

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33365

**USA Technologies, Inc.**

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-2679963

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

100 Deerfield Lane, Suite 140, Malvern, Pennsylvania  
(Address of principal executive offices)

19355  
(Zip Code)

(610) 989-0340

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer   
Smaller reporting company

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of November 2, 2012, there were 32,951,742 shares of Common Stock, no par value, outstanding.

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**USA Technologies, Inc.**  
**Consolidated Balance Sheets**

|  | <u>September 30,</u><br>2012 | <u>June 30,</u><br>2012 |
|--|------------------------------|-------------------------|
|  | (Unaudited)                  |                         |
| <b>Assets</b>  |                              |                         |
| <b>Current assets:</b>   |                              |                         |
| Cash and cash equivalents  | \$ 6,203,703                 | \$ 6,426,645            |
| Accounts receivable, less allowance for uncollectible accounts of \$19,000 and \$25,000, respectively  | 2,366,750                    | 2,441,941               |
| Finance receivables  | 139,039                      | 206,649                 |
| Inventory  | 1,185,917                    | 2,511,748               |
| Prepaid expenses and other current assets  | 603,893                      | 555,823                 |
| <b>Total current assets</b>  | <u>10,499,302</u>            | <u>12,142,806</u>       |
| Finance receivables, less current portion  | \$ 372,977                   | \$ 336,198              |
| Property and equipment, net  | 13,037,458                   | 11,800,108              |
| Intangibles, net   | 1,010,853                    | 1,196,453               |
| Goodwill   | 7,663,208                    | 7,663,208               |
| Other assets   | 81,247                       | 80,884                  |
| <b>Total assets</b>  | <u>\$ 32,665,045</u>         | <u>\$ 33,219,657</u>    |
| <b>Liabilities and shareholders' equity</b>  |                              |                         |
| <b>Current liabilities:</b>  |                              |                         |
| Accounts payable   | \$ 6,020,991                 | \$ 6,136,443            |
| Accrued expenses   | 1,933,093                    | 3,342,456               |
| Line of credit   | 1,337,779                    | -                       |
| Current obligations under long-term debt   | 483,934                      | 466,056                 |
| <b>Total current liabilities</b>   | <u>9,775,797</u>             | <u>9,944,955</u>        |
| <b>Long-term liabilities:</b>  |                              |                         |
| Long-term debt, less current portion   | 210,642                      | 262,274                 |
| Accrued expenses, less current portion   | 384,158                      | 426,241                 |
| Deferred tax liabilities   | 19,520                       | 12,599                  |
| Warrant liabilities, non-current   | 455,433                      | 918,566                 |
| <b>Total long-term liabilities</b>   | <u>1,069,753</u>             | <u>1,619,680</u>        |
| <b>Total liabilities</b>   | <u>10,845,550</u>            | <u>11,564,635</u>       |
| <b>Commitments and contingencies</b>   |                              |                         |
| <b>Shareholders' equity:</b>   |                              |                         |
| 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 \$15,693,778 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- 32,741,732 and 32,510,069, respectively  | 220,638,660                  | 220,513,327             |
| Accumulated deficit  | <u>(201,957,221)</u>         | <u>(201,996,361)</u>    |
| <b>Total shareholders' equity</b>  | <u>21,819,495</u>            | <u>21,655,022</u>       |
| <b>Total liabilities and shareholders' equity</b>  | <u>\$ 32,665,045</u>         | <u>\$ 33,219,657</u>    |

See accompanying notes.

**USA Technologies, Inc.**  
**Consolidated Statements of Operations**  
**(Unaudited)**

|   | Three months ended<br>September 30, |                     |
|---|-------------------------------------|---------------------|
|   | 2012                                | 2011                |
| <b>Revenues:</b>  |                                     |                     |
| License and transaction fees  | \$ 6,906,356                        | \$ 5,419,663        |
| Equipment sales   | 1,483,921                           | 1,286,085           |
| <b>Total revenues</b>   | <b>8,390,277</b>                    | <b>6,705,748</b>    |
| Cost of services  | 4,192,360                           | 3,761,577           |
| Cost of equipment   | 1,053,636                           | 895,135             |
| <b>Gross profit</b>   | <b>3,144,281</b>                    | <b>2,049,036</b>    |
| <b>Operating expenses:</b>  |                                     |                     |
| Selling, general and administrative   | 3,215,125                           | 3,468,070           |
| Depreciation and amortization   | 343,388                             | 403,232             |
| <b>Total operating expenses</b>   | <b>3,558,513</b>                    | <b>3,871,302</b>    |
| <b>Operating loss</b>   | <b>(414,232)</b>                    | <b>(1,822,266)</b>  |
| <b>Other income (expense):</b>  |                                     |                     |
| Interest income   | 20,166                              | 17,867              |
| Interest expense  | (23,006)                            | (11,164)            |
| Change in fair value of warrant liabilities                                     | 463,133                             | 1,736,609           |
| <b>Total other income (expense), net</b>  | <b>460,293</b>                      | <b>1,743,312</b>    |
| <b>Income (loss) before provision for income taxes</b>                          | <b>46,061</b>                       | <b>(78,954)</b>     |
| Provision for income taxes  | (6,921)                             | -                   |
| <b>Net income (loss)</b>  | <b>39,140</b>                       | <b>(78,954)</b>     |
| Cumulative preferred dividends  | (332,226)                           | (332,226)           |
| <b>Loss applicable to common shares</b>   | <b>\$ (293,086)</b>                 | <b>\$ (411,180)</b> |
| <b>Loss per common share (basic and diluted)</b>                                | <b>\$ (0.01)</b>                    | <b>\$ (0.01)</b>    |
| <b>Weighted average number of common shares outstanding (basic and diluted)</b> | <b>32,518,230</b>                   | <b>32,288,638</b>   |

*See accompanying notes.*

**USA Technologies, Inc.**  
**Consolidated Statements of Shareholders' Equity**  
**(Unaudited)**

|  | Series A<br>Convertible<br>Preferred Stock |                     | Common Stock      |                       | Accumulated<br>Deficit  | Total                |
|--|--|---------------------|-------------------|-----------------------|-------------------------|----------------------|
|  | Shares                                     | Amount              | Shares            | Amount                |                         |                      |
| Balance, June 30, 2012   | 442,968                                    | \$ 3,138,056        | 32,510,069        | \$ 220,513,327        | \$ (201,996,361)        | \$ 21,655,022        |
| Issuance of fully-vested shares of common stock to employees and directors and vesting of shares under the 2010 Stock Incentive Plan |  |                     | 500               | 15,644                |                         | 15,644               |
| Issuance of fully-vested shares of common stock to employees and directors and vesting of shares under the 2011 Stock Incentive Plan |  |                     | 59,165            | 64,689                |                         | 64,689               |
| Issuance of fully-vested shares of common stock to employees and directors and vesting of shares under the 2012 Stock Incentive Plan |  |                     | 171,998           | 45,000                |                         | 45,000               |
| Net income   | -  | -                   | -                 | -                     | 39,140                  | 39,140               |
| Balance, September 30, 2012  | <u>442,968</u>                             | <u>\$ 3,138,056</u> | <u>32,741,732</u> | <u>\$ 220,638,660</u> | <u>\$ (201,957,221)</u> | <u>\$ 21,819,495</u> |

*See accompanying notes.*

**USA Technologies, Inc.**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

|   | Three months ended<br>September 30, |               |
|---|-------------------------------------|---------------|
|   | 2012                                | 2011          |
| <b>OPERATING ACTIVITIES:</b>  |                                     |               |
| Net income (loss)   | \$ 39,140                           | \$ (78,954)   |
| Adjustments to reconcile net income (loss) to net cash used in operating activities:                                |                                     |               |
| Charges incurred in connection with the vesting and issuance of common stock for employee and director compensation | 125,333                             | 240,453       |
| Charges reduced for change in fair value of warrants  | (463,133)                           | (1,736,609)   |
| Depreciation, \$676,218 and \$418,493, respectively, of which is allocated to cost of services                      | 834,006                             | 563,125       |
| Amortization  | 185,600                             | 258,600       |
| Bad debt recoveries, net  | (6,129)                             | (22,056)      |
| Provision for deferred tax liability  | 6,921                               | -             |
| Changes in operating assets and liabilities:  |                                     |               |
| Accounts receivable   | 81,320                              | 187,501       |
| Finance receivables   | 30,831                              | (43,791)      |
| Inventory   | 1,331,390                           | 160,798       |
| Prepaid expenses and other assets   | 79,629                              | 48,339        |
| Accounts payable  | (115,452)                           | (656,552)     |
| Accrued expenses  | (1,451,446)                         | 582,357       |
|   | 678,010                             | (496,789)     |
| <b>INVESTING ACTIVITIES:</b>  |                                     |               |
| Purchase of property and equipment  | (1,525)                             | (60,348)      |
| Purchase of property for rental program, net  | (2,075,390)                         | (1,234,608)   |
|   | (2,076,915)                         | (1,294,956)   |
| <b>FINANCING ACTIVITIES:</b>  |                                     |               |
| Proceeds from the issuance of common stock  | -                                   | 10,010        |
| Proceeds from line of credit  | 1,337,779                           | -             |
| Repayment of long-term debt   | (161,816)                           | (109,839)     |
|   | 1,175,963                           | (99,829)      |
| Net decrease in cash and cash equivalents   | (222,942)                           | (1,891,574)   |
| Cash and cash equivalents at beginning of year  | 6,426,645                           | 12,991,511    |
| Cash and cash equivalents at end of period  | \$ 6,203,703                        | \$ 11,099,937 |
| <i>Supplemental disclosures of cash flow information:</i>   |                                     |               |
| Cash paid for interest  | \$ 26,150                           | \$ 11,708     |
| Equipment and software acquired under capital lease   | \$ -                                | \$ 495,955    |
| Prepaid insurance financed with debt  | \$ 128,062                          | \$ 90,372     |
| Disposal of property and equipment  | \$ -                                | \$ 20,407     |
| Reclass of rental program property to inventory   | \$ 5,559                            | \$ -          |

*See accompanying notes.*

**USA Technologies, Inc.**  
**Notes to Consolidated Financial Statements**

**1. ACCOUNTING POLICIES**

*Business*

USA Technologies, Inc. (the “Company”, “We” or “Our”), incorporated in the Commonwealth of Pennsylvania in January 1992, provides wireless networking, cashless transactions, asset monitoring and other value-added services principally to the small ticket unattended retail markets. Our ePort® technology can be installed and/or embedded into everyday devices such as vending machines, kiosks, and our eSuds™ technology can be installed in for washer and dryers. Our associated network service, ePort Connect®, is a comprehensive service that provides wireless connectivity that facilitates electronic payment options as well as telemetry and machine-to-machine (“M2M”) services, including the ability to remotely monitor, control and report on the results of distributed assets containing our electronic payment solutions. In addition, the Company provides energy management products, such as its VendingMiser® and CoolerMiser™, which reduce energy consumption in vending machines and coolers.

*Interim Financial Information*

The accompanying unaudited consolidated financial statements of USA Technologies, Inc. have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements and therefore should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended June 30, 2012. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. Operating results for the three-month period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. The balance sheet at June 30, 2012 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The Company has incurred losses from its inception through June 30, 2012; the Company had net income of \$39,140 for the fiscal quarter ended September 30, 2012. Although the Company anticipates nearing profitability during the 2013 fiscal year, profitability is not assured. The Company’s ability to meet its future obligations is dependent upon the success of its products and services in the marketplace and the available capital resources. Until the Company’s products and services can generate sufficient annual revenues, the Company will be required to use its cash and cash equivalents on hand, and its line of credit; and may be required to raise equity capital to meet its cash flow requirements.

*Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Stitch Networks Corporation (“Stitch”) and USAT Capital Corp LLC (“USAT Capital”). All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Reclassification*

Certain amounts in prior period financial statements have been reclassified to conform to the current period presentation.

**USA Technologies, Inc.**  
**Notes to Consolidated Financial Statements**

**1. ACCOUNTING POLICIES (CONTINUED)**

*Cash Equivalents*

Cash equivalents represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of money market funds. The Company maintains its cash in bank deposit accounts, which may exceed federally insured limits at times.

At September 30, 2012 and June 30, 2012, none of the cash and cash equivalents of the Company was payable to our customers. Included in accounts receivable are amounts for transactions processed with our card processors for which cash has not been received by the Company and included in accounts payable are amounts for transactions processed with our card processors and due to our customers, which are recorded net of fees due to the Company. Generally, contractual terms require us to remit amounts owed to our customers on a weekly basis.

*Finance Receivables*

The Company offers extended payment terms to certain customers for equipment sales under its Quick Start Program. Notes receivable or Quick Start leases are generally for a 36 or 60 month term. Finance receivables are carried at their contractual amount and charged off against the allowance for credit losses when management determines that recovery is unlikely and the Company ceases collection efforts. The Company recognizes a portion of the note or lease payments as interest income in the accompanying consolidated financial statements based on the effective interest rate method.

*Inventory*

Inventory consists of finished goods and packaging materials. The Company's inventory is stated at the lower of cost (average cost basis) or market.

*Fair Value of Financial Instruments*

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures ("Topic 820"): Improving Disclosures about Fair Value Measurements." ASU 2009-06 amends certain disclosure requirements of Subtopic 820-10. This ASU provides additional disclosures for transfers in and out of Levels 1 and 2 and for activity in Level 3. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques.

The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

Level 1- Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2- Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3- Inputs are unobservable and reflect the Company's assumptions that market participants would use in pricing the asset or liability. The Company develops these inputs based on the best information available.

The Company's financial instruments, principally cash equivalents, accounts receivable, finance receivables, prepaid expenses and other assets, accounts payable and accrued expenses, are carried at cost which approximates fair value due to the short-term maturity of these instruments. The fair value of the Company's obligations under its long-term debt and credit agreements approximates their carrying value as such instruments are at market rates currently available to the Company.

*Property and Equipment*

Property and equipment are recorded at cost. Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the related assets. Leasehold improvements are amortized on the straight-line basis over the lesser of the estimated useful life of the asset or the respective lease term.



**USA Technologies, Inc.**  
**Notes to Consolidated Financial Statements**

**1. ACCOUNTING POLICIES (CONTINUED)**

*Accounting for Equity Awards*

In accordance with ASC 718, the cost of employee services received in exchange for an award of equity instruments is based on the grant-date fair value of the award and allocated over the vesting period of the award.

*Income Taxes*

A provision for income taxes of \$6,921 (all deferred income taxes) was recorded for the three months ended September 30, 2012. The provision for income taxes is not a function of nor related to the income before provision for income taxes of \$46,061 for the period because the Company has significant operating loss carryforwards that are available to negate any taxable income that would create current liabilities for income taxes. The provision for income taxes relates to the amortization of indefinite life intangible assets and goodwill that are being amortized for income tax purposes but not for financial reporting purposes giving rise to basis differences in such assets between financial and income tax reporting.

The Company has substantial operating loss carryforwards and other items that create net deferred tax assets that have been offset by a valuation allowance as the realization of the deferred tax assets is not likely, principally due to a lack of earnings history. The deferred tax liabilities related to the amortization of the indefinite life assets are not subject to offset against deferred tax assets with finite lives. As of September 30, 2012 and June 30, 2012, deferred tax liabilities of \$19,520 and \$12,599, respectively, were recorded for the potential future state and federal income tax effects for these basis differences.

No provision for income taxes was recorded for the three months ended September 30, 2011.

*Loss Per Common Share*

Basic earnings per share are calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the year plus the effect of potential common shares unless such effect is anti-dilutive. No exercise of stock options, stock purchase warrants, or the conversion of preferred stock or cumulative preferred dividends was assumed because the result would be anti-dilutive.

**2. FINANCE RECEIVABLES**

Finance Receivables consist of the following:

|  | September 30,<br>2012 | June 30,<br>2012  |
|--|-----------------------|-------------------|
|  | <u>(unaudited)</u>    |                   |
| Total finance receivables                  | \$ 512,016            | \$ 542,847        |
| Less current portion                       | <u>139,039</u>        | <u>206,649</u>    |
| Non-current portion of finance receivables | <u>\$ 372,977</u>     | <u>\$ 336,198</u> |

As of September 30, 2012 and June 30, 2012, there was no allowance for credit losses of finance receivables. As the Company collects monthly payments of the receivables from the customers' transaction funds the risk of loss was determined to be remote.

**USA Technologies, Inc.**  
**Notes to Consolidated Financial Statements**

**2. FINANCE RECEIVABLES (CONTINUED)**

Credit Quality Indicators  
As of September 30, 2012

Credit risk profile based on payment activity:

|               | Leases            |
|---------------|-------------------|
| Performing    | \$ 512,016        |
| Nonperforming | -                 |
| <b>Total</b>  | <b>\$ 512,016</b> |

Age Analysis of Past Due Finance Receivables  
As of September 30, 2012

|              | 31 – 60<br>Days Past<br>Due | 61 – 90<br>Days Past<br>Due | Greater than<br>90 Days<br>Past Due | Total Past<br>Due | Current           | Total<br>Finance<br>Receivables |
|--------------|-----------------------------|-----------------------------|-------------------------------------|-------------------|-------------------|---------------------------------|
| Leases       | \$ -                        | \$ 2,300                    | \$ -                                | \$ 2,300          | \$ 509,716        | \$ 512,016                      |
| <b>Total</b> | <b>\$ -</b>                 | <b>\$ 2,300</b>             | <b>\$ -</b>                         | <b>\$ 2,300</b>   | <b>\$ 509,716</b> | <b>\$ 512,016</b>               |

**3. ACCRUED EXPENSES**

Accrued expenses consist of the following:

|  | September 30,<br>2012<br>(unaudited) | June 30,<br>2012    |
|--|--------------------------------------|---------------------|
| Accrued compensation and related sales commissions | \$ 437,264                           | \$ 767,926          |
| Accrued professional fees                          | 226,048                              | 482,664             |
| Accrued taxes and filing fees                      | 642,751                              | 663,078             |
| Advanced customer billings                         | 334,264                              | 311,767             |
| Accrued proxy contest and litigation costs         | 121,530                              | 992,520             |
| Accrued rent                                       | 265,363                              | 278,862             |
| Accrued other                                      | 290,031                              | 271,880             |
|  | <b>\$ 2,317,251</b>                  | <b>\$ 3,768,697</b> |

**4. LINE OF CREDIT**

On July 10, 2012, the Company entered into a Loan and Security Agreement and other ancillary documents (the “Loan Documents”) with Avidbank Corporate Finance, a division of Avidbank (the “Bank”), providing for a secured asset-based revolving line of credit in an amount of up to \$3.0 million (the “Line of Credit”). The Company intends to use advances under the Line of Credit towards the financing of growth initiatives like its JumpStart Program.

**USA Technologies, Inc.**  
**Notes to Consolidated Financial Statements**

**4. LINE OF CREDIT (CONTINUED)**

The Loan Documents provide that the aggregate amount of advances under the Line of Credit shall not exceed the lesser of (i) \$3.0 million, or (ii) 75% of eligible accounts receivable as defined in the Loan Documents plus 80% of the prior two months transaction processing revenues and networking service fees as defined in the Loan Documents, provided that the amounts advanced on account of such processing revenues and service fees shall not exceed \$1,000,000 without the Bank's prior consent.

The outstanding balance of the amounts advanced under the Line of Credit will bear interest at 2% above the prime rate as published in The Wall Street Journal or 5% whichever is higher. Interest is payable by the Company to the Bank on a monthly basis, provided, that the minimum interest payable by the Company to the Bank with respect to each six month period shall be \$20,000.

The Line of Credit and the Company's obligations under the Loan Documents are secured by substantially all of the Company's assets, including its intellectual property. The term of the Line of Credit is one year. At the time of maturity all outstanding advances under the Line of Credit as well as any unpaid interest is due and payable. Prior to maturity of the Line of Credit, the Company may prepay amounts due under the Line of Credit without penalty, and subject to the terms of the Loan Documents, may re-borrow any such amounts.

The Loan Documents contain customary affirmative and negative covenants. The Loan Documents also require the Company to achieve a minimum Adjusted EBITDA, as defined in the Loan Documents, measured on a quarterly basis, and to maintain a balance of \$3.0 million of unrestricted cash in accounts with the Bank. The Loan Documents also contain customary events of default, including, among other things, payment defaults, breaches of covenants, and bankruptcy and insolvency events, subject to grace periods in certain instances. Upon an event of default, the Bank may declare all of the outstanding obligations of the Company under the Line of Credit and Loan Documents to be immediately due and payable, and exercise any other rights provided for under the Loan Documents.

At September 30, 2012, the balance due on the Line of Credit was \$1,337,779 and the Company satisfied all covenants contained in the Loan Documents.

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

In accordance with the fair value hierarchy described in Note 2, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of September 30, 2012 and June 30, 2012:

| <u>September 30, 2012</u>   | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------|----------------|----------------|--------------|
| Cash equivalents  | \$ 158,092     | \$ -           | \$ -           | \$ 158,092   |
| Common stock warrant liability, warrants exercisable at \$2.6058 from September 18, 2011 through September 18, 2016 | \$ -           | \$ -           | \$ 455,299     | \$ 455,299   |
| Common stock warrant liability, warrants exercisable at \$5.90 through September 14, 2013                           | \$ -           | \$ -           | \$ 134         | \$ 134       |
| <br>  |                |                |                |              |
| <u>June 30, 2012</u>  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Cash equivalents  | \$ 141,107     | \$ -           | \$ -           | \$ 141,107   |
| Common stock warrant liability, warrants exercisable at \$2.6058 from September 18, 2011 through September 18, 2016 | \$ -           | \$ -           | \$ 917,440     | \$ 917,440   |
| Common stock warrant liability, warrants exercisable at \$5.90 through September 14, 2013                           | \$ -           | \$ -           | \$ 1,126       | \$ 1,126     |

**USA Technologies, Inc.**  
**Notes to Consolidated Financial Statements**

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

As of September 30, 2012 and June 30, 2012, the fair values of the Company's Level 1 financial instruments were \$158,092 and \$141,107, respectively. These financial instruments consist of cash equivalents, including certificates of deposit and money market accounts. As of September 30, 2012 and June 30, 2012, the Company held no Level 2 financial instruments.

As of September 30, 2012 and June 30, 2012, the fair values of the Company's Level 3 financial instruments totaled \$455,433 and \$918,566, respectively. The Level 3 financial instruments consist of common stock warrants issued by the Company in March 2011 and March 2007, which include features requiring liability treatment of the warrants. The fair value of warrants issued in March 2011 to purchase 3.9 million shares of the Company's common stock is based on valuations performed by an independent third party valuation firm. The fair value was determined using proprietary valuation models using the quality of the underlying securities of the warrants, restrictions on the warrants and security underlying the warrants, time restrictions and precedent sale transactions completed in the secondary market or in other private transactions. As of September 30, 2012, the fair value of warrants issued in March 2007 to purchase 903,955 shares of the Company's common stock was estimated by the Company to be \$134 using the Black-Scholes with the following assumptions: dividend yield of 0%, expected stock price volatility of 0.68, risk free interest rate of 0.17%, and an expected life of one year. There were no transfers of assets or liabilities between level 1, level 2, or level 3 during the periods ending September 30, 2012 and June 30, 2012.

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments for the three months ended September 30, 2012 and 2011:

|  | Three months ended<br>September 30, |                     |
|--|-------------------------------------|---------------------|
|  | 2012                                | 2011                |
|  | (unaudited)                         | (unaudited)         |
| Balance, Beginning of period                                 | \$ (918,566)                        | \$ (2,732,253)      |
| Purchase, sales, issuance, settlements, or transfers         | -                                   | -                   |
| Gain due to change in fair value of warrant liabilities, net | 463,133                             | 1,736,609           |
| Ending balance   | <u>\$ (455,433)</u>                 | <u>\$ (995,644)</u> |

**6. COMMON STOCK AND COMMON STOCK WARRANTS**

Under the 2010 Stock Incentive Plan, the Company recorded stock compensation expense of \$15,644 and issued 500 shares of Common stock during the three months ended September 30, 2012. \$9,792 of the expense related to the vesting of shares under employment agreements entered into with its executive officers in April 2011; and \$5,852 of expenses related to vesting and issuance of shares to an employee and Directors of the Company granted in June 2011 and March 2012.

In July 2012, the Board of Directors accepted the recommendation of the Compensation Committee that each of the three non-employee Directors who joined the Board after March 31, 2012 receive a stock award of 10,000 shares of Common Stock. Under the 2011 Stock Incentive Plan 30,000 shares of Common Stock were awarded with a grant date fair value of \$1.45 per share, and vest as follows: 9,999 on August 10, 2012; 9,999 on August 10, 2013; and, 10,002 on August 10, 2014. The Company recorded stock compensation expense of \$64,689 and issued 59,165 shares of Common stock during the three months ended September 30, 2012. \$26,719 of the expense related to the vesting of shares under employment agreements entered into with its executive officers in September 2011, and 41,666 shares of Common Stock vested under these grants on September 27, 2012. \$18,124 of expenses related to vesting of shares granted to Directors of the Company in July 2012; 9,999 shares of Common Stock vested under this grant in August 2012. \$19,846 of expenses related to vesting of shares granted to employees in April 2012; 7,500 shares of Common Stock vested under these grants in September 2012.

Under the 2012 Stock Incentive Plan, the Company recorded stock compensation expense of \$45,000 and issued 171,998 shares of Common stock during the three months ended September 30, 2012. All of the expense and 35,713 shares of Common Stock were issued to Company Directors in lieu of cash payment for compensation for services to the Company in the three months ended September 30, 2012. The other 136,285 shares of Common Stock were issued to its executive officers under the Fiscal Year 2012 Performance Share Plan (the "2012 Plan") after the filing of the Company's form 10-K on September 26, 2012.

**USA Technologies, Inc.**  
**Notes to Consolidated Financial Statements**

**6. COMMON STOCK AND COMMON STOCK WARRANTS (CONTINUED)**

On September 5, 2012, at the recommendation of the Compensation Committee, the board of directors adopted the Fiscal Year 2013 Performance Share Plan (the "2013 Plan") covering the Company's executive officers. Under the 2013 Plan, each executive officer would be awarded common stock in the event the Company achieves certain performance goals during the fiscal year ending June 30, 2013. The metrics under the 2013 Plan as well as the relative weightings of these metrics are identical to those originally set forth in the 2012 Plan. No awards would be made under the 2013 Plan if either (i) none of the minimum, threshold performance target goals has been achieved, or (ii) if operating earnings for the 2013 fiscal year are not equal or better than those during the 2012 fiscal year.

If all of the target goals are achieved under the 2013 Plan, the executive officers would be awarded shares having the following value: Mr. Herbert – \$275,000; and Mr. DeMedio – \$100,000. If all of the minimum, threshold performance target goals are achieved, the executive officers would be awarded shares having the following value: Mr. Herbert – \$75,000; and Mr. DeMedio – \$25,000. If all of the maximum, distinguished performance target goals are achieved, the executive officers would be awarded shares having the following value: Mr. Herbert – \$550,000; and Mr. DeMedio – \$200,000. If the actual results for the fiscal year are less than the target goals (but greater than the minimum, threshold performance target goals), each executive would be awarded a lesser pro rata number of shares from the target goal, and if actual results are greater than the maximum, distinguished goals, each executive would be awarded a greater pro rata number of shares over the maximum distinguished goal.

As of September 30, 2012 and for the three months then ended the Company recorded a liability and expense of \$43,868.

In the same quarter a year ago for the 2012 Plan, the Company recorded a liability and expense of \$47,582.

Warrants to purchase up to 291,432 shares of Common Stock, issued in conjunction with the 2009 Rights Offering, exercisable at \$2.20 per share expired unexercised on August 6, 2012.

During the three months ended September 30, 2011, the Company recorded stock compensation expense of \$240,453 and issued 92,666 shares of Common stock. \$66,094 and \$156,749 of the expense related to the vesting of shares under employment agreements entered into with its executive officers in April and September 2011, respectively; and \$17,610 of expenses related to vesting and issuance of shares to employees and Directors of the Company granted in June 2011.

**7. SUBSEQUENT EVENT**

On October 9, 2012, USA Technologies, Inc. (the "Company") and Visa U.S.A. Inc. (the "Network"), entered into a First Amendment (the "First Amendment") to the agreement that had been previously entered into between them on October 12, 2011 (the "Agreement"). Pursuant to the First Amendment, the original one-year term of the Agreement has been extended until October 31, 2013, and will automatically renew for an additional year, or until October 31, 2014, unless either party would provide at least 60-days prior notice of non-renewal.

As previously reported, pursuant to regulations that were promulgated pursuant to the Durbin Amendment to the Dodd Frank Wall Street Reform And Consumer Protection Act of 2010, the interchange fees for small ticket debit card transactions increased effective October 1, 2011. Pursuant to the Agreement, the Network has agreed to make available to the Company reduced interchange fees for debit card transactions. These reduced interchange fees will allow the Company to continue to accept the Network's debit card products during the term of the Agreement, as amended, without adversely impacting the Company's historical gross profit from license and transaction fee revenues. During the term of the Agreement, as amended, the Company does not anticipate accepting any debit cards with interchange fees that are higher than the rates provided under the Agreement.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward-looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "estimate," "could," "should," "would," "likely," "may," "will," "plan," "intend," "believes," "expects," "anticipates," "projected," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example:

- general economic, market or business conditions;
- the ability of the Company to generate sufficient sales to generate operating profits, or to conduct operations at a profit;
- the ability of the Company to raise funds in the future through sales of securities in order to sustain its operations if an unexpected or unusual event would occur;
- the ability of the Company to compete with its competitors to obtain market share;
- whether the Company's customers purchase or rent ePort devices or our other products in the future at levels currently anticipated by our Company, including our JumpStart Program;
- whether the Company's customers continue to operate or commence operating ePorts received under the JumpStart Program or otherwise at levels currently anticipated by the Company;
- whether the Company's customers continue to utilize the Company's transaction processing and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice;
- whether the significant increase in the interchange fees charged by Visa and MasterCard for small ticket debit card transactions effective October 1, 2011, would adversely affect our business, including our revenues, gross profits, and anticipated future connections to our network;
- the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations, or to fund development and marketing of its products;
- the ability of the Company to satisfy its trade obligations included in accounts payable and accrued expenses;
- the incurrence by us of any unanticipated or unusual non-operating expenses, such as in connection with a proxy contest, which would require us to divert our cash resources from achieving our business plan;
- the ability of the Company to predict or estimate its future quarterly or annual revenues and expenses given the developing and unpredictable market for its products;
- the ability of the Company to retain key customers from whom a significant portion of its revenues is derived;
- the ability of a key customer to reduce or delay purchasing products from the Company;
- whether the actions of the former CEO of the Company which resulted in his separation from the Company in October 2011 or the Securities and Exchange Commission's investigation would have a material adverse effect on the future financial results or condition of the Company; and
- as a result of the slowdown in the economy and/or the tightening of the capital and credit markets, our customers may modify, delay or cancel plans to purchase our products or services, and suppliers may increase their prices, reduce their output or change their terms of sale.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Actual results or business conditions may differ materially from those projected or suggested in forward-looking statements as a result of various factors including, but not limited to, those described above. We cannot assure you that we have identified all the factors that create uncertainties. Moreover, new risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Readers should not place undue reliance on forward-looking statements.

Any forward-looking statement made by us in this Form 10-Q speaks only as of the date of this Form 10-Q. Unless required by law, we undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

## RESULTS OF OPERATIONS

### Three months ended September 30, 2012 compared to the three months ended September 30, 2011

Results for the fiscal quarter ended September 30, 2012 continued to demonstrate significant growth and improvements in the Company's operations. Highlights of year over year improvements include:

- Total revenue up 25%;
- Recurring license and transaction fee revenue up 27%; and
- Gross profit dollars up 53%.

Revenues for the quarter ended September 30, 2012 were \$8,390,277, consisting of \$6,906,356 of license and transactions fees and \$1,483,921 of equipment sales, compared to \$6,705,748 for the quarter ended September 30, 2011, consisting of \$5,419,663 of license and transaction fees and \$1,286,085 of equipment sales. The increase in total revenue of \$1,684,529, or 25%, was primarily due to an increase in license and transaction fees of \$1,486,693, or 27%, and an increase in equipment sales of \$197,836 or 15%, from the same period in the prior year.

The growing ePort Connect service base of connections drove the 27% increase in license and transaction fee revenue. Revenue from license and transaction fees, which is fueled primarily by monthly ePort Connect® service fees and transaction processing fees, grew to approximately \$6.9 million for the first quarter of fiscal 2013 from \$5.4 million for the same period a year ago. These recurring revenues represented 82% and 81% of total revenue for the first quarter of fiscal 2013 and 2012, respectively.

License and transaction fee highlights for the quarter ended September 30, 2012 included:

- Margin improvement of approximately 8 percentage points to 39% gross margins for the first quarter fiscal 2013 compared to 31% a year ago.
- Increases in the number of small-ticket, credit/debit transactions and dollars handled in the first quarter of 16% and 19%, respectively, compared to the same period a year ago; and,
- 64% growth in ePort Connect customers from the prior year first quarter, including 425 new customers in the fiscal 2013 first quarter, for 3,725 customers at September 30, 2012.

The increase in license and transaction fees was due to the growth in ePort Connect service fees and transaction dollar volume from the increased number of ePort® units connected to our ePort Connect service. As of September 30, 2012, the Company had approximately 174,000 connections to the ePort Connect service (including approximately 15,000 non-USAT, third party devices) as compared to approximately 129,000 connections to the ePort Connect service (including approximately 15,000 non-USAT, third party devices) as of September 30, 2011. During the quarters ended September 30, 2012 and 2011, the Company added approximately 10,000 net connections to our network. JumpStart units represented approximately 80% and 60% of connections added during the first quarters of the 2013 and 2012 fiscal years, respectively.

Compared to a quarter a year ago, overall net connections to the ePort Connect service remained flat at 10,000 connections quarter over quarter, due to fewer kiosk-related connections (that utilize the ePort SDK) and third party hardware connections during the September 30, 2012 quarter compared to the September 30, 2011 quarter.

Pursuant to its agreements with customers, the Company in addition to ePort Connect service fees earns transaction processing fees equal to a percentage of the dollar volume processed by the Company, which are included as licensing and transaction processing revenues in its Consolidated Statements of Operations. During the quarter ended September 30, 2012, the Company processed approximately 29 million transactions totaling approximately \$50 million compared to approximately 25 million transactions totaling approximately \$42 million during the quarter ended September 30, 2011, an increase of approximately 16% in the number of transactions and approximately 19% in the value of transactions processed.

It typically takes 30-60 days for a new connection to begin contributing to the Company's license and transaction fee revenues. The Company counts its ePort Connect connections upon shipment of an active terminal to a customer under contract, at which time activation on its network is performed by the Company, and the terminal is capable of conducting business via the Company's network and related services. An ePort Connect connection does not necessarily mean that the unit is actually installed by the customer on a machine, or that the unit has begun processing transactions, or that the Company has begun receiving monthly service fees in connection with the unit. Rather, at the time of shipment of the ePort, the customer becomes obligated to pay the one-time activation fee, and is obligated to pay monthly service fees in accordance with the terms of the customer's contract with the Company. We anticipate that our license and transaction fee revenues would continue to increase if the number of connections to our network would continue to increase.

In addition, our customer base increased with approximately 425 new ePort Connect customers added during the quarter ended September 30, 2012 bringing the total number of such customers to approximately 3,725 as of September 30, 2012. The Company added approximately 300 new customers in the quarter ended September 30, 2011. By comparison, the Company had approximately 2,275 customers as of September 30, 2011, representing a 64% increase during the past twelve months.

The \$197,836 increase in equipment sales was mainly a result of an increase of approximately \$423,000 in ePort product sales, offset by a decrease of approximately \$219,000 in Energy products. The \$423,000 increase in ePort products was directly attributable selling more units during the quarter ended September 30, 2012 than during the quarter ended September 30, 2011, as well as a greater level of activation fees on connections in the quarter compared to the prior year. The \$219,000 decrease in Energy products is directly attributable selling fewer units during the quarter ended September 30, 2012 than during the quarter ended September 30, 2011.

Cost of sales consisted of cost of services for network and transaction fee related costs of \$4,192,360 and \$3,761,577 and equipment costs of \$1,053,636 and \$895,135, for the quarters ended September 30, 2012 and 2011, respectively. The increase in total cost of sales of \$589,284 was due to an increase in cost of services of \$430,783 and an increase in equipment costs of \$158,501. The increase in cost of services was predominantly related to increases in units connected to the network and increases in transaction processing volume. The increase in equipment costs is directly attributable to selling more units during the quarter ended September 30, 2012 than during the quarter ended September 30, 2011.

Gross profit ("GP") for the quarter ended September 30, 2012 was \$3,144,281 compared to GP of \$2,049,036 for the previous corresponding quarter, an increase of \$1,095,245, of which \$1,055,910 represents increases attributable to license and transaction fees and \$39,335 equipment sales GP. Overall margins increased from 31% to 37% due to license and transaction fees margins having increased from 31% to 39% offset by equipment sales margins having decreased from 30% to 29%. License and transaction fee margins increased due to improved efficiencies stemming from recent partnership agreements and a larger ePort Connect service base. The Company was anticipating margins on license and transaction fees to be slightly in excess of 40%, however a credit issued to customer during the quarter caused the margin to fall below 40%. The decrease in equipment sales margins was mainly due to increased costs associated with inventory and warranty reserves in the quarter ended September 30, 2012.

Selling, general and administrative ("SG&A") expenses of \$3,215,125 for the quarter ended September 30, 2012, decreased by \$252,945, or 7%, from the same quarter in the prior fiscal year. Included in the \$3.2 million of SG&A expenses during the quarter ended September 30, 2012 were approximately \$328,000 in charges related to the proxy contest, related litigation and settlement.

Outside of the proxy contest and litigation expenses, SG&A expenses decreased approximately \$581,000 in the first quarter as compared to the same quarter in the fiscal 2012. This decrease in expenses is due primarily to \$180,000 decrease in employee compensation and benefit costs, mostly associated with the resignation of the Company's former CEO in October 2011, \$160,000 of sales tax expenses in the quarter ended September 30, 2011, which we did not have in the current period and other net decreases of \$241,000.

The quarter ended September 30, 2012 resulted in net income of \$39,140 compared to a net loss of \$78,954 for the quarter ended September 30, 2011, an improvement of \$118,094 from the prior corresponding fiscal quarter. For the fiscal quarters ended September 30, 2012 and 2011, the loss per common share was \$0.01.



For the quarter ended September 30, 2012, the Company had a positive Adjusted EBITDA of \$730,707 that includes approximately \$328,000 of proxy related expenses. Reconciliation of net income (loss) to Adjusted EBITDA for the quarters ended September 30, 2012 and 2011 is as follows:

|  | <b>Three months ended</b> |                     |
|--|---------------------------|---------------------|
|  | <b>September 30,</b>      |                     |
|  | <b>2012</b>               | <b>2011</b>         |
| Net income (loss)                                | \$ 39,140                 | \$ (78,954)         |
| Less interest income                             | (20,166)                  | (17,867)            |
| Plus interest expense                            | 23,006                    | 11,164              |
| Plus income tax expense                          | 6,921                     | -                   |
| Plus depreciation expense                        | 834,006                   | 563,125             |
| Plus amortization expense                        | 185,600                   | 258,600             |
| Less change in fair value of warrant liabilities | (463,133)                 | (1,736,609)         |
| Plus stock-based compensation                    | <u>125,333</u>            | <u>240,453</u>      |
| Adjusted EBITDA                                  | <u>\$ 730,707</u>         | <u>\$ (760,088)</u> |

As used herein, Adjusted EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation, amortization, change in fair value of warrant liabilities, stock-based compensation expense, and impairment expense on intangible assets. 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 the Company's operations. We have excluded the non-cash expenses, stock-based compensation, and impairment expense, as they do not reflect the cash-based operations of the Company. Adjusted EBITDA is a non-GAAP financial measure which is not required by or defined under GAAP (Generally Accepted Accounting Principles). The presentation of this financial measure is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of the Company 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 the Company's net income or net loss as determined in accordance with GAAP, and are not a substitute for or a measure of the Company's profitability or net earnings. 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.

## LIQUIDITY AND CAPITAL RESOURCES

For the quarter ended September 30, 2012, net cash provided by operating activities was \$678,010 as result of net income of \$39,140, which included non-cash charges of \$682,598, offset by \$43,728 net cash used by the change in operating assets and liabilities. The most significant non-cash charges during the quarter were of depreciation and amortization of assets, and charges for the vesting and issuance of common stock for employee and director compensation, offset by the reduction in fair value of warrant liabilities. The cash used for the \$43,728 change in the Company's operating assets and liabilities was primarily the result of decreases of \$1,451,446 in accrued expenses and \$115,452 in accounts payable, offset by decreases in inventory, receivables and other assets of \$1,331,390, \$112,151, and \$79,629, respectively.

During the quarter ended September 30, 2012, the Company used \$2,076,915 for investing activities of which \$2,075,390 related to the purchase of equipment for the JumpStart Program. The Company obtained net cash of \$1,175,963 through financing activities, \$1,337,779 of which are proceeds from the Line of Credit and \$161,816 related to repayment of debt.

The Company has incurred losses since inception. Our accumulated deficit through September 30, 2012 is composed of cumulative losses amounting to approximately \$199,120,000, preferred dividends converted to common stock of approximately \$2,690,000, and charges incurred for the open-market purchases of preferred stock of approximately \$150,000. The Company has historically raised capital through equity offerings in order to fund operations.

As a result of the continued growth in connections to our ePort Connect service, recurring revenue from license and transaction fees increased from \$5,419,663 for the three months ended September 30, 2011 to \$6,906,356 for the three months ended September 30, 2012, an increase of 27%. In addition, total GP dollars and GP margins have increased from \$2,049,036 and 31% for the three months ended September 30, 2011 to \$3,144,281 and 37% for the three months ended September 30, 2012, an increase of 53% in GP dollars and a six-point improvement in margins. Our average monthly cash GP during the three months ended September 30, 2012, excluding non-cash depreciation expense included in cost of sales during the quarter of approximately \$676,000, approximates \$1,273,000 and is expected to increase in the next fiscal quarter due to recognizing recurring revenue on units shipped during the quarter ended September 30, 2012.

Our average monthly SG&A expenses during the three months ended September 30, 2012 were approximately \$1,072,000. This includes charges during the quarter of approximately \$328,000 related to the proxy contest matter, and other non-cash net charges of approximately \$119,000. Excluding these charges, our average monthly cash-based SG&A expenses during the three months ended September 30, 2012 was approximately \$923,000.

The excess of cash-based GP over the cash-based SG&A expenses described above resulted in positive Adjusted EBITDA during the quarter of \$730,707 (see table above). The Company reports Adjusted EBITDA to reflect the liquidity of operations and a measure of operational cash flow. Adjusted EBITDA excludes significant non-cash charges such as depreciation, amortization of intangibles, fair value warrant liability changes and stock-based compensation from net income. We believe that, provided there are no unusual or unanticipated material non-operational expenses, achieving positive Adjusted EBITDA is sustainable predominately because the current connection base is driving the necessary level of recurring revenue from license and transaction fees and associated gross profits, and as our connection base increases, we believe Adjusted EBITDA will continue to grow as well.

During the remaining 2013 fiscal year, and provided there are no unanticipated or unusual non-operational expenses, the Company anticipates utilizing substantial cash resources in connection with ePort units expected to be used in the JumpStart Program. In the event we incur any unanticipated or unusual non-operational expenses during the remaining 2013 fiscal year, the Company may reduce the ePort units used in the JumpStart Program, thereby also reducing or eliminating the cash used for the program. During the quarter ended September 30, 2012, the Company funded approximately 80% of its new connections through JumpStart. The Company anticipates using the JumpStart Program for approximately 55% to 60% of its anticipated connections in fiscal 2013 as a result of the potential diversification from the kiosk market, where many customers only require our ePort SDK or our newly introduced Quick Connect Web service.

Provided there are no unanticipated or unusual non-operational expenses during the remainder of the 2013 fiscal year, we believe we are adequately positioned to fund and grow the business including the JumpStart Program. The Company has three sources of cash available to fund and grow the business: (1) cash on hand of \$6,203,703 at September 30, 2012; (2) the anticipated growing level of Adjusted EBITDA which indicates the business has the potential to generate cash; and (3) the availability of the line of credit with Avidbank that was established in July 2012. Although the line initially has an availability of approximately \$1.5 million, the Company anticipates that the availability would increase as our business and relationship with Avidbank grows, provided we continue to satisfy the various affirmative and negative covenants set forth in the loan agreement.

Therefore, based upon the above assumptions, the Company believes its existing cash and cash equivalents as of September 30, 2012, would provide sufficient funds through at least July 1, 2013 in order to meet its cash requirements, including payment of its accrued expenses and payables, cash resources anticipated to be utilized for the JumpStart program and other anticipated capital expenditures, and the repayment of long-term debt.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company's exposure to market risks for interest rate changes is not significant. Interest rates on its long-term debt are generally fixed and its investments in cash equivalents are not significant. The Company has no exposure to market risks related to Available-for-sale securities. Market risks related to fluctuations of foreign currencies are not significant and the Company has no derivative instruments.

**Item 4. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures.

The principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of September 30, 2012. Based on this evaluation, they conclude that the disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There have been no changes during the quarter ended September 30, 2012 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

**Part II - Other Information.****Item 3. Defaults Upon Senior Securities.**

There were no defaults on any senior securities. However, on August 1, 2012 an additional \$332,226 of dividends were accrued on our cumulative Series A Convertible Preferred Stock. The total accrued and unpaid dividends on our Series A Convertible Preferred Stock as of September 30, 2012 are \$11,264,098. The dividend accrual dates for our Preferred Stock are February 1 and August 1. The annual cumulative dividend on our Preferred Stock is \$1.50 per share.

**PART IV**

**Item 15. Exhibits**

| Exhibit<br>Number | Description   |
|-------------------|---|
| 31.1              | Certifications of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                                     |
| 31.2              | Certifications of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.                                     |
| 32.1              | Certification of the Chief Executive Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2              | Certification of the Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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SIGNATURES

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Pursuant to the requirements 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.

Date: November 13, 2012

USA TECHNOLOGIES, INC.

/s/ Stephen P. Herbert

Stephen P. Herbert,  
Chief Executive Officer

Date: November 13, 2012

/s/ David M. DeMedio

David M. DeMedio  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, Stephen P. Herbert., certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: November 13, 2012

/s/ Stephen P. Herbert  
Stephen P. Herbert  
Chief Executive Officer

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

I, David M. DeMedio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: November 13, 2012

/s/ David M. DeMedio

David M. DeMedio  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2012 (the "Report"), I, Stephen P. Herbert., Chief Executive Officer of the Company, hereby certify that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2012

/s/Stephen P. Herbert

Stephen P. Herbert

Chief Executive Officer



**CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
(18 U.S.C. SECTION 1350)**

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2012 (the "Report"), I, David M. DeMedio, Chief Financial Officer of the Company, hereby certify that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2012

/s/David M. DeMedio

David M. DeMedio  
Chief Financial Officer