements. Such statements are subject to certain risks and uncertainties discussed herein, which could cause actual results to differ materially from those in the forward-looking statements. Readers are cautioned not to place undue reliance on the forward-looking statements which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including the disclosures made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." All references to a fiscal year are to the Company's fiscal year which ends October 31. The term "pari-mutuel" is a form of wagering in which all wagers are placed in a pool and the payoff is computed based on the total amount of the pool, as compared to casino gambling where the "house" sets the payoff. The pool of gross wagers is referred to as "Handle".

ITEM 1. BUSINESS

Autotote Corporation ("Autotote" or the "Company") designs, sells and operates computerized wagering systems and related equipment for thoroughbred, harness and greyhound racetracks, off-track betting establishments ("OTBs"), jai alai frontons, casino/sports betting facilities and government-sponsored lotteries in North America and abroad. The Company also is the exclusive licensed operator of substantially all off-track wagering in the State of Connecticut. Additionally, the Company provides simulcasting services nationwide and designs, sells and services video gaming machines ("VGMs") for use at racetracks. For the twelve months ended October 31, 1996, the Company generated operating revenues and EBITDA (earnings before income tax expense, interest expense, depreciation and amortization) of \$176.2 million and \$32.4 million, respectively.

Pari-mutuel wagering is a form of wagering in which all wagers are placed in a pool and the payoff is computed based on the total amount of the pool, as compared to casino gambling where the "house" sets the payoff. Pari-mutuel wagering is currently authorized in 43 states in the United States, all provinces in Canada, and approximately 100 other countries around the world. In North America, the market for wagering systems includes thoroughbred, harness and greyhound racetracks, OTBs, and jai alai frontons.

The Company is the leading provider and operator of computerized pari-mutuel wagering systems to the Racing Industry and one of the leading providers of computerized pari-mutuel wagering systems worldwide. In 1996, the Company's pari-mutuel wagering systems processed approximately two-thirds of the estimated \$20 billion total Racing Industry Handle. The Company's wagering systems and/or related equipment are installed at over 100 racetracks in North America, including 10 of the top 15 largest racetracks, and over 800 OTBs. The Company is also the largest provider of simulcasting services to the Racing Industry. Additionally, the Company has installed approximately 1,300 of its VGMs in racetracks in West Virginia and Manitoba. The Company's wagering systems are in use in many of the largest racetracks and OTBs in Europe, Central and South America, the Far East and New Zealand.

The Company's lottery operations provide wagering equipment and services to operate the Connecticut State Lottery under an exclusive full-service facilities management contract and sell wagering systems and related equipment for on-line lotteries and other wagering applications worldwide. The Company also provides software and support services to the Massachusetts on-line lottery network. Internationally, the Company designs, sells and provides maintenance and support services to government lottery authorities in Austria, Germany, Israel, Italy, The Netherlands and Switzerland.

The Company's pari-mutuel wagering systems receive information from ticket-issuing terminals, accumulate wagering data, calculate pari-mutuel odds, distribute information to display systems and provide management information and marketing services for its customers. The systems consist of high-volume, real time transaction and data processing networks managed by central computers, communications equipment, special purpose microcomputer-based terminals, peripheral and display equipment and operations and applications

software. Revenues received by the Company for providing and operating its pari-mutuel wagering systems in North America are generally based upon a percentage of the Handle.

While total Racing Industry Handle has remained relatively stable over the past three years, there has been dramatic growth within the OTB and intertrack wagering segments. This growth has been driven by the expanded use of simulcasting in the Racing Industry, and by the liberalization of state pari-mutuel wagering regulations. The Company has benefited from this trend as it processes most of the OTB and intertrack Handle in North America and is the largest provider of simulcasting services to the Racing Industry.

Further, the growth in the OTB and intertrack wagering segments has had the greatest impact at the largest racetracks in North America, which offer the most popular racing product and the largest pari-mutuel pools. The percentage of total Racing Industry Handle generated by the top 15 racetracks, as measured by annual aggregate Handle, increased from 31.7% in 1992 to 41.8% in 1995 and total Handle generated by these racetracks grew at a compound annual rate of approximately 9.4% from \$6.2 billion in 1992 to \$8.2 billion in 1995. The Company has particularly benefited from this growth because it operates pari-mutuel systems at a majority of the largest racetracks and OTBs in North America.

For information on the Company's business and geographic segments, see Note 20 to Consolidated Financial Statements.

PARI-MUTUEL GROUP

North American Wagering Systems

The Company's wagering systems and/or related equipment are installed at over 100 racetracks in North America, including 10 of the top 15 largest racetracks, and over 800 OTBs. In North America, each customer of the Company typically enters into a five-year service contract pursuant to which the Company provides the pari-mutuel wagering system, as well as the operations, maintenance and supervisory personnel necessary to operate the pari-mutuel wagering system. The Company maintains ownership of the equipment comprising the pari-mutuel wagering systems which enables it to employ such equipment in more than one racetrack.

The Company's pari-mutuel customers include some of the largest North American pari-mutuel facilities, including Santa Anita, Belmont Park, Hollywood Park, Aqueduct, Del Mar, Saratoga, Golden Gate, Woodbine, Bay Meadows, Hawthorne, Philadelphia Park, Sportman's Park, Penn National, Hastings Park, and the Fair Grounds.

The pari-mutuel wagering systems provided by the Company in North America typically include the terminals that issue the wagering tickets, the central processing unit which calculates the betting odds of a particular event and tabulates and accounts for the Handle, the display board which indicates the betting odds of a particular event and the communication equipment necessary for additional wagering from sources outside the wagering facility. The systems consist of high volume, real-time transaction and data processing networks managed by central computers, communications equipment, special purpose microcomputer-based terminals, peripheral and display equipment and operations and applications software. The type of central processing unit and the number of ticket issuing terminals used in a system are generally determined by the amount of wagering at, and physical layout of, the facility. Ticket issuing terminals are installed at several different racetracks or off-track facilities, respectively, and the central processing system communicates with the wagering systems at the on-track locations via telephone or data communication lines. The Company generally does not, however, employ the clerks who issue wagering tickets using the Company's teller-operated terminals. Additional software and other support functions are provided by the Company.

Revenues received by the Company for providing and operating its pari-mutuel wagering systems in North America are generally based upon a percentage of the Handle, subject in many instances to minimum fees which are usually exceeded under normal operating conditions. Minimum fees under the Company's service contracts are generally based on the number of days the facility operates, as well as other factors, including the type of

system and number of teller operated terminals installed at the facility. The Company's larger contracts generally do not provide for minimum payments.

The Company's extensive penetration of the North American pari-mutuel wagering market has enabled it to increase its revenue base through the transmission of wagers for intertrack wagering. The Company receives interface fees from facilities that transmit wagers to other facilities which use the Company's pari-mutuel wagering system. For example, if a customer at a small racetrack wagers on a race occurring at Belmont Park in New York (which uses a Company operated pari-mutuel wagering system), the Company charges an interface fee for such a bet. If the smaller racetrack's pari-mutuel wagering system is also operated by the Company, the Company receives a percentage of the wager because the wager is included in the Handle at the smaller racetrack. This situation allows the Company to receive fees at both racetracks from one wager.

In recent years, the Company has focused on the creation of regional networks of large and medium sized racetracks, rather than single facilities at smaller racetracks. These networks allow the Company to achieve economies of scale by centralizing its service operations and more efficiently utilizing its installed base of computer hardware. Additionally, when linked to the Company's other regional and national pari-mutuel wagering networks, these networks provide the Company's customers with access to new markets and revenue sources by increasing the number and variety of wagering opportunities that customers can offer to their patrons. The Company believes the creation of these regional networks has, in part, been responsible for the Company's increase in market share from less than 30% in 1990 to approximately 65% in 1996. Additionally, the Company believes its established wagering networks will give the Company a competitive advantage in renewing existing contracts and winning new contracts because of its ability to offer customers greater services more efficiently than its competitors. The Company currently operates its regional pari-mutuel wagering networks in California, Florida, Illinois, Pennsylvania, West Virginia, Connecticut, New York, New Jersey, Washington, Oregon, Michigan, Ontario, Alberta, Puerto Rico and Mexico.

An additional outlet for the Company's pari-mutuel wagering systems is the Atlantic City casino market. The Company operates pari-mutuel wagering systems for eight casinos located in Atlantic City. Services provided to these casinos are similar to those provided directly to racetracks.

In its service contracts, the Company makes certain warranties regarding the operation, performance, implementation and reliability of its wagering systems, relating to, among other things, data accuracy, repairs and validation procedures. The Company's warranties in its wagering systems contracts are the subject of negotiation, and accordingly vary on a case-by-case basis.

Simulcasting Systems

The Company is a leading simulcaster of live horse and greyhound racing events to racing facilities, OTBs and casinos in North America. The Company simulcasts races from racetracks to numerous OTBs, casinos and racetracks throughout the United States and the Caribbean. The Company simulcasts racing events to approximately 50 racetracks and over 850 OTBs throughout North America.

Simulcasting is the process of transmitting the audio and video signal of a live racing performance from one facility to a satellite for retransmission to wagering locations across the country. Simulcasting provides racetracks the opportunity to increase revenues by receiving transmissions from other racetracks and sending their signals to as many wagering locations as possible, such as racetracks, OTBs and casinos. Revenues are increased because simulcasting provides consumers access to distant racing events thereby increasing the consumer base, and it maximizes the number of events for wagering by utilizing idle time between races at racetracks.

In its simulcasting operations, the Company leases satellite transponders and uses digital compression technology for its simulcasting operations, which has permitted it to increase the number of events which may be simulcasted at one time. The Company also owns vehicles which are used by certain racetracks to uplink the

transmission of their events to the satellite containing the Company controlled transponder, and owns decoders which are used by racetracks to unscramble the transmission signal from other racetracks. The Company receives fees as follows: (i) a daily fee charged to racetracks for use of satellite time controlled by the Company to transmit their racetrack events (ii) a fee charged to racetracks for use of the Company's vehicles to uplink their transmission of events and (iii) in some cases, a fee charged to racetracks for the use of the Company's decoders to unscramble the transmission feed of other racetracks. From time to time, satellite transponder capacity not used for providing simulcasting services to the racing industry may be sold to other users of satellite communications.

Connecticut OTB

In 1993, the Company purchased from the State of Connecticut the exclusive right to operate substantially all off-track betting within the state. The Company currently operates 11 Connecticut OTB locations state wide, including teletheaters in New Haven and Windsor Locks. Unlike most OTBs, the Connecticut OTB does not compete with horse racetracks within the state. During fiscal 1995, the Company opened its New Haven sports entertainment complex called Sports Haven(R) which features simulcasts of racing events, dining facilities, a sports bar and other services.

Since the Company commenced operating the Connecticut OTB, it has implemented several important product and service enhancements, including expanded simulcasting of races from racetracks across the country, common pool wagering and expanded telephone account wagering. These improvements have helped increase Handle generated by Connecticut OTB from approximately \$160 million in 1992 when the State of Connecticut last operated the Connecticut OTB to \$198 million in 1996. The Company recently received legislative approval to expand its operations to seven days a week. The Company believes its expertise developed in operating the Connecticut OTB will provide it with a competitive advantage in obtaining future OTBs through privatization.

The exclusive right to operate the Connecticut OTB is subject to state regulations such as the location of OTBs, hours of operation and certain financial and operational standards. The Company must pay liquidated damages to the state if these standards are not met. The Company is also subject to a pari-mutuel tax of 3 1/2% of all monies wagered. The percentage of total Handle which the Company may receive as the operating revenues from the Connecticut OTB is determined by law and ranges from 15% to 25%, depending on the type of wagers. Handle wagered on tracks from other locations can increase incremental revenue to the racetrack owners.

Operation of the Connecticut OTB strengthens the Company's competitive position because most of the Company's pari-mutuel racetrack customers can be linked to the Connecticut OTB system, thereby increasing the potential size of a racetrack customer's pool.

International Pari-Mutuel Operations

The Company operates all aspects of the pari-mutuel wagering systems at racetracks in France, Germany and Austria, including in some cases employing the agents that issue the wagering tickets. In fiscal 1996, the Company derived approximately \$13.3 million in services and sales revenues from its French pari-mutuel wagering operations and \$3.7 million in service and sales revenues from its German and Austrian pari-mutuel wagering operations.

In its other international markets, the Company generally sells, delivers and installs pari-mutuel wagering systems in racetracks and OTBs rather than operating them pursuant to service contracts. The Company generally designs a customized system to meet the unique needs of each customer, including game designs, language preferences, network communications standards and other key elements. The Company also provides the customer with a royalty-free license for use of the Company's proprietary system software, as well as technical assistance, support, accessories and spare parts. The Company's personnel participate in the installation and then train the customer's personnel. The Company has sold its systems in approximately 100 countries.

Video Gaming

The Company has developed a proprietary line of VGMs, which contain video gaming industry applications such as video poker, video blackjack and video keno. The Company's latest wagering terminal, the PROBE XLC, allows patrons to play card games, wager on horse races and watch simulcasted races or other types of televised programs unrelated to wagering on the picture-in-picture video monitor, while continuing to play the selected video games. The Company currently has installed approximately 1,300 PROBE XLC terminals in two racetracks in West Virginia, for which it receives a percentage of income generated by the terminals. The Company believes its penetration of the pari-mutuel wagering business positions it to become a significant provider of VGM terminals when and if video gaming is approved in more racetracks across the country. The Company has also sold VGMs to the Manitoba Lottery Commission.

Casino/Sports Wagering

In October 1996, the Company sold its casino/sports wagering service business. During fiscal 1996, 1995 and 1994, the Company provided sports wagering systems to 107 of the 113 casinos in Nevada and to the leading operator of sports wagering facilities in Mexico. Casinos and other sports wagering facilities generally purchased the computerized wagering system including teller-operated terminals from the Company and entered into an agreement with the Company for repair and maintenance of the system and software support. Under terms of the sale agreement, the Company expects to continue to provide wagering terminals to the casinos and sports wagering facilities, as needed.

LOTTERY OPERATIONS

The Company designs, installs, operates and maintains on-line computer-based lottery systems and provides equipment for lottery systems both in the United States and internationally. A lottery system typically requires sophisticated software applications which necessitate expertise in software engineering and development. In the United States, the Company's primary focus is operating the Connecticut Lottery and providing services to the Massachusetts State Lottery. Internationally, the Company has sold central processing systems and/or terminals for lotteries in Austria, Switzerland, the Netherlands, and Israel. In six German states, the Company, together with its partner International des Jeux, has designed and installed computer-based lottery systems and will operate and maintain these lotteries. The Company provides terminals for Italy's TOTIP pari-mutuel lottery, a nationwide lottery based on horse racing. The Company has previously provided 14,000 terminals for TOTIP and continues to maintain and sell additional terminals to TOTIP.

In connection with the Connecticut State Lottery, the Company provides all equipment, personnel and services necessary to operate the lottery network while retaining title to the equipment. The Company has installed its latest generation lottery system, utilizing the UNIX-based Aegis central system, which features open system architecture and symmetrical multiprocessors, at the Connecticut State Lottery. The Company's agreement to operate the Connecticut State Lottery expires in May 1998. Revenues received by the Company from its operation of the Connecticut State Lottery are based on a percentage of amounts wagered in the lottery. The Company also provides services to the Massachusetts State Lottery under a technical support contract which expires in June 1997 and has recently installed its Aegis central system for the processing of a new multi-state lottery game under a contract which also expires in June 1997. The Company is in the process of bidding for an extension for its Aegis central system in Connecticut and expects to participate in a competitive terminal procurement bid in early 1997.

Internationally, the Company maintains ownership of software used for lotteries and derives revenues from license fees for software. In addition, the Company derives revenues from maintenance contracts for equipment and periodically sells upgrades for lottery systems.

The Company's lottery products consist primarily of central processing systems, including data communication networks, and on-line/off-line lottery terminals. The lottery management system portion of the product includes a client-server database. Lottery terminals are generally on-line to the central system via

telephone lines connected to the system's communications front end processor. The Company's technology includes "open system" features, with central systems and software capable of operating with terminals and components from other suppliers.

On January 14, 1997, the Company signed a letter of intent to sell its European lottery business for a price estimated to be between \$25 million and \$30 million, determined pursuant to a formula. Consummation of the proposed sale is subject to execution of a definitive purchase agreement and related documents and to satisfaction of certain customary conditions, including certain third party consents. This sale will not affect the Company's domestic lottery activity nor its other international lottery customers not served by the European lottery business.

CONTRACT PROCUREMENT

Contract awards from horse and greyhound racetracks, OTBs and casino/sports wagering facilities and from state and foreign governments often involve a lengthy competitive bid process, spanning from specification development to contract negotiation and award. Contracts have a high dollar value and are technically and commercially complex and may require substantial initial cash outlays. Start up costs associated with contract awards typically involve expenditures for items such as software development/customization, assembly of wagering systems, and installation costs including electrical and carpentry work, transportation and placement of equipment, and system implementation. Such costs are primarily comprised of labor related expenses due to the relative magnitude of software development and customization in the start up phase. In the United States, lottery authorities generally commence the contract award process by issuing a request for proposals inviting bids and proposals from various lottery vehicles. Internationally, lottery authorities do not typically utilize such a formal bidding process, but rather negotiate proposals with one or more potential vendors.

SERVICE AND SUPPORT

The Company's staff of approximately 465 persons, including regional and national managers and trained maintenance and field service personnel, supports the operation of the Company's systems and communications networks. The Company's personnel support its systems by performing routine system maintenance and repairs of systems and equipment when needed.

RESEARCH AND PRODUCT DEVELOPMENT

The Company believes that its ability to attract new wagering system customers and retain existing customers depends in part on its ability to continue to incorporate technological advances into and to improve its product lines. The Company maintains a development program directed toward systems development as well as toward the improvement and refinement of its present products and the expansion of their uses and applications. The Company employs approximately 105 people in connection with software, engineering and product development.

INTELLECTUAL PROPERTY

The Company maintains patent protection on two of its wagering products and four of its lottery products and has a number of registered trademarks and other common law trademark rights for certain of its products. The software and control systems for the Company's wagering systems are also protected by copyright and trade secret laws. The Company does not believe that patent protection is a vital competitive factor in the computerized wagering market.

PRODUCTION PROCESSES--SOURCES AND AVAILABILITY OF COMPONENTS

Production of the Company's wagering systems and component products primarily involves the assembly of electronic components into more complex systems and products, generally through contracts with third parties. In 1995, the Company sold its Newark, Delaware manufacturing facility. The Company's production of certain product lines is now performed at the Company's manufacturing facility in Ballymahon, Ireland. All other manufacturing is contracted out to third party vendors.

The Company normally has sufficient lead time between reaching an agreement to serve a wagering facility and commencing actual operations at such facility. In the event the current suppliers of central processing units were no longer available, the Company believes that it would be able to adapt its application software to hardware available from other sources within a time frame sufficient to allow it to meet new contractual obligations, although the price competitiveness of the Company's products might diminish. The lead time for obtaining most of the electronic components used by the Company is approximately 120 days. The Company believes that this is consistent with its competitors' lead times and is also consistent with the needs of its customers.

COMPETITION

The Company competes in North America on the basis of product design, performance, reliability, pricing, and customer service primarily with two companies. The Company's principal wagering system competitor in the pari-mutuel wagering systems business is Video Lottery Technologies, Inc. ("VLT") which operates its pari-mutuel business through its subsidiary United Wagering Systems, Inc. ("United"). Another competitor in the pari-mutuel business is AmTote International, Inc. ("AmTote"). Both AmTote and VLT offer video gaming industry terminals to the pari-mutuel wagering industry. Video gaming industry terminal suppliers include International Game Technology, WMS Industries Inc., Bally Gaming Industry International, Inc. and several smaller companies.

A significant portion of the Company's revenues are generated from pari-mutuel wagering on racing at racetracks and OTBs. As new products are developed such as pari-mutuel sports betting and lotteries based on sporting events, the Racing Industry may experience increased competition for wagers. Competition for wagers also comes from casino gaming and other forms of legal and illegal gambling.

The Company's competition outside of North America is more fragmented, with competition being provided by several international and regional companies. No single company maintains the leading market position internationally, although certain companies possess regional strengths.

The on-line lottery business is highly competitive. State and foreign governments normally award contracts based on competitive bidding procedures. Significant factors which influence the award of lottery contracts include price; the ability to optimize lottery revenues through marketing capability and applications knowledge; the quality, dependability and upgrade capability of the network; the experience, financial condition and reputation of the vendor; and the satisfaction of other requirements and qualifications which the lottery authority may impose. The Company's major competitors in the on-line lottery business include GTECH, VLT, Essnet AB, and several other companies.

Competition in the simulcasting business in North America currently is fragmented. No single company, other than the Company, has achieved a significant share of the market.

REGULATION

General

Pari-mutuel wagering, video gaming and on-line lotteries may be conducted in jurisdictions that have enacted enabling legislation. In jurisdictions which currently permit various wagering activities, regulation is extensive and evolving. Regulators in such jurisdictions review many facets of an applicant/holder of a license including, among other items, financial stability, integrity and business experience. The Company believes that it is currently in substantial compliance with all regulatory requirements in the jurisdictions where it operates. Any failure to receive a material license or the loss of a material license that the Company currently holds could have a material adverse effect on the overall operations of the Company.

Pari-Mutuel Wagering

Forty three states, Puerto Rico and the Virgin Islands, all of the Canadian provinces and many foreign countries have authorized pari-mutuel wagering on horse races and 19 states and many foreign countries have

authorized pari-mutuel wagering on dog races. In addition, Connecticut, Rhode Island, Nevada and Florida also allow pari-mutuel betting on jai alai matches.

Companies which manufacture, distribute and operate pari-mutuel wagering systems in these jurisdictions are subject to the regulations of the applicable regulatory authorities there. These authorities generally require the Company, as well as its directors, officers, certain employees and holders of 5% or more of the Company's common stock, to obtain various licenses, permits and approvals. Regulatory authorities may also conduct background investigations of the Company and its key personnel and stockholders in order to insure the integrity of the wagering system. These authorities have the power to refuse, revoke or restrict a license for any cause they deem reasonable. The loss of a license in one jurisdiction may cause a Company's licensing status to come under review in other jurisdictions as well.

A subsidiary of the Company that provides simulcast wagering equipment and/or services to certain casinos located in Atlantic City, New Jersey is licensed by the New Jersey Casino Control Commission ("New Jersey Commission") as a gaming industry-related casino service industry in accordance with the New Jersey Casino Control Act ("Casino Control Act") for an initial period of two years and then for renewable periods of four years thereafter. An applicant for a gaming industry-related casino service industry license is required to establish, by clear and convincing evidence, financial stability, integrity and responsibility; good character, honesty and integrity; and sufficient business ability and experience to conduct a successful operation. The Company must also qualify under the standards of the Casino Control Act. The Company and its licensed subsidiary may also be required to produce such information, documentation and assurances as required by the regulators to establish the integrity of all financial and other backers.

The New Jersey Commission has broad discretion in licensing matters and may at any time condition a license or suspend or revoke a license or impose fines upon a finding of disqualification or non-compliance. The New Jersey Commission may require that persons holding five percent or more of the Class A Common Stock of the Company qualify under the Casino Control Act. Under the Casino Control Act, a security holder is rebuttably presumed to control a publicly-traded corporation if the holder owns at least five percent of such corporation's equity securities. Failure to qualify could jeopardize the Company's license.

The Company's rights to operate the Connecticut OTB system shall continue as long as the Company holds all licenses required for the operation of the system. In addition, the officers and directors and certain other employees of the Company must be licensed. Licensees are generally required to submit to background investigations and provide required disclosures. The Division of Special Revenue of the State of Connecticut (the "Division") may revoke the license to operate the system under certain circumstances, including a false statement in the licensing disclosure materials, a transfer of ownership of the licensed entity without Division approval and failure to meet financial obligations. The Company has also agreed to comply with regulations proposed by the Division which regulate certain aspects of the system's operation. The approval of the Connecticut regulatory authorities is required before any off-track betting facility is closed or relocated or any new branch or simulcast facility is established.

Casino/Sports Wagering

Sports wagering is currently authorized in numerous foreign countries, including Mexico and as a permitted lottery scheme in Canada. The State of Nevada also permits sports wagering in casinos. In addition, the State of Oregon currently sponsors a lottery based on the outcome of sporting events; Montana authorizes betting on fantasy sports leagues; and North Dakota permits certain sports wagering pools.

The Federal Professional and Amateur Sports Protection Act (the "Sports Protection Act") prohibits a governmental entity from sponsoring, operating, advertising, promoting, licensing or authorizing sports betting on professional or amateur athletic games, subject to several exceptions. The Sports Protection Act does not terminate state-authorized sports betting schemes which were already in operation prior to October 1991, such as those in Nevada, or which existed between January 1, 1976 and August 31, 1990. The Sports Protection Act is also inapplicable to pari-mutuel betting on horse and dog racing and jai alai.

Companies which manufacture, sell or distribute sports wagering equipment are also subject to the various laws and regulations of the countries and states which permit sports wagering. These rules primarily concern the responsibility, financial stability and character of the sports wagering equipment companies, as well as the individuals financially interested or involved in the gaming industry operations. The rules generally resemble the regulations which govern the pari-mutuel wagering industry. Companies and individuals are required to be licensed before they may manufacture, distribute, own or operate sports wagering equipment; they are subject to background investigations designed to protect the integrity of the gaming industry; they may have their licenses denied, revoked or restricted for any cause deemed reasonable; and the loss of their license in one jurisdiction could adversely affect their licensing status in other jurisdictions.

The Company believes that it is in substantial compliance with all regulations now governing sports wagering in the United States and the various foreign countries where the Company conducts business. There can be no assurance that subsequent regulations will not be burdensome to the Company, its personnel or its stockholders.

Video Gaming

Coin or voucher operated gambling devices offering electronic, video versions of slots, poker, black-jack and similar games are known as VGMs, VLTs or slot machines, depending on the jurisdiction. These devices represent a growing area in the wagering industry. The Company or its subsidiaries manufactures and supplies terminals and wagering systems designed for use as VGMs, VLTs or slot machines.

Twenty four states and Puerto Rico authorize wagering on VGMs, VLTs or slot machines at casinos, riverboats, racetracks, Indian reservations, charitable events and/or other licensed facilities. Although some states, such as Rhode Island and West Virginia, currently restrict VGMs or VLTs to already existing wagering facilities, others permit these devices to be placed at bars and restaurants as well. Several Indian tribes throughout the United States are also authorized to operate these devices on reservation lands. In addition, several Canadian Provinces and various foreign countries have also authorized their use.

Government officials in other states are presently considering proposals to legalize video gaming, video lottery or slot machines in their states. Legislators have been enthusiastic about the potential of video gaming to raise significant additional revenues. Some officials, however, are reluctant to expand gaming industry opportunities or have expressed a desire to limit video gaming to established wagering facilities if video gaming is authorized in their jurisdiction at all.

Companies that manufacture, sell or distribute VGMs, VLTs or slot machines are subject to various provincial, state, county and municipal laws and regulations. The primary purposes of these rules are (1) to insure the responsibility, financial stability and character of equipment manufacturers and their key personnel and stockholders through licensing requirements, (2) to insure the integrity and randomness of the machines, and (3) to prohibit the use of VGMs, VLTs or slot machines at unauthorized locations or for the benefit of undesirable individuals or entities. The regulations governing VGMs, VLTs and slot machines generally resemble the pari-mutuel and sports wagering regulations in all the basic elements described above.

However, every jurisdiction has differing terminal design and operational requirements, and terminals generally must be certified by local regulatory authorities before being distributed in any particular jurisdiction. These requirements may require the Company or its subsidiaries to modify its terminals to some degree in order to achieve certification in particular locales. In addition, the intrastate movement of such devices in a jurisdiction where they will be used by the general public is usually allowed only upon prior notification and/or approval of the relevant regulatory authorities.

West Virginia and Rhode Island have licensed the Company or its subsidiaries to supply VLTs to authorized locations in those states. The Company may apply for licenses in other jurisdictions that may now or in the future authorize video gaming industry, video lottery or slot machine operations.

The Company cannot predict the nature of the regulatory schemes or the terminal requirements that will be adopted in any of these jurisdictions, nor whether the Company or any subsidiaries can obtain any required licenses and equipment certifications or will be found suitable.

Federal law also affects the Company's video gaming industry activities. The Federal Gambling Devices Act of 1962 (the "Devices Act") makes it unlawful for any person to manufacture, deliver or receive gambling devices, including VGMS, VLTs and slot machines, across interstate lines unless that person has first registered with the Attorney General of the United States, or to transport such devices into jurisdictions where their possession is not specifically authorized by state law. The Devices Act permits states to exempt themselves from its prohibition on transportation, and several states that authorize the manufacture or use of such devices within their jurisdictions have done so. The Company does not believe that the Devices Act applies to machines designed for pari-mutuel betting at a racetrack, such as the Company's pari-mutuel wagering terminal. The Company has registered under the Devices Act, and believes that it is in compliance with all of the Devices Act's record-keeping and equipment identification requirements.

Lottery Operations

At the present time, 37 states, the District of Columbia, Puerto Rico, the Virgin Islands, all the Canadian Provinces and many foreign countries authorize lotteries. Once authorized, the award of lottery contracts and ongoing operation of lotteries in the United States is highly regulated. Although certain of the features of a lottery, such as the percentage of gross revenues which must be paid back to players in prize money, are usually established by legislation, the lottery authorities generally exercise significant authority, including the determination of the types of games played, the price of each wager, the manner in which the lottery is marketed, and the selection of the vendors of equipment and services.

To ensure the integrity of the contract award and wagering process, most jurisdictions require detailed background disclosure on a continuous basis from, and conduct background investigations of, the vendor, its subsidiaries and affiliates and its principal shareholders. Background investigations of the vendor's employees who will be directly responsible for the operation of the system are also generally conducted, and most states reserve the right to require the removal of employees whom they deem to be unsuitable or whose presence they believe may adversely affect the operational security or integrity of the lottery. Certain jurisdictions also require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specified percentage (typically five percent or more) of the Company's securities. The failure of such beneficial owners to submit to such background checks and provide such disclosure could result in the imposition of penalties upon such beneficial owners and could jeopardize the award of a lottery contract to the Company or provide grounds for termination of an existing lottery contract.

The international jurisdictions in which the Company markets its lottery systems also usually have legislation and regulations governing lottery operations. The regulation of lotteries in these international jurisdictions typically varies from the regulation of lotteries in the United States. In addition, restrictions are often imposed on foreign corporations seeking to do business in such jurisdictions. United States and international regulations affecting lotteries are subject to change. The Company cannot predict with certainty the impact on its business of changes in regulations.

Simulcasting

The Federal Communications Commission (the "FCC") regulates the use and transfer of earth station licenses used to operate the Company's simulcasting operations. To obtain an earth station license, the applicant must file an application with the FCC. The FCC then places the application on public notice and solicits comments for a thirty-day period, during which no action is taken on the application. At the expiration of the public notice period, assuming no objections are received from the public, the FCC usually will grant the application within two to three weeks if it determines that the granting of such applications is in the public interest.

At present, 42 jurisdictions authorize inter and/or intra-state pari-mutuel wagering on horse races, which usually (though not always) involves the simulcasting of such races. Licensing and other regulatory requirements associated with such simulcasting activities are similar to those governing pari-mutuel wagering, and are generally enforced by pari-mutuel regulators. In addition, contracts with host tracks whose races are simulcast by the Company or its subsidiaries to other facilities within or outside the jurisdictions in which such races are held may be subject to approval by regulatory authorities in the jurisdictions from and/or to which the races are simulcast. The Company believes that it and/or its subsidiaries are in substantial compliance with applicable regulations and that the Company, its subsidiaries, and/or the appropriate third parties have entered into contracts and obtained the necessary regulatory approvals thereof to lawfully conduct current simulcast operations.

EMPLOYEES

As of October 31, 1996, the Company employed 935 persons. Of this total, 465 persons were engaged in full-time field operations, 225 in part-time tellering/cashiering, 105 in engineering and software product development, 35 in marketing and 105 in financial, administration and other positions. Most of the North American pari-mutuel employees of the Company involved in field operations and repairs are represented by the International Brotherhood of Electrical Workers (the "IBEW") under two separate contracts, both of which expire in 1997. The Company's former contracts with Local 3 of the IBEW expired on May 31, 1994, and on August 22, 1994, the Company's field service employees represented by the IBEW went on strike for a new collective bargaining agreement. On October 25, 1994, the employees ratified a new three year agreement and returned to work. This contract expires in May 1997. Certain of the persons employed by the Company in Austria and Germany are members of national workers councils. The Company considers its employee relations to be satisfactory.

DIRECTORS AND EXECUTIVE OFFICERS

Certain information concerning directors and executive officers of the Company as of October 31, 1996 is set forth below:

NAME	AGE POSITION	DIRECTOR SINCE
- - - - -	- - - - -	- - - - -
A. Lorne Weil.....	50 Chairman of the Board and Chief Executive Officer	1989
Sir Brian Wolfson.....	60 Vice Chairman of the Board(1)	1988
Alan J. Zakon.....	61 Vice Chairman of the Board(1)(2)(3)	1993
Larry J. Lawrence.....	54 Director, Chairman of the Executive Committee(2)(3)(4)	1989
Marshall Bartlett.....	71 Director(2)(3)	1991
Thomas H. Lee.....	52 Director(1)(4)	1991
William Luke.....	49 Vice President, Chief Financial Officer	--
Gerald Lawrence.....	57 Vice President	--
Martin E. Schloss.....	50 Vice President, General Counsel and Secretary	--

- (1) Member of Executive Committee
- (2) Member of Audit Committee
- (3) Member of Compensation Committee
- (4) Member of Stock Option Committee

All directors hold office until the next annual meeting of stockholders and thereafter until their successors have been elected and qualified. Officers of the Company hold office for an indefinite term, subject to the discretion of the Board of Directors of the Company (the "Board").

Mr. A. Lorne Weil has been a director of the Company since December 1989, Chairman of the Board since October 31, 1991 and Chief Executive Officer since April 1992. From 1982 until 1989, Mr. Weil was a director and consultant to the holding company of ASI. From October 1990 until April 1992, Mr. Weil held various senior management positions at the Company and its subsidiaries. From 1979 to November 1992 he was the President

of Lorne Weil, Inc., a firm providing strategic planning and corporate development services to the high technology industry. Mr. Weil is currently a director of Fruit of the Loom, Inc. and General Growth Properties, Inc.

Sir Brian Wolfson has been a director of the Company since 1988 and a Vice Chairman of the Board since May 1995. He served as Acting President and Chief Executive Officer from June 1991 until October 31, 1991. From 1987 until May 1995 he was the Chairman, and from May 1995 to September 1995 was the Deputy Chairman, of Wembley plc, a United Kingdom corporation whose holdings include The Wembley Stadium, Arena and Conference Centre and Exhibition Halls in London. Sir Brian is currently a director of Kepner-Tregoe, Inc. and Fruit of the Loom, Inc.

Mr. Alan J. Zakon has been a director of the Company since 1993 and a Vice Chairman of the Board since May 1995. From 1989 until April 1995, he served as a managing director of Bankers Trust Corporation. From 1989 until 1990, Mr. Zakon served as Chairman of the Strategic Policy Committee of Bankers Trust Corporation. From 1986 until 1989, Mr. Zakon served as Chairman of the Board of Boston Consulting Group. Mr. Zakon is currently a director of Arkansas Best Freight Corporation, Augat, Inc., Hechinger Corporation, and Boyle Leasing Technologies.

Mr. Larry J. Lawrence has been a director of the Company since December 1989. He is co-founder and since 1985 has been managing partner of Lawrence Venture Partners, the general partner of Lawrence, Tyrrell, Ortale & Smith, a private equity fund manager. Since 1990, he has been managing partner of LTOS II Partners, the general partner of Lawrence, Tyrrell, Ortale & Smith II and since May 1995 has been the general partner of LSH Partners III, L.P., the general partner of Lawrence, Smith & Horey III, L.P. Mr. Lawrence is currently a director of several private companies. Mr. Lawrence served as a director of Autotote Systems, Inc. from 1979 until it was acquired by the Company in 1989.

Mr. Marshall Bartlett has been a director of the Company since December 1991. From June 1993 through May 1994, Mr. Bartlett was employed by the Company in various capacities. Mr. Bartlett was Executive Vice President and Chief Operating Officer of Bourns Inc., an electronic component manufacturer from 1979 until his retirement in 1991.

Mr. Thomas H. Lee has been a director of the Company since December 1991. Mr. Lee founded the Thomas H. Lee Company in 1974 and since that time has served as its President. Mr. Lee is currently a director of General Nutrition Companies, Inc., Health-o-Meter Products, Inc., Hills Stores Company, J. Baker, Inc., Finlay Fine Jewelry Corporation, Playtex Family Products Inc., and Livent Inc. as well as several private companies. Mr. Lee is also a general partner of the ML-Lee Acquisition Fund, L.P., ML-Lee Acquisition Fund II, L.P. and the ML-Lee Acquisition Fund (Retirement Accounts) II, L.P. (the "ML-Lee Acquisition Funds"), Chairman and Trustee of Thomas H. Lee Advisors I, and a general partner of Thomas H. Lee Advisors II, L.P., the investment advisors to the ML-Lee Acquisition Funds. He is the general partner of THL Equity Advisors Limited Partnership, the general partner of and investment advisor to Thomas H. Lee Equity Partners, L.P. In February 1991, Hills Department Stores, Inc., of which Mr. Lee was Chairman of the Board, filed for protection under Chapter 11 of the United States Bankruptcy Code. Mr. Lee was a director of ASI from 1979 until it was acquired by the Company in 1989.

Mr. William Luke has been Vice President and Chief Financial Officer of the Company since February 1996. Mr. Luke served as the Chief Financial Officer of Nashua Corporation from August 1984 through October 1995.

Mr. Gerald Lawrence has been Vice President of the Company since November 1994 and President of North American Systems, a division of the Company, since March 1996. From April 1995 to March 1996, he served as President of Autotote Gaming Group, a division of the Company. From January 1991 to August 1994, he held the position of Executive Vice President of The New York Racing Association, Inc. From November 1984 through December 1990, he served as Executive Vice President and Chief Operating Officer of Churchill Downs Incorporated.

Mr. Martin E. Schloss has been Vice President and General Counsel of the Company since December 1992 and Secretary since May 1995. From July 1992 until December 1992, Mr. Schloss provided consulting services to and was employed by the Company. From 1976 to 1992, Mr. Schloss served in various positions in the legal department of General Instrument Corporation, with the exception of a hiatus of approximately one and one-half years.

ITEM 2. PROPERTIES

The Company leases approximately 12,000 square feet for its corporate headquarters in New York; 40,000 square feet for its administration and development facility in Newark, Delaware; 16,000 square feet of office and warehouse space in Rocky Hill, Connecticut in order to operate the Connecticut State Lottery; 27,000 square feet for its administration and development facility in Vienna, Austria; 2,000 square feet of office space for its operations center in Gelsenkirchen, Germany; 2,700 square feet of warehouse space in Stanton, Delaware, and 16,000 square feet of warehouse space in Bridgeport, New Jersey.

The Company leases space for Connecticut OTB locations in Norwalk, Bridgeport, West Haven, East Haven, Meriden, New Britain, Bristol, Waterbury and Torrington. The Company owns teletheaters in Windsor Locks and in New Haven, both of which are used for OTB operations. The Company's Sports Haven(R) teletheater facility in New Haven houses its central off-track betting computer operations and telephone wagering systems for the Connecticut OTB. The Company also leases 1,000 square feet for its OTB administrative offices in New Haven.

The Company's lease in Newark, Delaware resulted from the sale and leaseback of its facility in January 1996. The sale-leaseback arrangement established a sale price of \$1.0 million and provided the Company with a lease term of up to ten years.

ITEM 3. LEGAL PROCEEDINGS

In addition to routine legal proceedings incidental to the conduct of its business, the Company and certain of its officers and directors were named as defendants in a number of lawsuits commenced in February 1995 as class actions in the United States District Court for the District of Delaware. These lawsuits were consolidated into one class action in June 1995. The parties entered into a definitive Stipulation and Agreement of Settlement dated July 19, 1996 (the "Settlement Agreement") related to these claims.

The Settlement Agreement was finalized on December 24, 1996, at which time the Company paid \$7.5 million in cash plus 2,963,590 shares of Class A Common Stock which had an aggregate value of \$3.5 million based on the average price of the Company's Class A Common Stock for 10 trading days preceding the final hearing in the District Court. Insurance companies providing directors and officers insurance contributed approximately \$6.5 million of the cash portion of the settlement (with \$1.25 million of that amount in the form of a loan to the Company, with the payment terms subject to negotiation).

The Company accrued a charge of \$6.8 million against earnings for the quarter ended January 31, 1996 to reflect the then expected settlement and anticipated legal fees. There will be no further charges against earnings as a result of the Settlement Agreement.

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

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Class A Common Stock is traded under the symbol "TTE" on the American Stock Exchange. The following table sets forth, for the periods indicated, the range of high and low closing prices of the Company's Class A Common Stock.

	HIGH	LOW
	-----	-----
Fiscal 1995		
First Quarter.....	\$17.38	6.75
Second Quarter.....	7.38	4.38
Third Quarter.....	4.63	2.69
Fourth Quarter.....	5.00	2.81
Fiscal 1996		
First Quarter.....	\$ 3.81	2.81
Second Quarter.....	3.81	2.88
Third Quarter.....	3.50	1.50
Fourth Quarter.....	2.00	1.00

On January 22, 1997, the last reported sales price for the Class A Common Stock on the American Stock Exchange was \$1.56 per share. The approximate number of holders of record of the Class A Common Stock as of January 22, 1997 was 603.

The Company has never paid any cash dividends on its Class A Common Stock. The Board presently intends to retain all earnings for use in the Company's business. Any future determination as to payment of dividends will depend upon the financial condition and results of operations of the Company and such other factors as are deemed relevant by the Board. Further, under the terms of the Company's senior bank credit facility, the Company is not permitted to pay any cash dividends or make any other distributions (other than stock dividends) on its Class A Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

Selected historical financial data presented below as of and for the five years ended October 31, 1996 have been derived from the audited consolidated financial statements of the Company, which financial statements have been audited by KPMG Peat Marwick LLP, independent certified public accountants. The following financial information reflects the acquisition of certain businesses during the period 1992 through 1995 and should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements of the Company and the notes thereto, included in Item 8.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR ENDED OCTOBER 31,				
	1996	1995	1994	1993	1992
SELECTED STATEMENT OF OPERATIONS DATA:					
Operating Revenues:					
Services.....	\$137,794	\$132,260	\$ 98,592	\$ 59,792	\$ 40,526
Sales.....	38,441	20,924	50,458	25,070	7,838
	-----	-----	-----	-----	-----
	176,235	153,184	149,050	84,862	48,364
	-----	-----	-----	-----	-----
Costs and Expenses:					
Cost of services.....	85,742	78,569	61,158	36,513	20,713
Cost adjustments and strike expenses.....	--	--	6,781	--	--
Cost of sales.....	25,864	15,661	35,753	11,679	4,606
Selling, general & administrative.....	32,853	36,540	25,298	10,956	6,419
Restructuring and write-off of assets.....	(649)	18,241	8,576	--	--
Depreciation and amortization.....	40,853	35,463	25,418	11,809	7,840
Interest, net.....	14,604	15,974	6,103	3,240	5,804
Other (income) expense.....	793	(48)	(647)	(65)	(869)
Proceeds of insurance claim.....	--	--	--	--	(3,000)
Litigation settlement.....	6,800	--	--	--	--
Loss on sale of business...	1,127	--	--	--	--
	-----	-----	-----	-----	-----
Total costs and expenses.....	207,987	200,400	168,440	74,132	41,513
	-----	-----	-----	-----	-----
Earnings (loss) before income tax expense (benefit) and extraordinary item.....	(31,752)	(47,216)	(19,390)	10,730	6,851
Income tax expense (benefit).....	2,443	2,673	(1,462)	1,292	1,124
	-----	-----	-----	-----	-----
Earnings (loss) before extraordinary item.....	(34,195)	(49,889)	(17,928)	9,438	5,727
Write-off of financing fees & expenses.....	--	--	4,222	--	--
	-----	-----	-----	-----	-----
Net earnings (loss).....	\$(34,195)	\$(49,889)	\$(22,150)	\$ 9,438	\$ 5,727
	=====	=====	=====	=====	=====
Net earnings (loss) per common share.....	\$ (1.09)	\$ (1.72)	\$ (.79)	\$.33	\$.37
	=====	=====	=====	=====	=====
SELECTED BALANCE SHEET DATA (END OF PERIOD):					
Total assets.....	\$196,793	\$241,021	\$241,597	\$187,105	\$ 62,950
Total long-term debt, including current installments.....	\$169,024	\$177,264	\$143,955	\$ 76,987	\$ 57,231
Stockholders' equity (deficiency).....	\$(20,196)	\$ 11,857	\$ 55,721	\$ 76,079	\$(20,972)
Weighted average shares outstanding.....	31,305	28,965	28,174	28,210	15,425

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BACKGROUND

Historically, the Company's revenues have come from two sources: service revenue pursuant to multi-year contracts to provide wagering systems and other services, which are typically based on Handle, and sales contracts for wagering equipment and software. The first quarter of the fiscal year is traditionally the weakest for service revenue. Sales revenue usually reflects a limited number of large transactions which do not recur on an annual basis, but which historically have given rise to additional terminal and systems software sales to existing customers. The Company's ability to expand is dependent upon its ability to attract new customers while fulfilling and retaining its existing contracts. The sale and delivery of wagering systems and equipment for its international operations depend on various factors, including customer requirements as to the capabilities and features of the system and the delivery schedule. Consequently, revenue and operating results could vary substantially from period to period as a result of the timing of revenue recognition for major equipment sales. The timing of these sales can affect not only annual performance, but can make quarterly results highly variable and unpredictable. In the event the Company is unable to attract new international customers to purchase its wagering systems and related equipment in the future at historic levels, there could be a material adverse effect on the Company's results of operations.

The Company has, in part, implemented its strategy of expanding its operations into all areas of the pari-mutuel and lottery wagering businesses by making a number of strategic acquisitions. These acquisitions are described in Note 3 to the Consolidated Financial Statements. Since all but one of these acquisitions were accounted for as purchases, the timing of each acquisition affects the comparability of operations from period to period.

UNUSUAL CHARGES

In the third quarter of fiscal 1996, the Company recorded charges in other deductions of \$.6 million for costs incurred in connection with the Company's unsuccessful third quarter 1996 debt offering, and charges in selling, general and administrative expense of \$.6 million for contractual payments related to the departure of the President of the Company. Partially offsetting these costs was the reversal of \$.6 million of 1995 restructuring cost accruals because of the Company's current plan to continue limited manufacturing of wagering terminals at its Ireland manufacturing facility.

In fiscal 1995, The Company recorded \$20.9 million of unusual charges resulting principally from the Company's restructuring charges and from certain asset valuation adjustments, which costs have been allocated among the Pari-mutuel Operations (\$7.5 million) and Lottery Operations (\$13.4 million). The restructuring charges totaled \$11.6 million and were attributable to the closing of the Lottery Operations support facility in Owings Mills, Maryland and the scaling back of certain international activities, including the planned closing of the Company's manufacturing facility in Ballymahon, Ireland. The Company also wrote-off \$6.6 million relating to certain investments and other non-current assets principally associated with its Pari-mutuel Operations which included \$2.7 million attributable to the Company's Mexican VGM contracts, \$2.6 million attributable to European wagering terminals, and \$1.3 million attributable to other assets. The remaining \$2.7 million of unusual charges included miscellaneous asset valuation adjustments and severance. In addition, the Company recorded \$1.7 million of unusual charges for bank credit agreement costs primarily relating to a waiver of certain financial covenants under the Company's senior bank credit facility. As a result of these charges, the Company anticipates total cash obligations of approximately \$5.9 million, of which \$4.3 million was paid through October 31, 1996 and \$.6 million was reversed because of the Company's decision to continue limited manufacturing in Ireland. The Company has satisfied all cash obligations with respect to the 1995 restructuring charges.

In fiscal 1994, the Company recorded \$15.4 million of unusual charges for its Pari-mutuel Operations. These charges included \$3.9 million primarily consisting of inventory, equipment and contract adjustments in connection with an acquisition; restructuring charges of approximately \$3.8 million resulting from closing the

Company's Newark, Delaware manufacturing facility and discontinuing certain product lines; a \$4.7 million write-off of certain assets principally relating to domestic and overseas projects; and costs of \$2.8 million incurred as a result of a strike by the field service employees of the Company's pari-mutuel operations in North America. In addition, the Company recorded an extraordinary item consisting of a non-cash write-off of financing fees and expenses of \$4.2 million associated with the Company's repayment of its prior senior bank credit facility. The Company has satisfied all cash obligations, consisting primarily of costs of plant shutdown and employee severance, arising from the fiscal 1994 restructuring.

RESULTS OF OPERATIONS

	YEARS ENDED OCTOBER 31,		
	1996	1995	1994
PARI-MUTUEL OPERATIONS			
Operating Revenues:			
Service revenue.....	\$118,267	111,797	81,080
Sales revenue.....	10,172	15,539	11,808
Total Revenue.....	\$128,439	127,336	92,888
Gross Profit (excluding depreciation and amortization).....	\$ 49,620	45,302	26,579
LOTTERY OPERATIONS			
Operating Revenues:			
Service revenue.....	\$ 19,527	20,463	17,512
Sales revenue.....	28,269	5,385	38,650
Total Revenue.....	\$ 47,796	25,848	56,162
Gross Profit (excluding depreciation and amortization).....	\$ 15,009	13,652	18,779
COMPANY TOTAL			
Operating Revenues:			
Service revenue.....	\$137,794	132,260	98,592
Sales revenue.....	38,441	20,924	50,458
Total Revenue.....	\$176,235	153,184	149,050
Gross Profit (excluding depreciation and amortization).....	\$ 64,629	58,954	45,358

FISCAL 1996 COMPARED TO FISCAL 1995

Revenue Analysis

Revenues increased 15% or \$23.1 million to \$176.2 million in the fiscal year ended October 31, 1996 from \$153.2 million in fiscal 1995.

The Pari-mutuel Operations service revenues of \$118.3 million for the fiscal year ended October 31, 1996 improved \$6.5 million or 6% compared to the prior year principally because of the growth in Handle at Connecticut OTB attributable to operation of the Sports Haven(R) simulcast/multi-entertainment facility for the full fiscal year, coupled with higher revenues from the sale of excess transponder time due to increased signal capacity, as well as increased Handle at certain North American racetracks. Sales revenue declined \$5.4 million to \$10.2 million for the fiscal year ended October 31, 1996 reflecting the decrease in international equipment sales during the year.

Lottery Operations service revenues were down slightly for the fiscal year ended October 31, 1996 because of the change in the revenue mix of the Company's European Lottery Operation from primarily service to sales during 1996 coupled with reduced wagering on the Connecticut lottery. Equipment sales improved significantly

in fiscal 1996 to \$28.3 million from \$5.4 million in fiscal 1995. This improvement is attributable to the delivery of computer equipment by the Company's European Lottery Operations to six German lottery contract sites, as well as the delivery of terminals and parts to Italy's TOTIP pari-mutuel lottery.

Gross Profit Analysis

Total gross profits earned by the Company, exclusive of depreciation and amortization, increased \$5.7 million, or 10%, to \$64.6 million in fiscal 1996 as compared to \$58.9 million in fiscal 1995.

Gross profits earned by the Pari-mutuel Operations of \$49.6 million in fiscal 1996 increased \$4.3 million from \$45.3 million in fiscal 1995, principally due to the growth in Handle at Connecticut OTB. Other gross profit increases resulting from increased North American pari-mutuel and off-track betting revenues and higher simulcasting revenues were largely offset by higher expenses in the Company's European pari-mutuel operations.

Gross profits earned by the Lottery Operations totaled \$15.0 million for fiscal 1996, an increase of \$1.4 million compared to fiscal 1995 reflecting the delivery of equipment by the Company's European Lottery Operations and an increase in the number of terminals delivered to Italy's TOTIP pari-mutuel lottery.

Gross profits on equipment sales were 33% for the year, a significant improvement over fiscal 1995. Gross margins on services were approximately 38% for 1996, down 3% from margins earned in fiscal 1995 reflecting the change in revenue mix in the Company's European Lottery Operations.

Expense Analysis

Selling, general and administrative expenses decreased \$3.6 million or 10% to \$32.9 million in the fiscal year ended October 31, 1996 from \$36.5 million in fiscal 1995. Expense reductions resulting from fiscal 1995 restructuring activities and other cost reduction programs were partially offset by increased expenses for legal compliance, litigation and compensation costs, and contractual costs incurred upon the departure of the President of the Company.

Depreciation and amortization expenses increased 15% to \$40.9 million in the fiscal year ended October 31, 1996 compared to \$35.5 million in fiscal 1995. The increase was primarily due to capital additions for North America's pari-mutuel video gaming operations, new terminals and software installed at the Connecticut State Lottery, investment in UNIBET software, the January 1995 acquisition by the Company of simulcasting assets, and the increased investment in the Sports Haven(R) facility.

Interest expense decreased 9% from \$16.4 million in fiscal 1995 to \$14.8 million in the fiscal year ended October 31, 1996 reflecting a \$0.3 million increase due to additional borrowings, and a \$0.5 million increase in amortization of deferred financing costs. These increases were offset by a \$0.1 million decrease due to lower interest rates, and a decrease of \$2.3 million due to bank waiver and amendment fees incurred in fiscal 1995.

Income Taxes

Income tax expense was \$2.4 million in the 1996 period compared to an expense of \$2.7 million in the 1995 period. Income tax expense principally reflects foreign tax expense, since no tax benefit has been recognized on domestic operating losses.

FISCAL 1995 COMPARED TO FISCAL 1994

Revenue Analysis

Total revenues generated by the Company increased 3% or \$4.1 million to \$153.2 million in fiscal 1995 from \$149.1 million in fiscal 1994.

Service revenue of the Pari-mutuel Operations increased 38% or \$30.7 million to \$111.8 million in fiscal 1995, compared to \$81.1 million in fiscal 1994. This revenue increase reflects continued improvement in the

Company's off-track betting and pari-mutuel wagering businesses; significant growth in the Company's simulcasting operations, largely reflecting its 1995 simulcasting asset acquisition; and the acquisition of the French pari-mutuel wagering business in November 1994 which contributed \$8.7 million to the fiscal 1995 increase. Pari-mutuel Operations equipment and other sales increased 32% or \$3.7 million to \$15.5 million in fiscal 1995 compared to \$11.8 million in fiscal 1994 primarily due to \$4.5 million in equipment sales by the French pari-mutuel wagering business.

Service revenue of the Lottery Operations increased 17% or \$3.0 million to \$20.5 million in fiscal 1995 compared to \$17.5 million in fiscal 1994 reflecting improved performance at the Company's European Lottery Operations. Offsetting this revenue improvement was a decrease in equipment and other sales revenue of \$33.3 million from \$38.7 million in fiscal 1994 to \$5.4 million in fiscal 1995, largely due to the inclusion in fiscal 1994 of \$25.8 million in revenues attributable to the sale of terminals to Italy's TOTIP pari-mutuel lottery pool and \$6.3 million in revenues associated with the commencement of certain international lottery contracts received by the Company's European Lottery Operations.

Gross Profit Analysis

Total gross profits earned on the Company's revenues, exclusive of depreciation and amortization, increased \$13.6 million, or 30%, to \$59.0 million in fiscal 1995 as compared to \$45.4 million in fiscal 1994. Excluding 1994 inventory, equipment and contract adjustments of \$3.9 million and strike expenses of \$2.8 million, total gross profits increased \$6.8 million during the year.

Gross profits earned by the Pari-mutuel Operations of \$45.3 million in fiscal 1995 increased by \$11.9 million from \$33.4 million in fiscal 1994, excluding the effect of the \$6.8 million fiscal 1994 inventory, equipment and contract adjustments and strike expenses, principally due to the first quarter acquisition of its French pari-mutuel wagering operations which contributed \$4.6 million in gross profits. Other increases were realized in simulcasting service revenue, primarily attributable to the acquisition of the simulcasting assets and improvements for North American pari-mutuel and off-track betting businesses.

Gross profits earned by the Lottery Operations totaled \$13.7 million for fiscal 1995, a decrease of \$12.6 million compared to fiscal 1994, excluding the effect of a \$7.5 million fiscal 1994 contingent payment made in connection with the Company's acquisition of its European Lottery Operations. Although improvements in the European Lottery Operations resulted in increased gross profits, such profits were only able to partially offset the decline in profits as a result of the significant reduction in the number of terminals delivered to Italy's TOTIP pari-mutuel lottery in 1995 as compared to 1994.

Expense Analysis

Selling, general and administrative expenses include marketing, sales, administrative, engineering and software development, finance, legal and other expenses. These expenses increased to \$36.5 million for fiscal 1995 from \$25.3 million in fiscal 1994, an increase of \$11.2 million or 44%. Approximately \$4.2 million of the increase is due to the acquisition by the Company of its French pari-mutuel wagering operations. Additional increases in fiscal 1995 selling, general and administrative expenses primarily reflect increased expenses for market development, legal and other professional fees, and increased expenses attributable to expanded simulcasting and European Lottery Operations. Software systems and product development expenses totaled \$2.4 million in fiscal 1995 compared to \$1.4 million in fiscal 1994.

Depreciation and amortization expenses increased 40% to \$35.5 million in fiscal 1995 from \$25.4 million in fiscal 1994. The increased depreciation and amortization was primarily due to the acquisition by the Company of its French pari-mutuel wagering operations and the acquisition of the simulcasting assets; capital additions for North American pari-mutuel operations; and increased amortization attributable to capitalized software systems development costs for European Lottery Operations.

Interest expense increased \$10.0 million to \$16.4 million in fiscal 1995 compared to \$6.4 million in fiscal 1994. The increase primarily reflects increased borrowings to finance capital additions for North American pari-mutuel operations; the acquisition by the Company of its French pari-mutuel wagering operations and the acquisition of simulcasting assets; \$2.4 million in 1995 bank credit agreement fees and other financing costs primarily related to a waiver of certain financial covenant violations under the Company's senior bank credit facility; and the 1994 capitalization of interest costs on certain capital projects.

Income Taxes

Income tax expense was \$2.7 million in fiscal 1995 as compared to a benefit of \$1.5 million in fiscal 1994. Income tax expense for fiscal 1995 principally reflects foreign tax expense. Because of the Company's recent history of losses, no tax benefit has been recognized on fiscal 1995 domestic operating losses.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 1996, the Company generated net cash inflows of \$21.3 million which were reduced by unusual payments of \$2.5 million under terms of the litigation settlement and \$3.9 million in connection with the Company's fiscal 1995 restructuring, resulting in net cash provided by operating activities of \$14.9 million. At October 31, 1996, the Company had cash and cash equivalents of \$6.0 million as compared to \$5.0 million at October 31, 1995.

Net cash used in investing activities was \$7.9 million in fiscal 1996. Utilizing cash provided by operating activities, the Company invested in contract expenditures and software systems development costs. Additionally, the Company received approximately \$1.0 million from the sale/leaseback of its administration and development facility in Newark, Delaware, and \$3.0 million from the sale of its sports wagering business unit in October 1996. The net proceeds from these transactions were used to reduce bank debt.

Net cash used by financing activities consisted primarily of borrowings of \$2.6 million under the Revolver in addition to repayments of \$10.8 million, including \$8.0 million of principal repayments on the Company's A & B Term Loans. Additionally, under an agreement with the holders of its 5.5% Convertible Subordinated Debentures, the Company issued 936,369 unregistered shares of Class A Common Stock in lieu of cash for interest payments during the first six months of fiscal 1996. The Company also borrowed funds under terms of the litigation settlement discussed in Note 16 to the Consolidated Financial Statements.

The Company believes that its cash resources at October 31, 1996 and its anticipated cash flows arising from operations will provide sufficient liquidity to meet scheduled interest payments and anticipated capital expenditures in the next twelve months arising from current and anticipated commitments.

On January 29, 1997, the Company amended the Senior Facility (the "Amendment") to revise the maturity and amortization of the A and B Term Loans, the maturity of the Revolver, the borrowing rate, certain financial covenants and to revise how proceeds from asset sales reduce scheduled principal payments. The maturity of the Revolver and A Term Loan was changed to February 13, 1998 and scheduled quarterly principal payments on the A Term Loan were reduced to \$7.0 million in fiscal 1997, with the balance of \$44.0 million due in fiscal 1998. The maturity of the B Term Loan was extended to April 30, 1997 with the remaining balance of \$1.0 million due in equal installments of \$0.5 million in January 1997 and April 1997. In connection with the Amendment, the Company paid a fee of \$250,000, agreed to pay fees of up to \$3.1 million at maturity if certain additional principal repayments are not made prior to maturity of the Revolver, and to reduce the exercise price of the 1995 and 1996 Lender Warrants from \$2.98 and \$1.25 per share, respectively, to \$.01 per share if the Senior Facility is not repaid in full by December 1, 1997. Effective with the Amendment, borrowings under the Senior Facility bear interest at the Prime lending rate plus a margin ranging from 0.75% to 2.00% depending on the timing and amount of additional principal repayments made in fiscal 1997 in excess of scheduled principal repayments.

The Company believes, however, that additional cash resources, either from new financings or the sale of assets or both, will be required to meet its scheduled principal repayment requirements in fiscal 1998 under the Senior Facility.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121"), effective for fiscal years beginning after December 15, 1995. SFAS No. 121 requires, among other things, that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment losses should be based upon the fair value of the asset, and reported in the period in which the recognition criteria are first applied and met. The Company believes that the implementation of SFAS No. 121 will not have a material impact on its financial position or results of operations.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation". This pronouncement permits the Company to choose either a new fair value based method or the current APB opinion 25 intrinsic value based method of accounting for its stock based compensation arrangements. The Company intends to retain the intrinsic value based method of accounting for its stock based compensation arrangements and provide the footnote disclosures as required by SFAS No. 123 in fiscal 1997. Consequently, implementation of this pronouncement will not impact the Company's financial position or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

AUTOTOTE CORPORATION AND SUBSIDIARIES

	FORM 10-K (PAGE) -----
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Consolidated Financial Statements:	
Balance Sheets as of October 31, 1996 and 1995.....	25
Statements of Operations for the years ended October 31, 1996, 1995 and 1994.....	26
Statements of Stockholders' Equity (Deficit) for the years ended October 31, 1996, 1995 and 1994.....	27
Statements of Cash Flows for the years ended October 31, 1996, 1995 and 1994.....	28
Notes to Consolidated Financial Statements.....	30
Schedule:	
II. Valuation and Qualifying Accounts.....	48

All other schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Autotote Corporation:

We have audited the consolidated financial statements of Autotote Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Autotote Corporation and subsidiaries as of October 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended October 31, 1996, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

New York, New York
December 5, 1996, except for Notes 7 and 21
which are as of January 29, 1997

AUTOTOTE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

OCTOBER 31, 1996 AND 1995
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1996	1995
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 5,988	4,991
Restricted cash.....	611	1,282
Accounts receivable, net of allowance for doubtful accounts of \$2,053 and \$1,679 in 1996 and 1995, respectively.....	18,257	21,700
Inventories.....	5,780	12,497
Unbilled receivables.....	6,901	4,166
Prepaid expenses, deposits and other current assets.....	3,131	3,121
	-----	-----
Total current assets.....	40,668	47,757
	-----	-----
Property and equipment, at cost.....	186,249	186,005
Less accumulated depreciation.....	90,369	67,745
	-----	-----
Net property and equipment.....	95,880	118,260
	-----	-----
Goodwill, net of amortization.....	21,024	26,986
Operating right, net of amortization.....	16,848	17,848
Other assets and investments.....	22,373	30,170
	-----	-----
	\$ 196,793	241,021
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Current installments of long-term debt.....	\$ 9,234	10,772
Accounts payable.....	14,242	16,448
Accrued liabilities.....	20,057	23,783
Income taxes payable.....	379	1,878
	-----	-----
Total current liabilities.....	43,912	52,881
	-----	-----
Deferred income taxes.....	7,675	5,807
Other long-term liabilities.....	5,612	3,984
Long-term debt, excluding current installments.....	119,790	126,492
Long-term debt, convertible subordinated debentures.....	40,000	40,000
	-----	-----
Total liabilities.....	216,989	229,164
	-----	-----
Stockholders' equity (deficit):		
Preferred stock, par value \$1.00 per share, 2,000 shares authorized, none outstanding.....	--	--
Class A common stock, par value \$0.01 per share, 99,300 shares authorized, 31,474 and 30,528 shares outstanding at October 31, 1996 and 1995, respectively.....	315	306
Class B non-voting common stock, par value \$0.01 per share, 700 shares authorized, none outstanding.....	--	--
Additional paid-in capital.....	143,369	140,050
Accumulated deficit.....	(163,664)	(129,469)
Treasury stock, at cost.....	(102)	(295)
Currency translation adjustment.....	(114)	1,265
	-----	-----
Total stockholders' equity (deficit).....	(20,196)	11,857
	-----	-----
Commitments and contingencies (Notes 7, 8, 12 and 14).....	\$ 196,793	241,021
	=====	=====

See accompanying notes to consolidated financial statements.

AUTOTOTE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1996	1995	1994
	-----	-----	-----
Operating revenues:			
Services.....	\$137,794	132,260	98,592
Sales.....	38,441	20,924	50,458
	-----	-----	-----
	176,235	153,184	149,050
	-----	-----	-----
Operating expenses (exclusive of depreciation and amortization shown below):			
Services.....	85,742	78,569	61,158
Inventory, equipment and contract adjustments and strike expenses.....	--	--	6,781
Sales.....	25,864	15,661	35,753
	-----	-----	-----
	111,606	94,230	103,692
	-----	-----	-----
Total gross profit.....	64,629	58,954	45,358
Selling, general and administrative expenses.....	32,853	36,540	25,298
Restructuring and write-off of assets.....	(649)	18,241	8,576
Depreciation and amortization.....	40,853	35,463	25,418
	-----	-----	-----
Operating loss.....	(8,428)	(31,290)	(13,934)
	-----	-----	-----
Other deductions (income):			
Interest expense.....	14,837	16,362	6,408
Litigation settlement.....	6,800	--	--
Other (income) expense.....	1,687	(436)	(952)
	-----	-----	-----
	23,324	15,926	5,456
	-----	-----	-----
Loss before income tax expense (benefit) and extraordinary item.....	(31,752)	(47,216)	(19,390)
Income tax expense (benefit).....	2,443	2,673	(1,462)
	-----	-----	-----
Loss before extraordinary item.....	(34,195)	(49,889)	(17,928)
Extraordinary item--write-off of financing fees.....	--	--	4,222
	-----	-----	-----
Net loss.....	\$(34,195)	(49,889)	(22,150)
	=====	=====	=====
Loss per common share:			
Loss per common share before extraordinary item.....	\$ (1.09)	(1.72)	(0.64)
Extraordinary item--write-off of financing fees.....	--	--	(0.15)
	-----	-----	-----
Loss per common share.....	\$ (1.09)	(1.72)	(0.79)
	=====	=====	=====
Weighted average number of common shares outstanding.....	31,305	28,965	28,174
	=====	=====	=====

See accompanying notes to consolidated financial statements.

AUTOTOTE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994
(IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TREASURY STOCK	CURRENCY TRANSLATION ADJUSTMENT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
	-----	-----	-----	-----	-----	-----
Balances, October 31, 1993.....	\$279	133,390	(57,430)	--	(160)	76,079
Exercise of stock options.....	4	1,398	--	--	--	1,402
Exercise of warrants....	5	76	--	--	--	81
Currency translation adjustment.....	--	--	--	--	309	309
Net loss.....	--	--	(22,150)	--	--	(22,150)
	-----	-----	-----	-----	-----	-----
Balances, October 31, 1994.....	288	134,864	(79,580)	--	149	55,721
Exercise of stock options.....	2	439	--	(235)	--	206
Issuance of Class A common stock, net of issuance expenses.....	16	4,521	--	--	--	4,537
Exercise of warrants....	--	60	--	(60)	--	--
Deferred compensation...	--	166	--	--	--	166
Currency translation adjustment.....	--	--	--	--	1,116	1,116
Net loss.....	--	--	(49,889)	--	--	(49,889)
	-----	-----	-----	-----	-----	-----
Balance, October 31, 1995.....	306	140,050	(129,469)	(295)	1,265	11,857
Issuance of Class A common stock, net of issuance expenses.....	9	1,961	--	193	--	2,163
Issuance of warrants in lieu of cash.....	--	1,012	--	--	--	1,012
Deferred compensation...	--	346	--	--	--	346
Currency translation adjustment.....	--	--	--	--	(1,379)	(1,379)
Net loss.....	--	--	(34,195)	--	--	(34,195)
	-----	-----	-----	-----	-----	-----
Balance, October 31, 1996.....	<u>\$315</u>	<u>143,369</u>	<u>(163,664)</u>	<u>(102)</u>	<u>(114)</u>	<u>(20,196)</u>

See accompanying notes to consolidated financial statements.

AUTOTOTE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994
(IN THOUSANDS)

	1996	1995	1994
	-----	-----	-----
Cash flows from operating activities:			
Net loss.....	\$(34,195)	(49,889)	(22,150)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization.....	40,853	35,463	25,418
Write-off of non-cash financing fees.....	--	--	4,222
Restructuring charges and asset write-offs, net of cash payments.....	(649)	17,359	8,576
Change in deferred income taxes.....	1,868	854	(989)
Litigation settlement, net of cash payments....	4,250	--	--
Loss on asset sales.....	1,401	314	--
Non-cash interest charges.....	636	1,564	--
Changes in operating assets and liabilities, net of effects of purchase/disposition of subsidiaries:			
Restricted cash.....	671	(649)	(633)
Accounts receivable.....	1,977	6,576	(10,579)
Inventories.....	5,920	(4,276)	3,467
Unbilled receivables.....	(3,182)	2,264	(6,015)
Accounts payable.....	(1,834)	(616)	2,812
Accrued liabilities.....	(3,110)	(2,578)	6,114
Other.....	262	1,604	(2,801)
Total adjustments.....	49,063	57,879	29,592
Net cash provided by operating activities.....	14,868	7,990	7,442
Cash flows from investing activities:			
Capital expenditures.....	(2,103)	(9,990)	(19,533)
Expenditures for equipment under wagering systems contracts.....	(7,138)	(8,150)	(39,932)
Increase in other assets and investments.....	(3,007)	(13,262)	(20,629)
Purchase of companies, net of cash acquired.....	--	(14,400)	--
Proceeds from asset sales.....	4,684	1,000	--
Other.....	(325)	988	(350)
Net cash used in investing activities.....	(7,889)	(43,814)	(80,444)
Cash flows from financing activities:			
Net repayments under lines of credit.....	--	(250)	(474)
Net borrowings under senior bank credit facility.....	2,610	27,832	101,448
Proceeds from issuance of long-term debt.....	2,550	4,198	17,556
Payments on long-term debt.....	(10,829)	(2,367)	(51,562)
Net proceeds from issuance of common stock.....	--	4,495	1,483
Net cash provided (used) by financing activities...	(5,669)	33,908	68,451
Effect of exchange rate changes on cash.....	(313)	797	137
Increase (decrease) in cash and cash equivalents...	997	(1,119)	(4,414)
Cash and cash equivalents, beginning of year.....	4,991	6,110	10,524
Cash and cash equivalents, end of year.....	\$ 5,988	4,991	6,110
	=====	=====	=====

(Continued)

AUTOTOTE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)
YEARS ENDED OCTOBER 31, 1996, 1995 AND 1994

NON-CASH INVESTING AND FINANCING ACTIVITIES

1996 and 1995

See notes 7, 13 and 14 for a description of the issuance of warrants, assumption of mortgage by the buyer of the sports wagering business, capital lease transactions, the exchange of services for common stock and, in 1995, the exchange of stock options for Performance Accelerated Restricted Stock.

1994

Net transfers from goodwill to property and equipment were \$6,751 in accordance with finalization of purchase price allocations for the 1993 acquisitions. See notes 3 and 8 for a description of acquisitions and capital lease transactions.

Supplemental cash flow information

Cash paid during the year for:

	OCTOBER 31,		
	1996	1995	1994
Interest (net of interest capitalized of \$81 and \$1,113 in 1995 and 1994, respectively).....	\$14,318	12,504	4,979
Income taxes.....	\$ 2,291	3,260	2,386

See accompanying notes to consolidated financial statements.

AUTOTOTE CORPORATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 1996 AND 1995

(1) DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of the Business

Autotote Corporation (the Company) and its subsidiaries are primarily engaged in the design, sale and operation of computerized wagering systems for pari-mutuel wagering, sports/race wagering, simulcasting services and lottery applications in the United States, Europe and Asia, as well as the operation of certain off-track betting concerns in the United States and Europe.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and subsidiaries in which the Company's ownership is greater than 50%. Investments in other entities where the Company has the ability to exercise significant influence over the investee are accounted for principally on the equity basis. Under the equity method, investments are stated at cost plus the Company's equity in undistributed earnings after acquisition.

All significant inter-company balances and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity at the date of purchase of three months or less to be cash equivalents.

(d) Restricted Cash

Restricted cash represents amounts on deposit by customers for TeleBet wagering. State regulations require the Company to maintain such balances until deposited amounts are wagered or returned to the customer.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined as follows:

ITEM ----	COST METHOD -----
Parts.....	First-in, first-out or weighted moving average.
Work-in-process & Finished goods.....	Specific identification or weighted moving average for direct material and labor; other fixed and variable production costs are allocated as a percentage of direct labor cost.
Ticket paper.....	First-in, first-out

The Company adjusts inventory accounts on a periodic basis to reflect the impact of potential obsolescence.

(f) Unbilled Receivables

Unbilled receivables represent costs and related earnings in excess of payments made by customers.

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(1) DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

(g) Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

ITEM ----	ESTIMATED LIFE IN YEARS -----
Machinery and equipment.....	3-7
Buildings.....	15-40
Transportation.....	3-7
Furniture and fixtures.....	5-10
Building and leasehold improvements.....	5-30

Depreciation expense includes the amortization of capital leased assets.

(h) Deferred Installation Costs

Certain installation costs consisting of installation materials, customer contracted software and installation labor associated with leased systems are deferred and amortized over the lives of the leases unless such costs are reimbursed by the lessee, in which case such amounts are included in revenue and cost of sales. Deferred installation costs, net of accumulated depreciation, included in property and equipment were approximately \$7,034,000 and \$9,482,000 at October 31, 1996 and 1995, respectively.

(i) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. The excess of costs over net assets acquired arising from the Company's acquisition of Autotote Lottery, SEPMO and IDB is being amortized on a straight-line basis over five years. The excess of costs over net assets acquired for Tele Control, and ETAG is being amortized on a straight-line basis over 7 and 10 years, respectively. Total goodwill amounted to \$21,024,000 and \$26,986,000 net of accumulated amortization of \$13,822,000 and \$8,673,000 as of October 31, 1996 and 1995, respectively.

The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future cash flows of the acquired operation and other considerations. The amount of impairment of goodwill, if any, is measured based on projected discounted future cash flows.

(j) Operating Right

On July 1, 1993, the Company acquired the exclusive right to operate the Connecticut off-track betting system. This operating asset is being amortized on a straight-line basis over twenty years and amounted to \$16,848,000 and \$17,848,000 net of accumulated amortization of \$3,357,000 and \$2,357,000 at October 31, 1996 and 1995, respectively.

(k) Other Assets and Investments

The Company capitalizes costs associated with internally developed and/or purchased software systems for new products and enhancements to existing products that meet technological feasibility and recoverability tests. The Company also capitalizes costs associated with the procurement of long-term financing, and costs attributable to transponder leases, patents, trademarks, marketing rights, and non-competition and employment agreements arising primarily from business acquisitions. These capitalized costs are amortized on the straight-line basis over their useful lives.

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(1) DESCRIPTION OF THE BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

(l) Revenue Recognition

Revenues from wagering system, simulcast and lottery service contracts are recognized over the contract period pursuant to the terms of the contracts. Costs of providing operating services under contracts are charged to earnings in the period incurred. Revenue from the operation of off-track betting concerns is recognized based on a percentage of amounts wagered.

Revenues from major contracts for the sale of wagering systems and revenues for contracted software development are recognized on the percentage of completion method of accounting based on the ratio of costs incurred to the total estimated costs. Any anticipated losses on fixed price contracts are charged to earnings when such losses can be estimated. The Company recognizes revenue from software licenses upon shipment if post-delivery obligations are insignificant and if the terms of the agreement are such that the payment obligation is non-cancelable and non-refundable. Revenue arising from the sale of component equipment and supplies is recognized when earned.

(m) Income Taxes

Income taxes are calculated using the asset and liability method under Statement of Financial Accounting Standard (SFAS) No. 109. Under this method, deferred income taxes are calculated by applying enacted statutory tax rates to cumulative temporary differences between financial statement carrying amounts and tax bases of existing assets and liabilities. Under SFAS 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

(n) Loss Per Common Share

Loss per common share is based on the weighted average number of shares of common stock outstanding during the period. Common stock equivalents are not included in the calculation of loss per share since their inclusion would be anti-dilutive.

(o) Foreign Currency Translation

Assets and liabilities of foreign operations are translated at year-end rates of exchange and operations are translated at the average rates of exchange for the year. Gains or losses resulting from translating the foreign currency financial statements are accumulated as a separate component of stockholders' equity (deficit). Gains or losses resulting from foreign currency transactions are included in other income (deductions) in the consolidated statements of operations.

(p) Financial Statement Preparation

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates being made involve percentage of completion for contracted software development projects, capitalization of software development costs, evaluation of the recoverability of assets and assessment of litigation and contingencies, including income and other taxes. Actual results could differ from those estimates.

(q) Reclassification

Certain reclassifications have been made to the prior years consolidated financial statements to conform to the current presentation.

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(2) UNUSUAL ITEMS

In the third quarter of fiscal 1996, the Company recorded charges in other deductions of \$.6 million for costs incurred in connection with the Company's unsuccessful third quarter 1996 debt offering, and charges in selling, general and administrative expense of \$.6 million for contractual payments related to the departure of the President of the Company. Partially offsetting these costs was the reversal of \$.6 million of 1995 restructuring cost accruals because of the Company's current plan to continue limited manufacturing of wagering terminals at its Ireland plant.

In fiscal 1995, the Company recognized unusual charges of \$20.9 million, substantially resulting from the Company's restructuring, and certain valuation adjustments. Restructuring charges of \$11.6 million were attributable to the closure of the Owings Mills Lottery support facility and the scaling back of certain international activities, including the planned closing of the Company's manufacturing facility in Ballymahon, Ireland. The Company also wrote-off \$6.6 million relating to certain investments and other non-current assets which included \$2.7 million attributable to the Company's Mexican VGM contracts, \$2.6 million attributable to European wagering terminals, and \$1.3 million attributable to other assets. The remaining \$2.7 million of unusual charges included miscellaneous asset valuation adjustments and severance costs. In addition, the Company recorded \$1.7 million of unusual charges for bank credit agreement costs primarily relating to a waiver of certain financial covenants under the Company's Senior Facility. As a result of these charges, the Company anticipates total cash obligations of approximately \$5.9 million, of which \$4.3 million was paid through October 31, 1996 and \$.6 million was reversed because of the Company's decision to continue limited manufacturing in Ireland. The Company has satisfied all cash obligations with respect to the 1995 restructuring charges.

In fiscal 1994, the Company recorded \$15.4 million of unusual charges. These charges included \$3.9 million primarily consisting of inventory, equipment and contract adjustments in connection with an acquisition; restructuring charges of \$3.8 million resulting from closing the Company's Newark, Delaware manufacturing facility and the discontinuing of certain product lines; a \$4.7 million write-off of certain assets principally relating to domestic and overseas projects and costs of \$2.8 million incurred as a result of a strike by the field service employees of the Company's pari-mutuel operations in North America. In addition, the Company recorded an extraordinary item consisting of a non-cash write-off of financing fees and expenses of \$4.2 million associated with the Company's repayment of its prior senior bank credit facility. The Company has satisfied all cash obligations with respect to the 1994 unusual charges.

(3) ACQUISITIONS

1995

In January 1995, the Company acquired substantially all of the assets of the Simulcast Division of LDDS Corporation (formerly IDB Communications Group, Inc.) ("IDB") and the rights and obligations under leases relating to eight C-band satellite transponders for a purchase price of \$13.7 million in cash. The acquisition has been accounted for by the purchase method of accounting, and accordingly, the purchase price has been allocated to the assets acquired based on estimates of fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired was \$5.3 million, and has been recorded as goodwill which is being amortized over 5 years.

On November 1, 1994, the Company acquired 80% of the outstanding capital stock of the holding company of SEPMO S.A., ("SEPMO"), a French supplier of wagering systems and services to the French off-track betting network and other customers, for cash of approximately \$281,000, plus acquisition related costs. In addition to the purchase consideration, the Company concurrently advanced the SEPMO holding company approximately \$2 million for purposes of repaying certain convertible debt and purchasing the minority holdings

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(3) ACQUISITIONS--(CONTINUED)

in certain subsidiary companies. The remaining 20% of the capital stock of the holding company of SEPMO was scheduled to be purchased over a four year period at a price to be determined by formula based on the results of operations of SEPMO on a consolidated basis during the period, provided that the aggregate purchase price for such additional shares will be at least the equivalent of 3 million French francs and not in excess of the equivalent of 9 million French francs (approximately \$600,000 and \$1,800,000, respectively, based on exchange rates in effect at October 31, 1995). In July 1995, the Company purchased an additional 5% of the holding company of SEPMO's stock for \$61,000. The acquisition has been accounted for by the purchase method of accounting, and accordingly, the purchase price has been allocated to the assets acquired based on estimates of fair values at the date of acquisition. The excess of the purchase price plus acquisition related costs over the estimated fair values of the net assets acquired was \$3.2 million, and has been recorded as goodwill which is being amortized over 5 years. Currently, certain officers of SEPMO retain the remaining 15% of the capital stock of SEPMO's holding company.

The operating results of these acquisitions are included in the Company's consolidated results of operations from the respective dates of the acquisitions.

1994

On July 20, 1994, Marvin H. Sugarman Productions, Inc. ("MHSP") and Racing Technology, Inc. ("RTI") were acquired in an exchange of 500,000 shares of the Company's Class A Common Stock for all of the outstanding shares of MHSP and RTI. The transaction was accounted for as a pooling of interests.

(4) INVENTORIES

Inventories consist of the following:

	OCTOBER 31,	
	1996	1995
	(IN THOUSANDS)	
Parts.....	\$ 3,295	4,667
Work-in-process.....	909	4,724
Finished goods.....	1,028	2,541
Ticket paper.....	548	565
	-----	-----
	\$ 5,780	12,497
	=====	=====

Work-in-process includes costs for equipment expected to be sold. Costs incurred for equipment associated with specific wagering system contracts not yet placed in service are classified as construction in progress in property and equipment (see Note 5).

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(5) PROPERTY AND EQUIPMENT

Property and equipment, including assets under capital leases, consist of the following:

	OCTOBER 31,	
	-----	-----
	1996	1995
	-----	-----
	(IN THOUSANDS)	
Machinery, equipment and deferred installation costs.....	\$156,816	144,628
Land and buildings.....	14,967	20,169
Transportation equipment.....	414	656
Furniture and fixtures.....	4,739	4,488
Leasehold improvements.....	4,621	4,972
Construction in progress.....	4,692	11,092
	-----	-----
	\$186,249	186,005
	=====	=====

Depreciation expense for the years ended October 31, 1996, 1995, and 1994 amounted to \$23,632,000, \$19,208,000 and \$14,256,000, respectively.

For financial reporting purposes, at October 31, 1996 and 1995, costs for equipment associated with specific wagering systems contracts not yet placed in service are recorded as construction in progress. When the equipment is placed in service at wagering facilities, the related costs are transferred from construction in progress to machinery and equipment.

Under wagering systems contracts, the Company retains ownership of all equipment located at wagering facilities.

(6) OTHER ASSETS AND INVESTMENTS

Other assets and investments (net) consist of the following:

	OCTOBER 31,	
	-----	-----
	1996	1995
	-----	-----
	(IN THOUSANDS)	
Software systems development costs.....	\$12,132	15,872
Deferred financing costs.....	2,056	1,943
Deferred transponder costs.....	2,531	3,656
Other intangible assets.....	921	2,143
Other assets.....	4,733	6,556
	-----	-----
	\$22,373	30,170
	=====	=====

In 1996 and 1995, the Company capitalized \$1,741,000 and \$7,355,000, respectively, of costs associated with development of its lottery software, principally its UNIBET software developed for the international market, as well as \$460,000 and \$2,380,000, respectively, of costs related primarily to video gaming and pari-mutuel terminal applications. In 1995, the Company wrote-off \$6,378,000 of capitalized costs relating primarily to lottery software and wagering terminal applications development. This write-off is included in the Company's third quarter 1995 restructuring costs. In 1994, the Company capitalized \$6,012,000 of costs primarily related to lottery and video lottery systems. Capitalized costs are amortized on a straight-line basis over a period of five years. Amortization of capitalized software systems development costs was \$5,417,000, \$4,274,000, and \$2,245,000 for the years ended October 31, 1996, 1995 and 1994, respectively.

Deferred financing costs relate to those costs associated with the procurement of long term financing by the Company. Such costs are amortized

over the life of the financing agreements. In 1996, the Company expensed

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(6) OTHER ASSETS AND INVESTMENTS--(CONTINUED)

\$650,000 of costs incurred in connection with its unsuccessful bond financing. In 1995, the Company capitalized \$405,000 incurred in connection with its 1995 financing programs and expensed \$321,000 of fees incurred during the year which had no future benefit. In 1994, the Company wrote off \$4.2 million of deferred financing fees and expenses associated with the Company's repayment of its prior senior credit facility with Heller Financial Group, Inc. Amortization expense was \$1,654,000, \$785,000 and \$534,000 for the years ended October 31, 1996, 1995 and 1994, respectively.

Deferred transponder costs arose in connection with the acquisition of IDB and are being amortized over a four year period. Amortization expense in 1996 and 1995 amounted to \$1,125,000 and \$844,000, respectively.

(7) LONG-TERM DEBT

Long-term debt consists of the following:

	OCTOBER 31,	
	-----	-----
	1996	1995
	-----	-----
	(IN THOUSANDS)	
Revolver, due February 13, 1998, interest payable as defined, (8.28% at October 31, 1996), secured by the assets of the Company.....	\$ 71,890	129,280
A and B Term Loans, due in quarterly installments through February 13, 1998, interest payable as defined, (8.28% at October 31, 1996), secured by the assets of the Company..	52,000	--
5.5% subordinated debentures due August, 2001, convertible into Class A Common Stock at \$20.00 per share, interest due semi-annually.....	40,000	40,000
Capital lease obligations, due in monthly installments through January 2000, interest rates ranging from 7.93% to 11.0%.....	1,516	1,985
Term Loan due in April 2003, interest payable at 8%.....	1,250	--
Mortgage loan due in monthly installments through April 2003, interest payable at 8%.....	890	1,033
European bank credit facility, reducing at \$100,000 per year, interest at 5.0%, secured by assets of the Company.....	317	359
European bank credit facility, reducing \$63,000 in fiscal 1997 and \$100,000 per year thereafter, interest at 8%, secured by assets of the Company.....	283	--
Term loan due in monthly installments of \$39,000, interest payable at approximately 8% secured by the equipment....	787	731
Irish Development Authority grant, due upon shut-down of plant.....	30	531
Various term loans due in installments through March 1999 at interest rates ranging from 7.33% to 13.75%.....	--	1,056
Mortgage loan transferred to buyer upon sale of sports wagering business unit.....	--	2,093
Commercial Development Revenue Bond, interest payable at approximately 8.75%, secured by buildings and improvements.....	--	126
Note payable--Video equipment vendor, payable in monthly installments through September 1999, interest payable at 11%.....	61	70
	-----	-----
Total long-term debt.....	169,024	177,264
Less current installments.....	9,234	10,772
	-----	-----
Long-term debt, excluding current installments.....	\$159,790	166,492
	=====	=====

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(7) LONG-TERM DEBT--(CONTINUED)

The Company's senior bank credit facility is governed by the Amended and Restated Credit Agreement dated January 26, 1996 (the "Senior Facility") for which Bankers Trust is agent. The Senior Facility provides for: 1) a \$55 million term loan (the "A Term Loan"), 2) a \$5 million term loan (the "B Term Loan"), and 3) a \$75 million revolving credit facility (the "Revolver"), which includes a \$25 million sublimit for letters of credit. In connection with the January 1996 amendment of the Senior Facility, the Company issued to the Banks warrants to purchase 525,000 shares of Class A Common Stock, subject to adjustments, at an exercise price of \$1.25 per share (the "1996 Lender Warrants") having an estimated fair value of approximately \$1.0 million (see Note 13). On January 29, 1997, the Company amended the Senior Facility (the "Amendment") to revise the maturity and amortization of the A and B Term Loans, the maturity of the Revolver, the borrowing rate, certain financial covenants and to revise how proceeds from asset sales reduce scheduled principal payments. The maturity of the Revolver and A Term Loan was changed to February 13, 1998 and scheduled quarterly principal payments on the A Term Loan were reduced to \$7.0 million in fiscal 1997, with the balance of \$44.0 million due in fiscal 1998. The maturity of the B Term Loan was extended to April 30, 1997 with the remaining balance of \$1.0 million due in equal installments of \$0.5 million in January 1997 and April 1997. In connection with the Amendment, the Company paid a fee of \$250,000, agreed to pay fees of up to \$3.1 million at maturity if certain additional principal repayments are not made prior to maturity of the Revolver, and to reduce the exercise price of the 1995 and 1996 Lender Warrants from \$2.98 and \$1.25 per share, respectively, to \$.01 per share if the Senior Facility is not repaid in full by December 1, 1997.

Effective with the Amendment, borrowings under the Senior Facility bear interest at the Prime lending rate plus a margin ranging from 0.75% to 2.00% depending on the timing and amount of additional principal repayments made in fiscal 1997 in excess of scheduled principal repayments. The Senior Facility permits voluntary prepayments, and requires mandatory repayments upon the occurrence of certain events and in certain amounts, including certain proceeds from assets sales, equity sales and debt raised; and 75% of annual "Excess Cashflow," as defined. A commitment fee of 0.5% per year is payable on the unused amount under the Revolver. A letter of credit fee equal to 2.75% plus a facing fee of 1/8 of 1% per year is payable on each letter of credit issued.

The Senior Facility contains various financial and other covenants, including restrictions on the Company's acquisitions, indebtedness, investments and capital expenditures, and covenants that prohibit the payment of cash dividends on the Company's stock and distributions to stockholders. In addition to customary events of default, a change of control of the Company (as defined) constitutes an event of default under the Senior Facility. The Senior Facility is guaranteed by the Company and its subsidiaries and is secured by substantially all of the assets of the Company and its subsidiaries.

During 1996, the Company amended the Senior Facility to permit the settlement of the shareholder litigation and payment of the Company's \$1.0 million obligation in connection therewith, adjusted certain financial covenants, deferred an aggregate of \$1.0 million of A Term Loan and B Term Loan payments from April 1996 until July 1996, and the sale of the Company's sports wagering business in October 1996 and application of the net sales proceeds against the A and B Term Loans.

Amounts outstanding in 1995 were governed by a credit facility with the same banks which provided the Company with a five year revolving credit facility in the amount of \$125 million to \$135 million. The Company was in violation of certain covenants under this Senior Facility at various times throughout fiscal 1994 and 1995. The Company obtained a number of amendments, waivers and consents during this period to remedy these covenant violations in exchange for specified fees paid in cash of \$1.4 million, through the issuance of warrants in September 1995 to purchase 385,000 shares of Class A Common Stock at an exercise price of \$3.00 per share

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(7) LONG-TERM DEBT--(CONTINUED)

(the "1995 Lender Warrants"), and by deferring cash payments due Debenture holders from August 1995 until February 1996 (the "1995 Letter Agreement"). The Company was also required to raise cash in fiscal 1995 through the sale of assets (\$1.2 million) and the issuance of additional equity (\$4.42 million, net, from the sale of 1.56 million shares of Class A Common Stock in accordance with the provisions of a Regulation S offering of securities).

The Company has outstanding \$40,000,000 principal amount of 5.5% convertible subordinated debentures due 2001 (the Debentures) in a private placement. The Debentures are convertible into 2,000,000 shares of Class A Common Stock at a conversion price of \$20.00 per share. \$17,500,000 of the proceeds were used to complete the Tele Control Group acquisition, \$10,000,000 of the proceeds were applied to borrowings under the Senior Facility and the remainder was used for capital expenditures and other corporate purposes.

On November 6, 1995, the Company entered into a Letter Agreement (the "1995 Letter Agreement") with holders of its 5.5% Convertible Subordinated Debentures whereby the holders agreed to accept unregistered shares of the Company's Class A Common Stock in lieu of cash for the August 1995 and February 1996 interest payments in the amount of \$1,100,000 each. The 1995 Letter Agreement provides demand and piggy-back registration rights to the Debenture holders with respect to the unregistered shares. In November 1995 and March 1996, the Company issued 422,500 and 513,869 shares of Class A Common Stock in payment of the interest due August 1995 and February 1996, respectively.

As of October 31, 1996, the Company had approximately \$19,000 available for borrowing under its Revolver, with \$3,091,000 in outstanding letters of credit and \$123,890,000 in outstanding borrowings.

The aggregate maturities of long-term debt for the next five fiscal years and thereafter are as follows: 1997, \$9,234,000; 1998, \$118,303,000; 1999, \$804,000; 2000, \$288,000; 2001, \$40,148,000; and thereafter, \$247,000.

(8) LEASES

At October 31, 1996, the Company was obligated under operating leases covering office equipment, office space, transponders and transportation equipment expiring at various dates through 2006. Future minimum lease payments required under these leasing arrangements at October 31, 1996 are as follows: 1997, \$9,957,000; 1998, \$9,941,000; 1999, \$5,474,000; 2000, \$2,011,000; 2001, \$1,013,000; and thereafter \$3,527,000. The Company also leases equipment as needed under various month-to-month lease agreements. Total rental expense under these operating leases was \$10,183,000, \$7,715,000, and \$3,211,000 in the years ended October 31, 1996, 1995 and 1994, respectively.

The Company entered into capital lease obligations of \$1,023,000, and \$587,000 during the years ended October 31, 1995 and 1994, respectively. There were no new capital leases in fiscal 1996.

(9) INCOME TAX EXPENSE (BENEFIT)

The consolidated loss before income tax expense (benefit) and extraordinary item, by domestic and foreign source, is as follows:

	YEAR ENDED OCTOBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
Domestic.....	\$(28,714)	(45,966)	(26,090)
Foreign.....	(3,038)	(1,250)	6,700
Consolidated loss before income tax expense (benefit) and extraordinary item.....	\$(31,752)	(47,216)	(19,390)
	=====	=====	=====

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(9) INCOME TAX EXPENSE (BENEFIT)--(CONTINUED)

Income tax expense (benefit) consists of:

	CURRENT	DEFERRED	TOTAL
	(IN THOUSANDS)		
1996--Foreign.....	\$ 575	1,868	2,443
	=====	=====	=====
1995--Foreign.....	\$1,819	854	2,673
	=====	=====	=====
1994--Federal.....	\$ (579)	(5,670)	(6,249)
1994--Foreign.....	106	4,681	4,787
	-----	-----	-----
	\$ (473)	(989)	(1,462)
	=====	=====	=====

Temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to significant portions of the deferred tax liability (asset) relate to the following:

	OCTOBER 31,	
	1996	1995
	(IN THOUSANDS)	
CURRENT DEFERRED TAX LIABILITY (ASSET)		
Accrued restructuring costs.....	\$ --	(1,948)
Accrued litigation costs.....	(2,690)	--
Accrued vacation.....	(666)	(685)
Inventory reserve.....	(670)	(571)
Other accrued liabilities.....	(1,240)	(1,347)
Reserve for doubtful accounts.....	(420)	(417)
	-----	-----
Current deferred tax asset.....	(5,686)	(4,968)
Accrued foreign contract reserve.....	2,833	5,116
	-----	-----
Current deferred tax liability (asset), net.....	(2,853)	148
	-----	-----
NONCURRENT DEFERRED TAX LIABILITY (ASSET)		
Intangible assets difference in amortization periods..	881	776
Property and equipment due to differences in financial reporting and tax depreciation methods.....	7,705	8,330
Other, net.....	1,351	226
Interest charge, Domestic International Sales Corp....	4,716	4,495
	-----	-----
Noncurrent deferred tax liability, net.....	14,653	13,827
	-----	-----
Net operating loss carryforward.....	(41,498)	(31,448)
Foreign tax credit carryforward.....	(474)	(759)
Alternative minimum tax credits.....	(184)	(184)
Research and experimentation credits.....	(150)	(150)
	-----	-----
Noncurrent deferred tax asset.....	(42,306)	(32,541)
Valuation allowance.....	38,181	24,373
	-----	-----
Noncurrent deferred tax asset, net.....	(4,125)	(8,168)
	-----	-----
Noncurrent deferred tax liability.....	10,528	5,659
	-----	-----
Net deferred tax liability on balance sheet.....	\$ 7,675	5,807
	=====	=====

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(9) INCOME TAX EXPENSE (BENEFIT)--(CONTINUED)

The aggregate deferred tax assets before valuation allowance at October 31, 1996, and 1995 were \$47,992,000 and \$37,509,000, respectively. The aggregate deferred tax liabilities at October 31, 1996 and 1995 were \$17,486,000 and \$18,943,000, respectively.

The actual tax expense (benefit) differs from the "expected" tax benefit (computed by applying the U.S. Federal corporate rate of 34% to loss before income taxes (benefit) and extraordinary item) as follows:

	OCTOBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
Computed "expected" tax benefit.....	\$(10,796)	(16,053)	(6,593)
Increase (reduction) in income taxes resulting from:			
Additional provision for foreign source income.....	--	--	1,754
Unused net operating loss.....	9,661	15,450	--
Valuation allowance for deferred tax assets...	--	--	384
Foreign tax differential.....	3,276	3,098	2,654
Other, net.....	302	178	339
	-----	-----	-----
	\$ 2,443	2,673	(1,462)
	=====	=====	=====

As a result of the 1994 loss and the allocation of income tax benefit to continuing operations, no deferred tax benefit remained to be allocated to the extraordinary loss or additional capital.

The Company has regular tax net operating loss carryforwards of approximately \$1,794,000 that expire in 2005, \$1,222,000 that expire in 2006, \$954,000 that expire in 2008, \$29,910,000 that expire in 2009, \$45,440,000 that expire in 2010 and \$23,885,000 that expire in 2011.

The Company has minimum tax credit carryforwards (which can be carried forward indefinitely) of approximately \$184,000, regular foreign tax credits of approximately \$474,000 and research and experimentation credit carryforwards of approximately \$150,000. Regular foreign tax credits of \$195,000 expire in 1997, and the balance of \$279,000 expire in 1998. The research and experimentation credits expire from 1997 to 2003.

The valuation allowance for deferred tax assets in the amount of \$5,894,000 was established in 1994. The net changes in the valuation allowance for the years ended October 31, 1996 and 1995 were an increase of \$13,808,000 and \$18,479,000, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Because of tax losses in recent years, no deferred tax assets have been recorded.

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of October 31, 1996 will be allocated as follows (in thousands):

Income tax benefit that would be reported in the consolidated statements of operations.....	\$35,331
Additional capital (benefit from exercise of stock options).....	2,850

	\$38,181

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(10) PENSION PLANS

The Company has a defined benefit plan for union employees. Retirement benefits under the plan are based upon the number of years of credited service up to a maximum of thirty years for the majority of the employees. The Company's policy is to fund the minimum contribution permissible by the Internal Revenue Service.

The following are the components of pension expense related to the defined benefit plan:

	1996	1995	1994
	----	----	----
	(IN THOUSANDS)		
Service cost.....	\$ 62	63	78
Interest cost on projected benefit obligation.....	89	82	81
Actual return on plan assets.....	(19)	(87)	(32)
Net amortization and deferral.....	(66)	16	(38)
	----	----	----
	\$ 66	74	89
	====	===	===

The assets and obligations of the defined benefit plan at October 31, 1996 and 1995 are as follows:

	1996	1995
	-----	-----
	(IN THOUSANDS)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$1,170,000 and \$1,112,000 at October 31, 1996 and 1995, respectively.....	\$ 1,349	1,255
	-----	-----
Projected benefit obligation for services rendered to date.....	1,349	1,272
Plan assets at fair value (invested in insurance company general accounts guaranteed as to principal).....	1,230	1,043
	-----	-----
Projected benefit obligation in excess of plan assets.....	119	229
	-----	-----
Funded status.....	(119)	(229)
Unrecognized net obligation.....	52	57
Unrecognized prior service cost.....	80	88
Unrecognized net loss.....	273	209
	-----	-----
Prepaid pension cost.....	\$ 286	125
	=====	=====

The accumulated benefit obligation represents the actuarial present value of benefits based upon the benefit multiplied by the participants' historical years of service.

The accumulated and projected benefit obligation for 1996 and 1995 were calculated using the unit credit method and reflect the following assumptions: discount rate of 7.25% in 1996 and 1995, with a 9% long-term rate of return on assets.

In connection with its collective bargaining agreements, the Company participates with other companies in a defined benefit pension plan covering union employees. Payments made to the multi-employer plan were approximately \$204,000, \$187,000, and \$313,000 during the years ended October 31, 1996, 1995 and 1994, respectively.

The Company has a 401(K) plan covering all employees who are not covered by a collective bargaining agreement. Company contributions to the plan are at the discretion of the Board of Directors. Pension expense for the years ended

October 31, 1996, 1995 and 1994 amounted to approximately \$814,000, \$839,000, and \$756,000, respectively. The Company has a 401K plan for all union employees which does not provide for Company contributions.

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(11) MANAGEMENT INCENTIVE COMPENSATION

The Company has an inactive management incentive compensation plan which is included in the accompanying financial statements net of future tax benefits. The obligations of the plan will be satisfied, upon favorable termination of employment, through the issuance of 53,250 shares of Class A Common Stock at a stated value of \$3.33 per share.

The Company also makes cash awards to key management personnel based on contractual commitments, overall profitability of the Company, as well as individual performance. Management incentive compensation expense amounted to \$439,000, \$1,157,000, and \$884,000 in 1996, 1995 and 1994, respectively.

(12) SERVICE CONTRACT ARRANGEMENTS

Service contracts for wagering systems in North America generally cover a five-year period and provide for substantial related services such as software, maintenance personnel, computer operators, and certain operating supplies. They also provide for certain warranties covering operation of the equipment, machines, display equipment, and central computing equipment. The breach of such warranties could result in significant liquidated damages. The equipment is placed at customer facilities under contracts generally providing for revenue based on the greater of a percentage of total amounts wagered or a specified minimum. The Company also has service contracts based on a percentage of total amounts wagered with no specified minimum.

Minimum annual payments expected to be received under service contracts in effect as of October 31, 1996 with specified minimums are as follows: 1997, \$14,593,000; 1998, \$12,528,000; 1999, \$9,933,000; 2000, \$7,694,000; 2001, \$4,558,000; and thereafter \$3,675,000

(13) CAPITAL STOCK

The Company has two classes of common stock consisting of Class A Common Stock and Class B Non-voting Common Stock (Class B Common Stock). All shares of Class A Common Stock and Class B Common Stock entitle holders to the same rights and privileges except that the Class B Common Stock is non-voting. Each share of Class B Common Stock is convertible into one share of Class A Common Stock.

During 1996, the Company issued 17,460 shares of Class A Common Stock in settlement of a PARS obligation (see Note 14). During 1995, the Company issued 12,000 and 15,000 shares of unregistered Class A Common Stock in exchange for early termination of a services contract and in payment for services provided to the Company related to MHSPI, respectively.

In October 1995, the Company completed a private placement of its Class A Common Stock which raised net proceeds of \$4,420,089 through the sale of 1,562,849 shares in accordance with the provisions of Regulation S. These shares have not been registered under the Securities Act of 1933 and may not be offered for sale or sold in the United States absent registration or an applicable exemption from registration requirements. The Company used the net proceeds, after deducting expenses of the offering, to repay a portion of the revolving loans outstanding under its Bank Credit Facility.

In November 1995, the Company entered into an Agreement with holders of its 5.5% Convertible Subordinated Debentures whereby the holders would receive unregistered shares of Class A Common Stock in lieu of cash for interest payments due in August 1995 and February 1996 in the amount of \$1,100,000 each. Accordingly, the Company issued 422,500 shares in November 1995 and 513,869 shares in March 1996 (see Note 7).

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(13) CAPITAL STOCK--(CONTINUED)

Warrants

At October 31, 1996, the Company had the following warrants outstanding, including adjustments made in accordance with certain anti-dilution provisions:

	NUMBER OF SHARES	EXERCISE PRICE	EXPIRATION
	-----	-----	-----
Warrants to purchase Class A Common Stock:			
1991 Warrants.....	2,307,400	\$1.64	October 31, 1999
1995 Warrants.....	387,317	\$2.98	April 30, 2000
1996 Warrants.....	525,000	\$1.25	April 20, 1998

Total Class A Common Stock Warrants.....	3,219,717		
	=====		
Warrants to purchase Class B Common Stock.....	146,793	\$3.83	October 30, 2003
	=====		

In connection with the January 29, 1997 amendment of the Senior Facility, the Company agreed to reduce the exercise price of the 1995 and 1996 Lender Warrants from \$2.98 and \$1.25 per share, respectively, to \$.01 per share if the Senior Facility is not repaid in full by December 1, 1997 (see Note 7).

(14) STOCK OPTIONS

The Company has three stock option plans under which shares of Class A Common Stock have been authorized and are reserved for issuance to employees, officers and directors: the 1984 Stock Option Plan (the "1984 Plan")--1,350,000 shares; the 1992 Equity Incentive Plan (the "1992 Plan")--3,000,000 shares; and the 1995 Equity Incentive Plan (the "1995 Plan")--2,000,000 shares.

In May 1995, the Company offered holders of stock options with exercise prices above market value as of May 26, 1995 the right to cancel such options in exchange for Performance Accelerated Restricted Stock Units (the "PARS"). The PARS represent deferred shares of Class A Common Stock which vest in 20% increments on the sixth, seventh, eighth, ninth and tenth anniversaries, or, in certain circumstances, on an accelerated basis based on the Company's stock being traded at certain per share prices, or at the discretion of the Board of Directors. Options to purchase 1,976,500 shares were exchanged for 503,610 PARS. Additionally, a total of 50,000 and 110,000 deferred shares with a three year vesting schedule were issued to certain non-employee directors under the 1992 Plan ("Deferred Stock") in fiscal 1996 and 1995, respectively. In accordance with the award of PARS and Deferred Stock, the Company has recorded compensation expense of \$346,000 and \$166,000 in 1996 and 1995, respectively. Additional compensation expense totaling \$1,851,000 will be charged to expense through 2005.

Options granted under the Company's equity incentive plans are exercisable at the fair market value of the stock at the date of grant. From time to time, the Company grants additional stock options to individuals outside of the 1992 and 1995 Plans in recognition of contributions made to the Company.

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(14) STOCK OPTIONS--(CONTINUED)

Information with respect to the Company's stock options are as follows:

STOCK OPTIONS -----	NUMBER OF SHARES	PRICE RANGE -----
Outstanding at October 31, 1993.....	3,750,205	
Granted.....	891,400	\$15.75-\$22.00
Canceled.....	3,800	\$15.75
Exercised.....	428,503	\$1.59-\$13.50

Outstanding at October 31, 1994.....	4,209,302	
Granted.....	634,000	\$3.19-\$15.00
Canceled.....	156,100	\$4.84-\$26.25
Exchanged.....	1,887,200	\$4.84-\$26.25
Exercised.....	168,999	\$1.59-\$ 4.84

Outstanding at October 31, 1995.....	2,631,003	
Granted.....	2,319,500	\$1.19-\$ 3.50
Canceled.....	1,143,365	\$2.88-\$21.00
Exchanged.....	89,300	\$6.00-\$17.25

Outstanding at October 31, 1996.....	3,717,838	=====

At October 31, 1996, 1,949,903 options to acquire shares of Class A Common Stock were exercisable. Outstanding options expire prior to October 21, 2006, and are exercisable at prices ranging from \$1.19 to \$17.00 per share.

(15) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined by reference to market data and other valuation techniques as appropriate. The Company believes the fair value of its financial instruments, principally accounts receivable, accounts payable, and accrued liabilities, except for its long-term debt, and subordinated debentures, approximates their recorded values.

With respect to the Company's senior bank credit facility, the Company is unable to determine the fair value of this instrument. Similarly, the Company is unable to obtain an independent appraisal of the fair market value of its subordinated debentures.

(16) LITIGATION

In addition to routine legal proceedings incidental to the conduct of its business, the Company and certain of its officers and directors were named as defendants in a number of lawsuits commenced in February 1995 as class actions in the United States District Court for the District of Delaware. These lawsuits were consolidated into one class action in June 1995. The parties entered into a definitive Stipulation and Agreement of Settlement dated July 19, 1996 (the "Settlement Agreement") related to these claims.

The Settlement Agreement was finalized on December 24, 1996, at which time the Company paid \$7.5 million in cash plus 2,963,590 shares of Class A Common Stock which had an aggregate value of \$3.5 million based on the average price of the Company's Class A Common Stock for 10 trading days preceding the final hearing in the District Court. Insurance companies providing directors and officers insurance contributed approximately \$6.5 million of the cash portion of the settlement (with \$1.25 million of that amount in the form of a loan to the Company, with the payment terms subject to negotiation).

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(16) LITIGATION--(CONTINUED)

The Company accrued a charge of \$6.8 million against earnings for the quarter ended January 31, 1996 to reflect the then expected settlement and anticipated legal fees. There will be no further charges against earnings as a result of the Settlement Agreement.

(17) EXPORT SALES AND MAJOR CUSTOMERS

Sales to foreign customers amounted to \$11,119,000, \$9,860,000, and \$6,073,000 in 1996, 1995 and 1994, respectively. A single customer represented \$27,290,000 of fiscal 1994 revenues.

(18) ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	OCTOBER 31,	
	-----	-----
	1996	1995

	(IN THOUSANDS)	
Compensation and benefits.....	\$ 6,600	7,944
Taxes, other than income.....	1,367	1,295
Customer advances on sales contracts.....	306	743
Warranty reserves.....	454	1,320
Interest.....	647	2,069
Restructuring costs.....	--	2,510
Other.....	10,683	7,902
	-----	-----
	\$20,057	23,783
	=====	=====

(19) SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for the years ended October 31, 1996 and 1995 is as follows:

	YEAR ENDED OCTOBER 31, 1996			
	-----	-----	-----	-----
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER

	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Total operating revenues....	\$ 43,306	45,741	41,828	45,360
Gross profit.....	15,761	16,075	15,941	16,852
Net loss.....	(13,801)	(5,894)	(7,804)	(6,696)
Loss per common share.....	\$ (0.45)	(0.19)	(0.25)	(0.20)
	=====	=====	=====	=====
Weighted average shares outstanding.....	30,905	31,373	31,459	31,474
	=====	=====	=====	=====
	YEAR ENDED OCTOBER 31, 1995			
	-----	-----	-----	-----
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER

	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Total operating revenues....	\$ 31,117	37,132	38,722	46,213
Gross profit.....	12,874	14,960	13,770	17,350
Net loss.....	(5,931)	(8,958)	(29,246)	(5,754)
Loss per common share.....	\$ (0.21)	(0.31)	(1.01)	(0.20)
	=====	=====	=====	=====
Weighted average shares outstanding.....	28,810	28,913	28,928	29,201

=====

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(20) BUSINESS AND GEOGRAPHIC SEGMENTS

The following tables represent revenues, profits, depreciation and assets by business and geographic segments for the years ended October 31, 1996, 1995 and 1994. Corporate expenses are allocated among industry and geographic segments.

	YEAR ENDED OCTOBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
BUSINESS SEGMENTS			
Service revenue and product sales			
Pari-mutuel/sports betting.....	\$128,439	127,336	92,888
Lottery operations.....	47,796	25,848	56,162
	=====	=====	=====
	\$176,235	153,184	149,050
Operating income (loss)			
Pari-mutuel/sports betting.....	\$(10,293)	(19,412)	(18,887)
Lottery operations.....	1,865	(11,878)	4,953
	=====	=====	=====
	\$ (8,428)	(31,290)	(13,934)
Depreciation and amortization			
Pari-mutuel/sports betting.....	\$ 31,068	26,861	18,351
Lottery operations.....	9,785	8,602	7,067
	=====	=====	=====
	\$ 40,853	35,463	25,418
Assets			
Pari-mutuel/sports betting.....	\$152,868	188,220	195,559
Lottery operations.....	43,925	52,801	46,038
	=====	=====	=====
	\$196,793	241,021	241,597
Capital expenditures and expenditures for equipment under wagering systems contracts			
Pari-mutuel/sports betting.....	\$ 8,135	14,723	57,954
Lottery operations.....	1,106	3,417	1,511
	=====	=====	=====
	\$ 9,241	18,140	59,465

AUTOTOTE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

(20) BUSINESS AND GEOGRAPHIC SEGMENTS--(CONTINUED)

	YEAR ENDED OCTOBER 31,		
	1996	1995	1994
	(IN THOUSANDS)		
GEOGRAPHIC SEGMENTS			
Service revenue and product sales			
North America.....	\$120,589	114,943	91,915
Europe.....	49,656	34,227	50,350
Asia.....	5,990	4,014	6,785
	-----	-----	-----
	\$176,235	153,184	149,050
	=====	=====	=====
Operating income (loss)			
North America.....	\$ (6,373)	(25,960)	(20,515)
Europe.....	(1,573)	(4,500)	4,389
Asia.....	(482)	(830)	2,192
	-----	-----	-----
	\$ (8,428)	(31,290)	(13,934)
	=====	=====	=====
Depreciation and amortization			
North America.....	\$ 32,195	27,296	19,653
Europe.....	8,658	8,167	5,715
Asia.....	--	--	50
	-----	-----	-----
	\$ 40,853	35,463	25,418
	=====	=====	=====
Assets			
North America.....	\$146,929	180,637	196,232
Europe.....	49,864	60,384	45,365
Asia.....	--	--	--
	-----	-----	-----
	\$196,793	241,021	241,597
	=====	=====	=====
Capital expenditures and expenditures for equipment under wagering systems contracts			
North America.....	\$ 8,518	15,798	57,460
Europe.....	723	2,342	2,005
Asia.....	--	--	--
	-----	-----	-----
	\$ 9,241	18,140	59,465
	=====	=====	=====

(21) EUROPEAN LOTTERY BUSINESS

On January 14, 1997, the Company signed a letter of intent to sell its European lottery business for a price estimated to be between \$25 million and \$30 million, determined pursuant to a formula. Consummation of the proposed sale is subject to execution of a definitive purchase agreement and related documents and to satisfaction of certain customary conditions, including certain third party consents. This sale will not affect the Company's domestic lottery activity nor its other international lottery customers not served by the European lottery business. If consummated as presently contemplated, the Company expects to recover the carrying value of the business.

AUTOTOTE CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

THREE YEARS ENDED OCTOBER 31, 1996
(IN THOUSANDS)

	ADDITIONS				BALANCE AT END OF PERIOD
	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS(1)	DEDUCTIONS(2)	
YEAR ENDED OCTOBER 31, 1994					
Allowance for doubtful accounts.....	\$ 974	625	--	1,101	498
YEAR ENDED OCTOBER 31, 1995					
Allowance for doubtful accounts.....	\$ 498	1,372	169	360	1,679
YEAR ENDED OCTOBER 31, 1996					
Allowance for doubtful accounts.....	\$1,679	1,392	--	1,018	2,053

(1) Amounts related to acquired companies

(2) Amounts written off

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE MATTERS

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See "Executive Officers and Directors of the Company" in Part I of this Annual Report.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under the securities laws of the United States, the Company's directors, its officers, and any persons holding more than ten percent of the Company's Class A Common Stock are required to report certain information including ownership or changes in ownership of the Company's Class A Common Stock to the Securities and Exchange Commission. Specific due dates for these reports have been established and the Company is required to report in this Annual Report any failure to file these reports by these dates during fiscal year 1996. The following filings were not made on a timely basis in fiscal 1996: On January 22, 1997, Gerald Lawrence filed a Form 5 with respect to stock options he was granted on November 1, 1995, December 14, 1995 and March 22, 1996. On January 22, 1997, DeWayne E. Laird filed a Form 3 in connection with his becoming an officer of the Company. On January 22, 1997, A. Lorne Weil and Martin A. Schloss each filed an amended Form 5 with respect to stock options Mr. Weil received on December 14, 1995 and Mr. Schloss received on November 1, 1995 and December 14, 1995, respectively. On January 24, 1997, Robert C. Becker filed a Form 3 in connection with his becoming an officer of the Company. In making these statements, the Company has primarily relied on copies of the reports that the directors, officers, and 10% holders have filed with the SEC.

ITEM 11. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

The following table shows the compensation paid by the Company for services rendered for fiscal 1994, 1995 and 1996 to the chief executive officer and the four highest paid executive officers of the Company who received more than \$100,000 in salary and bonuses during fiscal 1996 and who served as executive officers during fiscal 1996 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

(A) ---	ANNUAL COMPENSATION(1) -----			LONG TERM COMPENSATION AWARDS -----		
	(B) ---	(C) ---	(D) ---	(F) ---	(G) ---	(I) ---
NAME AND PRINCIPAL POSITION AT FISCAL YEAR-END	YEAR	SALARY (\$)	BONUS (\$)	RESTRICTED STOCK AWARD (\$)(9)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION (\$)
-----	-----	-----	-----	-----	-----	-----
A. Lorne Weil.....	1996	441,400	--	--	273,000	17,200(6)
Chief Executive Officer	1995	408,800	--	534,001(3)	--	12,700(7)
	1994	408,800	--	--	--	13,500(8)
William Luke.....	1996	168,300	--	--	150,000	--
Chief Financial Officer						
Martin E. Schloss.....	1996	195,700	--	--	100,000	7,500(6)
Vice President, General	1995	175,000	13,000	70,272(4)	--	7,600(7)
Counsel and Secretary	1994	135,600	115,000(2)	--	65,000(4)	6,200(8)
Gerald Lawrence.....	1996	219,300	--	--	150,000	11,100(6)
Vice President	1995	184,600	50,000	137,000(5)	100,000(5)	--

- (1) Amounts shown include cash and non-cash compensation earned by the Named Executive Officers.
- (2) Consists of fiscal 1994 bonus of \$60,000 and special bonus of \$55,000 to recognize contributions to the Company's longer-term strategic goals. These bonuses were initially payable in three equal installments in 1995, 1996 and 1997 as long as Mr. Schloss is employed by the Company. However, the Compensation Committee of the Board decided to pay out the second and third installments in 1996.
- (3) On May 25, 1995, Mr. Weil exchanged options received in 1993 to purchase 600,000 shares of Class A Common Stock, constituting all of his options having exercise prices in excess of \$4.13 per share (the average of the bid and asked trading prices of the Class A Common Stock on May 25, 1995) ("Underwater Options"), for an award under the Company's 1992 Equity Incentive Plan of 129,298 deferred shares of Class A Common Stock ("Deferred Shares") which will be issued in the future subject to vesting provisions relating to a lengthy period of future service with the Company or the achievement of certain performance goals for the Company as measured by the price of Class A Common Stock.
- (4) On May 25, 1995, Mr. Schloss exchanged all of his Underwater Options, constituting options to purchase 65,000 shares of Class A Common Stock, for an award of 17,015 Deferred Shares under the Company's 1992 Equity Incentive Plan. The vesting of such Deferred Shares will require either a lengthy period of future service or the achievement of certain performance goals for the Company as measured by the price of the Class A Common Stock.
- (5) On May 25, 1995, Mr. G. Lawrence exchanged all of his Underwater Options, constituting options to purchase 100,000 shares of Class A Common Stock, for an award of 33,172 Deferred Shares under the Company's 1992 Equity Incentive Plan. The vesting of such Deferred Shares will require either a lengthy period of future service or the achievement of certain performance goals for the Company as measured by the price of the Class A Common Stock.
- (6) Amounts of All Other Compensation for fiscal 1996 include the following:
 (i) Contributions to the Company's defined contribution retirement plan for salaried employees: Mr. Weil, \$7,500; Mr. Schloss, \$7,500; Mr. G. Lawrence, \$7,500.

- (ii) Life insurance coverage: Mr. Weil \$9,700.
- (iii) Automobile allowance: Mr. G. Lawrence \$3,600.
- (7) Amounts of All Other Compensation for fiscal 1995 include the following:
 - (i) Contributions to the Company's defined contribution retirement plan for salaried employees: Mr. Weil, \$7,500; Mr. Schloss, \$7,500.
 - (ii) Life insurance coverage: Mr. Weil \$5,200; Mr. Schloss, \$100.
- (8) Amounts of All Other Compensation for fiscal 1994 include the following:
 - (i) Contributions to the Company's defined contribution retirement plan for salaried employees: Mr. Weil, \$7,500; Mr. Schloss, \$5,800.
 - (ii) Life insurance coverage: Mr. Weil, \$6,000; Mr. Schloss, \$400.
- (9) The number and value of the aggregate restricted stock holdings at October 31, 1996, is as follows:
 - (i) Number of shares: Mr. Weil, 129,298; Mr. Schloss, 17,015; Mr. G. Lawrence, 33,172.
 - (ii) Value of shares: Mr. Weil, \$169,704; Mr. Schloss, \$22,332; Mr. G. Lawrence, \$43,538.
 - (iii) In the event the Company declares a dividend on the Class A Common Stock, the restricted stocks listed above would receive dividend(s).

The table below sets forth information with respect to stock options granted to the Named Executive Officers for fiscal 1996.

OPTIONS GRANTED IN LAST FISCAL YEAR

(A)	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM	
	(B)	(C)	(D)	(E)	(F)	(G)
NAME	NUMBER OF UNDERLYING OPTIONS GRANTED(1) (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SH)	EXPIRATION DATE	5% (\$)	10% (\$)
A. Lorne Weil.....	273,000	12.26%	\$ 3.00	Dec-14-05	\$515,065	\$1,305,275
William Luke.....	150,000	6.73%	\$3.0625	Feb-26-06	\$288,898	\$ 732,125
Martin E. Schloss.....	50,000	2.24%	\$2.8750	Nov-01-05	\$ 90,404	\$ 229,100
Martin E. Schloss.....	50,000	2.24%	\$ 3.00	Dec-14-05	\$ 94,334	\$ 239,061
Gerald Lawrence.....	75,000	3.37%	\$2.8750	Nov-01-05	\$135,605	\$ 343,651
Gerald Lawrence.....	50,000	2.24%	\$ 3.00	Dec-14-05	\$ 94,334	\$ 239,061
Gerald Lawrence.....	25,000	1.12%	\$3.3750	Mar-22-06	\$ 53,063	\$ 134,472

(1) All options were granted under the Company's 1992 Equity Incentive Plan. Options become exercisable in four equal installments on the first, second, third and fourth anniversaries of the date of grant. The options may, subject to certain requirements, be exercised through the delivery of cash and/or Class A Common Stock. The options permit the optionee to request that the Company withhold shares sufficient to satisfy withholding tax requirements. The options are not transferable otherwise than by will or the laws of descent and distribution, in which case, and in the case of disability, they are exercisable for the following 12 months or the term of the option, whichever is shorter, for the full number of shares the optionee was entitled to purchase at the time of his death or disability. In the event of a termination of employment by the Company other than for cause or death or disability, an optionee has the right to exercise his option at any time within the three months following such termination or the term of the option, whichever is shorter, for the full number of shares he was entitled to purchase at the time of termination. In the event of termination for cause, the options shall be terminated.

The table below sets forth information for the Named Executive Officers with respect to fiscal 1996 year-end option values.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR, AND FY-END OPTION VALUE

(A)	(B)	(C)	(D)	(E)
NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED(\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT OCT. 31, 1996(#) EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT OCT. 31, 1996(\$) EXERCISABLE/ UNEXERCISABLE
A. Lorne Weil.....	0	0	1,193,250/204,750	\$0/0
William Luke.....	0	0	0/150,000	0/0
Martin E. Schloss...	0	0	65,000/75,000	0/0
Gerald Lawrence.....	0	0	31,250/118,750	0/0

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 1996 the Compensation Committee of the Board consisted of Marshall Bartlett, Larry J. Lawrence and Alan J. Zakon.

The Company has a Senior Facility with Bankers Trust Company, a company of which Alan J. Zakon, a director of the Company, was a managing director from 1989 until April 1995.

From June 1994 until June 1995, Mr. Bartlett had a consulting arrangement with the Company whereby he received \$100,000 of which \$41,667 was paid for consulting services in fiscal 1994, with the balance paid in fiscal 1995.

CERTAIN ARRANGEMENTS BETWEEN THE COMPANY AND ITS DIRECTORS AND OFFICERS

Employee Agreements

Effective November 1, 1992, the Company and Mr. Weil entered into a five-year employment agreement (the "Employment Agreement") that provides for a base salary of \$400,000, subject to annual increases in accordance with the Consumer Price Index, a performance bonus of 25% of base salary if the Company meets its budgeted earnings per share, an additional performance bonus based on excess earnings per share, not to exceed an additional 25% of base salary, and a performance bonus of up to 50% of base salary at the discretion of the Board of Directors. If the Company terminates Mr. Weil's employment under the Employment Agreement other than for cause, Mr. Weil is entitled to collect his base salary for twelve months following such termination, plus a portion of the annual earnings per share-based performance bonuses. In connection with the Employment Agreement, Mr. Weil received a five-year option to purchase 600,000 shares of Class A Common Stock of the Company at an exercise price of \$3.50 per share. The option originally was exercisable in three equal annual installments on November 1, 1993, November 1, 1994 and November 1, 1995. In August 1993, the Compensation Committee accelerated the vesting period of the option such that the option became exercisable in full.

On November 14, 1994, the Company and Mr. Gerald Lawrence entered into a one-year employment agreement (the "Lawrence Employment Agreement") to employ Mr. Lawrence as Vice President in charge of North American Pari-mutuel Operations. The Lawrence Employment Agreement provides for a base salary of \$200,000 and a performance bonus of up to 45% of the base salary. For fiscal 1995, Mr. Lawrence is guaranteed a minimum bonus of \$50,000. In connection with the Lawrence Employment Agreement, Mr. Lawrence received a five-year option to purchase 100,000 shares of Class A Common Stock of the Company at a price of \$15.00

per share, which option is exercisable in three equal installments. On May 25, 1995, Mr. Lawrence exchanged such stock option for an award of 33,172 Deferred Shares under the Company's 1992 Equity Incentive Plan. The vesting of such Deferred Shares will require either a lengthy period of future service or the achievement of certain performance goals for the Company as measured by the price of the Class A Common Stock. In the event that the Company terminates Mr. Lawrence's employment other than for cause, Mr. Lawrence is entitled to receive his base salary for twelve months following such termination.

By letter, dated January 3, 1995, the Company confirmed to Mr. Martin Schloss that in the event the Company terminates Mr. Schloss' employment, he will be entitled to receive severance pay, at the time of such termination, of not less than one year base salary plus all accrued but unpaid bonus installments earned by him, and Mr. Schloss will retain all unexercised options to purchase Class A Common Stock held by him at the time of such termination, which options will remain exercisable in accordance with their terms.

On February 22, 1996, the Company and Mr. William Luke entered into an employment agreement (the "Luke Employment Agreement") to employ Mr. Luke as Vice President and Chief Financial Officer. The Luke Employment Agreement provides for a base salary of \$250,000 and a performance bonus of up to 45% of the base salary. In connection with the Luke Employment Agreement, Mr. Luke received a ten-year option to purchase 150,000 shares of Class A Common Stock of the Company at a price of \$3.0625 per share, which option is exercisable in three equal installments. In the event that the Company terminates Mr. Luke's employment other than for cause, prior to the first anniversary of his employment, Mr. Luke is entitled to receive his base salary for six months, and thereafter, one year salary, following such termination.

Directors' Compensation

Effective as of May 25, 1995, each director who is not an employee of the Company is paid an annual retainer of \$20,000, as well as \$1,000 plus expenses for each Board meeting attended, \$1,000 plus expenses for each committee meeting attended in person and held on a day other than on which a Board meeting is held and \$500 plus expenses for each committee meeting attended held on the same day as a Board meeting or by telephone. Members of the Executive Committee do not receive fees for attending meetings thereof. In lieu of the foregoing compensation, Thomas H. Lee Company, of which Mr. Lee is president, receives \$5,000 per month for his services as a director.

In May 1995, Mr. Bartlett, Sir Brian Wolfson and Mr. Zakon each received an award of 10,000 shares of Class A Common Stock issuable in the future ("Non-Employee Director Deferred Stock"), and each of Sir Brian Wolfson and Mr. Zakon received a one time award of 40,000 shares of Non-Employee Director Deferred Stock. The shares of Non-Employee Director Deferred Stock were awarded under the Company's 1992 Equity Incentive Plan and vest, on a cumulative basis, as to one-third of the shares of Non-Employee Director Deferred Stock on each of the first three anniversaries of the date of grant or in full if the non-employee director ceases to serve as a director as a result of death, disability, retirement at or after the age of 65, or the failure to be renominated or reelected, or in the event of a consolidation or merger of the Company or a sale of substantially all of the Company's assets.

From June 1994 until June 1995, Mr. Bartlett had a consulting arrangement with the Company whereby he received \$100,000 of which \$41,667 was paid for consulting services in fiscal 1994.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

SECURITY OWNERSHIP

The following table sets forth certain information as of October 31, 1996 as to the security ownership of those persons owning of record or known to the Company to be the beneficial owners of more than five percent of the outstanding Class A Common Stock of the Company, each of the Company's directors and Named Executive Officers and the Company's executive officers and directors as a group. Except as otherwise indicated, the stockholders listed on the table have sole voting and investment power with respect to the shares indicated. Share figures reflect (i) a three-for-two stock split in the form of a stock dividend of one share of Class A Common Stock for every two shares outstanding paid on June 30, 1993 and (ii) a two-for-one stock split in the form of a stock dividend of one share of Class A Common Stock for each share outstanding paid on October 25, 1993.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1) -----	PERCENT OF CLASS A COMMON STOCK(1) -----
Thomas H. Lee.....	4,033,737(8)	12.60%
State of Wisconsin Investment Board..... P.O. Box 7842 Madison, WI 53707	2,810,500(4)	8.93%
A. Lorne Weil.....	2,496,392(5)	7.51%
Larry J. Lawrence.....	2,431,207(7)	7.48%
Oak Tree Management, LLC..... 550 South Hope Street Los Angeles, CA 90071	2,000,000(3)	5.97%
Lawrence, Tyrrell, Ortale & Smith..... 515 Madison Avenue New York, New York 10022	1,886,245(2)	5.81%
Martin E. Schloss.....	80,000(12)	*
Alan J. Zakon.....	63,667(10)	*
Marshall Bartlett.....	33,333(6)	*
Sir Brian Wolfson.....	61,667(9)	*
Gerald Lawrence.....	32,250(11)	*
All Directors and Executive Officers as a group (9 people)(5)(6)(7)(8)(9)(10)(11)(12)(13)..	9,232,253	26.31%

* Less than 1%.

- (1) For purposes of determining beneficial ownership of the Company's Class A Common Stock, owners of Class A warrants and options exercisable within sixty days are considered to be the beneficial owners of the shares of Class A Common Stock into which such securities are convertible or for which such securities are exercisable. The percentage ownership of the outstanding Class A Common Stock reported herein is based on the assumption (expressly required by the applicable rules of the Securities and Exchange Commission) that only the person whose ownership is being reported has exercised his warrants or options for Class A Common Stock.
- (2) Includes 983,762 warrants exercisable within 60 days owned by Lawrence, Tyrrell, Ortale & Smith.
- (3) Represents shares of Class A Common Stock issuable upon conversion of \$40,000,000 of Debentures due 2001 convertible within 60 days owned by Oak Tree Management, LLC.
- (4) Based on a Schedule 13F filed with the Securities and Exchange Commission on September 30, 1996, the State of Wisconsin Investment Board holds 2,810,500 shares of Class A Common Stock.

- (5) Includes shares held in the name of Lorne Weil 1989 Trust of which Mr. Weil is Trustee. Also includes shares of Class A Common Stock warrants to purchase 588,870 shares of Class A Common Stock exercisable within 60 days owned by Mr. Weil, some of which are held in the name of Lorne Weil 1989 Trust, and options to purchase 1,193,250 shares of Class A Common Stock exercisable within 60 days by Mr. Weil. Mr. Weil's address is c/o the Company. See "Management--Employment Agreements." Effective March 25, 1994, Mr. Weil entered into a swap transaction (the "Swap") with BT in respect of 500,000 shares of the Class A Common Stock of the Company held by him (the "Swap Shares"). Mr. Weil continues to hold sole voting power over the Swap Shares which serve as collateral for the Swap transaction; however, Mr. Weil may substitute other collateral for the Swap Shares. Under the Swap arrangement (i) Mr. Weil is obligated to pay BT (a) at the end of each quarter during the five (5) year term of the Swap (the "Term") the amount of any dividends declared during such quarter on the Swap and (b) at the end of the Term, any appreciation during the Term in the price of the Swap Shares above \$26.7769 per share, (ii) BT is obligated to pay Mr. Weil (x) at the end of each quarter during the Term, the amount equal to the three (3) month London Interbank Offered Rate less 2.125% of the Calculation Amount (as defined in the Swap documents) of \$13,388,500, and (y) at the end of the Term, an amount equal to any depreciation during the Term, in the price of the Swap Shares below \$26.7769 per share. Mr. Weil will pay BT an annual fee in consideration of its entering into the Swap. The Swap is for a five (5) year period, but will terminate if Mr. Weil dies or if certain other events occur during such period.
- (6) Represents shares issuable upon exercise of options to purchase 30,000 shares of Class A Common Stock exercisable within 60 days and 3,333 shares of Class A Common Stock issuable within 60 days under the Deferred Stock plan. Mr. Bartlett's address is c/o the Company.
- (7) Includes 902,483 shares and warrants to purchase 983,762 shares of Class A Common Stock exercisable within 60 days held by the partnership of Lawrence, Tyrrell, Ortale & Smith (see footnote 2) and warrants to purchase 42,533 shares of Class A Common Stock exercisable within 60 days owned by Mr. Lawrence. Mr. Lawrence is a general partner of Lawrence Venture Partners, the sole general partner of such partnership. Mr. Lawrence's address is c/o the Company.
- (8) Includes warrants to purchase 552,381 shares of Class A Common Stock exercisable within 60 days and 1,535,100 shares owned by the 1989 Thomas H. Lee Nominee Trust and 1,946,256 shares owned by Thomas H. Lee Equity Partners, L.P., which are deemed to be beneficially owned by Mr. Lee. Mr. Lee is a general partner of THL Equity Advisors Limited Partnership, which is general partner of Thomas H. Lee Equity Partners, L.P. Mr. Lee's address is c/o the Company.
- (9) Includes shares issuable upon exercise of options to purchase 45,000 shares of Class A Common Stock within 60 days and 16,667 shares of Class A Common Stock issuable within 60 days under the Deferred Stock plan. Mr. Wolfson's address is c/o the Company.
- (10) Includes shares issuable upon exercise of options to purchase 45,000 shares of Class A Common Stock exercisable within 60 days and 16,667 shares of Class A Common Stock issuable within 60 days under the Deferred Stock plan. Mr. Zakon's address is c/o the Company.
- (11) Includes options to purchase 31,250 shares of Class A Common Stock exercisable within 60 days owned by Mr. Gerald Lawrence. Mr. Lawrence's address is c/o the Company.
- (12) Includes options to purchase 65,000 shares of Class A Common Stock exercisable within 60 days owned by Mr. Schloss. Mr. Schloss' address is c/o the Company.
- (13) Includes warrants to purchase 2,167,546 shares of Class A Common Stock, options to purchase 1,409,500 shares of Class A Common Stock exercisable within 60 days and 36,667 shares of Class A Common Stock issuable within 60 days under the Deferred Stock plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has its Senior Facility with BT, a company of which Alan J. Zakon, a director of the Company, was a managing director from 1989 until April 1995.

The Company has a service contract with Lincoln Greyhound Racetrack, a facility owned by Wembley plc, a United Kingdom corporation of which Sir Brian Wolfson, a director of the Company, was deputy chairman until September 1995.

From June 1994 until June 1995, Mr. Bartlett had a consulting arrangement with the Company whereby he received \$100,000 of which \$41,667 was paid for consulting services in fiscal 1994.

The Company believes that all of these transactions were on terms no less favorable than could have been obtained from unaffiliated third parties.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)1. Financial Statements--See Index to Consolidated Financial Statements attached hereto, Page 23.

2. Financial Statements Schedule--See Index to Consolidated Financial Statements attached hereto, Page 23.

Exhibits--The following is a list of exhibits:

EXHIBIT NUMBER -----	DESCRIPTION -----
3.1	Certificate of Incorporation of the Company, as amended through June 29, 1995.(8)
3.2	Bylaws of the Company.(1)
4.1	Certificate representing share of Class A Common Stock of the Company.(1)
10.1	1984 Stock Option Plan, as amended.(1)*
10.2	Form of Option dated March 3, 1992 issued to A. Lorne Weil.(2)*
10.3	Form of Option dated December 13, 1991 issued to Marshall Bartlett.(2)*
10.4	Employment Agreement dated November 1, 1992, of A. Lorne Weil and Autotote Corporation.(2)*
10.5	Employment Agreement dated July 18, 1994 between the Company and Marvin H. Sugarman.(7)*
10.6	Employment Agreement between Gerald Lawrence and the Company dated November 14, 1994.(7)*
10.7	Stock Purchase Agreement dated July 15, 1994 among the Company, Marvin H. Sugarman, Robert Melican, Racing Technology, Inc. and Marvin H. Sugarman Productions, Inc.(7)
10.8	Asset Purchase Agreement dated January 12, 1995 between Autotote Communication Services, Inc. and IDB Communications Group Inc.(7)
10.9	Purchase Agreement dated October 14, 1994 between Autotote Corporation, Yves Alexandre, Marie A. Alexandre and Frederic Alexandre. (English summary attached to French original.)(7)
10.10	1992 Equity Incentive Plan, as amended.(9)
10.11	Purchase Agreement among the Company, Autotote Enterprises, Inc., and the State of Connecticut, Division of Special Revenue, dated June 30, 1993.(5)
10.12	Stock Purchase Agreement between the Company and General Instrument Corporation dated May 18, 1993.(4)
10.13	Purchase and Sale Agreement between the Company and Sven Eriksson dated May 27, 1993.(4)
10.14	Agreement among ETAG Electronic Totalisator AG, Gerhard Harwalik, Peter Freudenschuss, Peter Tinkl and Manfred Harwalik dated July 27, 1993.(6)
10.15	Purchase Agreement among certain purchasers and Autotote Corporation dated August 13, 1993.(6)
10.16	1995 Equity Incentive Plan.(13)
10.17	1992 Equity Incentive Plan, as amended and restated.(3)
10.18	Registration Rights Agreement, dated as of November 6, 1995, between the Registrant and Hartford Stock Fund and Hartford Advisers Fund (the "Fund"), dated as of November 6, 1995, between the Registrant and Funds.(9)
10.19	Interest Agreement, dated as of November 6, 1995, between the Registrant and the Funds.(9)
10.20	Letter Agreement, dated January 3, 1995, between the Registrant and Martin E. Schloss.(9)*
10.21	Agreement of Purchase and Sale, dated January 19, 1996, between Autotote Systems, Inc. and Fusco Properties, L.P. ("Fusco").(10)
10.22	Lease Agreement, dated as of January 19, 1996, between Fusco and Autotote Systems, Inc.(10)

EXHIBIT
NUMBER

DESCRIPTION

-
- | EXHIBIT NUMBER | DESCRIPTION |
|----------------|--|
| 10.23 | Amended and Restated Credit Agreement, dated as of January 26, 1996 among the Registrant, Bankers Trust Company and other lenders.(10) |
| 10.24 | Employment Agreement, dated February 22, 1996, between the Registrant and William Luke.(11)* |
| 10.25 | Promissory Note dated May 13, 1996 between Registrant and A. Lorne Weil.(12) |
| 21 | List of Subsidiaries. |
| 23 | Consent of KPMG Peat Marwick LLP. |
| 28.1 | Order and Final Judgment of the United States District Court for the District of Delaware dated October 22, 1996, Amendment to Amended Stipulation and Agreement of Settlement, dated November 7, 1996, and Amended Stipulation and Agreement of Settlement dated July 19, 1996. |
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- (*) Includes management contracts and compensation plans and arrangements.
- (1) Incorporated by reference to the Company's Registration Statement on Form S-8 (Registration No. 33-46594) which became effective March 20, 1992.
 - (2) Incorporated by reference to the Company's Form 10-K for the fiscal year ended October 31, 1992.
 - (3) Incorporated by reference to the Company's Registration Statement on Form S-2 (Registration Statement No. 33-57930) which became effective on April 1, 1993.
 - (4) Incorporated by reference to the Company's Form 8-K dated June 22, 1993.
 - (5) Incorporated by reference to the Company's Form 8-K dated July 1, 1993.
 - (6) Incorporated by reference to the Company's Form 8-K dated September 8, 1993.
 - (7) Incorporated by reference to the Company's Form 10-K for the fiscal year ended October 31, 1994.
 - (8) Incorporated by reference to the Company's Form 10-Q for the quarter ended July 31, 1995.
 - (9) Incorporated by reference to the Company's Form 10-K for the fiscal year ended October 31, 1995.
 - (10) Incorporated by reference to the Company's Form 10-K/A for the fiscal year ended October 31, 1995, dated February 22, 1996.
 - (11) Incorporated by reference to the Company's Form 10-Q for the quarter ended January 31, 1996.
 - (12) Incorporated by reference to the Company's Form 10-Q for the quarter ended April 30, 1996.
 - (13) Incorporated by reference to the Company's Form S-8 (Registration Statement No. 333-05811) which became effective on June 12, 1996.

(B) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter for which this report is filed.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Autotote Corporation

Dated: January 29, 1997

By: /s/ A. Lorne Weil

 A. LORNE WEIL
 CHAIRMAN OF THE BOARD

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 INDICATED ON JANUARY 29, 1997.

SIGNATURE	TITLE	DATE
/s/ A. Lorne Weil ----- A. LORNE WEIL	Chairman of the Board & Chief Executive Officer, and Director (principal executive officer)	January 29, 1997
/s/ William Luke ----- WILLIAM LUKE	Vice President and Chief Financial Officer (principal financial officer)	January 29, 1997
/s/ DeWayne E. Laird ----- DEWAYNE E. LAIRD	Corporate Controller (principal accounting officer)	January 29, 1997
/s/ Sir Brian Wolfson ----- SIR BRIAN WOLFSON	Director	January 29, 1997
/s/ Larry J. Lawrence ----- LARRY J. LAWRENCE	Director	January 29, 1997
/s/ Thomas H. Lee ----- THOMAS H. LEE	Director	January 29, 1997
/s/ Marshall Bartlett ----- MARSHALL BARTLETT	Director	January 29, 1997
/s/ Alan J. Zakon ----- ALAN J. ZAKON	Director	January 29, 1997

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	PAGE -----
21	List of Subsidiaries	
23	Consent of KPMG Peat Marwick LLP	
28.1	Order and Final Judgment of the United States District Court for the District of Delaware dated October 22, 1996, Amendment to Amended Stipulation and Agreement of Settlement, dated November 7, 1996, and Amended Stipulation and Agreement of Settlement dated July 19, 1996.	

BOARD OF DIRECTORS

A. Lorne Weil
Chairman and Chief
Executive
Officer of
Autotote
Corporation

Sir Brian Wolfson
Vice Chairman of the
Board

Alan J. Zakon
Vice Chairman of
the Board

Larry J. Lawrence
General Partner of
Lawrence, Smith
& Horey III, L.P.

Marshall Bartlett
Former Executive Vice
President and COO of
Bourns, Inc.

Thomas H. Lee
President of Thomas
H. Lee Company

OFFICERS

A. Lorne Weil
Chairman of the Board
and Chief Executive
Officer

William Luke
Vice President and
Chief Financial
Officer

Martin E. Schloss
Vice President
General Counsel and
Secretary

Gerald Lawrence
Vice President
President
Autotote Systems
Group

DeWayne E. Laird
Corporate Controller

Robert C. Becker
Treasurer

TRANSFER AGENT

American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005

STOCK INFORMATION

At the close of business on
January 22, 1997, a total
of 34,437,214 shares of
Class A Common Stock were
outstanding. There were 603
holders of record on
such date.

Autotote Corporation trades
on the American Stock
Exchange under the symbol
"TTE".

AUDITORS

KPMG Peat Marwick LLP
New York, New York

AUTOTOTE CORPORATION
750 LEXINGTON AVENUE, 25TH FLOOR
NEW YORK, NEW YORK 10022
212-754-2233

[LOGO OF AUTOTOTE APPEARS HERE]

AUTOTOTE CORPORATION SUBSIDIARIES

Autotote Management Corporation (Delaware) (100%)

Newark Holdings, Inc. (Delaware) (100%)
 Autotote Systems, Inc. (Delaware) (100%)
 Autotote International, Inc. (Delaware) (100%)
 Autotote Canada, Inc. (Ontario) (100%)
 Autotote Europe, Ltd. (Ireland) (100%)
 Autotote Worldwide, Ltd. (Non-Resident Ireland) (99%, 1% NHI)
 Autotote Worldwide Services, Ltd. (Ireland) (100%)
 Autotote International, Ltd. (Ireland) (100%) (Inactive)

Autotote Products, Inc. (Delaware) (100%) (Inactive)
 HTP, Inc. (Pennsylvania) (100%) (Inactive)

Autotote Enterprises, Inc. (Connecticut) (100%)

Autotote Keno Corporation (Nebraska) (100%)
 Big Red Keno Ltd. (Nebraska) (40%)
 Lincoln Big Red Keno Ltd. (Nebraska) (40%)
 Grefnas Big Red Keno Ltd. (Nebraska) (40%)

Autotote Lottery Corporation (Delaware) (100%)
 Autotote Lottery Canada, Inc. (Quebec) (100%)
 Autotote Israel Ltd. (Israel) (80%)

Autotote UK Limited (UK) (100%)
 The Enterprise Lottery Company Limited (U.K.) (22.6%)

ETAG Electronic Totalisator AG (Switzerland) (100%)
 TEK Tufelektronik GMBH (Germany) (100%)
 Datek Toto Dienstleistung GMBH (Germany) (50%)

ETAG Electronic Totalisator GesMBH (Austria) (100%)

Tele Control Kommunikations und Computersysteme GesMBH (Austria) (100%)

Autotote Communication Services, Inc., formerly Autotote Simulcast Corporation (Delaware) (100%)

Marvin H. Sugarman Productions, Inc. (New York) (100%)
 SJC Video Corporation (California) (88.67%)

Racing Technology, Inc. (New York) (100%)

SOFINAX (France) (85%)
 SEPMO (France) (100%)
 REALM (France) (78%) (22% held by SOFINAX directly)

SASO (France) (100%)
 Microdyne Flocam (France) (54%)

Autotote Mexico Ltd. (Delaware) (100%)

Autotote Manufacturing Corporation (Delaware) (100%)

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Autotote Corporation:

We consent to the incorporation by reference in the registration statements (No's 33-82612, 33-464594, 33-27737 and 333-05811) on Form S-8 of Autotote Corporation of our report dated December 5, 1996, except for Notes 7 and 21 which are as of January 29, 1997, with respect to the consolidated balance sheets of Autotote Corporation and subsidiaries as of October 31, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity (deficit), cash flows, and financial statement schedule for each of the years in the three year period ended October 31, 1996, which report appears in the Form 10-K of Autotote Corporation for the year ended October 31, 1996.

KPMG Peat Marwick LLP

New York, New York
January 29, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF AUTOTOTE CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR		
	OCT-31-1996	
	NOV-01-1995	
	OCT-31-1996	5,988
		0
		20,310
		2,053
		5,780
	40,668	186,249
		90,369
	196,793	
	43,912	40,000
	0	0
		315
		(20,511)
196,793		176,235
	176,235	0
		111,606
		81,544
		0
	14,837	
	(31,752)	
		2,443
(34,195)		0
		0
		0
	(34,195)	
	(1.09)	
	(1.09)	

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

IN RE AUTOTOTE CORPORATION:
SECURITIES LITIGATION:

CONSOLIDATED
Master File No.
95-63

THIS DOCUMENT RELATES TO:

All Actions

ORDER AND FINAL JUDGMENT

A hearing having been held before this Court on the 22nd day of October, 1996 to determine: (1) whether this action should be finally certified as a class action pursuant to Rule 23 (a) and (b) (3) of the federal rules of Civil Procedure on behalf of the "Class" consisting of all persons who purchased Autotote Corporation common stock, during the period March 18, 1994 through and including February 14, 1995, and who suffered a loss thereon, as more particularly described in this Court's Preliminary Order in Connection with Class Settlement Proceedings, dated August 1, 1996; (2) whether the terms and conditions of the Amended Stipulation and Agreement of Settlement, dated July 19, 1996 (the "Amended Stipulation") are fair, reasonable and adequate for the settlement of all claims asserted by the Class against the Defendants (as defined below) in the Consolidated Amended Class Action Complaint filed on or about June 16, 1995 (the "Complaint") now pending in this Court under the above caption, including the release of the Released Parties (as defined below) and should be approved; (3) whether the terms and conditions for the distribution of the Net Settlement Fund, comprised of

cash and the common stock of Autotote Corporation, pursuant to the Amended Stipulation are fair, reasonable and adequate and are in the best interests of the Class; (4) whether judgment should be entered dismissing the Complaint on the merits and with prejudice in favor of the Defendants as against all persons or entities who are Members of the Class who have not requested exclusion therefrom; and (5) whether and in what amount to award fees and reimbursement of expenses to Plaintiffs' Counsel. The Court having considered all matters submitted to it at the hearing and otherwise; and it appearing that a notice of the hearing substantially in the form approved by the Court was mailed to all persons or entities reasonably identifiable, who purchased Autotote Corporation common stock during the period March 18, 1994 through and including February 14, 1995 (the "Class Period") (except those persons or entities excluded from the definition of the Class) as shown by the records of Autotote Corporation, at the respective addresses set forth in such records, and that a summary notice of the hearing substantially in the form approved by the Court was published in The Wall Street Journal pursuant to the specifications of the Court, and that such

notice to the Class was the best notice practicable under the circumstances; and the Court having considered and determined the fairness and reasonableness of the award of attorneys' fees and expenses requested

NOW, THEREFORE:, IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

1. This action satisfies the applicable prerequisites for class action treatment under Fed.R.Civ.P. 23 (a) and (b). The Class, as defined in this Court's prior Order, is so numerous that joinder of all members is impracticable; there are questions of law and fact common to the Class; the claims of the Class representatives are typical of the claims of the Class; and the Class representatives will fairly and adequately protect the interests of the Class. Questions of law and fact common to the members of the class predominate over any questions affecting only individual members, and a class action is superior to other available methods for the fair and efficient adjudication of the controversy.

2. This Action is hereby finally certified as a class action on behalf of a class consisting of: all persons who purchased Autotote common stock, during the period March 18, 1994 through and including February 14, 1995, and who suffered a loss thereon. Excluded from the Class are the Defendants in this action, members of the immediate families of each of the Defendants, any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, heirs, successors in interest or assigns of any such excluded party.

3. The amended Stipulation is approved as fair, reasonable and adequate, and in the best interests of the Class, and the Class Members and the Parties are directed to consummate the Settlement in accordance with the terms and provisions of the Amended Stipulation.

4. The terms and conditions for the distribution of the

Net Settlement Fund, consisting of cash and Autotote Corporation common stock, pursuant to the Amended Stipulation and this Order and Final Judgment are approved as fair, reasonable and adequate and in the best interests of the Class.

5. The Complaint is hereby dismissed with prejudice and without costs as against Defendants Autotote Corporation, A. Lorne Weil, Robert D. Ciunci, Dennis C. Wallach, Larry J. Lawrence, and Alan J. Zakon.

6. The Released Parties are hereby released and forever discharged from all Settled Claims by Plaintiffs and members of the Class on behalf of themselves, their heirs, executors, administrators, successors and assigns, and any persons they represent. The Settled Claims are hereby compromised, settled, released, discharged and dismissed on the merits and with prejudice by virtue of the proceedings herein and this Order and Final Judgment. "Released Parties" means (1) Autotote Corporation, and A. Lorne Weil, Robert D. Ciunci, Dennis C. Wallach, Larry J. Lawrence and Alan J. Zakon (the "Individual Defendants") (Autotote Corporation and the individual Defendants being referred to as the "Defendants"); (2) with respect to Autotote, its past or present parents, subsidiaries, officers, directors, agents, employees, attorneys, outside auditors and accountants (including KPMG Peat Marwick LLP), investment advisors, affiliates, predecessors, successors and assigns; and (3) with respect to the Individual Defendants, the legal representatives, heirs, executors, administrators, insurance carriers, attorneys, successors in interest or assigns of the Individual defendants. "Settled Claims" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, state, local, statutory or

common law or any other law, rule or regulation, including both known and unknown claims, that have been, could have been, or in the future could be asserted in any forum by the Class Members or any of them or the successors and assigns of any of them, whether directly, indirectly, representatively, derivatively, or in any other capacity, against any of the Released Parties, which arise out of or relate in any way to the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth or referred to in the Complaint. This release is not intended to and shall not release or otherwise impair any claim or cause of action that defendants, or any of them, may have against KPMG Peat Marwick LLP.

7. The Plaintiffs and all the members of the Class and their heirs, executors, administrators, successors and assigns, and any persons they represent, are barred and permanently enjoined from prosecuting, commencing, instituting or asserting all or any of the Settled Claims in any action or other proceeding in any court of law or equity, arbitrational tribunal, administrative or other forum, whether directly, representatively, derivatively, or in any other capacity, against the Released Parties or any of them.

8. Neither the Amended Stipulation, nor any of its terms and provisions, nor any of the negotiations or proceedings connected with it, nor any of the documents or statements referred to therein, nor this Order And Final Judgment, shall be:

(a) offered or received against the Defendants or any of them as evidence of or construed as or deemed to be evidence of any presumption,

concession, or admission by any of the Defendants of the truth of any allegation made by Plaintiffs or the Class or the validity of any claim that was, could have been, or in the future might be asserted in the Litigation and/or the Complaint, or the deficiency of any defense that was, could have been, or in the future might be asserted with respect to the Litigation and/or the Complaint;

(b) offered or received against the Defendants or any of them as evidence of a presumption, concession or admission of any fault, misre-presentation or omission with respect to any statement or written document approved or made by any Defendant, or that the Plaintiffs or the Class have in fact suffered any damage or that the Defendants or any of them are liable to Plaintiffs or any member of the Class, or against the Plaintiffs and the Class as evidence of any infirmity in the claims of Plaintiffs and the Class;

(c) offered or received against the Defendants or any of them as evidence of a presumption, concession or admission of any liability, negligence, fault or wrongdoing, or in any way used or referred to for any other reason as against any of the parties to the Amended Stipulation, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of the Amended Stipulation; provided, however, Defendants or any of them may refer to them or otherwise use them in any manner necessary to effectuate and enforce the releases and the liability protection granted them thereunder; and

(d) construed against the Defendants or any of them or the Plaintiffs and the Class as an admission or concession that the consideration

to be given hereunder represents the amount which could be or would have been recovered after trial.

9. Counsel for Plaintiffs and the Class are awarded (a) reimbursement of their litigation expenses in the amount of \$419,555.88 from the Cash Settlement Amount, plus interest on that sum from the date the Cash Settlement Amount was funded to the date of payment at the same net rate that the Cash Settlement Amount has earned; (b) 17% of the Autotote Corporation common stock, to be issued to the Class pursuant to paragraphs 4.b and 4.c of the Amended Stipulation, and (c) 17% of the cash available for distribution to the Class after deducting from the cash Settlement Amount (i) the expenses for which paragraph 9 (a) above provides, and (ii) all expenses of notice and settlement and administration. The Court finds this award of attorneys' fees to be fair and reasonable. The fees and expenses awarded pursuant to this paragraphs shall be paid to Plaintiffs' Co-Lead Counsel only upon the Court's entry of the Class Distribution Order. The award of attorneys' fees shall be allocated among counsel for Plaintiffs and the Class in a fashion which, in the opinion of Plaintiffs' Co-Lead Counsel, fairly compensates counsel for the Plaintiffs and the Class for their respective contributions in the prosecution of the litigation.

10. On the Effective Date, Defendants and the insurance carriers shall cease to have any responsibility for or control over the Safekeeping Account, previously established pursuant to the Safekeeping Account Agreement dated April 9, 1996, which prior to the Effective Date contained the cash portion of the Gross Settlement Fund, together with interest accrued and less taxes and costs, and shall execute

any documents necessary to transfer the control of the Safekeeping account to Plaintiffs' Co-Lead Counsel's control.

11. Without affecting the finality of this Order and Final Judgment in any way, exclusive jurisdiction is hereby retained over the Parties and the Class Members for purposes of the administration, interpretation, effectuation or enforcement of the Amended Stipulation and this Order and Final Judgment.

12. Without further order of the court, the Parties may agree to reasonable extensions of time to carry out any of the provisions of the Amended Stipulation.

13. Pursuant to Rule 54 (b) of the Federal Rules of Civil Procedure, the Court, having determined that there is no reason for delay, directs that final judgment be entered in favor of each of the Defendants.

Dated: November 8, 1996

UNITED STATES DISTRICT JUDGE

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

IN RE AUTOTOTE CORPORATION:
SECURITIES LITIGATION:

CONSOLIDATED
Master File No.
95-63

THIS DOCUMENT RELATES TO:

All Actions

AMENDMENT TO
AMENDED STIPULATION AND AGREEMENT OF SETTLEMENT

The parties to the Amended Stipulation and Agreement of Settlement, dated July 19, 1996 (the "Amended Stipulation"), hereby amend the Amended Stipulation to provide that (a) it shall be deemed to conform to the provisions of the attached Order and Final Judgment and (b) the attached Order and Final Judgment shall be the Order and Final Judgment contemplated by paragraph 21 of the Amended Stipulation.

BERNSTEIN LITOWITZ BERGER
& GROSSMAN LLP

By

Daniel L. Berger
Patricia S. Gillane

1285 Avenue of the Americas
New York, New York 10019
212-554-1400

- and -

MILBERG WEISS BERSHAD HYNES
& LERACH LLP

By:

Robert P. Sugarman
George A. Bauer, III

One Pennsylvania Plaza
New York, New York 10119-0165
212-594-5300

Plaintiffs' Co-Lead Counsel

ROSENTHAL MONHAIT, GROSS &
GODDESS, P.A.

By:

Norman M. Monhait (DSBA No. 1040)

Suite 1401, Mellon Bank Center
P.O. Box 1070
Wilmington, DE 19899-1070
(302) 656-4433

MORRIS and MORRIS

By:

Liam Murphy (DSBA No. 3119)

1105 N. Market Street
Suite 1600
Wilmington, DE 19801

Co-Liaison Counsel for Plaintiffs

DUANE, MORRIS & HECKSCHER

By:

Judith Renzulli (DSBA No. 1051)
1201 N. Market Street, Suite 1500
P.O. Box 195
Wilmington, DE 19899

- and -

KRONISH, LIEB, WEINER & HELLMAN LLP

By:

Alan Levine
1114 Avenue of the Americas
New York, NY 10036

Attorneys for Autotote Corporation
A. Lorne Weil, Alan Zakon and
Larry Lawrence

POTTER, ANDERSON & CORROON

By:

Donald Wolfe, Jr. (DSBA No. 285)
350 Delaware Trust Bldg.
P.O. Box 951
Wilmington, DE 19899

- and -

SCHNADER, HARRISON, SEGAL & LEWIS

By:

Sherry A. Swirsky
1600 Market Street, Suite 3600
Philadelphia, PA 19103

Attorneys for Robert Ciunci

ZUCKERMAN, SPAEDER, GOLDSTEIN,
TAYLOR & KOLKER L.L.P.

By:

Edward J. M. Little
1114 Avenue of the Americas
New York, NY 10036
Attorneys for Dennis Wallach

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

IN RE AUTOTOTE CORPORATION:
SECURITIES LITIGATION:

CONSOLIDATED
Master File No.
95-63

THIS DOCUMENT RELATES TO:

All Actions

AMENDED STIPULATION AND AGREEMENT OF SETTLEMENT

This amended stipulation and agreement of settlement dated as of July ____, 1996 (the "Amended Stipulation") is submitted pursuant to Rule 23 of the Federal Rules of Civil Procedure. This Amended Stipulation supersedes in all respects the Stipulation And Agreement Of Settlement dated June 11, 1996. Subject to the approval of the Court, this Amended Stipulation is entered into among the plaintiffs and the Class (as hereinafter defined), and defendants Autotote Corporation ("Autotote"), and A. Lorne Weil, Robert D. Ciunci, Dennis C. Wallach, Larry J. Lawrence and Alan J. Zakon (the "Individual Defendants") (Autotote and the Individual Defendants are collectively referred to hereinafter as the "Defendants"), by and through their respective counsel.

WHEREAS:

A. There is pending in the United States District Court for the District of Delaware (the "Federal Court" or the "Court") a consolidated action entitled In re Autotote Corporation Securities Litigation, Master File No. 95-

63. Fifteen actions were commenced in the Federal Court with the titles and index numbers listed below (hereinafter referred to collectively as the "Actions"):

Elliot Sheftel v. Autotote Corp.. et al., Civil Action No. 95-63;

Andrew Klotz v. Autotote Corp., et al., Civil Action No. 95-66;

David Mathis v. Autotote Corp.. et al., Civil Action No. 95-77;

Jillard Hoen v. Autotote Corp.. et al., Civil Action No. 95-85;

John H. McGinnis v. Autotote Corp.. et al., Civil Action No. 95-89;

Charles J. Moni v. Autotote Corp.. et al., Civil Action No. 95-91;

Robert J. Dube v. Autotote Corp.. et al., Civil Action No. 95-95;

Edward B. Heyden v. Autotote Corp.. et al., Civil Action No. 95-97;

Roger J. O'Neill v. Autotote Corp.. et al., Civil Action No. 95-98;

Dominick Benvenuto v. Autotote Corp.. et al., Civil Action No. 95-99;

Allan Rosenthal v. Autotote Corp.. et al., Civil Action No. 95-103;

Joseph Chabot v. Autotote Corp., et al., Civil Action No. 95-114;

Julia Burnier and Robert Burnier v. Autotote Corp.. et al., Civil Action No. 95-

120;

Jeffrey A. Metzqar v. Autotote Corp.. et al., Civil Action No. 95-121; and

Marcia Jacobs v. Autotote Corp.. et al., Civil Action No. 95-154.

B. The Actions were consolidated for all purposes pursuant to a pretrial order entered by the Court on or about May 2, 1995 ("Pretrial Order No. 1"). Each of the Actions was brought as a class action on behalf of purchasers of Autotote common stock.

C. Pursuant to Pretrial Order No. 1, the named plaintiffs in the Actions (together, the "Plaintiffs") served and filed a Consolidated Amended Class Action Complaint (the "Complaint") on or about June 16, 1995.

D. The Complaint alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Plaintiffs allege that, during the Class Period (as defined below), Defendants issued materially false and misleading statements about the earnings, profitability and business prospects of Autotote which were contained in public statements, press releases and filings with the Securities and Exchange Commission ("SEC"). Specifically, the Complaint alleges that Autotote's publicly reported assets, revenues, earnings, and earnings per share for the first three quarters of Autotote's Fiscal Year 1994 were

wrongfully inflated by means of a series of improper and fraudulent accounting practices. Plaintiffs allege that, as a result of these allegedly false and misleading statements and/or omissions, the market price of Autotote common stock was artificially inflated throughout the Class Period. Plaintiffs allege that they and members of the Class were damaged as a result of the alleged misstatements and non-disclosures.

E. On or about August 15, 1995 defendants Autotote, Weil, Zakon and Lawrence served an Answer to the Complaint. On or about September 7, 1995, defendant Ciunci served an Answer to the Complaint. On or about November 13, 1995, defendant Wallach served an Answer to the Complaint. In their Answers, all Defendants denied all the substantive allegations of the Complaint and asserted numerous affirmative defenses to each of the claims.

F. Plaintiffs filed a motion for class certification on December 29, 1995, on behalf of all purchasers of Autotote common stock during the period from March 18, 1994, through February 14, 1995, inclusive, who suffered damages as a result thereof.

G. Plaintiffs' Co-Lead Counsel represent that they have made a thorough investigation relating to the claims and the underlying events and transactions alleged in the Complaint. In connection with the investigation, Plaintiffs' Co-Lead Counsel represent that they have conducted extensive discovery, including the review and analysis of tens of thousands of documents produced by Autotote, the Individual Defendants, stock market analysts, Autotote's outside auditors and bankers. Plaintiffs' Co-Lead Counsel interviewed witnesses, including former Autotote employees and examined Autotote officers and a former employee of the Company at depositions. Plaintiffs' Co-Lead Counsel represent that they have analyzed the evidence adduced during pretrial discovery and have researched the applicable law with respect to the claims of Plaintiffs and the Class against the Defendants and the potential defenses thereto. Plaintiffs' Co-Lead Counsel represent that they also retained an accounting expert and damage expert to assist them in analyzing the evidence and the claims asserted.

H. Plaintiffs, by their counsel, have conducted arm's-length negotiations with counsel for Defendants with respect to a compromise and settlement of the Actions (as

consolidated) with a view to settling the issues in dispute and achieving the best relief possible consistent with the interests of the Class. This proposed Settlement (as defined below) was reached only after difficult, complex and lengthy negotiations.

I. Based upon their investigation and pretrial discovery as set forth above, counsel for Plaintiffs and the Class have concluded that the terms and conditions of this Amended Stipulation are fair, reasonable and adequate to Plaintiffs and the Class, and in their best interests, and have agreed to settle the claims raised in the Actions pursuant to the terms and provisions of this Amended Stipulation. In evaluating the Settlement provided for herein, Plaintiffs and their counsel represent that they have considered the expense and length of time necessary to prosecute the Actions through trial; the defenses which have been asserted by and are available to Defendants; the uncertainties of the outcome of this complex litigation; the fact that resolution, whenever and however determined, of Plaintiffs' claims, if a jury returned a verdict in their favor, would likely be submitted for appellate review, as a consequence of which it might be many years until there would be a final adjudication of the claims and defenses asserted; and the substantial benefit provided by the proposed Settlement to the Class. Based upon these considerations, Plaintiffs and their counsel, without conceding the lack of merit of any of Plaintiffs' claims, have concluded that it is in the best interests of Plaintiffs and the Class to settle the Actions (as consolidated) on the terms set forth herein.

H. The Defendants deny any wrongdoing whatsoever and this Amended Stipulation shall not be construed or deemed to be evidence of or an admission or concession on the part of any Defendant with respect to any claim, or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that Defendants have asserted or intended to assert. The Defendants, while affirmatively denying wrongdoing of any kind whatsoever, or liability to the Plaintiffs and the Class, and without conceding any infirmity in the defenses they have asserted or could assert in the Actions (as consolidated), consider it desirable that the Actions (as consolidated) and the Complaint be dismissed on the terms set forth herein, in order to avoid further expense and to dispose of burdensome and protracted litigation.

NOW THEREFORE, IT IS HEREBY STIPULATED AND AGREED, by and among the parties to this Amended Stipulation, through their respective attorneys, subject to approval of the Court pursuant to Rule 23(e) of the Federal Rules of Civil Procedure, in consideration of the benefits flowing to the parties hereto from the "Settlement," that all "Settled Claims" as against the "Released Parties" (the terms in quotation marks are defined below) shall be compromised, settled, released and dismissed with prejudice, upon and subject to the following terms and conditions:

DEFINITIONS

1. As used in this Amended Stipulation, the following terms shall have the following meanings:

a. "Authorized Claimant" means a Class Member who submits a timely and valid Proof of Claim form to the Claims Administrator.

b. "Autotote" or the "Company" means Autotote Corporation and all present and former officers, directors, employees, predecessors, successors, parents, subsidiaries and affiliates.

c. "Claims Administrator" means the firm of Gilardi & Co. which shall administer the Settlement.

d. "Class" and "Class Members" means all persons who purchased Autotote common stock, during the period March 18, 1994, through and including February 14, 1995, and who suffered a loss thereon. Excluded from the Class are the Defendants in the Actions, members of the immediate families of each of the Defendants, any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, heirs, successors in interest or assigns of any such excluded person. Also excluded from the Class are any putative Class Members who exclude themselves by filing a request for exclusion in accordance with the requirements set forth in the Notice.

e. "Class Period" means the period of time from March 18, 1994 through February 14, 1995, inclusive.

f. "Complaint" means the Consolidated Amended Class Action Complaint filed in the Actions on or about June 16, 1995.

g. "Defendants" means Autotote and the Individual Defendants.

h. "Defendants' Counsel" means the law firms of Kronish, Lieb, Weiner & Hellman LLP, Schnader, Harrison, Segal & Lewis and Zuckerman, Spaeder, Goldstein, Taylor & Kolker L.L.P.

i. "Effective Date of Settlement" or "Effective Date" means the date upon which the Settlement contemplated by this Amended Stipulation shall become effective, as set forth in (P) 23 below.

j. "Individual Defendants" means A. Lorne Weil, Robert D. Ciunci, Dennis C. Wallach, Larry J. Lawrence and Alan J. Zakon.

k. "Gross Settlement Fund" means the fund described at (P) 4.d below.

l. "Net Settlement Fund" means the fund described at (P) 5 below.

m. "Notice" means the Notice of Pendency of Class Action, of Hearing On Proposed Settlement and Attorneys' Fee Petition, and of Right to Share in Settlement Fund, which is to be sent to members of the Class in the form attached hereto as Exhibit 1 to Exhibit A.

n. "Order and Final Judgment" means the proposed order substantially in the form attached hereto as Exhibit B.

o. "Order for Notice and Hearing" means the proposed order substantially in the form attached hereto as Exhibit A.

p. "Plaintiffs' Co-Lead Counsel" means the law firms of Milberg Weiss Bershad Hynes & Lerach LLP and Bernstein Litowitz Berger & Grossmann LLP.

q. "Plaintiffs' Counsel" means all firms that have appeared on behalf of any Plaintiff named in the Complaint.

r. "Plan of Distribution" means the terms and procedures for allocating the Net Settlement Fund among, and distributing the Net Settlement Fund to, Authorized Claimants with approved Proofs of Claim, as described in the Notice.

s. "Proof of Claim" means the proposed proof of claim substantially in the form annexed hereto as Exhibit 2 to Exhibit A.

t. "Publication Notice" means the summary notice of proposed settlement and hearing substantially in the form attached as Exhibit 3 to Exhibit A.

u. "Released Parties" means (1) Autotote and the Individual Defendants; (2) with respect to Autotote, its past or present parents, subsidiaries, officers, directors, agents, employees, attorneys, outside auditors and accountants (including KPMG Peat Marwick LLP), investment advisors, affiliates, successors and assigns; and (3) with respect to the Individual Defendants, the legal representatives, heirs, executors, administrators, insurance carriers, attorneys, successors in interest or assigns of the Individual Defendants.

v. "Safekeeping Account Agreement" means that certain Safekeeping Account Agreement dated April 9, 1996, a copy of which is annexed hereto as Exhibit C. The "Safekeeping Account" was opened on or about April 15, 1996 pursuant to that Agreement.

w. "Settled Claims" means any and all claims, rights or causes of action or liabilities whatsoever, whether based on federal, state, local, statutory or common law or any other law, rule or regulation, including both known and unknown claims, that have been, could have been, or in the future could be asserted in any forum by the Class Members or any of them or the successors and assigns of any of them, whether directly, indirectly, representatively, derivatively, or in any other capacity, against any of the Released Parties, which arise out of or relate in any way to the allegations, transactions, facts, matters, occurrences, representations or omissions involved, set forth or referred to in the Actions (as consolidated) and/or Complaint.

x. "Settlement" means the settlement contemplated by this Amended Stipulation.

y. "Settlement Fairness Hearing" is the hearing to be held, pursuant to the Order for Notice and Hearing and the Notice, for this Court to determine, among other things, whether the terms and conditions of the Settlement are fair, reasonable, adequate and in the best interests of the Class.

Scope and Effect of Settlement

2. The obligations incurred pursuant to this Amended Stipulation shall constitute a full and final disposition of the Actions (as consolidated) and the Complaint and any and all Settled Claims as against all Released Parties.

3. Upon the Effective Date of this Settlement, Plaintiffs and Class Members on behalf of themselves, their heirs, executors, administrators, successors and assigns, and any persons they represent, shall be deemed to release and forever discharge any and all of the Released Parties from all Settled Claims, and shall forever be barred and enjoined from prosecuting, commencing, instituting or asserting all or any of the Settled Claims in any action or other proceeding in any court of law or equity, arbitrational tribunal, administrative or other forum, whether directly, representatively, derivatively, or in any other capacity against the Released Parties or any of them. The release provided pursuant to this paragraph is not intended, and shall not be construed, to release or otherwise impair any claim or cause of action that Defendants, or any of them, may have against KPMG Peat Marwick LLP.

The Settlement Consideration

4. a. Autotote and the insurance carriers for the Individual Defendants have deposited \$7,500,000.00 into the Safekeeping Account for the benefit of Plaintiffs and the Class (the "Cash Settlement Amount").

b. In addition Autotote will deliver at least \$3,500,000 worth of shares of Autotote common stock as described below. Said shares will be issued by Autotote and delivered within fifteen (15) business days after the Effective Date to Plaintiffs' Co-Lead Counsel. The number of shares of common stock to be issued by Autotote will be computed as follows: Class Members will receive the lesser of (i) the number of shares of Autotote common

stock which have an "Aggregate Value" (as defined below) of \$4,250,000 or (ii) 1,136,216 shares of Autotote common stock. If, however, the Aggregate Value of 1,136,216 shares of Autotote common stock on the date of the Settlement Fairness Hearing is less than \$3,500,000 then Autotote will issue additional shares such that the Aggregate Value of the common stock distributed to the Class Members equals \$3,500,000. "Aggregate value" shall be determined by the average closing price of Autotote common stock on the American Stock Exchange for the ten trading days preceding the date of the Settlement Fairness Hearing.

c. The shares of Autotote common stock issued pursuant to the this paragraph will first be issued to Plaintiffs' Co-Lead Counsel as Agent for the Class and will be represented by a single certificate. That certificate (the "Initial Certificate") will bear the following legend:

"This certificate is issued pursuant to the Amended Stipulation and Agreement of Settlement (the "Amended Stipulation") among the parties, dated _____, and the Order and Final Judgment of the United States District Court for the District of Delaware (the "Court") dated _____ in a shareholders class action case entitled In re Autotote

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in partial satisfaction of the claims of members of the class that was certified by the Court pursuant to its Preliminary Order in Connection with Class Settlement Proceedings, dated _____. The shares represented by this certificate may not be sold, transferred or hypothecated except in accordance with a further order of the Court, (referred to in the Amended Stipulation as the "Class Distribution Order") which determines the specific number of shares to be distributed to each respective individual member of the class and the number of shares to be paid to plaintiffs' counsel as fees."

After the Class Distribution Order has been entered the Initial Certificate will be cancelled and new certificates will be issued to each of the Authorized Claimants and new certificates will be issued to Plaintiffs' Counsel in the respective amounts of shares provided in the Class Distribution Order and in (P) 9 of the Order and Final Judgment (the "Distribution Certificates"). Shares represented by the Distribution Certificates can be sold or transferred under the Securities

Act of 1933 (the "Act") on the day the shares are issued to the Authorized Claimants and Plaintiffs' Counsel. The Distribution Certificates will not bear any legend or restriction.

d. The Cash Settlement Amount and any interest earned thereon, and the shares of Autotote common stock shall be the "Gross Settlement Fund."

5. The Gross Settlement Fund, net of any taxes on the income thereof, shall be used to pay (i) the Notice and administration costs referred to in (P) 7 hereof, (ii) the attorneys' fee and expense award referred to in (P) 8 hereof, and (iii) the remaining administration expenses referred to in (P) 9 hereof. The balance of the Gross Settlement Fund after the above payments shall be the "Net Settlement Fund" which shall be distributed to the Authorized Claimants as provided in (P) 12 hereof. Any cash sums required to be held hereunder prior to the Effective Date shall continue to be held pursuant to the Safekeeping Account Agreement. All funds held in the Safekeeping Account shall be deemed to be in custodia legis of the Court and shall remain subject to the

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jurisdiction of the Court until such time as the funds shall be distributed or returned pursuant to (P) 3 of the Safekeeping Account Agreement and/or further order of the Court. After the Effective Date, Alan Levine and Federal Insurance Company shall no longer have any joint interest or signature authority over any funds held hereunder, and each of the signatories to the Safekeeping Account Agreement will execute any documents necessary to remove Alan Levine and Federal Insurance Company from any authority over the Safekeeping Account. The Safekeeping Account shall thereafter be under the joint control of Milberg Weiss Bershad Hynes & Lerach LLP and Bernstein Litowitz Berger & Grossmann LLP and shall remain subject to the jurisdiction of the Court.

(a) The parties hereto agree that the Gross Settlement Fund is intended to be a Qualified Settlement Fund within the meaning of Treasury Regulation (S) 1.468B-1 and that Milberg Weiss Bershad Hynes & Lerach LLP and Bernstein Litowitz Berger & Grossmann LLP, as administrators of the Gross Settlement Fund within the meaning of Treasury Regulation (S) 1.468B-2 (k) (3), shall be responsible for filing tax returns for the Gross Settlement Fund and paying from the Gross Settlement Fund any taxes owed with respect to the Gross Settlement

Fund. Counsel for Autotote agree to promptly provide to Milberg Weiss Bershad Hynes & Lerach LLP and Bernstein Litowitz Berger & Grossmann LLP the statement described in Treasury Regulation (S) 1.468B-3(e).

(b) All: (a) taxes (including any interest or penalties) arising with respect to the income earned by the Gross Settlement Fund ("Taxes"); and (b) expenses and costs incurred in connection with the operation and implementation of this paragraph (including, without limitation, expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to filing (or failing to file) the returns described in this paragraph) (collectively, "Tax Expenses"), shall be paid out of the Gross Settlement Fund. In all events, the Defendants shall have no liability or responsibility for the Taxes or the Tax Expenses. Further, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the Gross Settlement Fund and shall be paid by Milberg Weiss Bershad Hynes & Lerach LLP and Bernstein Litowitz Berger & Grossmann LLP out of the Gross Settlement Fund without prior Order from the Court. The parties hereto agree to cooperate with Milberg Weiss Bershad Hynes & Lerach LLP and Bernstein Litowitz Berger & Grossmann LLP, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this paragraph.

(i) Administration

6. The Claims Administrator shall administer the claims to share in the Net Settlement Fund under Plaintiffs' Co-Lead Counsel's supervision and subject to the jurisdiction of the Court. Except as stated in this (P) 6, Defendants and their insurance carriers shall have no responsibility for the administration of the claims to share in the Net Settlement Fund and shall have no liability to the Class in connection with such administration. Autotote's counsel shall cooperate in such administration of the Settlement by providing all information from Autotote's transfer records concerning the identities of class members and their transactions.

7. Prior to the Effective Date, Plaintiffs' Co-Lead Counsel may expend from the Gross Settlement Fund, without further approval from the Defendants, Federal Insurance

Company, or the Court, up to the sum of \$50,000.00 to pay the reasonable costs and expenses associated with the administration of the Settlement including, without limitation, the costs of identifying members of the Class and effecting mail Notice and Publication Notice. Such amounts shall include, without limitation, the actual costs of publication, printing and mailing the Notice, reimbursements to nominee owners for forwarding notice to their beneficial owners, and the administrative expenses incurred and fees charged by the Claims Administrator in connection with providing notice and processing the claims filed.

(ii) Attorneys' Fees And Expenses

8. Plaintiffs' Counsel will apply to the Court for an award from the Gross Settlement Fund of attorneys' fees and reimbursement of expenses. Such application for attorneys' fees shall be for an amount not greater than one-third of the total Gross Settlement Fund. Plaintiffs' Counsel shall seek an attorneys' fee award of cash and common stock in the same proportions as such assets comprise the Gross Settlement Fund. Such cash attorneys' fee and expenses as are awarded by the Court shall be paid from the Gross Settlement Fund to Plaintiffs' Counsel immediately upon award, notwithstanding the existence of any timely filed objections thereto, or potential for appeal therefrom, or collateral attack on the Settlement or any part thereof, subject to Plaintiffs' Counsel's obligation to make appropriate refunds or repayments to the Gross Settlement Fund plus accrued interest, if and when, as a result of any appeal and/or further proceedings on remand, or successful collateral attack, the fee or cost award were to be reduced or reversed. Plaintiffs' Co-Lead Counsel reserve the right to make additional applications for fees and expenses, but in no event shall Plaintiffs' Counsel seek a fee award of more than one-third of the Gross Settlement Fund.

(iii) Class Distribution Order and Administration Expenses

9. Plaintiffs' Co-Lead Counsel will apply to the Court, on notice to Defendants' Counsel, for an order (the "Class Distribution Order") approving the Claims Administrator's administrative determinations concerning the acceptance and rejection of the claims filed herein

and approving the fees and expenses of the Claims Administrator, and, if the Effective Date has occurred, directing distribution of the Net Settlement Fund to Authorized Claimants.

(iv) Distribution To Authorized Claimants

10. At the Settlement Fairness Hearing, Plaintiffs will seek approval of the Court to authorize the distribution of the Net Settlement Fund by the Claims Administrator to the Authorized Claimants, after the Effective Date, in accordance with the Plan of Distribution, the terms and conditions of which are set forth in the Notice.

11. The Claims Administrator shall determine each Authorized Claimant's pro rata share of the Net Settlement Fund based upon the terms of the Plan of Distribution. In order to receive a payment from the Net Settlement Fund, an Authorized Claimant must have had an economic loss with respect to transactions in Autotote common stock.

12. a. Each Authorized Claimant shall be allocated a pro rata share of the Net Settlement Fund based on his or her claim as compared to the total claims of all accepted claimants. The Claims Administrator shall pay each Authorized Claimant his or her distribution amount. No distributions of cash shall be made to Authorized Claimants who would not be entitled to receive at least five (\$5) dollars based on the initial proration of the Net Settlement Fund to all Authorized Claimants.

b. Pursuant to the Class Distribution Order (referred to in (P) 9 above) and upon instructions from Plaintiffs' Co-Lead Counsel, the shares of Autotote common stock will be distributed to the members of the Class in proportion to the Authorized Claimant's recognized claims as determined by the Claims Administrator. No fractional shares shall be issued and no shares shall be issued to any Authorized Claimant who would not be entitled to receive at least five (5) shares based on the initial proration of shares to Authorized Claimants. No adjustment will be made in the cash distributions for fractional shares nor for the minimum number of shares.

c. This is not a claims-made settlement, all the Net Settlement Fund will be distributed to Authorized Claimants in proportion to their Defined Losses as described in the

Notice. Defendants will have no ability to get back any of the Gross Settlement Fund after the Effective Date. Defendants will have no involvement in reviewing or challenging claims.

Administration of the Settlement

13. Any member of the Class who does not file a valid Proof of Claim will not be entitled to receive any of the proceeds from the Net Settlement Fund but will otherwise be bound by all of the terms of this Amended Stipulation and the Settlement, including the terms of the Order And Final Judgment to be entered in the Actions (as consolidated) and the releases provided for herein, and will be barred and permanently enjoined from bringing any action against the Released Parties concerning the Settled Claims.

14. Plaintiffs' Co-Lead Counsel shall be responsible for supervising the administration of the Settlement and disbursement of the Net Settlement Fund by the Claims Administrator, subject to the terms of (P) 15.f below. Plaintiffs' CoLead Counsel shall have the right, but not the obligation, to waive what they deem to be formal or technical defects in any Proofs of Claim filed in the interests of achieving substantial justice. Except for the Defendants' obligations to pay the Cash Settlement Amount, and except for Autotote's obligations to issue and deliver the common stock pursuant to (P)(P) 4.b, 4.c, and 12.b above and to cooperate in the production of information with respect to the identification of Class Members from the company's shareholder transfer records, Defendants shall have no liability or responsibility for the administration of the Settlement or disbursement of the Net Settlement Fund.

15. For purposes of determining the extent, if any, to which a Class Member shall be entitled to be treated as an "Authorized Claimant", the following conditions shall apply:

a. Each Class Member shall be required to submit a Proof of Claim (substantially in the form attached as Exhibit 2 to Exhibit A), supported by such documents as are designated therein, including proof of the Class Member's loss, or such other documents or proof as Plaintiffs' Co-Lead Counsel, in their discretion, may deem acceptable;

b. All Proofs of Claim must be submitted by the date specified in the Notice unless such period is extended by Order of the Court. Any Class Member who fails to

file a Proof of Claim by such date shall be forever barred from receiving any payment pursuant to this Amended Stipulation (unless, by Order of the Court, a later filed Proof of Claim by such Class Member is approved), but shall in all other respects be bound by all of the terms of this Amended Stipulation and the Settlement including the terms of the Order And Final Judgment to be entered in the Actions (as consolidated) and the releases provided for herein, and will be barred and permanently enjoined from bringing any action against the Released Parties concerning the Settled Claims. A Proof of Claim shall be deemed to have been submitted when posted, if received with a postmark indicated on the envelope and if mailed first-class postage prepaid and addressed in accordance with the instructions thereon. In all other cases, the Proof of Claim shall be deemed to have been submitted when actually received by Plaintiffs' Co-Lead Counsel or its designee;

c. Each Proof of Claim shall be submitted to and reviewed by the Claims Administrator, under the supervision of Plaintiffs' Co-Lead Counsel, who shall determine in accordance with this Amended Stipulation the extent, if any, to which each claim shall be allowed, subject to review by the Court pursuant to subparagraph e. below;

d. Proofs of Claim that do not meet the filing requirements may be rejected. Prior to rejection of a Proof of Claim, the Claims Administrator shall communicate with the claimant in order to remedy the curable deficiencies in the Proof of Claims submitted. The Claims Administrator, under supervision of Plaintiffs' Co-Lead Counsel, shall notify, in a timely fashion and in writing, all claimants whose Proofs of Claim they propose to reject in whole or in part, setting forth the reasons therefor, and shall indicate in such notice that the claimant whose claim is to be rejected has the right to a review by the Court if the claimant so desires and complies with the requirements of subparagraph (e) below; and

e. If any claimant whose claim has been rejected in whole or in part desires to contest such rejection, the claimant must, within twenty (20) days after the date of mailing of the notice required in subparagraph (d) above, serve upon the Claims Administrator a notice and statement of reasons indicating the claimant's grounds for contesting the rejection along with any

supporting documentation, and requesting a review thereof by the Court. If a dispute concerning a claim cannot be otherwise resolved, Plaintiffs' Co-Lead Counsel shall thereafter present the request for review to the Court in the motion for the Class Distribution Order.

f. The administrative determinations of the Claims Administrator accepting and rejecting claims shall be presented to the Court, on notice to Defendants' Counsel, for approval by the Court in the Class Distribution Order, after the claims have been processed.

16. Each Authorized Claimant shall be deemed to have submitted to the jurisdiction of the Court with respect to the claimant's claim, and the claim will be subject to investigation and discovery under the Federal Rules of Civil Procedure, provided that such investigation and discovery shall be limited to that claimant's status as a Class Member and the validity and amount of the claimant's claim. No discovery shall be allowed on the merits of the Actions (as consolidated), Complaint or Settlement in connection with processing of the Proofs of Claim.

17. Payment pursuant to this Amended Stipulation shall be deemed final and conclusive against all Class Members. All Class Members whose claims are not approved by the Court shall be barred from participating in distributions from the Net Settlement Fund, but otherwise shall be bound by all of the terms of this Amended Stipulation and the Settlement, including the terms of the Order And Final Judgment to be entered in the Actions and the releases provided for herein at (P) 3, and will be barred and permanently enjoined from bringing any action against the Released Parties concerning the Settled Claims.

18. All proceedings with respect to the administration, processing and determination of claims described in (P)(P) 13 through 19 of this Amended Stipulation, and the determination of all controversies relating thereto, including disputed questions of law and fact with respect to the validity of claims, shall be subject to the jurisdiction of the Court.

19. The Net Settlement Fund shall be distributed to Authorized Claimants by the Claims Administrator only after the Effective Date and after: (i) all claims have been processed, and all claimants whose claims have been rejected or disallowed, in whole or in part, have been

notified and provided the opportunity to be heard concerning such rejection or disallowance; (ii) the Court has entered the Class Distribution Order; (iii) all objections with respect to all rejected or disallowed claims have been resolved by the Court, and all appeals therefrom have been resolved or the time to appeal has expired; (iv) all matters with respect to attorneys' fees, costs, and disbursements have been resolved by the Court, all appeals therefrom have been resolved or the time therefor has expired; and (v) all costs of administration have been paid.

Terms of Order for Notice and Hearing

20. Concurrently with their application for preliminary Court approval of the Settlement contemplated by this Amended Stipulation, Plaintiffs' Co-Lead Counsel and Defendants' Counsel jointly shall apply to the Court for entry of the Order for Notice and Hearing, substantially in the form annexed hereto as Exhibit A.

Terms of Order and Final Judgment

21. If the Settlement contemplated by this Amended Stipulation is approved by the Court, Plaintiffs' Co-Lead Counsel and Defendants' Counsel shall jointly request that the Court enter an Order and Final Judgment substantially in the form annexed hereto as Exhibit B.

Supplemental Agreement

22. Simultaneously herewith, Plaintiffs' Co-Lead Counsel and Defendants' Counsel are executing a "Supplemental Agreement" setting forth certain conditions under which this Amended Stipulation may be withdrawn or terminated by Defendants in the event that potential Class Members who purchased in excess of a certain number shares of Autotote common stock traded during the Class Period exclude themselves from the Class. The Supplemental Agreement shall be filed under seal if permitted by the Court, and, if not so permitted, shall not be filed, but its substantive content shall be brought to the attention of the Court, in camera if so requested by the attorneys for any of

the undersigned parties and permitted by the Court. In the event of a withdrawal from this Amended Stipulation pursuant to the Supplemental Agreement, this Amended Stipulation shall become null and void and of no further force and effect and the provisions of (P)(P) 26 and 27 shall apply. Notwithstanding the foregoing,

the Amended Stipulation shall not become null and void as a result of the election by the Defendants to exercise their option to withdraw from the Amended Stipulation pursuant to the Supplemental Agreement unless and until the conditions set forth in the Supplemental Agreement have been satisfied.

Effective Date of Settlement, Waiver or Termination

23. The Effective Date of Settlement shall be the date when all the following shall have occurred:

(a) entry of the Order for Notice and Hearing in all material respects in the form annexed hereto as Exhibit A;

(b) approval by the Court of the Settlement, following notice to the Class and a hearing, as prescribed by Rule 23 of the Federal Rules of Civil Procedure; and

(c) entry by the Court of the Order and Final Judgment, in all material respects in the form set forth in Exhibit B annexed hereto and the expiration of any time for appeal or review of such Order and Final Judgment, or, if any appeal is filed and not dismissed, after such Order and Final Judgment is upheld on appeal in all material respects, and is no longer subject to review upon appeal or review by writ of certiorari, or, in the event that the Court enters an order and final judgment in a form other than that provided herein ("Alternative Judgment") and none of the parties hereto elects to terminate this Settlement, the date that such Alternative Judgment becomes final and no longer subject to appeal or review.

24. Either Defendants' Counsel or Plaintiffs' Co-Lead Counsel shall have the right to terminate the Settlement and this Amended Stipulation by providing written notice of their election to do so ("Termination Notice") within thirty days after: (a) the Court's declining to enter the Order for Notice and Hearing in any material respect; (b) the Court's refusal to approve this Amended Stipulation or any material part of it; (c) the Court's declining to enter the Order and Final Judgment in any material respect; (d) the Court's entry of an Alternative Judgment; (e) the date upon which the Order and Final Judgment is modified or reversed in any material respect by the Court of Appeals or the Supreme Court; or (f) the date upon which an Alternative

Judgment is modified or reversed in any material respect by the Court of Appeals or the Supreme Court.

25. If Autotote does not deliver all of the shares of common stock required to be delivered pursuant to paragraph 4.b. above within fifteen (15) business days after the Effective Date, Plaintiffs' Co-Lead Counsel shall provide written notice to Autotote Corporation, 750 Lexington Avenue, New York, NY 10022, and Kronish, Lieb, Weiner & Hellman LLP of such non-delivery. If Autotote then fails to deliver all of such common shares within fifteen (15) business days after Plaintiff's Co-Lead Counsel provides such notice, then Plaintiffs' Co-Lead Counsel shall have the option either to terminate this Settlement or to obtain entry of an order of the Court enforcing the specific performance of Autotote's obligation under (P) 4.b above, together with all attorneys' fees and all costs incurred by Plaintiffs to have such order entered.

26. Except as otherwise provided herein, in the event the Settlement and the Amended Stipulation are terminated pursuant to (P)(P) 24 or 25 above or if the Settlement fails to become effective for any reason, then the parties to this Amended Stipulation shall be deemed to have reverted to their respective status in the Actions (as consolidated) as of the day prior to the date immediately prior to the execution of the original Stipulation and the parties shall proceed in all respects as if this Amended Stipulation, the original Stipulation and any related orders had not been entered, and any portion of the Cash Settlement Amount previously paid by or on behalf of Defendants, together with any interest earned thereon, less any taxes due with respect to such income, and less costs of administration and notice actually incurred and paid or payable from the Gross Settlement Fund, shall be returned in accordance with the Safekeeping Account Agreement, and any Autotote common stock delivered pursuant to (P) 4.b above shall be returned to Autotote.

No Admission of Wrongdoing

27. This Amended Stipulation, whether or not consummated, and any proceedings taken pursuant to it:

(a) shall not be offered or received against the Defendants or any of them as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Defendants of the truth of any allegation made by Plaintiffs or the Class or the validity of any claim that was, could have been, or in the future might be asserted in the Actions and/or the Complaint, or the deficiency of any defense that was, could have been, or in the future might be asserted with respect to the Actions and/or the Complaint;

(b) shall not be offered or received against the Defendants or any of them as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant, or that the Plaintiffs or the Class have in fact suffered any damage or that the Defendants or any of them are liable to Plaintiffs or any member of the Class, or against the Plaintiffs and the Class as evidence of any infirmity in the claims of Plaintiffs and the Class;

(c) shall not be offered or received against the Defendants or any of them as evidence of a presumption, concession or admission of any liability, negligence, fault or wrongdoing, or in any way used or referred to for any other reason as against any of the parties to this Amended Stipulation, in any other civil, criminal or administrative action or proceeding, other than such proceedings as may be necessary to effectuate the provisions of this Amended Stipulation; provided, however, that if this Amended Stipulation is approved by the Court, Defendants or any of them may use or refer to it in any manner necessary to effectuate and enforce the releases and the liability protection granted them hereunder; and

(d) shall not be construed against the Defendants or any of them or the Plaintiffs and the Class as an admission or concession that the consideration to be given hereunder represents the amount which could be or would have been recovered after trial.

Miscellaneous Provisions

28. All of the exhibits attached hereto are hereby incorporated by reference as though fully set forth herein.

29. If a case under Title 11 of the United States Code (Bankruptcy), or any other bankruptcy, insolvency or similar proceeding is commenced with respect to any Defendant who has actually made a payment in satisfaction of the Cash Settlement Amount, or delivered shares of Autotote common stock in accordance with (P) 4.b, and in the event of the entry of a final order of a court of competent jurisdiction determining the transfer of money to the Gross Settlement Fund or any portion thereof by or on behalf of such Defendant to be a preference, fraudulent transfer or other voidable transaction and any portion thereof is required to be returned, and such amount is not promptly deposited to the Gross Settlement Fund by other Defendants, then, at the election of Plaintiffs' Co-Lead Counsel, the parties shall jointly move the Court to vacate and set aside the releases given and Judgment entered in favor of the Defendants pursuant to this Amended Stipulation, which releases and judgment shall be null and void, and the Parties shall be restored to their respective positions in the litigation as of the date a day prior to the date of this Amended Stipulation and any cash amounts in the Safekeeping Account, and shares of Autotote common stock, delivered pursuant to (P) 4.b, shall be returned as provided in (P) 26 above. Nothing in this paragraph shall obligate any Defendant to make any further deposit to the Gross Settlement Fund under the circumstances described in this paragraph.

30. The Parties intend this Settlement to be a final and complete resolution of all disputes asserted or which could be asserted by the Class Members against the Released Parties with respect to the Settled Claims. Accordingly, the Defendants agree not to assert in any forum that any of the Actions or the Complaint was brought or prosecuted in bad faith or without a reasonable basis. The parties to this Amended Stipulation agree that the consideration given and the other terms of the Settlement were negotiated at arm's length in good faith by the parties, and reflect a settlement that was reached voluntarily after consultation with experienced legal counsel.

31. This Amended Stipulation may not be modified or amended, nor may any of its provisions be waived, except by a writing signed by all parties hereto or their successors-in-interest.

32. The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

33. The administration and consummation of the Settlement as embodied in this Amended Stipulation shall be under the authority of the Court and the Court shall retain jurisdiction for the purpose of entering orders providing for awards of attorneys' fees and expenses to Plaintiffs' Counsel and enforcing the terms of this Amended Stipulation.

34. The waiver by one party of any breach of this Amended Stipulation by any other party shall not be deemed a waiver of any other prior or subsequent breach of this Amended Stipulation.

35. This Amended Stipulation and its exhibits and the Supplemental Agreement constitute the entire agreement among the parties hereto concerning the Settlement of the Actions (as consolidated), and no representations, warranties, or inducements have been made by any party hereto concerning this Amended Stipulation and its exhibits and the Supplemental Agreement other than those contained and memorialized in such documents.

36. This Amended Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument provided that counsel for the parties to this Amended Stipulation shall exchange among themselves original signed counterparts.

37. This Amended Stipulation shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, successors and assigns.

38. The construction, interpretation, operation, effect and validity of this Amended Stipulation, and all documents necessary to effectuate it, shall be governed by the internal laws of the State of Delaware without regard to conflicts of laws, except to the extent that federal law requires that federal law governs.

39. All counsel and any other person executing this Amended Stipulation and any of the exhibits hereto, or any related settlement documents, warrant and represent that they have

the full authority to do so and that they have the authority to take appropriate action required or permitted to be taken pursuant to the Amended Stipulation to effectuate its terms.

40. Autotote's counsel shall, promptly after the execution of this Amended Stipulation by all signatories to it, serve a copy of the Amended Stipulation on each entity which has contributed any portion of the Cash Settlement Amount to the Safekeeping Account. Autotote's counsel shall also serve on those same entities copies of both the Court's Preliminary Order in Connection With Class Settlement Proceedings and the Order and Final Judgment, promptly after the Court enters each of those Orders.

41. Plaintiffs' Co-Lead Counsel and Defendants' Counsel agree to cooperate fully with one another in seeking Court approval of the Order for Notice and Hearing, the Amended Stipulation and the Settlement and the Order and Final Judgment, and to promptly agree upon and execute all such other documentation as may be reasonably required to obtain final approval by the Court of the Settlement.

DATED: July 19, 1996

KRONISH, LIEB, WEINER & HELLMAN
LLP

By:

Alan Levine
1114 Avenue of the Americas
New York, New York 10036
(212)479-6000

- and -
DUANE, MORRIS & HECKSHER

By:

Judith N. Renzulli
1201 Market Street
Wilmington, DE 19801
302-571-5550

On Behalf of and as Agents and
Attorneys for Autotote
Corporation, A. Lorne Weil, Alan
Zakon, and Larry Lawrence

- and -

SCHNADER, HARRISON, SEGAL & LEWIS

By:

Sherry A. Swirsky

1600 Market Street, Suite 3600
Philadelphia, PA 19103
(215) 751-2000

- and -

POTTER, ANDERSON & CORROON

By:

Donald J. Wolfe, Jr.
Michael A. Pittenger

P.O. Box 951
350 Delaware Trust Building
Wilmington, DE 19899
302-984-6000

On Behalf of and as Agents and
Attorneys for Robert Ciunci

- and -

ZUCKERMAN, SPAEDER, GOLDSTEIN
TAYLOR & KOLKER L.L.P.

By:

Edward J. M. Little

1114 Avenue of the Americas

New York, New York 10036
(212)479-6500

On Behalf of and as Agents and
Attorneys for Dennis Wallach

- and -

BERNSTEIN LITOWITZ BERGER
& GROSSMANN LLP

By:

Daniel L. Berger
Patricia S. Gillane

1285 Avenue of the Americas
New York, New York 10019
212-554-1400

- and -

MILBERG WEISS BERSHAD HYNES
& LERACH LLP

By:

Robert P. Sugarman
George A. Bauer III
Peter A. Lennon

One Pennsylvania Plaza
New York, New York 10119-0165
212-594-5300

Plaintiffs' Co-Lead Counsel

MORRIS And MORRIS

By:

Patrick Morris
No. 3015

1105 North Market Street

Suite 1600
Wilmington, Delaware 19801
302-426-0400

- and -

ROSENTHAL, MONHAIT, GROSS
& GODDESS, P.A.

By:

Norman Monhait
No. 1040

919 North Market Street
Suite 1401
Mellon Bank Center
Wilmington, DE 19801
Tel: (302) 656-4433

Plaintiffs' Co-Liaison Counsel

Mark Gardy
Nancy Kaboolian
ABBAY & ELLIS
212 East 39th Street
New York, NY 10016
212-889-3700

Robert Hoffman
BARRACK, RODOS & BACINE
3300 Two Commerce Square
2001 Market Street
Philadelphia, PA 19103
215-963-0600

Glen DeValerio
Jeffrey C. Block
BERMAN DEVALERIO & PEASE
One Liberty Square
Boston, MA 02109
617-542-8300

Pamela S. Tikellis
Robert J. Kriner, Jr.

Cynthia A. Calder
CHIMICLES, JACOBSEN & TIKELLIS
One Rodney Square
Wilmington, DE 19899
302-656-2500

Jonathan M. Plasse
GOODKIND, LABATON, RUDOFF &
SUCCHAROW LLP
100 Park Avenue
12th Floor
New York, NY 10017
212-907-0700

Michael C. Heyden
Kevin P. O'Neill
HEYDEN, KANIA & O'NEILL
1201 North King Street
Wilmington, DE 19801
302-654-0789
Frederic S. Fox
Joel Strauss
KAPLAN, KILSHEIMER & FOX
685 Third Avenue
New York, NY 10017
212-687-1980

Neil Selinger
Robert Rodriguez
LOWEY DANNENBERG BEMPORAD
& SELINGER, P.C.
747 Third Avenue
New York, NY 10017-2877
212-759-1504

Charles J. Piven
LAW OFFICE OF CHARLES J. PIVEN
The Legg Mason Tower
111 S. Calvert Street
Suite 2700
Baltimore, MD 21202
410-332-0030

Richard Schiffrin
Andrew Barroway

SCHIFFRIN & CRAIG, LTD.
Three Bala Plaza East
Suite 500
Bala Cynwyd, PA 19004
610-667-7706

David A.P. Brower
WOLF HALDENSTEIN ADLER
FREEMAN & HERZ L.L.P.
270 Madison Avenue
New York, NY 10016
212-545-4600

Robert M. Kornreich
WOLF POPPER ROSS WOLF
& JONES, L.L.P.
845 Third Avenue
New York, NY 10022
212-759-4600

Jeffrey Zwerling
Mary Neu
ZWERLING, SCHACHTER, ZWERLING
& KOPPELL, L.L.P.
767 Third Avenue
New York, NY 10017-2023
212-223-3900

Plaintiffs' Counsel