

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

COIN BILL VALIDATOR INC

CIK: **933020** | IRS No.: **112974651** | State of Incorporation: **NY** | Fiscal Year End: **0930**
Type: **10KSB** | Act: **34** | File No.: **033-86352** | Film No.: **96687538**
SIC: **3578** Calculating & accounting machines (no electronic computers)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

Mark One

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

For the Fiscal Year ended September 30, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

For the transition period from _____ to _____

Commission File Number 0-25148

COIN BILL VALIDATOR, INC.

(Name of small business issuer in its charter)

New York

11-2974651

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer
Identification No.)

425B Oser Avenue, Hauppauge, New York 11788

(Address of principal executive office) (Zip Code)

Issuer's telephone number 516-231-1177

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$.01 per share

(Title of class)

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

Yes No

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

For the year ended September 30, 1996, the revenues of the registrant were
\$16.693 million.

The aggregate market value of the Common Stock of the registrant held by
nonaffiliates of the registrant, based on the average bid and asked prices on
December 17, 1996, was approximately \$27,757,813.

Note: If determining whether a person is an affiliate will involve an
unreasonable effort and expense, the issuer may calculate the aggregate market
value of the common equity held by nonaffiliates on the basis of reasonable
assumptions, if the assumptions are stated.

As of December 23, 1996, the registrant had a total of 2,750,000 Common Shares

outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Proxy Statement for the year ended September 30, 1996 are incorporated by reference into Part III.

Transitional Small Business Disclosure format (Check one): Yes [] No [X]

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PART I

Item 1. Description of Business

General

Coin Bill Validator, Inc. (the "Company") was incorporated in New York in 1988. The Company designs and manufactures paper currency validators and related paper currency stackers and markets its products in the United States and numerous international markets. Validators receive and authenticate paper currencies in a variety of automated machines, including gaming machines and beverage and vending machines which dispense products, services, coinage, and other currencies. Stackers are sold with most validators and are designed to store validated paper currency, usually in secure removable cassettes. Though the Company knows of no commercially available validator that is counterfeit-currency-proof, the Company's validators and stackers offer significant protections against tampering and counterfeit currencies and provide tamper-evident storage of validated currency. The Company's paper currency validators are adaptable to a wide variety of OEM (original equipment manufacturer) applications, offer a highly competitive level of performance, and are designed to provide ease of maintenance and repair.

Background and History

In the 1980s, a general trend developed with respect to an increase in the incorporation of paper currency validators in a large number of beverage, food and novelty vending machines which offered primarily low-priced items. Subsequent technological improvements in the sensory capabilities of validators created the ability to process high volumes of larger denomination bills which led to extensive use of validators in casino gaming machines throughout the United States. This trend accelerated during the 1990s as a result of overall growth in the United States gaming industry resulting from an increase in the number of states permitting legalized gambling and the growth of gambling facilities on Indian reservations and riverboats. Concurrently, the international gaming industry has also expanded creating a growing worldwide market for paper currency validators which the Company has sought to address since its inception.

Since incorporation, the Company's net revenues have grown from approximately \$35,000 in fiscal 1989 to approximately \$9.7 million in fiscal 1994, and to approximately \$16.7 million in fiscal 1996. Prior to January 1993, the Company's marketing efforts were directed primarily towards domestic distributors and end-users who focused on the replacement and retrofit markets for validators in amusement and gaming machines.

Commencing in January 1993, the Company began to focus its marketing efforts on OEMs of gaming machines and automated vending machines dispensing beverages, telephone cards and postage stamps. In addition, since such date, the Company has increased its marketing efforts to international customers. As a result, the Company's international sales amounted to 66.2 percent of total units sold in fiscal 1996. International sales, as a percentage of units sold, have

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increased in three of the last four years. Management believes the international market for validators may grow at a faster rate than in the United States and therefore may represent the Company's best long-term growth opportunity.

Strategy

The Company has focused its marketing efforts on those segments of the marketplace requiring a relatively high degree of security and substantial custom design work that was often not efficiently served by larger competitors, who focused primarily on the broader, higher-volume market for standardized product configurations. This "niche" strategy allowed the Company to develop domestic and international customers who were too new or too small to attract larger competitors. During fiscal 1996, while continuing its niche marketing strategy, the Company began redefining and broadening its target markets and product offerings to enable the Company to achieve market penetration and build market share in the mainstream domestic and international markets for currency validators.

In fiscal 1997, the Company intends to further utilize its existing customer base and its product technology expertise, including comprehensive currency databases covering more than 50 countries, to pursue market share in the global beverage, vending and gaming industries. To achieve this, in October 1996, the Company announced the creation of a new division to focus sales and marketing efforts on the beverage and vending industries. The Company's President, William H. Wood, was also named President of this new division. In this capacity, Mr. Wood has responsibility for all sales and marketing activities directed toward the beverage and vending industries. The creation of this new division is part of the Company's strategy to reposition itself to achieve market share growth in all segments of the global validator business.

In fiscal 1996, the Company spent approximately \$61,000 on research and development. In 1997, the Company expects to increase investment in product development and focus on providing a range of validator products - potentially including extensions of the Company's current product offering as well as new products - specifically targeting the performance and value requirements of the beverage and vending industries. The Company believes this strategy will enable it to significantly grow its overall market share both domestically and internationally.

Products

Since its inception, the Company has endeavored, through its research and development and manufacturing efforts, to provide products that fill the specific performance requirements of its customers. These requirements are continually evolving as the markets for paper currency validators continue to grow and as technological advances are incorporated into the products' design. During fiscal 1996, the Company's principal products included three basic validator models and a wide range of comprehensive currency databases and bill stacker configurations.

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The Model 125 ("M-125") is the Company's multi-country, multi-denominational validator model specifically designed for the beverage and vending industries where its space-saving up-stacker design makes it popular for use in any machine where space is at a premium. The M-125's bill stackers are fully detachable and available with capacities of 150, 300 and 600 bills.

The Model IVO ("M-IVO") is a multi-country, multi-denominational validator designed to fit machines where space is available either to the rear or downward. The M-IVO is available with locking removable cassette bill stackers in 500, 1,000 and 2,000 bill capacities and is United States Postal Service and Gaming Laboratories, Inc. approved.

The Model IDS ("IDS") represents the Company's second generation validator and features several technological advances designed specifically to meet the exacting requirements of the gaming industry. The unit is offered in a down-stack configuration which allows the bill stacker, a security removable cassette, to be reached through a separate front entrance in the gaming machine. The IDS is also available in configurations which stack the bills to the front or rear depending upon space constraints within the equipment. The front section of the validator head opens easily to allow for maintenance, repair or clearance of the currency pathway without violating the integrity of the associated security stacker. IDS models offer currency acceptance of notes up to 3.34 inches (85 mm) in width and have enhanced features for gaming and high security applications. These features include a multi-level high security validation process with side-looking sensors, an animated bill runway with "smart visuals" for customer attraction, a user selectable currency denomination acceptance and an optional bar-code reader for tickets and coupons. The IDS also offers a soft

drop analyzer ("SDA") (patent pending) as an optional feature. The SDA allows the bill cassette to maintain and track information such as: currency or coupons in the validator by quantity and denomination; the specific machine or game that the cassette was removed from; the acceptance rate of the validator; and time-in/time-out of cassette from the gaming machine. This information can be easily downloaded, via a docking station provided by the Company, to a personal computer allowing instant feedback/tracking for the machine operator.

Commencing in the first quarter of fiscal 1997, the Company introduced the Model IUS ("IUS") incorporating many of the features offered in its IDS model line. The IUS has been specifically designed for beverage and vending applications in machines where space is available above the validation unit. The Company anticipates introducing further new validator models to meet growing and changing customer requirements which could incorporate features from existing products as well as proprietary technological advances where applicable and based on costs and benefits to the customer.

Product Performance and Warranties

The Company's validator and bill stacker products are generally covered by a one-year warranty against defects in materials or workmanship, which the Company believes is standard for the industry. The Company will repair or replace, at its factory, any units which require

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warranty service. The Company does not warrant that its validators will reject all counterfeit currencies and believes there is no commercially available validator that is counterfeit-currency-proof or warranted as such.

Marketing and Sales

The Company's primary sales and marketing efforts in both domestic and international markets are conducted by an "in-house" sales force consisting of sales representatives, sales/product technicians, and customer service support personnel. In addition, sales are also generated by Coin Bill Validator (UK) Limited ("CBV-UK"), an unrelated third party. CBV-UK is based in London, U.K. and is the Company's exclusive distributor in Europe (with the exception of Italy) according to the terms of an Agent License Agreement dated July 16, 1996. Under the terms of this agreement, CBV-UK is responsible for generating sales and market development, applications support, service support and training and installation support in its stated territory. In addition, CBV-UK has agreed to certain minimum sales commitments and service support standards over the three-year term of the agreement.

In August 1996, the Company obtained a 50% interest in Coin Bill Validator South Africa (Proprietary) Limited ("CBV-SA"). CBV-SA markets and sells paper currency validators and related paper currency stackers as a principal and agent for the Company. In fiscal 1996, the results of operations of this entity were not material.

Customer Concentration and Various Risk Factors

During fiscal 1996, the Company's two largest customers accounted for 39.4 percent of units sold. Unit sales to the gaming industry accounted for approximately 60.9 percent of the Company's total units sold during such year with the remaining 39.1 percent from product applications outside of gaming.

The continued success of the Company may be dependent upon the use of paper or simulated paper currency in gaming and vending machines. A substantial diminution in the use of paper currency as a means of payment - through a return to extensive use of high-value, metal-based coinage or the widespread adoption of electronic funds transfer systems based on credit, debit or "smart-cards" - could materially and adversely affect the Company's future growth until and unless the Company develops other products that are not solely dependent on the use of paper or simulated paper currency. The Company believes that aspects of its technology and manufacturing expertise - for example, the technology applicable to electro/optical scanning and certain of its proprietary algorithms - may be applicable to products and systems for validating transactions using other than paper currency. The Company plans to thoroughly investigate such opportunities and endeavor to develop new product applications where markets for such new products may exist. However, no assurance can be given that the Company will be able to successfully develop and market such new products and systems.

Manufacturing

Since 1995, the Company's operations have been conducted from a leased facility of 40,000 square feet housing manufacturing and administrative functions in Hauppauge, New York. Manufacturing operations consist of mechanical and electro/optical assembly and the provision of wiring harnesses between components and between the validator and the gaming or vending machine in which the finished product is to be used. The Company routinely tests all components and has extensive "burn-in" procedures for both the electronic components and the final assembled product. Direct control over fabrication and testing permits the Company to shorten its production cycle and protect proprietary technology.

The Company depends on a limited number of suppliers for various stamped or formed housings, gears, cogs and wheels and electronic assemblies or components, including certain microprocessor chips. The Company believes that concentrating its purchases from its existing suppliers provides, in certain cases, better prices, better quality and consistency and more reliable deliveries. The Company maintains on-going communications with its suppliers to prevent interruptions in supply and, to date, generally has been able to obtain adequate supplies in a timely manner. The Company has entered into volume blanket agreements with selected suppliers to guard against shortages of unique components, limiting the Company's exposure to business interruptions. Furthermore, many of the electronic components used by the Company, including its microprocessors, are widely used in many applications and are available from a number of sources. However, the short wavelength light source which forms a critical part of the Company's optical scanning device is now commercially available from only a very limited number of suppliers. The Company believes that if such supply were to become unavailable, its units could be redesigned to use other light sources and still remain competitive in the marketplace. However, any interruption in the supply of key components which cannot be quickly remedied could have a materially adverse effect on the Company's results of operations.

Competition

The market for the Company's products is very competitive. Most competitors have significantly greater financial, technical, sales and marketing resources than the Company. A number of competitors offer products that target the same markets as do the Company's products.

In the domestic market, certain competitors are divisions or affiliates of manufacturers of vending machines. For example, Royal Vendors, Inc. is an affiliate of Coin Acceptors, Inc. ("Coinco") and Rowe Validator ("Rowe") is a division of Rowe International, Inc. Accordingly, such validator manufacturers enjoy a competitive advantage in providing for the significant validator requirements of their affiliates. For validators sold for use in beverage, food, snack and lower-priced goods or amusement vending, the market is dominated by Coinco, with Mars Electronics International ("MEI"), Ardac, Inc. ("Ardac") and Rowe also being significant competitors. The largest supplier of validators used in gaming machines for the

domestic market is Japan Cash Machines Co., Ltd. ("JCM"). The Company has focused marketing efforts on the higher-priced domestic validator market and competes on the basis of quality, durability and performance while maintaining a reasonable level of protection against tampering and counterfeit currencies, as well as a competitive price point.

In the international markets, the Company competes for gaming machine business with JCM, Ardac, Cashcode Company, Inc., MEI and Diversified Systems, Inc., while for product and service vending machines the Company competes with these competitors as well as Coinco, Sanyo Electric Company (primarily in the Middle East), Conlux USA Corporation, Coegis, Innovative Technology, Ltd. and various smaller local manufacturers. The Company has been more willing to address smaller markets than its larger competitors and expects to encounter increased competition as the markets addressed by its products continue to grow. The Company believes that performance, quality and protection against tampering and counterfeit currency are relatively more important and price relatively less

important, as competitive factors in the international marketplace.

Intellectual Property

The Company relies on certain proprietary know-how and trade secrets to protect its technology. Important components of this proprietary information are the Company's library of distinguishing characteristics of the currencies which its validators scan and validate and its proprietary algorithms. The Company has entered into non-disclosure and secrecy agreements with certain of its key employees having access to this technology.

In addition, the Company holds four U.S. patents as follows: "Paper Currency Acceptor and Method of Handling Paper Currency for Vending Machines and the Like," granted December 5, 1989, "Bill Accumulating and Stacking Device," granted June 21, 1994; design for "Escrow Box for Coin Operated Machines," granted April 22, 1986; and "Anti-fraud Currency Acceptor," granted November 9, 1993. The first two patents cover technology used in the Company's first and second generation validator product lines and the remaining patents cover technology used in certain special models. The Company has also applied for four additional U.S. patents, the most important of which covers the use of short wave-length light in a validator to discern the color and other characteristics of bills being scanned, the soft drop analyzer and new anti-fraud devices.

If issued, and if corresponding foreign patents are obtained, the Company believes these patents could provide important protection for certain technological advantages its validators have in international markets. However, the Company believes that it will not be materially and adversely affected if these patents are not issued. No assurances can be given that any patent applications will result in the issuance of additional patents. As of this date, the Company has received no foreign patents.

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Although the Company has not received any claims that its products infringe on the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against the Company in the future or that any such assertion may not require the Company to enter into royalty arrangements or result in protracted or costly litigation.

Government Regulation

As a supplier of paper currency validators to customers subject to gaming regulations and postal regulations, the Company is, indirectly, subject to such regulations that are reflected in customer purchase orders or customer specifications. The Company believes that it is in full compliance with such regulations. Any failure to comply with such regulations, however, could have a materially adverse effect on the results of operations of the Company.

Special Note Regarding Forward-Looking Statements

A number of statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the applicable statements. These risks and uncertainties include but are not limited to: the Company's dependence on the paper currency validator market and its potential vulnerability to technological obsolescence; the risks that its current and future products may contain errors or defects that would be difficult and costly to detect and correct; potential manufacturing difficulties; potential difficulties in managing growth; dependence on key personnel; the Company's limited customer base and reliance on a relatively small number of customers; the possible impact of competitive products and pricing; and other risks described in the Company's filings with the Securities and Exchange Commission.

Employees

On December 17, 1996 the Company had 146 employees, including 6 executives; 9 sales and customer service representatives; 27 engineers and software developers; 21 materials, quality control and quality assurance personnel; 5 administrative personnel; 7 clerical personnel; and 71 assembly/factory workers. The Company believes its relationships with its employees are good.

Item 2. Description of Property

The Company leases approximately 40,000 square feet housing manufacturing and administrative functions in Hauppauge, New York, for a term expiring March 31, 2000, at an annual base rental of \$240,000, increasing annually to approximately \$270,000 in the final year of the term. The Company believes that this facility is adequate for its manufacturing needs for the foreseeable future.

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Item 3. Legal Proceedings

Not material.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters

a) Market Information

The Company's Common Stock is listed and trades on the NASDAQ National Market System under the symbol CBVI. The following table sets forth, on a per share basis, the high and low sale prices for the Company's Common Stock for the first, second, third and fourth quarters of fiscal 1996 and for the second, third and fourth quarters of fiscal 1995.

Quarter Ended -----	Common Stock -----	
	High ----	Low ---
February 7, 1995* to March 31, 1995	11 1/4	8
June 30, 1995	15	9 3/4
September 30, 1995	12	7 1/8
December 31, 1995	8 7/8	6
March 31, 1996	7 1/4	5 1/2
June 30, 1996	13 1/2	5 1/2
September 30, 1996	11 3/4	7 3/8

*Date of initial public offering

b) Holders

The approximate number of beneficial holders of the Company's Common Stock as of December 4, 1996, was 340.

c) Dividends

The holders of Common Stock are entitled to receive such dividends as may be declared by the Company's Board of Directors. The Company has not paid and does not expect to declare or pay any dividends in the foreseeable future.

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Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Fiscal year ended September 30, 1996 vs. September 30, 1995

For the fiscal year ended September 30, 1996, the Company reported net income of

\$272,000 or \$0.10 per share as compared with \$1.551 million for the fiscal year ended September 30, 1995. On a pro forma basis, assuming a C Corporation income tax provision for the entire year, the Company earned \$1.116 million, or \$0.45 per share, in 1995. This year-to-year decline in net income is primarily attributable to an inventory write-down taken in the second quarter in the approximate amount of \$1.1 million, on a pre-tax basis. This write-down relates to certain early generation products, the future sales of which management believes will be adversely impacted by sales of newly released products. The decline also reflects increased operating expenses associated with higher facility costs and investments in additional personnel. Excluding the impact of the inventory write-down, net income would have been \$906,000 or \$.33 per share in 1996.

Net sales increased by 18.2% or \$2.568 million to \$16.693 million in 1996 as compared with \$14.125 million in 1995. The increase is attributable to increased sales of the Company's new product line of paper currency validators and related paper currency stackers to domestic and international OEM (original equipment manufacturer) customers, primarily in the gaming industry. Net sales to international customers increased substantially in 1996 and represented 73% of total net sales as compared with 37% of total net sales in 1995.

Gross profit decreased by 6.6% to \$5.257 million or 31.5% of net sales in 1996 as compared with \$5.629 million or 39.9% of net sales in 1995. The decrease was primarily due to the inventory write-down previously described as well as the result of increased overhead costs associated with the Company's new facility and increased direct and indirect labor costs. Excluding the effect of the inventory write-down, the Company's gross profit would have been \$6.389 million or 38.3% of net sales.

Operating expenses increased by 31.9% to \$4.777 million in 1996 as compared with \$3.622 million in 1995. As a percent of sales, operating expenses increased to 28.6% in 1996 as compared with 25.6% in 1995. This increase was principally due to increased staffing and related payroll costs to support the expansion of engineering and new product development efforts, increased benefit costs due to the introduction of certain employee benefits and additional bad debt expense recorded due to the financial condition of certain customers with which the Company has since changed selling terms to include letters of credit and other forms of security.

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Fiscal year ended September 30, 1995 vs. September 30, 1994

For the fiscal year ended September 30, 1995, the Company reported net income, as adjusted to reflect income taxes which would have been paid had the Company been a C Corporation for the entire period, of \$1.166 million as compared with \$1.427 million for the fiscal year ended September 30, 1994. Despite the increase in sales, net income decreased primarily due to increases in manufacturing and operating expenses necessary to support the Company's anticipated future growth.

Net sales increased by 45.7% or \$4.432 million to \$14.125 million for the fiscal year ended September 30, 1995 as compared with \$9.693 million in fiscal year 1994. This increase is attributable to increased sales of paper currency validators and related paper currency stackers to OEM customers and domestic gaming industry customers. Although sales to international customers increased, the Company's overall sales mix as a proportion of total sales shifted toward U.S. sales from international sales compared to the sales mix in the comparative period in the previous year because of the Company's one-time, large retro-fitting order for a U.S. customer. Additionally, a large portion of fiscal 1995 sales within the U.S. were related to products with lower gross margins than had been the case in the previous fiscal year.

Gross profit dollars increased by 27.2% to \$5.629 million in 1995 as compared with \$4.425 million in 1994. As a percentage of net sales, gross profit decreased to 39.9% in 1995 as compared with 45.7% of net sales in 1994. As described above, the near term trend toward U.S. sales in fiscal 1995 adversely impacted the gross profit percentage since sales to U.S. customers are generally made at lower margins than those to international customers. This decrease was also the result of increased overhead costs associated with the Company's new facility, increased product costs, increased labor costs and costs related to additional overhead, principally in manufacturing.

Operating expenses increased by 82.1% to \$3.622 million or 25.6% of net sales in 1995 as compared with \$1.989 million or 20.5% of net sales in 1994. This increase was due principally to costs associated with the Company's new facility, as well as increased staffing and related payroll costs to support expansion of engineering efforts and increased accounting, legal and selling expenses to support marketing activities associated with the Company's aggressive growth strategy.

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Liquidity and Capital Resources

The Company has no significant fixed commitments for capital expenditures. Its capital requirements consist primarily of those necessary to continue to expand its manufacturing and product development capabilities, its sales and marketing operations, and, to a lesser degree, interest payments should the Company decide to utilize borrowings to fund future growth. Historically, the Company has met its capital requirements through the sale of securities and through institutional financing. The Company believes that its available resources, including its credit facility, should be sufficient to meet its obligations as they become due and permit continuation of its expansion throughout fiscal 1997 and beyond.

In September 1996, the Company entered into an agreement with The Chase Manhattan Bank (the "Bank") for a secured line of credit in the aggregate amount of \$5,000,000 with the intent of borrowings to be made when necessary to meet short-term working capital needs. Outstanding borrowings will bear interest at rates to be determined based on the amount of the borrowings. The rate will range between the Bank's prime rate plus one-quarter of one percent per annum and, for borrowings greater than \$500,000, the option of the Reserve Adjusted London Interbank Offering Rate (LIBOR) plus 275 basis points per annum. The line of credit is secured by a first priority perfected security interest in the assets of the Company. As of September 30, 1996, no amounts were outstanding under this line of credit. This line of credit will expire on September 30, 1997. At September 30, 1996, the Company had cash of \$2.727 million.

Net cash provided by operating activities amounted to \$1.58 million in 1996. Net income of the Company, adjusted for noncash items, was \$2.075 million in 1996. This amount was offset primarily by an increase in deferred income taxes and income taxes payable of \$284,000, a decrease in accounts payable and accrued expenses of \$98,000 and an increase in inventory of \$147,000, excluding the effect of the inventory write-down. Net cash used by operating activities amounted to \$83,000 in 1995. The net income of the Company, adjusted for noncash items, amounted to \$1.914 million in 1995. This amount was augmented by an increase in accounts payable and accrued expenses of \$447,000 and an increase in deferred income taxes and income taxes payable of \$340,000, and was primarily offset by an increase in inventory of \$1.761 million and an increase in accounts receivable of \$1.197 million.

Net cash used in investing activities amounted to \$664,000 in 1996 as compared with \$469,000 in 1995. Such amounts were used for the purchase of property and equipment.

Net cash provided by financing activities amounted to \$1.83 million in 1995. Approximately \$4.0 million of the proceeds of the Company's initial public offering ("IPO") of \$6.63 million were used to make a final distribution to shareholders of the Company prior to the offering, which amount represented the accumulated "S" Corporation earnings through the date of the offering which were eligible for such a distribution pursuant to the terms of the IPO. Additionally, \$800,000 was used to repay amounts outstanding under the Company's bank line of credit.

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Fiscal 1996 saw continued moderation in the level of inflation. In order to offset the resulting rise in the costs of operations, the Company is currently attempting to reduce product manufacturing costs to increase profit margins and expects to continue this approach to cope with future cost changes.

Item 7. Financial Statements

The financial statements of the Company required by this item are set forth beginning on page F-1.

Item 8. Change in and Disagreements with Accountants on
Accounting and Financial Disclosure

None

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PART III

Items 9 through 12 inclusive are omitted per General Instruction E. The information required by Part III shall be incorporated by reference from the Registrant's definitive proxy statement pursuant to Regulation 14A for the fiscal year ended September 30, 1996.

Item 13. Exhibits, List and Reports on Form 8K

(a) Exhibits

Certain of the following exhibits were, as indicated previously, filed as Exhibits to the registration statements filed by the Registrant under the Securities Act of 1933 and are hereby incorporated by reference.

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Exhibit
No.

3.1	Certificate of Incorporation filed October 25, 1988 (1)
3.2	Certificate of Amendment dated August 6, 1993 (1)
3.3	Form of Certificate of Amendment filed November 17, 1994 (1)
3.4	Amended and Restated By-Laws (4)
9	Voting Trust Agreement dated May 23, 1996 among Odyssey Financial Company, Joan Vogel, The Joseph Vogel Revocable Trust and Stephen Katz (3)
10.1	Lease dated September 21, 1994 between the Company and Heartland Associates (1)
10.2	Employment Agreement dated August 24, 1993 between the Company and Michael Walsh (1)
10.3	Employment Agreement dated January 31, 1993 between the Company and William H. Wood (1)
10.4	Employment Agreement dated August 8, 1994 between the Company and Henry Kayser (1)
10.5	1994 Stock Option Plan (1)
10.6	Bill Validator Development and Supply Agreement dated September 2, 1994 between the Company and Aristocrat Leisure Industries Pty. Ltd. (1)
10.7	Employment Agreement dated December 1, 1994 between the Company and Robert W. Nader (2)
10.8	Form of Lock-Up Agreement (2)
10.9	Credit Agreements dated September 9, 1996 and September 10, 1996 between the Company and The Chase Manhattan Bank (4)
10.10	Security Agreement dated September 9, 1996 between the Company and

The Chase Manhattan Bank (4)

- 10.11 Agreement between the Company and certain shareholders establishing lines of credit (2)
- 10.12 Employment Agreement dated May 23, 1996 between the Company and Stephen Katz (3)
- 10.13 Agent License Agreement dated July 15, 1996 between the Company and Currency Validator International, Ltd. (4)
- 21 Subsidiaries (4)
- 27 Financial Data Schedule (4)

- (1) Incorporated by reference to the initial filings of the Registration Statement on Form SB-2.
- (2) Incorporated by reference to Amendment No. 2 to the Registration Statement.
- (3) Incorporated by reference to the Company's Report on Form 8-K dated June 7, 1996
- (4) Filed herewith.
- (b) No Reports on Form 8-K have been filed during the last quarter covered by this Report.

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.

Coin Bill Validator, Inc.

By: s/Stephen Katz

Stephen Katz
Chairman of the Board and
Chief Executive Officer

Date: December 24, 1996

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature -----	Date ----	Title -----
s/Stephen Katz ----- Stephen Katz	December 24, 1996	Chairman of the Board and Chief Executive Officer
s/William H. (Bill) Wood ----- William H. (Bill) Wood	December 24, 1996	President and Director
s/Edward Seidenberg ----- Edward Seidenberg	December 24, 1996	Director and Principal Financial Officer
s/Jay Goldberg ----- Jay Goldberg	December 24, 1996	Director
s/Richard Gerzof ----- Richard Gerzof	December 24, 1996	Director

s/Henry Ellis ----- Henry Ellis	December 24, 1996	Director
s/Joan Vogel ----- Joan Vogel	December 24, 1996	Director
s/Thomas McNeill ----- Thomas McNeill	December 24, 1996	Controller and Principal Accounting Officer
s/Henry Kayser ----- Henry Kayser	December 24, 1996	Director

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COIN BILL VALIDATOR, INC.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Coin Bill Validator, Inc.:

We have audited the accompanying balance sheets of Coin Bill Validator, Inc. (a New York corporation) as of September 30, 1996 and 1995, and the related statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coin Bill Validator, Inc. as of September 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

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COIN BILL VALIDATOR, INC.

BALANCE SHEETS

AS OF SEPTEMBER 30, 1996 AND 1995

(in 000s, except share data)

ASSETS	1996	1995
	-----	-----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,727	\$ 1,811
Accounts receivable, less allowance for doubtful accounts of \$268 and \$159, respectively	2,789	3,323
Inventory, less allowance for obsolescence of \$1,069 and \$118, respectively	3,794	4,779
Prepaid expenses	83	11
Deferred income taxes	570	119
	-----	-----
Total current assets	9,963	10,043
PROPERTY AND EQUIPMENT, net	887	460
OTHER ASSETS	53	59
	-----	-----
Total assets	\$10,903	\$10,562
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 807	\$ 1,129
Accrued expenses and other current liabilities	551	327
Income taxes payable	597	459
	-----	-----
Total current liabilities	1,955	1,915
	-----	-----
DEFERRED INCOME TAXES	29	--
	-----	-----

COMMITMENTS AND CONTINGENCIES (Note 8)

SHAREHOLDERS' EQUITY (Note 6):

Common stock, 20,000,000 shares authorized; \$.01 par value, 2,750,000 shares issued and outstanding	28	28
Additional paid-in capital	7,978	7,978
Retained earnings	913	641
	-----	-----
Total shareholders' equity	8,919	8,647
	-----	-----
Total liabilities and shareholders' equity	\$10,903	\$10,562
	=====	=====

The accompanying notes are an integral part of these balance sheets.

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COIN BILL VALIDATOR, INC.

STATEMENTS OF INCOME

FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

(in 000s, except share and per share data)

	1996	1995
NET SALES	\$ 16,693	\$ 14,125
COST OF SALES	11,436	8,496
Gross profit	5,257	5,629
OPERATING EXPENSES	4,777	3,622
INCOME FROM OPERATIONS	480	2,007
INTEREST INCOME, net	6	29
INCOME BEFORE PROVISION FOR INCOME TAXES	486	2,036
PROVISION FOR INCOME TAXES (Notes 1, 2 and 7)	214	485
NET INCOME	\$ 272	\$ 1,551
NET INCOME PER SHARE	\$ 0.10	
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	2,750,000	

The accompanying notes are an integral part of these statements.

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COIN BILL VALIDATOR, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

(in 000s, except share data)

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-in Capital	Earnings	
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE AT SEPTEMBER 30, 1994	2,000,000	\$ 20	\$ 955	\$ 3,491	\$ 4,466
Issuance of shares in initial public offering, net of expenses of \$1,620 (Note 1)	750,000	8	6,622	--	6,630
Distribution to shareholders (Note 1)	--	--	--	(4,000)	(4,000)
Retained earnings reclassified as additional paid-in capital upon termination of S Corporation election (Note 1)	--	--	401	(401)	--
Net income for the year ended September 30, 1995	--	--	--	1,551	1,551
BALANCE AT SEPTEMBER 30, 1995	2,750,000	28	7,978	641	8,647
Net income for the year ended September 30, 1996	--	--	--	272	272

BALANCE AT SEPTEMBER 30, 1996	2,750,000	\$ 28	\$ 7,978	\$ 913	\$ 8,919
	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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COIN BILL VALIDATOR, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995
(in 000s)

	1996	1995
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 272	\$ 1,551
	-----	-----
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	237	130
Provision for losses on accounts receivable	434	201
Provision for inventory obsolescence	1,132	--
Loss on disposal of fixed assets	--	32
Changes in operating assets and liabilities:		
Accounts receivable	100	(1,197)
Inventory	(147)	(1,761)
Prepaid expenses and deferred registration costs	(72)	188
Deferred income taxes	(422)	(119)
Other assets	6	(14)
Accounts payable	(322)	200
Accrued expenses and other current liabilities	224	247
Income taxes payable	138	459
	-----	-----
Total adjustments	1,308	(1,634)
	-----	-----
Net cash provided by (used in) operating activities	1,580	(83)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net of proceeds from disposals	(664)	(469)
	-----	-----
Net cash used in investing activities	(664)	(469)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable to bank	500	200
Repayment of notes payable to bank	(500)	(1,000)
Issuance of stock, net of offering expenses	--	6,630
Distribution to shareholders	--	(4,000)
	-----	-----
Net cash provided by financing activities	--	1,830
	-----	-----
Net increase in cash and cash equivalents	916	1,278
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,811	533
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,727	\$ 1,811
	=====	=====
CASH PAID DURING THE YEAR FOR:		
Interest	\$ 15	\$ 33
	=====	=====
Income taxes	\$ 497	\$ 145
	=====	=====

The accompanying notes are an integral part of these statements.

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SEPTEMBER 30, 1996 AND 1995

1. ORGANIZATION, NATURE OF BUSINESS AND INITIAL PUBLIC OFFERING OF COMMON STOCK:

Coin Bill Validator, Inc. (the "Company"), was established in 1988. The Company designs, manufactures and markets paper currency validating equipment used in vending and gaming machines in the United States and other countries.

Substantially all of the Company's revenues are derived from the sale of paper currency validators and related bill stackers, specifically the Company's M-IVO, IDS and the M-125 validator models. Fluctuations in the Company's results of operations may be caused by various factors, including the timing and market acceptance of new products introduced by the Company and its competitors, the size and timing of product orders and shipments, the relative mix of products sold by the Company, specific economic conditions in the gaming industry, from which the Company derives a substantial portion of its revenues, and general economic conditions. Additionally, the Company depends on a single or limited number of suppliers for certain housings, parts and components, including certain microprocessor chips and short wave-length light sources. The Company has entered into volume blanket purchase agreements with suppliers to guard against unique component shortages, limiting the Company's exposure to business interruptions.

Effective February 7, 1995, the Company issued 750,000 shares of common stock in an initial public offering for \$11.00 per share, generating net proceeds of approximately \$6,630,000. In connection with this offering, the Company issued warrants to the representative of the several underwriters to purchase 75,000 shares of the Company's common stock at \$13.20 per share. Concurrent with this public offering, the Company no longer qualified as a subchapter S Corporation, and became subject to subchapter C Corporation taxation from that point on. The Company has used a portion of the net proceeds to make a final distribution, to shareholders of the Company prior to the offering, of \$4 million. This amount represented the accumulated S Corporation earnings through the date of the offering which were eligible for such a distribution pursuant to the terms of the initial public offering, which terms limited such distribution to a maximum of \$4 million. Upon termination of the S Corporation election, \$401,000 of S Corporation retained earnings which were not distributed to shareholders were reclassified as additional paid-in capital.

Significant Customers

For the fiscal year ended September 30, 1996, the three largest customers of the Company accounted for approximately 37%, 9% and 9% of net sales, respectively. Net sales to international customers were approximately 73% of total net sales in fiscal 1996.

For the fiscal year ended September 30, 1995, the three largest customers of the Company accounted for approximately 16%, 13% and 6% of net sales, respectively. Net sales to international customers were approximately 37% of total net sales in fiscal 1995.

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2. SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents

Cash equivalents are stated at cost which approximated market value. Highly liquid investments with maturities of three months or less at the purchase date are considered cash equivalents for purposes of the balance sheets and statements of cash flows.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market value.

Property and Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (Note 4) or, in the case of leasehold improvements, the life of the related lease, whichever is shorter. Maintenance and repair costs are charged to expense as incurred. Expenditures which significantly increase value or extend useful asset lives are capitalized.

Research and Development

Research and development costs incurred by the Company are included in operating expenses in the year incurred. Such costs amounted to \$61,000 and \$72,000 in the years ended September 30, 1996 and 1995, respectively.

Costs aggregating \$350,000 related to certain research and development for product development were funded by a customer through fiscal 1995. The terms of the Company's agreement with its customer provided for repayment of such costs as sales of the Company's products were made to this customer. Through September 30, 1995, approximately 64% of the contractually agreed number of units were sold. The remaining units under the contract were sold and billed accordingly during the year ended September 30, 1996.

Warranty Policy

The Company warrants that its products are free from defects in material and workmanship for a period of one year from the date of initial purchase. The warranty does not cover any losses or damage that occur as a result of improper installation, misuse or neglect and repair or modification by anyone other than the Company. Warranty costs within one year of purchase have historically been immaterial to the Company's results of operations. Warranty costs beyond one year from the date of initial purchase are charged to the Company's customers.

Income Taxes

Effective October 1, 1990, the Company elected status as an S Corporation and, therefore, had not been subject to federal income tax as a separate entity. Instead, the shareholders were taxed on the Company's income, whether or not distributed, and they were entitled to deduct Company losses, if any, to the extent of the tax basis each shareholder had in the Company's common shares. The

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Company was subject to certain corporate taxes on the state level. In connection with its initial public offering effective February 7, 1995, the Company terminated its S Corporation election and the Company's income subsequent to this date became subject to taxation as a subchapter C Corporation. The Company has, accordingly, provided for income taxes as a C Corporation for the period from February 7, 1995 through September 30, 1995 and for the year ended September 30, 1996 in the accompanying financial statements (Note 7).

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires an asset and liability approach for financial reporting for income taxes. Under SFAS 109, deferred taxes are provided for temporary differences between the carrying values of assets and liabilities for financial reporting and tax purposes at the enacted rates at which these differences are expected to reverse.

Net Income Per Share

Net income per share was computed by dividing the Company's net income by the weighted average number of common shares outstanding during the year ended September 30, 1996. Fully diluted net income per share has not been presented because the inclusion of stock options outstanding (Note 6) would not have a dilutive impact in excess of 3% with respect to net income per share.

Use of Estimates

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. Actual results could differ from those estimates.

Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to the current year's presentation.

Recently Issued Accounting Standards

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". This statement establishes financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. This statement is effective for financial statements for fiscal years beginning after December 15, 1995, although earlier application is encouraged. The Company expects that the adoption of this statement in fiscal 1997 will not have a material adverse effect on the financial position or results of operations of the Company.

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In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation". This statement establishes financial accounting and reporting standards for stock-based employee compensation plans. SFAS No. 123 encourages entities to adopt a fair value based method of accounting for stock compensation plans. However, SFAS No. 123 also permits the Company to continue to measure compensation costs under pre-existing accounting pronouncements. If the fair value based method of accounting is not adopted, SFAS No. 123 requires pro forma disclosures of net income (loss) per common share in the financial statements. The accounting requirements of SFAS No. 123 are effective for transactions entered into in fiscal years that begin after December 15, 1995. The disclosure requirements of SFAS No. 123 are effective for financial statements for fiscal years beginning after December 15, 1995, or for an earlier fiscal year for which SFAS No. 123 is initially adopted for recognizing compensation cost. The Company will adopt this statement in fiscal 1997 by providing the required pro forma disclosures.

3. INVENTORY:

The following is a summary of the composition of inventory as of September 30, 1996 and 1995:

	(in 000s)	
	1996	1995
Raw materials	\$2,257	\$3,272
Work-in-process	1,278	1,048
Finished goods	259	459
	\$3,794	\$4,779

4. PROPERTY AND EQUIPMENT, NET:

Major classifications of property and equipment as of September 30, 1996 and 1995 are as follows:

		(in 000s)	
	Useful Lives	1996	1995
Leasehold improvements	5 years	\$ 129	\$ 94
Furniture and fixtures	5-7 years	131	84
Machinery and equipment	5-10 years	453	147
Computer software	5 years	370	257
Computer hardware	3 years	231	68
		1,314	650
Less: Accumulated depreciation and			

amortization

(427)

(190)

\$ 887

\$460

=====

====

5. NOTES PAYABLE TO BANK:

On May 18, 1994, the Company borrowed \$200,000 of an available \$400,000 credit line from a bank under the terms of a demand note which provided for interest at one percent (1%) above the bank's prime rate (7.75% at September 30, 1994).

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In September 1994, the Company borrowed \$600,000 from a bank, as evidenced by a promissory note. The loan was to be repaid in forty-eight consecutive monthly installments of principal and interest commencing October 30, 1994 and thereafter through September 30, 1998. The note bore interest at a fluctuating rate per annum equal to one and one half percent (1.5%) above the bank's prime rate (7.75% at September 30, 1994). The proceeds of the loan were used to repay certain notes payable to and amounts due to shareholders then outstanding.

During fiscal 1995, the Company repaid these demand and promissory notes.

In March 1996, the Company borrowed \$500,000 from a bank under a business loan agreement. The loan was to be repaid in thirty-six consecutive monthly installments of principal and interest commencing April 1, 1996 and thereafter through March 1, 1999. The note bore interest at an annual rate of eight and one-half percent. The proceeds of the note were used to satisfy working capital requirements for an interim period. The note was repaid in its entirety in July 1996.

6. SHAREHOLDERS' EQUITY:

Stock Split

In October 1994, the Company's Board of Directors approved a 1.64-to-one stock split in the form of a stock dividend to the Company's common shareholders of record at October 19, 1994. The new shares were issued to such shareholders of record on November 10, 1994. Par value remained at \$.01 per share. The stock dividend resulted in the issuance of 780,420 additional shares of common stock, for a total of 2,000,000 common shares outstanding. This action required shareholder approval of a proposal to amend the Company's Certificate of Incorporation to increase the number of authorized common shares from 2,000,000 to 20,000,000. All information contained in the financial statements has been retroactively restated to give effect to this stock split.

Stock Option Plans

In October 1994, the Company adopted the 1994 Stock Option Plan (the "1994 Plan") covering up to 150,000 of the Company's common shares pursuant to which officers, directors and key employees of the Company and consultants to the Company are eligible to receive incentive and/or non-qualified stock options. In March 1996, the Board of Directors adopted the 1996 Stock Option Plan (the "1996 Plan"), subject to shareholder approval. The purpose and provisions of the 1996 Plan are essentially the same as the 1994 Plan. The 1996 Plan originally covered 200,000 of the Company's common shares. The total shares available for grant under the 1996 Plan were subsequently increased to 450,000, as approved by the Board of Directors, in September 1996.

Both the 1994 Plan, which expires on October 17, 2004, and the 1996 Plan, which expires on March 18, 2006, will be administered by the Compensation and Stock Option Committee of the Board of Directors. The selection of participants, grant of options, determination of price and other conditions relating to the exercise of options will be determined by the Compensation and Stock Option Committee of the Board of Directors.

Incentive stock options granted under both the 1994 and 1996 Plans are exercisable for a period of up to 10 years from the date of grant at an exercise price which is not less than the fair market value of the common shares on the date of the grant, except that the term of an incentive stock option granted under each of the plans to a shareholder owning more than 10% of the outstanding common shares may not exceed five years and its exercise price may not be less than 110% of the fair market value of the common shares on the date of the

During fiscal 1995, incentive stock options for 25,000 shares and 15,000 shares, exercisable at the initial offering price during a five-year period, had been granted under the 1994 Plan to the Company's president and one other officer, respectively. These options are exercisable for one-fifth of the shares immediately and for an additional one-fifth of the shares covered thereby on the first four anniversaries of the date of grant. During fiscal 1996, 50,000 incentive stock options and 50,000 non-qualified options were granted to the Chairman and Chief Executive Officer of the Company under the 1994 Plan. These options will become exercisable over a three-year vesting period as to one-third of the shares covered on each of the first three anniversaries after the date of grant. During fiscal 1996, a total of 206,750 options were granted under the 1996 Plan, including 128,750 non-qualified options to an officer and various non-employee directors and consultants of the Company. These non-qualified options will become exercisable between three and five years from the grant date in equal amounts of covered shares commencing with the first anniversary from the date of grant, with the exception of 11,000 options which will become exercisable in March 1997. The incentive stock options issued under the 1996 Plan all have five year vesting periods.

Transactions involving the Stock Option Plans are summarized as follows:

	For the Fiscal Years Ended September 30,	
	1996	1995
Options outstanding, beginning of period	40,000	--
Granted	306,750	40,000
Exercised	--	--
Canceled	--	--
Options outstanding, end of period	346,750	40,000
Options exercisable, end of period	16,000	8,000
Exercise price per share for options outstanding, end of period	\$6.00 - \$11.00	\$ 11.00

At September 30, 1996, there were 10,000 shares available for grant under the 1994 Plan and 243,250 shares available for grant under the 1996 Plan.

7. INCOME TAXES:

Concurrent with the consummation of the initial public offering during fiscal 1995, the Company no longer qualified as a subchapter S Corporation and became a subchapter C Corporation.

The provision for income taxes is comprised of the following:

	For the Fiscal Years Ended September 30, (in 000s)	
	1996	1995
Current:		
Federal	\$ 558	\$ 439
State and local	197	165
	755	604
Deferred:		
Federal	(400)	(94)

State and local	(141)	(25)
	-----	-----
	(541)	(119)
	-----	-----
Total	\$ 214	\$ 485
	=====	=====

Significant components of deferred tax assets and liabilities are as follows:

	September 30, 1996 (in 000s)

Non-current deferred tax liability:	
Depreciation	\$ (29)

Current deferred tax assets:	
Accounts receivable	111
Inventory	438
Accrued liabilities	21

	570

Net deferred tax asset	\$ 541
	=====

The Company believes that, based upon its consistent history of profitable operations, it is probable that the net deferred tax assets will be realized, primarily from the generation of future taxable income.

Reconciliation of the statutory Federal income tax rate to the Company's effective tax rate is as follows:

	For the Fiscal Years Ended September 30,	

	1996	1995
	----	----
U.S. Federal statutory rate	34.0%	34.0%
State income taxes, net of Federal benefit	7.6	7.6
Income from S Corporation period taxable to shareholders	--	(18.7)
All other, net	2.4	.9
	----	----
Effective income tax rate	44.0%	23.8%
	=====	=====

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8. COMMITMENTS AND CONTINGENCIES:

Minimum Lease Commitments

The operations of the Company are conducted in leased premises. The Company also leases various office equipment. At September 30, 1996, the approximate minimum annual rentals under these leases, which expire in fiscal year 2000, were as follows:

For the Fiscal Year Ended September 30,	(in 000s)
-----	-----
1997	\$290
1998	272
1999	279
2000	141

Total rent expense for all operating leases was \$278,000 and \$215,000 in fiscal 1996 and 1995, respectively.

Employment Agreements

The Company has entered into various employment agreements with five officers

and two other employees of the Company expiring through the end of fiscal 1999, with minimum compensation requirements as follows:

For the Fiscal Year Ended September 30, -----	(in 000s) -----
1997	\$862
1998	311
1999	121

Line of Credit

In September 1996, the Company entered into an agreement with The Chase Manhattan Bank (the "Bank") for a secured line of credit in the aggregate amount of \$5,000,000 with the intent of borrowings to be made when necessary to meet short-term working capital needs. Outstanding borrowings will bear interest at rates to be determined based on the amount of the borrowings. The rate will range between the Bank's prime rate plus one-quarter of one percent per annum and, for borrowings greater than \$500,000, the option of the LIBOR rate plus 275 basis points per annum. The line of credit is secured by a first priority perfected security interest in the assets of the Company. As of September 30, 1996, no amounts were outstanding under this line of credit. This line of credit will expire on September 30, 1997.

Litigation

There are various claims, lawsuits and disputes with third parties against the Company incident to the operation of its business. It is the opinion of management and its counsel that their ultimate resolution will not have a materially adverse effect on the Company's financial position or results of operations.

AMENDED AND RESTATED

BY-LAWS

of

COIN BILL VALIDATOR, INC.

ARTICLE I

SHAREHOLDERS

Section 1. Annual Meeting - An annual meeting of shareholders shall be held in each year at the date, time and place (either within or without the State of New York) as shall be fixed by the Board of Directors and specified in the notice of meeting for the purpose of electing directors and transacting such other business as may properly be brought before the meeting.

Section 2. Special Meeting - A special meeting of shareholders may be called at any time by the Chairperson or President and shall be called by the Secretary at the request in writing of a majority of the Board of Directors then in office or at the request in writing filed with the Secretary by the holders of a majority of the issued and outstanding shares of the capital stock of the Corporation entitled to vote at such meeting. Any such request shall state the purpose or purposes of the proposed meeting. Special meetings shall be held at such time, date and place (either within or without the State of New York) as shall be specified in the notice thereof. Business transacted at any special meeting of shareholders shall be confined to the purposes set forth in the notice thereof.

Section 3. Notice of Meetings - Written notice of the time, and place and purpose of every meeting of shareholders (and, if other than an annual meeting, indicating the person or persons at whose discretion the meeting is being convoked), shall be given by the Chairperson, President, a Vice-President or by the Secretary to each shareholder of record entitled to vote at such meeting and to each shareholder who, by reason of any action proposed at such meeting, would be entitled to have his stock appraised if such action were taken, not less than ten nor more than fifty days prior to the date set for the meeting, either personally or by mailing said notice by first class mail to each shareholder at his address appearing on the stock book of the Corporation or at such other address supplied by him in writing to the Secretary of the Corporation for the purpose of receiving notice. Notice by mail

shall be deemed to be given when deposited, postage prepaid, in a post office or official depository under the exclusive care and custody of the United States

Post Office Department. The record date for determining the shareholders entitled to such notice shall be determined by the Board of Directors in accordance with Section 6 of ARTICLE FIFTH of these By-Laws.

If the directors shall adopt, amend or repeal a by-law regulating an impending election of directors the notice of the next meeting of shareholders for the election of directors shall set forth the by-law so adopted, amended or repealed together with a concise statement of the changes made as required by Section 601(b) of the Business Corporation Law. If any action is proposed to be taken which would, if taken, entitle shareholders to receive payment for their shares, the notice of meeting shall include a statement to such effect.

A written waiver of notice setting forth the purposes of the meeting for which notice is waived, signed by the person or persons entitled to such notice, whether before or after the time of the meeting stated therein, shall be deemed equivalent to the giving of such notice. The attendance by a shareholder at a meeting either in person or by proxy without protesting the lack of notice thereof shall constitute a waiver of notice of such shareholder.

All notice given with respect to an original meeting shall extend to any and all adjournments thereof and such business as might have been transacted at the original meeting may be transacted at any adjournment thereof; no notice of any adjourned meeting need be given if an announcement of the time and place of the adjourned meeting is made at the original meeting.

Section 4. Quorum - The holders of a majority of the shares of stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of shareholders for the transaction of business except as otherwise provided by statute or the Certificate of Incorporation. If, however, a quorum shall not be present or represented at any meeting of shareholders, the shareholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. When a quorum is once present to organize a meeting, such quorum is not deemed broken by the subsequent withdrawal of any shareholders.

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Section 5. Voting - Every shareholder entitled to vote at any meeting shall be entitled to one vote for each share of stock entitled to vote and held by him of record on the date fixed as the record date for said meeting and may so vote in person or by proxy. At all elections of directors when a quorum is present, a plurality of the votes cast by the holders of shares entitled to vote shall elect and any other corporate action, when a quorum is present, shall be authorized by a majority of the votes cast by the holders of shares entitled to

vote thereon except as may otherwise be provided by statute or the Certificate of Incorporation.

Section 6. Proxies - Every proxy must be signed by the shareholder entitled to vote or by his duly authorized attorney-in-fact and shall be valid only if filed with the Secretary of the Corporation or with the Secretary of the meeting prior to the commencement of voting on the matter in regard to which said proxy is to be voted. No proxy shall be valid after the expiration of eleven months from the date of its execution unless otherwise expressly provided in the proxy. Every proxy shall be revocable at the pleasure of the person executing it except as otherwise provided by Section 609 of the Business Corporation Law. Unless the proxy by its terms provides for a specific revocation date and except as otherwise provided by statute, revocation of a proxy shall not be effective unless and until such revocation is executed in writing by the shareholder who executed such proxy and the revocation is filed with the Secretary of the Corporation or with the Secretary of the Meeting prior to the voting of the proxy.

Section 7. Shareholders' List - A list of shareholders as of the record date, certified by the Secretary of the Corporation or by a transfer agent appointed by the Board of Directors shall be prepared for every meeting of shareholders and shall be produced by the Secretary or some other officer of the Corporation thereat.

Section 8. Inspectors at Meetings - In advance of any shareholders' meeting, the Board of Directors may appoint one or more inspectors to act at the meeting or at any adjournment thereof and if not so appointed the person presiding at any such meeting may, and at the request of any shareholder entitled to vote thereat shall, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties as set forth in Section 611 of the Business Corporation Law, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability.

Section 9. Conduct of Meeting - All meetings of shareholders shall be presided over by the Chairperson, or if not present, by the President, or if neither the Chairperson nor the President is present by a Vice-President or if none of such persons is present, by a chairperson thereby chosen by the shareholders at the meeting.

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The Secretary of the Corporation, or in his absence, an Assistant Secretary, shall act as secretary of every meeting but if neither the Secretary nor the Assistant Secretary is present, the chairperson of the meeting shall appoint any person present to act as secretary of the meeting.

ARTICLE II

BOARD OF DIRECTORS

Section 1. Function and Definition - The business and property of the Corporation shall be managed by its Board of Directors who may exercise all the powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the shareholders.

Section 2. Number and Qualification - The number of directors constituting the entire Board shall be not less than three nor more than fifteen, as may be fixed by resolution of the Board of Directors; provided that any such action of the Board shall require the vote of a majority of the entire Board. The phrase "entire Board" as used herein means the total number of directors which the Corporation would have if there were no vacancies. The term of any incumbent director shall not be shortened by any such action by the Board of Directors or by the shareholders.

Each director shall be at least twenty-one years of age. A director need not be a shareholder, a citizen of the United States or a resident of the State of New York.

Section 3. Election Term and Vacancies - Except as otherwise provided in this Section, all directors shall be elected at the annual meeting of shareholders and all directors who are so elected or who are elected in the interim to fill vacancies and newly created directorships, shall hold office until the next annual meeting of shareholders and until their respective successors have been elected and qualified.

In the interim between annual meetings of shareholders, newly-created directorships resulting from an increase in the number of directors or from vacancies occurring in the Board, but not, except as hereinafter provided, in the case of a vacancy occurring by reason of removal of a director by the shareholders, may be filled by the vote of a majority of the directors, then remaining in office, although less than a quorum may exist.

In the case of vacancy occurring in the Board of Directors by reason of the removal of one or more directors by action of the

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shareholders, such vacancy may be filled by the shareholders at a special meeting duly called for such purpose.

In the event a vacancy is not filled by such election by shareholders, whether or not the vacancy resulted from the removal of a director with or without cause, a majority of the directors then remaining in office, although less than a quorum, may fill any such vacancy.

Section 4. Removal - The Board of Directors may, at any time, with cause,

remove any director.

The shareholders entitled to vote for the election of directors may, at any time, remove any or all of the directors with or without cause.

Section 5. Meetings - The annual meeting of the Board of Directors for the election of officers and the transaction of such other business as may come before the meeting, shall be held, without notice, immediately following the annual meeting of shareholders, at the same place at which such shareholders' meeting is held.

Regular meetings of the Board of Directors shall be held at such time and place, within or outside the State of New York, as may be fixed by resolution of the Board, and when so fixed, no further notice thereof need be given. Regular meetings not fixed by resolution of the Board may be held on notice at such time and place as shall be determined by the Board.

Special meetings of the Board of Directors may be called on notice at any time by the Chairperson or the President, and shall be called by either at the written request of a majority of the directors then in office.

Section 6. Notice of Meeting - In the case of all special meetings and of regular meetings not fixed by resolution of the Board, written notice of the time and place of each such meeting shall be mailed to each director, addressed to his residence or usual place of business, not less than four days before the date on which such meeting is to be held, or shall be sent to such address by telegraph, or be given personally, or by telephone, not less than one day before the date on which such meeting is to be held. The notice of the meeting need not specify the purpose of the meeting.

Any meeting of the Board of Directors for which notice is required by these By-Laws or by statute need not be given to any director who submits a signed Waiver of Notice whether before or after the meeting, or who attends the meeting without protesting

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prior thereto or at its commencement the lack of notice to him. All signed Waivers of Notice shall be filed with the minutes of the meeting.

Section 7. Conduct of Meetings - The Chairperson, or not present, the President, shall preside at all meetings of directors. At all meetings at which neither the Chairperson nor the President is present, any other director chosen by the Board shall preside.

Section 8. Quorum, Adjournment, Voting - Except as otherwise provided by the Certificate of Incorporation, a majority of the entire Board shall be requisite and shall constitute a quorum at all meetings of the Board of Directors for the transaction of business. Where a vacancy or vacancies prevents

such majority, a majority of the directors then in office shall constitute a quorum.

A majority of the directors present at any meeting, whether or not a quorum is present, may adjourn the meeting to another time and place without further notice other than an announcement at the meeting.

Except as otherwise provided by the Certificate of Incorporation, when a quorum is present at any meeting, a majority of the directors present shall decide any questions brought before such meeting and the act of such majority shall be the act of the Board.

Section 9. Action Without Meeting - Any action required or permitted to be taken by the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of any committee thereof consent in writing to the adoption of a resolution authorizing the action.

Any one or more members of the Board of Directors or of any committee thereof may participate in a meeting of said Board or of any such committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and participation by such means shall constitute presence in person at the meeting.

Section 10. Compensation of Directors - The Board of Directors may determine, from time to time, the amount of compensation which shall be paid to its outside (non-employee) members. The Board of Directors shall also have power, in its discretion, to allow a fixed sum for attendance at each regular or special meeting of the Board of Directors, or of any Committee of the Board of Directors; in addition, the Board of Directors shall also have power, in its discretion, to provide for and pay to directors rendering services to the Corporation not ordinarily rendered by directors, as such, special compensation appropriate to

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the value of such services, as determined by the Board of Directors from time to time. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving reasonable compensation therefor.

Section 11. Committees - The Board of Directors, by resolution of a majority of the entire Board, may designate from among its members one or more committees, each consisting of three or more directors, and each of which, to the extent provided in such resolution, shall have all the authority of the Board except that no such committee shall have authority as to any of the following matters:

(a) the submission to stockholders of any action as to which stockholders' authorization or approval is required by statute, the Certificate of

Incorporation or by these By-Laws;

(b) the filing of vacancies in the Board of Directors or in any committee thereof;

(c) the fixing of compensation of the directors for serving on the Board or on any committee thereof;

(d) the amendment or repeal of these By-Laws or the adoption of new By-Laws; and

(e) the amendment or repeal of any resolution of the Board of Directors which by its terms shall not be so amendable or repealable.

The Board may designate one or more directors as alternate members of any such committee who may replace any absent member or members at any meeting of such committee.

Each such committee shall serve at the pleasure of the Board. The Board of Directors shall have the power at any time to fill vacancies in, to change the membership of, or to discharge any such committee. Committees shall keep minutes of their proceedings and shall report the same to the Board of Directors at the meeting of the Board next succeeding, and any action by the committee shall be subject to revision and alteration by the Board of Directors, provided that no rights of a third party shall be affected in any such revision or alteration.

Section 12. Nomination of Board Members - Only persons who are nominated in accordance with the procedures set forth in this Section 12 shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of shareholders (i) by or at the direction of the Board of Directors or (ii) by any

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nominating committee or person appointed by the Board of Directors or (iii) by any shareholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 12. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to notice in writing to the Secretary of the Corporation, which notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 30 days nor more than 60 days prior to the meeting; provided, however, that in the event that less than 40 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, any notice of nomination by the shareholder must be so received not later than the close of business on the 10th day following the earlier of (i) the day on which such notice of the date of the meeting was mailed or (ii) the day on which such public disclosure was made.

A shareholder's notice of nomination shall set forth (a) as to each person

whom the shareholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares that are entitled to vote of the Corporation which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a director, if elected); and (b) as to the shareholder giving the notice (i) the name and address, as they appear on the Corporation's books, of such shareholder and (ii) the class and number of shares that are entitled to vote of the Corporation which are beneficially owned by such shareholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a director shall furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as director of the Corporation.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 12. The Chairperson of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the By-Laws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

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ARTICLE III

OFFICERS

Section 1. Executive Officers - The officers of the Corporation shall not be limited in number and shall include a Chairperson of the Board, a Vice-Chairperson of the Board, a Chief Executive Officer, a President, a Chief Financial Officer, one or more Vice Presidents, a Secretary, a Treasurer and such Assistant Secretaries and Assistant Treasurers and other officers as the Board of Directors may determine. Any two or more offices may be held by the same person (except the offices of President and Secretary) , unless all of the issued and outstanding shares of capital stock of the Corporation are owned by one person, in which event such person may hold all or any combination of offices.

Section 2. Election - The Chairperson of the Board, the Vice-Chairperson of the Board, the Chief Executive Officer and the President shall be chosen from among the directors and together with one or more Vice-Presidents, the Chief Financial Officer, the Secretary and the Treasurer shall be elected by the Board of Directors to hold office until the meeting of the Board held immediately following the next annual meeting of shareholders and shall hold office for the

term for which elected and until their successors have been elected and qualified. The Board of Directors may from time to time appoint all such other officers as it may determine and such officers shall hold office from the time of their appointment and qualifications until the time at which their successors are appointed and qualified. A vacancy in any office arising from any cause may be filled for the unexpired portion of the term by the Board of Directors.

Section 3. Removal - Any officer may be removed from office by the Board at any time with or without cause.

Section 4. Delegation of Powers - The Board of Directors may from time to time delegate the power or duties of any officer of the Corporation, in the event of his absence or failure to act otherwise, to any other officer or director or person whom they may select.

Section 5. Compensation - The compensation of each officer shall be such as the Board of Directors may from time to time determine.

Section 6. Chairperson of the Board of Directors - The Chairperson of the Board of Directors shall preside at all meetings of the Board of Directors, unless the Chairperson delegates these powers to another director and meeting of shareholders. The Chairperson shall exercise the powers and perform the duties usual

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to a Chairperson and shall be the person, on behalf of the Board to whom the Chief Executive Officer and Chief Financial Officer reports. The Chairperson shall see that all orders and resolutions of the Board of Directors are carried into effect; and shall do and perform such other duties as from time to time may be assigned to the Chairperson by the Board of Directors. The Chairperson shall have the power to execute bonds, mortgages and other contracts, agreements and instruments of the Corporation. Unless otherwise ordered by the Board of Directors, the Chairperson, or another officer of the Corporation designated by the Chairperson, shall have full power and authority on behalf of the Corporation to attend and to act and to vote at any meetings of security holders of corporations in which the Corporation may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities, and which, as the owner thereof, the Corporation might have possessed and exercised, if present. The Board of Directors by resolution from time to time may confer like powers upon any other person or persons.

Section 7. Vice-Chairperson of the Board of Directors - The Vice-Chairperson of the Board of Directors shall, in the absence of the Chairperson, act as chairperson of all meetings of the Board of Directors and at all special and annual meetings of the shareholders. The Vice-Chairperson shall perform such other duties as may from time to time be assigned to the Vice-Chairperson by the Board. In the event that the position of

Vice-Chairperson shall be vacant, the duties of the Vice-Chairperson shall be performed by the Chief Executive Officer.

Section 8. Chief Executive Officer - The Chief Executive Officer shall have general supervision and discretion of the business and affairs of the Corporation, subject to the control of the Board. The Chief Executive Officer may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments. The Chief Executive Officer shall, when requested, counsel and advise the other officers of the Corporation and shall perform such other duties as the Board may from time to time determine. In the event that the position of Chief Executive Officer shall be vacant, the duties of the Chief Executive Officer shall be performed by the President.

Section 9. President - The President shall be the chief operating officer of the Corporation and shall be in charge of the day to day operations and affairs of the Corporation. The President may sign and execute in the name of the Corporation contracts and other instruments in connection with the day to day operations and affairs of the Corporation. The President shall perform such other duties as the Chief Executive Officer or the Board may from time to time determine.

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Section 10. Vice Presidents - Each Vice president shall have such powers and perform such duties as the Board of Directors may from time to time prescribe. In the absence or inability of the President to perform his duties or exercise his powers, the Vice president or, if there be more than one, a Vice President designated by the Board, shall exercise the powers and perform the duties of the president subject to the direction of the Board of Directors.

Section 11. Secretary - The Secretary shall keep the minutes of all meetings and record all votes of shareholders, the Board of Directors and committees in a book to be kept for that purpose. He shall give or cause to be given any required notice of meetings of shareholders, the Board of Directors or any committee, and shall be responsible for preparing or obtaining from a transfer agent appointed by the Board, the list of shareholders required by Article II, Section 7 thereof. He shall be the custodian of the seal of the Corporation and shall affix or cause to be affixed the seal to any instrument requiring it and attest the same and exercise the powers and perform the duties incident to the office of the Secretary subject to the direction of the Board of Directors.

Section 12. Chief Financial Officer - The Chief Financial Officer shall be the chief financial and accounting officer of the Corporation and shall be responsible for and shall supervise the preparation of any financial reports and projections related to the operations of the Corporation. The Chief Financial Officer shall render a statement of the conditions of the finances of the Corporation at each regular meeting of the Board of Directors, at each annual meeting of the shareholders and at such other times as shall be required. The

Chief Financial Officer shall report directly to the President and shall perform such other duties as the Chief Executive Officer or the Board may from time to time determine.

Section 13. Other Officers - All other officers, if any, shall have such authority and shall perform such duties as may be specified from time to time by the Board of Directors.

ARTICLE IV

RESIGNATIONS

Any director or officer of the Corporation or any member of any committee of the Board of Directors of the Corporation, may resign at any time by giving written notice to the Board of Directors, the President or the Secretary. Any such resignation

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shall take effect at the time specified therein or, if the time is not specified therein, upon the receipt thereof, irrespective of whether any such resignation shall have been accepted.

ARTICLE V

CERTIFICATE REPRESENTING SHARES

Section 1. Form of Certificates - Each shareholder shall be entitled to a certificate or certificates in such form as prescribed by the Business Corporation Law and by any other applicable statutes, which Certificate shall represent and certify the number, kind and class of shares owned by him in the Corporation. The Certificates shall be numbered and registered in the order in which they are issued and upon issuance the name in which each Certificate has been issued together with the number of shares represented thereby and the date of issuance shall be entered in the stock book of the Corporation by the Secretary or by the transfer agent of the Corporation. Each certificate shall be signed by the Chairperson, President or a Vice President and countersigned by the Secretary or Assistant Secretary and shall be sealed with the Corporate Seal or a facsimile thereof. The signature of the officers upon a certificate may also be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or an employee of the Corporation. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before the certificate is issued, such certificate may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the time of its issue.

Section 2. Consideration - A certificate representing shares shall not be issued until the full amount of consideration therefor has been paid to the

Corporation, except if otherwise permitted by Section 504 of the Business Corporation Law.

Section 3. Lost Certificates - The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation, alleged to have been lost, mutilated, stolen or destroyed, upon the making of an affidavit of that fact by the person so claiming and upon delivery to the Corporation, if the Board of Directors shall so require, of a bond in such form and with such surety or sureties as the Board may direct, sufficient in amount to indemnify the Corporation and its transfer agent against any claim which may be made against it or them on account of the alleged loss, destruction, theft or mutilation of any such certificate or the issuance of any such new certificate.

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Section 4. Fractional Share Interests - The Corporation may issue certificates for fractions of a share where necessary to effect transactions authorized by the Business Corporation Law; or it may pay in cash the fair market value of fractions of a share as of the time when those entitled to receive such fractions are determined; or it may issue scrip in registered or bearer form over the manual or facsimile signature of an officer of the Corporation or its agent, exchangeable as therein provided for full shares, but such scrip shall not entitle the holder to any rights of a shareholder except as therein provided.

Section 5. Share Transfers - Upon compliance with provisions restricting the transferability of shares, if any, transfers of shares of the Corporation shall be made only on the share record of the Corporation by the registered holder thereof, or by his duly authorized attorney, upon the surrender of the certificate or certificates for such shares properly endorsed with payment of all taxes thereon.

Section 6. Record Date for Shareholders - For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof or to express consent or dissent from any proposal without a meeting, or for the purpose of determining the shareholders entitled to receive payment of any dividend or the allotment of any rights, or for the purpose of any other action, the Board of Directors may fix, in advance, a date as the record date for any such determination of shareholders. Such date shall not be more than fifty nor less than ten days before the date of any meeting nor more than fifty days prior to any action taken without a meeting, the payment of any dividend or the allotment of any rights, or any other action. When a determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof, unless the Board fixes a new record date under this Section for the adjourned meeting.

Section 7. Shareholders of Record - The Corporation shall be entitled to

treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of New York.

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ARTICLE VI

FISCAL YEAR

The fiscal year of the Corporation shall be for an annual period ending on the 30th day of September of each year. By resolution duly adopted, the Board of Directors may alter such fiscal year.

ARTICLE VII

CORPORATE SEAL

The Corporate seal shall have inscribed thereon the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "New York" and shall be in such form and contain such other words and/or figures as the Board of Directors shall determine. The Corporate seal may be used by printing, engraving, lithographing, stamping or otherwise making, placing or affixing, or causing to be printed, engraved lithographed, stamped or otherwise made, placed or affixed, upon any paper or document, by any process whatsoever, an impression, facsimile or other reproduction of said Corporate seal.

ARTICLE VIII

BOOKS AND RECORDS

There shall be maintained at the principal office of the Corporation books of account of all the Corporation's business and transactions.

There shall be maintained at the principal office of the corporation or at the office of the Corporation's transfer agent a record containing the names and addresses of all shareholders, the number and class of shares held by such and the dates when they respectively became the owners of record thereof.

ARTICLE IX

INDEMNIFICATION OF DIRECTORS, OFFICERS EMPLOYEES AND AGENTS

Any person made or threatened to be made a party to an action or proceeding, whether civil or criminal, by reason of the fact that he, his testator or intestate, then is or was a director,

officer, employee or agent of the Corporation, or then serves or has served any other corporation in any capacity at the request of the Corporation, shall be indemnified by the Corporation against reasonable expenses, judgments, fines and amounts actually and necessarily incurred in connection with the defense of such action or proceeding or in connection with an appeal therein, to the fullest extent permissible by the laws of the State of New York. Such right of indemnification shall not be deemed exclusive of any other rights to which such person may be entitled.

ARTICLE X

AMENDMENTS

The shareholders entitled at the time to vote in the election of directors and the Board of Directors by vote of a majority of the entire Board, shall have the power to amend or repeal these By-Laws and to adopt new By-Laws, provided, however, that any by-law adopted, amended or repealed by the Board of Directors may be amended or repealed by the shareholders entitled to vote thereon as herein provided.

[Letterhead of Chase Manhattan Bank]

September 9, 1996

Mr. Edward D. Seidenberg
Vice President & Chief Financial Officer
Coin Bill Validator, Inc.
425-B Oser Avenue
Hauppauge, NY 11788

Dear Ed,

Based upon our preliminary discussions and investigations, The Chase Manhattan Bank (the "Bank") is willing to consider the extension of a secured line of credit (the "Line") outlined below to Coin Bill Validator, Inc. (the "Borrower"). This letter is made available for discussion purposes only and as such does not constitute an agreement to lend on the part of the Bank, but rather serves merely as an expression of our interest in discussing further the possibility of structuring a credit facility for the Borrower and a summary of some basic terms and conditions which may serve as a basis for negotiation between us.

The Line might, for example, consist of the following:

Line and Amount: A \$5,000,000 secured line of credit (the "Line") which would be used by the Borrower for working capital. The Line would cancel and replace any existing lines of credit currently extended to the Borrower. Advances under the Line would be subject to the sole discretion of the officers of the Bank, to the execution and delivery of such documentation as the Bank deems necessary and appropriate and the receipt and continuing satisfaction with current financial and other information. The Bank would, among other things, require full repayment of the Line for a consecutive thirty (30) day period. Any Line arrangement would expire upon one (1) year following its inception.

Collateral: A first priority perfected security interest in all personal property of the Borrower, whether now owned or hereafter acquired and wherever located, including, without limitation, accounts, inventory, machinery, equipment, fixtures, chattel

paper, insurance proceeds, contract rights, cash, bank accounts, documents, instruments and general intangibles.

Interest Rate: The Bank is considering pricing for the Line as: (i) The Chase Manhattan Bank's Prime Rate (floating), the rate publicly announced at its principal office from time to time as its "Prime Rate" (360 day basis), plus 1/4 of 1% or (ii) the Reserve Adjusted London Interbank Offering Rate (LIBOR) plus 275 basis points per annum (360 day basis) for periods of one, three or six months (subject to availability) but in any event not beyond the Line expiration date and for amounts not less than \$500,000. The LIBOR option would be subject to appropriate yield protection language relating to changes in reserves, laws, regulations, etc.

Administration Fee: \$2,500

Documentation: All loan, guaranty, security and other documents would be provided by the Bank and would be required to be mutually acceptable to the Borrower and the Bank. The Borrower would be required to reimburse the Bank for all out-of-pocket expenses, including, but not limited to, fees of the Bank's counsel incurred in connection with the preparation and execution of the required documentation, whether or not the Line transaction contemplated herein is ultimately consummated, up to an amount not to exceed \$2,000 in the aggregate.

Obviously, many terms and conditions of the Line require further negotiation between us and approval of the Credit Committee of the Bank must be obtained. However, additional terms and conditions would include, without limitation, the following:

- (i) receipt and satisfactory review by the Bank of a summary aging of accounts receivable (by account) of the Borrower for the most recent fiscal month end;
- (ii) receipt and satisfactory review by the Bank of UCC searches in all of the appropriate jurisdictions;
- (iii) all legal matters to be satisfactory to the Bank's counsel;
- (iv) satisfactory customer, supplier and bank checkings;
- (v) receipt and satisfactory review by the Bank of any additional information, documentation, reports or

certifications, not specified above, that the Bank deems necessary

As previously mentioned, this letter does not represent an agreement to lend by the Bank, and is subject to the successful negotiation of the terms of the Line, satisfactory review of all appropriate legal documentation by the Bank and its counsel and credit approval of the transaction contemplated herein by the Bank.

Should you have any questions concerning our interest in considering the Line, please do not hesitate to contact me. I look forward to speaking with you at your earliest convenience to discuss this matter further.

Very truly yours,

THE CHASE MANHATTAN BANK

Carolyn Bhattangi

Exhibit 10.9

[Letterhead of Chase Manhattan Bank]

September 10, 1996

Mr. Edward D. Seidenberg
Vice President & Chief Financial Officer
Coin Bill Validator, Inc.
425B Oser Avenue
Hauppauge, NY 11788

Dear Ed,

We are pleased to advise you that based upon your annual financial statements for the fiscal year ending September 30, 1995, The Chase Manhattan Bank (the "Bank") has approved your request for a secured line of credit for Coin Bill Validator, Inc. in the aggregate amount of \$5,000,000. The line of credit will be secured by a first priority perfected security interest in all personal property of Coin Bill Validator, Inc. Our officers may, at their discretion, make short-term loans to Coin Bill Validator, Inc. on such terms as are mutually agreed upon between us from time to time.

Borrowings under this line of credit are intended to be used to meet your normal short-term working capital needs and will bear interest at such a rate as shall be mutually agreed upon by each of us from time to time. This line of credit has an associated administration fee of \$2,500, payable in advance.

It is a condition that all outstandings under the line be repaid for a consecutive 30 day period before the expiration date of this line.

As this line is not a commitment, credit availability is, in addition, subject to your execution and delivery of such documentation as the Bank deems appropriate and the receipt and continuing satisfaction with current financial

information, which information will be furnished to the Bank as it may from time to time reasonably request. This line of credit expires on September 30, 1997.

We are pleased to be of service and trust you will call upon us to assist in any of your banking requirements.

Very truly yours,

/s/ Sallyanne K. Ballweg

Exhibit 10.10

SECURITY AGREEMENT
(General Purpose)

This Agreement made this _____ day of _____, 1996 between CHEMICAL BANK (herein called "Bank") and Coin Bill Validator, Inc. (herein called "Borrower").

1. DEFINITIONS OF TERMS USED HEREIN. (a) "Borrower" includes all individuals executing this agreement as parties hereto and all members of a partnership when Borrower is a partnership, each of whom shall be jointly and severally liable individually and as partners hereunder. (b) "Liability" or "liabilities" includes all liabilities (primary, secondary, direct, contingent, sole, joint or several) due or to become due, or that may be hereafter contracted or acquired, of Borrower (including Borrower and any other person) to Bank, including without limitation all liabilities arising under or from any note, loan or credit agreement, letter of credit, guaranty, draft, acceptance, interest rate or foreign exchange agreement or any other instrument or agreement of (or the responsibility of) the Borrower or any loan, advance or other extension of credit or financial accommodation to Borrower by Bank. (c) "Proceeds" means whatever is received when Collateral is sold, exchanged, leased, collected or otherwise disposed of and includes the account arising when the right to payment is earned under a contract. (d) "Security interest" means a lien or other interest in Collateral which secures payment of a liability or performance of an obligation. (e) "Collateral" means the property described in Section 2 hereof and the following described property of the Borrower:

All personal property, whether now or hereafter existing or now owned or hereafter acquired and wherever located, including but not limited to: (i) all goods, inventory, equipment, accounts, furniture, fixtures, instruments documents, chattel paper and general intangibles and all additions and accessions thereto; (ii) all products and proceeds of the foregoing, in any form (including, without limitation, all claims against third parties for loss or damage to or destruction of any or all of the foregoing); and (iii) all books, records and other property relating to any of the foregoing.

All terms used herein which are also defined in the New York

or any other applicable Uniform Commercial Code shall also have at least the meanings herein as therein defined.

2. SECURITY INTEREST. As security for the payment of all loans and other extensions of credit or other financial accommodations now or in the future made by Bank to Borrower and all other liabilities of Borrower to Bank, Borrower hereby grants to Bank a security interest in the above described Collateral and all and any Proceeds arising therefrom and all and any products of the Collateral.

DELETE
IF NOT
APPLICABLE

| The proceeds of the loan hereby obtained by the Borrower
| will be used to purchase the Collateral.
|

Borrower represents and warrants that it is the sole lawful owner of the Collateral, free and clear of any liens, and encumbrances, and has the right and power to pledge, sell, assign and transfer absolute title thereto to Bank and that no financing statement covering the Collateral, other than the Bank's, is on file in any public office.

To further secure the Liabilities, the Borrower hereby grants, pledges and assigns to the Bank a continuing lien, security interest and right of set-off in and to all money, securities and all other property of the Borrower, and the proceeds thereof, now or hereafter actually or constructively held or received by or for the Bank, Chemical Securities, Inc. or any other affiliate of the Bank for any purpose, including safekeeping, custody, pledge, transmission and collection, and in and to all of the Borrower's deposits (general and special) and credits with the Bank, Chemical Securities, Inc. or any other affiliate of the Bank. Borrower authorizes Bank to deliver to others a copy of this Agreement as written notification of the Borrower's transfer of a security interest in the foregoing property. The Bank is hereby authorized at any time and from time to time, without notice, to apply all or part of such money, securities, property, proceeds, deposits or credits to any of the Liabilities in such amounts as the Bank may elect in its sole and absolute discretion, although the Liabilities may then be contingent or unmatured and whether or not the collateral security may be deemed adequate.

3. USE OF COLLATERAL. Until default, Borrower may use the Collateral in any lawful manner. If the Collateral is or is about to become affixed to realty, Borrower will, at Bank's request, furnish the Bank a writing executed by the mortgagee of the realty whereby the mortgagee subordinates its rights

and priorities to the Bank's security interest in the Collateral. If the Collateral is or may become subject to a landlord's lien, the Borrower will at Bank's request, furnish the Bank with a landlord's waiver satisfactory in form to the Bank.

COMPLETE | If goods, the Collateral will be used primarily as _____
IF |
APPLICABLE | (Equipment in business, inventory for sale or lease, Farming, Personal, Family or Household.)

4. INSURANCE. Borrower will have and maintain insurance on the Collateral until this Agreement is terminated against all expected risks to which it is exposed, including fire, theft and collision, and those which the Bank may designate, such insurance to be payable to Bank and Borrower as their interest may appear; all policies shall provide for thirty (30) days' written minimum cancellation notice to the Bank. Bank may act as attorney for Borrower in obtaining, adjusting, settling and cancelling such insurance.

5. DEFAULT. Default shall exist hereunder (1) if the Borrower shall fail to pay any amount of the Liabilities when due or if the Borrower shall fail to keep, observe or perform any provision of this Agreement or of any note, or other instrument or agreement between Borrower and Bank relating to any Liabilities or if any default or Event of Default specified or defined in any such note, instrument or agreement shall occur, (2) if the Borrower shall or shall attempt to (a) remove or allow removal of the Collateral from the county where the Borrower now resides or change the location of its chief executive office or principal place of business, (b) sell, encumber or otherwise dispose of the Collateral or any interest therein or permit any lien or security interest (other than the Bank's) to exist thereon or therein, (c) conceal, hire out or let the Collateral, (d) misuse or abuse the Collateral, or (e) use or allow the use of the Collateral in connection with any undertaking prohibited by law; (3) if bankruptcy or insolvency proceedings shall be instituted by or against the Borrower, or (4) if the Collateral shall be attached, levied upon, seized in any legal proceedings, or held by virtue of any lien or distress, or (5) if the Borrower shall make any assignment for the benefit of creditors, or (6) if the Borrower shall fail to pay promptly all taxes and assessments upon the Collateral or the use thereof, or (7) if the Borrower shall die, or (8) if the Bank with reasonable cause determines that its interest in the Collateral is in jeopardy, or (9) if Borrower should fail to keep the collateral suitably insured. In the event of default or the breach of any undertaking of or conditions to be performed by the Borrower (1) all liabilities shall become immediately due and payable, and (2) the Borrower agrees upon demand to deliver the Collateral to the Bank, or the Bank may, with or without legal process, and with or without previous notice or demand for performance, enter any premises wherein the Collateral may be, and take possession of the same, together with anything therein; and the Bank may make disposition of the Collateral subject to any and all applicable provisions of the law. If the Collateral is sold at

public sale, Bank may purchase the Collateral at such sale. The Bank, provided it has sent the statutory notice of default, may retain from the proceeds of such sale all reasonable costs incurred in the said taking and sale and also, all sums then owing by the Borrower, and any surplus of any such sale shall be paid to the Borrower.

6. GENERAL AGREEMENTS. (a) Borrower agrees to pay the costs of filing financing statements and of conducting searches in connection with this Agreement. (b) Borrower agrees to allow the Bank through any of its officers or agents, at all reasonable times, to examine or inspect any of the Collateral and to examine, inspect and make extracts from the Borrower's books and records relating to the Collateral. (c) Borrower will promptly pay when due all taxes and assessments upon the Collateral or for its use of operation or upon the proceeds thereof or upon this Agreement or upon any note or other instrument or agreement evidencing any of the liabilities. (d) At its option, the Bank may discharge taxes, liens or security interests or other encumbrances at any time levied or placed on the Collateral, and may pay for the maintenance and preservation of the Collateral, and the Borrower agrees to reimburse the Bank on demand for any payment made or any expense incurred by the Bank pursuant to the foregoing authorization, including outside or in-house counsel fees and disbursements incurred or expended by the Bank in connection with this Agreement. (e) Borrower hereby authorizes the Bank to file financing statements and any amendments thereto without the signature of Borrower. Such authorization is limited to the security interest granted by this Agreement. (f) Borrower agrees that the Bank has the right to notify (on invoices or otherwise) account debtors and other obligors or payors on any Collateral of its assignment to the Bank and that all payments thereon should be made directly to the Bank and that the Bank has full power and authority to collect, compromise, endorse, sell or otherwise deal with the Collateral on its own name or that of the Borrower at any time. (g) The Borrower agrees to pay or reimburse the Bank on demand for all costs and expenses incurred by it in connection with the administration and enforcement of this Agreement and the administration, preservation, protection, collection or realization of any Collateral (including outside or in-house attorneys' fees and expenses). (h) The Bank shall not be deemed to have waived any of its rights hereunder or under any other agreement, instrument or paper signed by the Borrower unless such waiver is in writing and signed by the Bank. No delay or omission on the part of the Bank in exercising any right shall operate as a waiver thereof or of any other right. A waiver upon any one occasion shall not be construed as a bar or a waiver of any right or remedy on any future occasion. All of the rights and remedies of the Bank, whether evidenced hereby or by any other Agreement, instrument or paper, shall be cumulative and may be exercised singly or concurrently. (i) This Agreement shall be governed by and construed in accordance with the laws of the State of New York. (j) This Agreement, and the security interests, obligations, rights and remedies created hereby, shall inure to the benefit of the Bank and its successors and assigns and be binding upon the Borrower and its heirs, executors, administrators, legal representatives, successors and assigns.

7. EXECUTION BY BANK. This Agreement shall take effect immediately upon execution by the Borrower, and the execution hereof by the Bank shall not be required as a condition to the effectiveness of this Agreement. The provision

for execution of this Agreement by the Bank is only for purposes of filing this Agreement as a Security Agreement under the Uniform Commercial Code, if execution hereof by the Bank is required for purposes of such filing.

All reference to Chemical Bank,
The Chase Manhattan Bank, N.A.
or The Chase Manhattan Bank,
(National Association) shall mean
The Chase Manhattan Bank, a
New York State chartered bank.

Coin Bill Validator, Inc.

(Borrower)

By /s/ Edward D. Seidenberg

Edward D. Seidenberg VP & CFO
425-B Oser Avenue

(Number and Street)

Hauppauge, Suffolk, NY 11788

(City, County, State)

Places of business in counties other than above.

CNEMICAL BANK Nassau Middle Market cc: 1142

Bank Designation

By _____
(Name and Title)

Address 395 N. Service Rd., Melville, NY 11747

(Number, Street, City)

COIN BILL VALIDATOR, INC.
LICENSED DISTRIBUTOR PROGRAM

CURRENCY VALIDATOR INTERNATIONAL (CVI, Ltd.)

July 1, 1996

Agent License Agreement

I. Introduction

This agreement is made as of the 15 day of July, 1996 by and between Coin Bill Validator, Inc. ("Coin Bill), a New York manufacturing company whose main products include bank note validators and accessories, and Currency Validator International, Ltd. ("CVI"), a London based company with know how regarding Coin Bill's products and world-wide experience in marketing and supporting these products. This agreement sets for the terms and conditions under which CVI will distribute product of Coin Bill (the "Products) in the countries outlined in Article III. Within the context of this Agreement, CVI will be responsible for providing sales/market development, applications support, service support (warranty and non-warranty), training and installation support. Coin Bill's responsibility within the Agreement is to provide factory product support, applications support and market support to CVI along with participation in critical market development decisions.

Any changes to the licensing terms and conditions set forth herein must be mutually confirmed by both parties in writing. The original document will be maintained as an appendix to any current agreement along with a summary section outlining the nature of any agreed upon changes. This policy is established so that an accurate record of modifications can be maintained throughout the business relationship between the two parties.

Any dispute or controversy arising under or in connection with this Agreement shall, unless otherwise expressly provided herein, be settled exclusively by arbitration conducted before a panel of three arbitrators in New York City (or such other place as may be mutually agreed upon by the parties hereto) in accordance with the rules of the American Arbitration Association then in effect. The expense of such arbitration shall be borne by such parties and in such proportions as the arbitrators shall determine.

This Agreement does not prejudice or forfeit any prior legal rights the parties may have had as a result of previous dealings.

Unless sooner terminated as hereinafter provided, the term of this Agreement shall be for the period beginning on July 1, 1996 and ending on June 30, 1999.

II. Licensed Distributor:

For the countries highlighted in Article III, the agent representing Coin Bill will be:

Currency Validator International, Ltd. (CVI, Ltd.)
Principals: Joseph Danenza, Managing Director
 Robert W. Dunn, General Manager/Secretary
Argyll House
All Saints Passage
London, SW18 1EP
Telephone: 011-44-181-871-3566
Facsimile: 011-44-181-871-3858

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For the purposes of this agreement, the principals listed above are considered key individuals for the operation of the agency. Any proposed changes in this management structure or ownership will be submitted to Coin Bill and this Agreement's continuation is subject to the written approval of such changes by Coin Bill. Such approval will not be unreasonably withheld.

Under this agreement, CVI, Ltd. will not represent any competitive currency validator products and accessories. This exclusion would include sales, service, marketing and analysis for competitive units.

CVI is an independent contractor. It is not to be deemed an agent of Coin Bill and has no authority to bind or commit Coin Bill to any term, condition or agreement unless specifically authorized thereunder.

As part of this Agreement CVI, Ltd. will change its name to reflect a closer relationship with Coin Bill Validator, Inc. The new company name will be:

Coin Bill Validator (UK) Limited, CBV (UK), Ltd.

Within this agreement, CVI, Ltd. will continue to be referenced by the current company name. Upon termination of this Agreement for any reason, CVI will change its name to a name dissimilar to Coin Bill, and Coin Bill will be granted rights to the CBV (UK), Ltd. title for future use.

III. Market Place Territories:

CVI will have the exclusive rights to distribute Products in the countries listed below (collectively by "Territory"). These rights will extend to all markets and industries that can be developed by CVI within the Territory, and include the right to appoint sub-distributors, service operators and the like, subject to approval by Coin Bill. Such approval not to be unreasonably withheld.

Any inquiries or contacts made by customers within the Territory directly to Coin Bill will be referred to CVI.

Except as indicated in this Article III, Coin Bill will not sell directly to clients who are discovered to be reselling or redistributing Product into the Territory, unless the Product is incorporated as an integral part of a host machine.

In the case where CVI has existing customers or develops new customers outside the Territory (due to example through marketing efforts and contacts), both parties, when required, will review on a case-by-case the long term support and compensation to CVI of these customers.

Coin Bill has the right to make the final determination as to the disposition of such customers.

The countries which initially are included in the Territory are as follows:

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- o Austria
- o Albania
- o Belgium
- o Bulgaria
- o Czech Republic
- o Denmark
- o Estonia
- o Finland
- o France
- o Germany
- o Hungary
- o Iceland
- o Irish Republic
- o Latvia
- o Lithuania
- o Luxembourg
- o Monaco
- o Netherlands
- o Norway
- o Poland
- o Portugal
- o Romania

- o Slovak Republic
- o Spain
- o Sweden
- o Switzerland
- o United Kingdom
- o The Former Yugoslavia

The parties will periodically evaluate the sales results under this Agreement and may, by mutual agreement, restrict or expand the list of countries comprising the Territory.

Anything to the contrary notwithstanding:

1. While Germany is within the Territory, the company ADP-Gauselmann Group will continue to be marketed and supported directly by Coin Bill. CVI will not be entitled to compensation, or credits for any purpose, for any Product sales made to this company, provided such Products are for fitting to ADP-Gauselmann group products.
2. While CVI is entitled to special pricing for sales with the Territory, it will not receive compensation for Units sold to an International company, through a buying office, located outside the Territory and shipped to one of its subsidiaries or distributors with the Territory, provided these Units are for fitting to that Company's products.
3. CVI will not be required to provide free warranty support for Products sold under the 1. or 2. above. However, CVI will provide technical repair on such Products, at Coin Bill's request, at prices referred to in Article VII.

IV. License Agreement Performance Terms:

As CVI begins to service and develop the markets in the Territory, it will have an established goal for a minimum number of Coin Bill Validator ("Units"). This goal is set as a measure to be used in assessing CVI's ability to effectively market, promote and support the Products. The number of Units to be sold by CVI for each of the next three contract years, i.e. July 1st to June 30th of each year commencing on July 1, 1996 is:

1st Contract Year:	5,000 Units
2nd Contract Year:	7,500 Units
3rd Contract Year:	10,000 Units

For purposes of determining the minimum number of Units sold each year, a Unit sale shall be defined as a Unit (Validator) ordered by a customer of CVI and shipped to such customer. If CVI does not make the minimum number of Unit sales

in any contract year, Coin Bill shall have the option to terminate this agreement by notice in writing to CVI at any time within 90 days after the end of such contract year. In the event of such termination, CVI will be allowed, from receipt of notice, a further period of 120 days trading under this Agreement, to allow transition of CVI's business, and to enable Coin Bill to arrange alternative warranty cover on Products sold by CVI.

In addition, Coin Bill shall have the right to terminate this Agreement upon 120 days prior notice, if CVI defaults on any of its obligation hereunder.

In case of termination of the Agreement, CVI shall be responsible for providing warranty support for Products sold by CVI through the 120 day period of business transition. To assure that there are sufficient funds to cover any unfunded warranty repairs for the six months following the business transition, Coin Bill will have the right to hold back a reserve of up to \$5,000 owing to CVI. At the end of the six months, Coin Bill will provide CVI with a detailed listing of warranty support costs during the period and refund the remaining balance of the reserve to CVI.

CVI agrees that for the term of the agreement, and for one year thereafter, it will not directly or indirectly compete with Coin Bill or with its licensed distributors in the manufacture or sale of currency validators, equipment or accessories in the Territory. CVI will also cause its principals by separate instruments to agree that they will not individually or collectively engage in such a competitive business during the foregoing period.

It is contemplated that Coin Bill and CVI will meet every six months to discuss the status of their arrangement under this Agreement, at which time they will discuss such topics as customer lists, pricing, marketing strategies and possible amendments to this Agreement.

V. Additional Obligations of the Parties:

1. CVI will perform the following services as a licensed distributor of Coin Bill:

(a) CVI will actively promote and sell the Products within the Territory, and provide installation service when and if required in connection with its sale of the Products.

(b) CVI will support Coin Bill's warranty program (currently one year for parts and labor), and at a repair and service facility ("Repair Facility"), designated by CVI and approved by Coin Bill, in the Territory. The Repair Facility shall provide free repairs and replacements for Products that fail to perform as warranted within the warranty period.

(c) CVI will also provide repair and parts replacement service at

its Repair Facility for Products no longer covered by the Coin Bill warranty, and charge for the labor and parts used in accordance with Article VII.

(d) CVI will maintain at its Repair Facility, a stock of spare parts in amounts recommended by Coin Bill to meet its warranty and non-warranty service obligations hereunder.

(e) CVI will use reasonable efforts to achieve its goals in advertising and promoting its Products in the Territory in accordance with an advertising budget to be agreed to by the parties hereto, and in consideration of a standard or level recommended by Coin Bill.

(f) CVI will provide training for its customers in the use and maintenance of the Products.

(g) CVI shall furnish to Coin Bill with 15 days after the expiration the period ending three months from the date hereof, and within 15 days after the expiration of each successive three month period, details on the sale by it, of Products during each such three month period with a separate accounting of the sales by CVI of Products shipped to it on consignment. Coin Bill shall have the right, upon reasonable notice to CVI, to review CVI's books and records in order to verify the sales figures reported by CVI.

2. Coin Bill shall have the following responsibilities:

(a) Coin Bill will sell Products to CVI on the terms and at prices set forth herein, or in the schedules referred to herein as such terms and schedules may be amended from time to time.

(b) Coin Bill will supply the Repair Facility, at Coin Bill's expense, with the necessary tools and equipment to enable such facility to provide the repair services which CVI is obligated to perform under this Agreement. Such tools and equipment shall remain the property of Coin Bill. CVI and the Repair Facility shall maintain such tools and equipment in good order and repair, and shall return such tools and equipment to Coin Bill on termination of the Agreement.

(c) Coin Bill will provide CVI, or the Repair Facility, with the prescribed number of warranty parts for each 100 Units sold to CVI. These parts will be sold to CVI on a

consignment basis. CVI shall pay for such parts promptly (Net 30 days) upon their sale or utilization in connection with its repair and replacement obligations, the price of such parts to be paid Coin Bill to be at the prices set forth in Coin Bills then current price list. Parts used under warranty repair obligations by CVI are to be returned for Credit to Coin Bill, if requested. Coin Bill will then provide CVI with additional parts on consignment

for further repair requirements.

(d) Coin Bill will, at its expense, provide CVI with Exchange Units. Coin Bill shall provide or have will have provided previously to CVI, each contract year, with such number of Exchange Units as are equal to 2% of the total number of Units sold by CVI in the prior contract year. In the first contract year, Coin Bill will provide such number of Exchange Units as equal 2% of the number of Units it estimates CVI will sell during such contract year.

3. CVI agrees to execute such documents and take such action as may be necessary to preserve Coin Bill's interest in the tools and equipment, and in the Products sold to it on consignment. This protection should be in the form of an insurance policy which adequately covers the value of such items. The cost of such an insurance would be borne by CVI.

VI. Product Line Pricing Program:

CVI will be responsible for marketing and servicing the following Coin Bill production models:

Model IDS (Ivo Down Stack)
Model IVO
Model 125

in addition to all other currency validator modules, variants and accessories released by Coin Bill during the period of the Agreement.

Pricing structure that is offered to CVI from Coin Bill is provided in the attached pricing tables. Included in the pricing structure are the recommended selling prices to CVI, for OEM and Operator levels. While there are customer situations that might require a minimal deviation (less than 5%) from the listed pricing, CVI should (but is not required) to follow the recommended retail pricing structure. CVI acknowledges that all customers have the right to check suggested retail pricing, ex works Hauppauge, NY.

This policy is established to protect both parties. By following the pricing list, customers will have no incentive to try and bypass CVI and obtain Products directly from the factory. Additionally, the pricing structure will protect Coin Bill's ability to compete within global markets.

Coin Bill and CVI will formulate a policy and procedures for generating formal quotations to customers.

CVI is a recognized distributor in the Territory and will be responsible for handling day-to-day customer contact and follow-up. However, this representation will not preclude any customer from contacting Coin Bill directly to obtain confirmation of pricing or additionally technical

support. Coin Bill will routinely alert CVI about such contract and at all times try to let CVI continue the follow-up.

Coin Bill will refer all new business inquiries emanating from the Territory to CVI. During the term of the Agreement, Coin Bill will not sell directly into the Territory. However, if such sales, other than those referred to in Article III, do occur by mutual consent of both parties to retain a customer, CVI will be entitled to compensation equivalent to the margin normally derived from the sale which it would otherwise have earned had it made the sales as well as credit for the sale for purposes of determining whether it has met its minimum annual sales figures.

VII. Service Support And Service Pricing Structure:

CVI will be responsible for providing warranty support for the Products sold under the terms of Coin Bill's warranty program currently being 12 months parts/labor (from date of shipment). If the incidence of failed Units under warranty exceeds 5% of the total number of Units shipped to CVI, over the preceding contract or business year, Coin Bill will compensate CVI for the cost to CVI of the excess warranty work performed, including parts used.

In the case of Units previously sold and shipped into the Territory by Coin Bill, warranty repairs will be charged to Coin Bill.

While Coin Bill will not set the pricing structure for non-warranty support, CVI estimates that the cost will be \$25.00/hour labor, plus parts and shipping. This cost is consistent with pricing policies used by Coin Bill.

Spare parts are to be provided by Coin Bill to CVI at a cost of 1.75 times the cost of such parts to Coin Bill. Suggested selling price to the customer would be 1.75 times the CVI cost plus the cost of shipping and duties. Overall, the end costs to the customer of CVI would be consistent in pricing structure if the customer were to buy directly from the factory, ex works Hauppauge, NY.

As an example of parts pricing for a part costing Coin Bill \$1.00, CVI would pay a price of \$1.75. CVI would in turn charge the customer a price of \$3.06, plus the cost of shipping and duties.

VIII. Payment Terms And Schedules:

CVI's payment terms are set at Net 30 days from date of shipment. However, as the business opportunities grow and potential account balances increase there will be an established policy to protect Coin Bill's receivable in the International market. This policy will be as follows:

To secure the accounts receivable balance, binding Letters of Credit (LC's) will be required for any purchase order exceeding \$5,000 which will cause the outstanding receivable owing by CVI to Coin Bill to exceed \$100,000. This LC will guarantee Coin Bill payment for the shipment within the Net 30 day terms.

Payment schedules for the Products are to remain at a maximum Net 30 days for any LC. If those terms are to vary for a particular customer or shipment, Coin Bill and CVI shall agree on such variation before a final commitment is made to the order.

Invoices settled within a 10 day period will carry a 2% discount.

IX. Shipping:

The standard shipping structure established will be that the goods are Sold To and Shipped To CVI. At the time of order, CVI will clearly indicate if the Ship To address will be different from the established policy.

CVI should be responsible for establishing the method of shipment and carrier based on customer request and pricing shown in the attached schedules reflect, ex works Hauppauge, NY. Coin Bill will assist in shipping coordination of the product and with a carrier if a specific company is not established on an order.

Freight charges and method of shipment will be provided to CVI prior to the delivery of the product for their review in all cases where it is possible, given the time frame of delivery.

X. Optional Company Acquisition Proposal:

As part of this Agreement, CVI grants Coin Bill the right to acquire the assets and stock of CVI, at any time during the 12 months from the start of this Agreement.

If Coin Bill wishes to exercise its right herein, at any time during the first 12 month period, it will make an offer on the following basis:

- (i) Coin Bill will nominate an independent assessor.
- (ii) CVI will nominate an independent assessor
- (iii) The two assessors in parts (i) and (ii) above will nominate a third assessor

The assets of CVI will be evaluated by taking into account previous trading and recognition in the market place, existing company staff, goodwill of the business, number of Units sold in the first year, number of Units on order and projected sales. If the acquisition offer is prior to the completion of the first year, then the number of Units sold in the first year will be estimated on performance to date.

If within the first 12 month period, CVI receives an offer to purchase all, or

substantially all of its assets and stock ("third party offer"), it will so advise Coin Bill of the details of the third party offer, and give Coin Bill the right to purchase such assets and stock at the same price, and on the same terms as contained in the third party offer. If Coin Bill does not accept such an offer within 60 days after its receipt, CVI shall be free to consummate the sale pursuant to the third party offer within 60 days after the expiration of Coin Bill's review period.

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XI. Agreement Signature Approval:

Coin Bill Validator, Inc.

/s/ William H. Wood July 18, 1996

William H. Wood, President/COO

/s/ Robert W. Nader 7-18-96

Robert W. Nader, VP Product/Market Development

Currency Validator International, Ltd.

/s/ Joseph Danenza 18 JULY 1996

Joseph Danenza, Managing Director

/s/ Robert W. Dunn 18 JULY 1996

Robert W. Dunn, General Manager/Secretary

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Exhibit 21

Principal Subsidiaries of Coin Bill Validator. Inc.

Name of Subsidiary	Jurisdiction Incorporation	Percentage Ownership by the Registrant
Coin Bill Validator South Africa (Proprietary) Ltd.	South Africa	50%

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