USA Technologies Announces Fourth Quarter and Fiscal Year 2013 Results

September 27, 2013

Fiscal 2013 Service Revenues Up 29%; Total Revenues Up 24% (year over year)

Connections to ePort Connect Service Up 30% (year over year)

Substantial Improvements in Profitability and Cash Generation

MALVERN, Pa.--(BUSINESS WIRE)-- USA Technologies, Inc. (NASDAQ:USAT) ("USAT"), a leader of wireless, cashless payment and M2M telemetry solutions for small-ticket, self-serve retailing industries, today reported results for the fourth quarter and full fiscal year ended June 30, 2013.

Fiscal 2013 financial highlights, compared to the prior year, included:

- 29% increase in license and transaction fee revenues to $30.0 million, representing 84% of total revenues for the 2013 fiscal year;
- 24% increase in total revenues to $35.9 million;
- Adjusted EBITDA of $5.8 million up from an Adjusted EBITDA loss of ($2.8) million;
- GAAP net income of $0.9 million from a GAAP net loss of ($5.2) million; and,
- Non-GAAP net income of $0.9 million, up from a non-GAAP net loss of ($3.8) million (fiscal 2013 excludes $0.3 million of Other income for change in fair value of warrants and $0.3 million in proxy expenses and fiscal 2012 excludes $1.8 million Other income for change in fair value of warrants and $3.2 million in proxy and separation expenses).

Total connections to USAT's cashless payment and M2M telemetry service, ePort Connect®, grew by 30% during fiscal 2013, with 18,000 net connections achieved in the fourth quarter. In addition, USAT's customer base expanded to 5,050 customers as of June 30, 2013, a 53% increase from the prior fiscal year, with 525 new customers in the fourth quarter.

After accrual for preferred dividends, net earnings per common share, diluted, for fiscal 2013 was $0.01 compared to a net loss per common share of ($0.18) for Fiscal 2012. On a non-GAAP basis, net income per common share, diluted, was $0.01 for fiscal 2013, improving from a net loss per common share of ($0.14) for fiscal 2012.

Cash generated from operations was $6.0 million for fiscal 2013 compared to $0.08 million for fiscal 2012, an increase due primarily to substantial improvements in operating performance over the course of fiscal 2013 when compared to 2012. Cash and cash equivalents stood at approximately $6.0 million as of June 30, 2013.

Stephen P. Herbert, USA Technologies' chairman and chief executive officer, commented, "During fiscal 2013, we achieved tremendous improvements in profitability, while making great strides in developing new services and marketing partnerships that extend USAT's capabilities across multiple channels of the small-ticket, unattended market. We continued to lead cashless payment adoption in the sizable vending market with the industry's largest menu of cashless payment services, including our ***MORE*** loyalty program and the upcoming Isis Mobile Wallet "fifth vend free" promotion —relatively new value-added services that we believe are only beginning to shape how a cashless payment platform can be optimized in our market segment.

"In addition, we took important steps toward leveraging USAT's ePort Connect service platform in several other, equally opportunistic markets such as laundry, transportation and amusement in fiscal 2013. For example, during the fourth quarter, we kicked off our new relationship with Setomatic Systems, a leading provider of cashless payment acceptance devices in the commercial and multi-unit housing laundry markets, with the transfer of over 5,000 of their existing cashless connections to our ePort Connect service. We also coupled the appeal of our ePort Connect service with a unique solution for the taxi and for-hire vehicle industry, called ePortGO™, and we continue to experience a growing demand for our integration capabilities as self-service applications become more ubiquitous," said Herbert.

Fourth Quarter Results

Fourth quarter financial highlights, compared to the prior year, included:

- 23% increase in total revenues to $9.7 million;
- 28% increase in license and transaction fee revenues to $8.2 million, representing 84% of total revenues for the quarter;
- Adjusted EBITDA of $1.6 million, up from an Adjusted EBITDA loss of ($1.4) million;
- GAAP net income of $1.7 million from a GAAP net loss of ($2.8) million; and,
- Non-GAAP net income of $0.2 million, up from a non-GAAP net loss of ($0.4) million (fiscal 2013 excludes $1.5 million of Other income for the change in fair value of warrants and fiscal 2012 excludes $0.2 million of Other expense for the

change in fair value of warrants and $2.2 million in proxy expenses).

Revenues for the fourth quarter of fiscal 2013 were $9.7 million, an increase of 23% from the same period a year ago. Revenue growth was attributable to a 28% increase in license and transaction fees to $8.2 million. Revenue from license and transaction fees, which grew to represent 84% of revenues for the fourth quarter of fiscal 2013 compared to 81% for the fourth quarter of the prior year, is driven by connections to USAT's ePort Connect service through monthly service fees, JumpStart fees and transaction processing fees.

Equipment sales of $1.5 million were essentially flat compared to the fourth quarter of fiscal 2012 as growth in direct sales of ePort cashless payment devices was offset by a decline in sales of Miser-branded energy products.

Gross profit was $3.7 million in the fourth quarter, a 15% improvement from $3.2 million for the same period in the prior year.

Operating margin (both GAAP and non-GAAP) expanded to approximately 2% from (33%) and (5%) on a GAAP and non-GAAP basis, respectively, for the same period in the prior year, due largely to stronger revenues and resulting gross profit dollar contribution.

GAAP net income was $1.7 million for the fourth quarter of fiscal 2013, which included a $1.5 million other income adjustment for the change in fair value of warrant liability related to the 3.9 million of warrants expiring in September 2016. The fair value of warrant liability adjustment is based, in part, on changes in USAT's stock price and other market factors that occur during the quarter. As a result, this non-cash adjustment can fluctuate substantially from quarter to quarter. For the same period in the prior year, GAAP net loss was ($2.8) million, which included a $0.2 million charge for warrant liability adjustment.

Non-GAAP net income removes the impact of the fair value of warrant adjustment, in addition to other non-operational adjustments noted for the quarter (see Non-GAAP Reconciliation tables). For the fourth quarter, non-GAAP net income was $0.2 million compared to a non-GAAP net loss of ($0.4) million for the fourth quarter of fiscal 2012.

GAAP and non-GAAP net income (loss) applicable to common shares were the same as GAAP and non-GAAP net income (loss). GAAP net earnings per common share, diluted, for the fourth quarter was $0.05 compared to a GAAP net loss per common share of ($0.09) for the prior year. Non-GAAP net earnings per common share, diluted, for the fourth quarter of fiscal 2013 was $0.00, up from a non-GAAP net loss per common share of ($0.01) for the fourth quarter of the prior year.

Outlook

"To date, growth in customers and connections to our ePort Connect service have delivered substantial improvements in our performance and our strengthened service model is delivering visible returns in terms of cash generation," said Herbert. "In fiscal 2014, our priorities include delivering 25%-30% license and transaction fee revenue growth, 20-25% total revenue growth and over 50% growth in non-GAAP profitability, even as we absorb deactivations to our service from a customer in the first quarter of the fiscal year.

"New customers, a stronger presence in complementary market segments, expanded services and promising work underway that makes our ePort Connect service easily accessible to kiosk and other developers, gives us confidence that fiscal 2014 should be another exciting year of financial progress and value creation for USAT in the quickly evolving, small-ticket market for cashless payment," concluded Herbert.

For more information on fiscal 2013 results and fiscal 2014 expectations, including the impact of the deactivations noted above on its fiscal 2014 results, please access the webcast and conference call in addition to USAT's Form 10K, which will be filed on Monday, September 30.

Webcast and Conference Call

USA Technologies will conduct a conference call and webcast at 10:00 a.m. Eastern Time on September 27, 2013. USA Technologies invites all interested parties to listen to the live webcast of the conference call, accessible on the Investor Relations section of USA Technologies' website. The webcast will be archived on the website within two hours of the live call. It will remain available for approximately 90 days. Interested parties unable to access the webcast may also participate by calling (866) 393-1608 or, if an international caller, (224) 357-2194. A replay of the call, available until midnight on September 30, 2013, can be accessed by calling (855) 859-2056; Conference ID#41109554, (toll free).

About USA Technologies:

USA Technologies is a leader of wireless, cashless payment and M2M telemetry solutions for small-ticket, self-serve retailing industries. ePort Connect® is the company's flagship service platform, a PCI-compliant, end-to-end suite of cashless payment and telemetry services specially tailored to fit the needs of small ticket, self-service retailing industries. USA Technologies also provides a broad line of cashless acceptance technologies including its NFC-ready ePort® G8, ePort Mobile™ for customers on the go, and QuickConnect™, an API Web service for developers. USA Technologies has been granted 86 patents and has agreements with Verizon, Visa, Elavon, Isis and customers such as Compass, Crane, AMI Entertainment and others. Visit the website at www.usatech.com.

Forward-looking Statements:

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: All statements other than statements of historical fact included in this release, including without limitation the business strategy and the plans and objectives of USAT's management for future operations, are forward-looking statements. When used in this release, words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to USAT or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of USAT's management, as well as assumptions made by and information currently available to USAT's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to, the incurrence by us of any unanticipated or unusual non-operational expenses which would require us to divert our cash resources from achieving our business plan; the ability of USAT to retain key customers from whom a significant portion of its revenues is derived; the ability of USAT to compete with its competitors to obtain market share; whether USAT's customers continue to utilize USAT's transaction processing and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice; the ability of USAT to obtain widespread commercial acceptance of it products; the ability of USAT to raise funds in the future through the sales of securities in order to sustain its operations if an unexpected or unusual non-operational event would occur; the ability of USAT to use available data to predict future market conditions, consumer behavior and any level of cashless usage;

the ability of USAT to efficiently and securely integrate cashless payment with new machine technologies; and whether USAT's existing or anticipated customers purchase, rent or utilize ePort devices or our other products or services in the future at levels currently anticipated by USAT. Readers are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statement made by us in this release speaks only as of the date of this release. Unless required by law, USAT does not undertake to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

USA Technologies, Inc.
Consolidated Statements of Operations

	Three months ended June 30,		For the year ended June 30,	
	2013	2012	2013	2012
Revenues:				
License and transaction fees	$ 8,172,243	$ 6,382,575	$30,044,429	$23,370,754
Equipment sales	1,512,599	1,520,271	5,895,815	5,646,489
Total revenues	9,684,842	7,902,846	35,940,244	29,017,243
Cost of services	5,139,129	3,818,276	18,219,945	15,312,966
Cost of equipment	874,901	906,231	3,623,686	3,743,226
Gross profit	3,670,812	3,178,339	14,096,613	9,961,051
Operating expenses:				
Selling, general and administrative	3,150,535	5,420,955	12,068,566	15,460,668
Depreciation and amortization	309,989	361,275	1,314,122	1,500,775
Total operating expenses	3,460,524	5,782,230	13,382,688	16,961,443
Operating income (loss)	210,288	(2,603,891)	713,925	(7,000,392)
Other income (expense):				
Interest income	4,212	26,877	57,121	72,059
Interest expense	(47,804)	(13,237)	(157,205)	(83,993)
Change in fair value of warrant liabilities	1,517,384	(169,755)	267,928	1,813,687
Total other income (expense), net	1,473,792	(156,115)	167,844	1,801,753
Income (loss) before provision for income taxes	1,684,080	(2,760,006)	881,769	(5,198,639)
Provision for income taxes	(6,912)	(12,599)	(27,646)	(12,599)
Net income (loss)	1,677,168	(2,772,605)	854,123	(5,211,238)
Cumulative preferred dividends	-	-	(664,452)	(664,452)
Net income (loss) applicable to common shares	$ 1,677,168	$ (2,772,605)	$ 189,671	$ (5,875,690)
Net earnings (loss) per common share - basic	$ 0.05	$ (0.09)	$ 0.01	$ (0.18)
Weighted average number of common shares outstanding	33,080,641	32,496,327	32,787,673	32,423,987
Net earnings (loss) applicable to common shares - diluted	$ 0.05	$ (0.09)	$ 0.01	$ (0.18)
Diluted weighted average number of common shares outstanding	34,115,444	32,496,327	33,613,346	32,423,987

USA Technologies, Inc.
Consolidated Balance Sheets

	June 30, 2013	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 5,981,000	$ 6,426,645
Accounts receivable, less allowance for uncollectible accounts of $18,000 and $25,000, respectively	2,620,684	2,441,941
Finance receivables	116,444	206,649

Inventory	1,823,615	2,511,748
Prepaid expenses and other current assets	184,336	555,823
Total current assets	10,726,079	12,142,806
Finance receivables, less current portion	408,674	336,198
Property and equipment, net	17,240,065	11,800,108
Intangibles, net	454,053	1,196,453
Goodwill	7,663,208	7,663,208
Other assets	84,117	80,884
Total assets	$ 36,576,196	$ 33,219,657
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 7,301,247	$ 6,136,443
Accrued expenses	1,468,184	3,342,456
Line of credit	3,000,000	-
Current obligations under long-term debt	247,152	466,056
Total current liabilities	12,016,583	9,944,955
Long-term liabilities:		
Long-term debt, less current portion	122,754	262,274
Accrued expenses, less current portion	366,785	426,241
Deferred tax liabilities	40,245	12,599
Warrant liabilities, non-current	650,638	918,566
Total long-term liabilities	1,180,422	1,619,680
Total liabilities	13,197,005	11,564,635
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares- 1,800,000 Series A convertible preferred- Authorized shares- 900,000 Issued and outstanding shares- 442,968 (liquidation preference of $16,026,004 and $15,361,552, respectively)	3,138,056	3,138,056
Common stock, no par value: Authorized shares- 640,000,000 Issued and outstanding shares- 33,284,232 and 32,510,069, respectively	221,383,373	220,513,327
Accumulated deficit	(201,142,238)	(201,996,361)
Total shareholders' equity	23,379,191	21,655,022
Total liabilities and shareholders' equity	$ 36,576,196	$ 33,219,657

USA Technologies, Inc.
Consolidated Statements of Cash Flows

	Three months ended June 30,		For the year ended June 30,	
	2013	2012	2013	2012
OPERATING ACTIVITIES:				
Net income (loss)	$ 1,677,168	$(2,772,605)	$ 854,123	$ (5,211,238)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Charges incurred in connection with the vesting and issuance of common stock for employee and director compensation	133,674	271,303	502,907	782,100
Charges incurred in connection with the Long-term Equity Incentive Plan	-	-	-	-
(Gain) Loss on disposal of property and equipment	(1,928)	132,509	(20,343)	134,350
Non-cash interest and amortization of debt discount	26,933	-	53,867	-
Bad debt expense (recoveries), net	61,156	(2,914)	68,615	(48,270)
Depreciation	1,094,978	695,609	3,837,174	2,443,054
Amortization	185,600	222,100	742,400	997,900
Change in fair value of warrant liabilities	(1,517,384)	169,755	(267,928)	(1,813,687)

Provision for deferred tax liability	6,912	12,599	27,646	12,599
Changes in operating assets and liabilities:				
Accounts receivable	(310,846)	(307,182)	(247,358)	(758,952)
Finance receivables	(29,687)	16,755	17,729	(61,460)
Inventory	31,356	721,572	716,470	158,584
Prepaid expenses and other current assets	452,207	722,159	503,937	431,276
Accounts payable	1,968,677	1,528,861	1,164,804	498,082
Accrued expenses	(122,612)	1,459,430	(1,915,091)	2,513,898
Net cash provided by operating activities	3,656,204	2,869,951	6,038,952	78,236
INVESTING ACTIVITIES:				
Purchase of property and equipment	(25,660)	(74,041)	(107,351)	(478,144)
Purchase of property for rental program	(2,771,880)	(2,472,158)	(9,092,394)	(5,754,670)
Proceeds from sale of property and equipment	-	-	18,908	-
Net cash used in investing activities	(2,797,540)	(2,546,199)	(9,180,837)	(6,232,814)
FINANCING ACTIVITIES:				
Net proceeds from the issuance (retirement) of common stock and exercise of common stock warrants	323,652	(39,340)	311,177	(41,371)
Proceeds from line of credit, net of repayments	1,000,000	-	3,000,000	-
Repayment of long-term debt	(149,853)	(51,802)	(614,937)	(368,917)
Net cash provided by (used in) financing activities	1,173,799	(91,142)	2,696,240	(410,288)
Net increase (decrease) in cash and cash equivalents	2,032,463	232,610	(445,645)	(6,564,866)
Cash and cash equivalents at beginning of period	3,948,537	6,194,035	6,426,645	12,991,511
Cash and cash equivalents at end of year	$ 5,981,000	$ 6,426,645	$ 5,981,000	$ 6,426,645
Supplemental disclosures of cash flow information:				
Cash paid for interest	$ 34,714	$ 10,472	$ 118,934	$ 38,891
Depreciation expense allocated to cost of sales	$ 970,590	$ 556,434	$ 3,265,452	$ 1,940,179
Prepaid interest from issuance of warrants for debt costs	$ -	$ -	$ 55,962	$ -
Reclass of rental program property to inventory	$ 16,414	$ -	$ 28,337	$ -
Prepaid items financed with debt	$ 3,186	$ 66,844	$ 133,588	$ 95,263
Equipment and software acquired under capital lease	$ 44,034	$ -	$ 124,917	$ 495,955
Equipment and software financed with long-term debt	$ -	$ 212,097	$ -	$ 252,968
Disposal of property and equipment	$ 91,228	$ 597,455	$ 98,928	$ 652,093

Discussion of Non-GAAP Financial Measures

This press release includes the following measures defined as non-GAAP financial measures by the Securities and Exchange Commission: adjusted EBITDA, non-GAAP net income (loss), non-GAAP operating margin and non-GAAP diluted earnings (loss) per common share. The presentation of these additional financial measures are not intended to be considered in isolation from, or superior to, or as a substitute for the financial measures prepared and presented in accordance with GAAP (Generally Accepted Accounting Principles), including the net income or net loss of USAT or net cash used in operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with USAT's net income or net loss as determined in accordance with GAAP. These non-GAAP financial measures are not required by or defined under GAAP and may be materially different from the non-GAAP financial measures used by other companies. USAT has provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

As used herein, non-GAAP net income (loss) represents GAAP net income (loss) excluding any adjustment for fair value of warrant liabilities and proxy contest and separation expenses. As used herein, non-GAAP diluted earnings (loss) per common share is calculated by dividing non-GAAP net income (loss) applicable to common shares by the diluted weighted average number of shares outstanding.

Management believes that non-GAAP net income (loss) and non-GAAP diluted earnings (loss) per common share are important measures of USAT's business. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. We believe that these non-GAAP financial measures serve as useful metrics for our management and investors because they enable a better understanding of the long-term performance of our core business and facilitate comparisons of our operating results over multiple periods, and when taken together with the corresponding GAAP financial measures and our reconciliations, enhance investors' overall understanding of our current and future financial performance.

As used herein, Adjusted EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, and change in fair value of warrant liabilities and stock-based compensation expense . We have excluded the non-operating item, change in fair value of warrant liabilities, because it represents a non-cash charge that is not related to USAT's operations. We have excluded the non-cash expenses and stock-based compensation as they do not reflect the cash-based operations of USAT. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance and liquidity, and because it is less susceptible to variances in actual performance resulting from depreciation and amortization and non-cash charges for changes in fair value of warrant liabilities and stock-based compensation expense.

As used herein, operating margin represents operating income or loss divided by revenues and non-GAAP operating margin represents operating income or loss excluding any adjustments for proxy contest and separation expenses divided by revenues.

Non GAAP Reconciliation

Reconciliation of Net Income (Loss) to Non-GAAP Net Income (Loss) and Net Earnings (Loss) Per Common Share - Diluted to Non-GAAP Net Earnings (Loss) Per Common Share - Diluted

	Three Months Ended		Fiscal Year Ended	
	6/30/2013	**6/30/2012**	**6/30/2013**	**6/30/2012**
Net income (loss)	$ 1,677,168	$ (2,772,605)	$ 854,123	$ (5,211,238)
Non-GAAP adjustments:				
Operating expenses				
Selling, general and administrative:				
Proxy related costs	-	2,229,000	328,000	2,229,000
CEO separation	-	-	-	975,000
Fair value of warrant adjustment	(1,517,384)	169,755	(267,928)	(1,813,687)
Non-GAAP net income (loss)	$ 159,784	$ (373,850)	$ 914,195	$ (3,820,925)
Net income (loss)	$ 1,677,168	$ (2,772,605)	$ 854,123	$ (5,211,238)
Non-GAAP net income (loss)	$ 159,784	$ (373,850)	$ 914,195	$ (3,820,925)
Cumulative preferred dividends	-	-	(664,452)	(664,452)
Net income (loss) applicable to common shares	**$ 1,677,168**	**$ (2,772,605)**	**$ 189,671**	**$ (5,875,690)**
Non-GAAP net income (loss) applicable to common shares	**$ 159,784**	**$ (373,850)**	**$ 249,743**	**$ (4,485,377)**
Weighted average number of common shares outstanding	33,080,641	32,496,327	32,787,673	32,423,987
Diluted weighted average number of common shares outstanding	34,115,444	32,496,327	33,613,346	32,423,987
Net earnings (loss) per common share - diluted	**$ 0.05**	**$ (0.09)**	**$ 0.01**	**$ (0.18)**
Non-GAAP net earnings (loss) per common share - diluted	**$ 0.00**	**$ (0.01)**	**$ 0.01**	**$ (0.14)**

Non GAAP Reconciliation

Reconciliation of Operating Margin to Non-GAAP Operating Margin

	Three Months Ended		Fiscal Year Ended	
	6/30/2013	**6/30/2012**	**6/30/2013**	**6/30/2012**
Operating income (loss)	$ 210,288	$(2,603,891)	$ 713,925	$ (7,000,392)
Non-GAAP adjustments:				
Operating expenses				
Selling, general and administrative				
Proxy related costs	-	2,229,000	328,000	2,229,000
CEO Seperation	-	-	-	975,000
Operating income (loss), Non-GAAP	$ 210,288	$ (374,891)	$ 1,041,925	$ (3,796,392)
Revenues	$9,684,842	$ 7,902,846	$35,940,244	$29,017,243
Operating Margin	2.2%	-32.9%	2.0%	-24.1%
Operating Margin, Non-GAAP	2.2%	-4.7%	2.9%	-13.1%

Reconciliation of GAAP Net Earnings to Adjusted Earnings
Before Interest, Taxes, Depreciation and Amortization
(Adjusted EBITDA)

	Three months ended		Fiscal year ended	
	6/30/2013	**6/30/2012**	**6/30/2013**	**6/30/2012**
Net income (loss)	$ 1,677,168	$(2,772,605)	$ 854,123	$(5,211,238)
Less interest income	(4,212)	(26,877)	(57,121)	(72,059)
Plus interest expenses	47,804	13,237	157,205	83,993
Plus income tax expense	6,911	12,599	27,646	12,599
Plus depreciation expense	1,094,978	695,609	3,837,174	2,443,054
Plus amortization expense	185,600	222,100	742,400	997,900
Less change in fair value of warrant liabilities	(1,517,384)	169,755	(267,928)	(1,813,687)
Plus stock-based compensation	133,674	271,303	502,907	782,100
Adjusted EBITDA	$ 1,624,539	$(1,414,879)	$5,796,406	$(2,777,338)

F-USAT

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Source: USA Technologies, Inc.