

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

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

For the transition period from _____ to _____

Commission file number 000-50054

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of May 12, 2006, there were 5,992,062 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

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USA Technologies, Inc.
Consolidated Balance Sheets

	March 31, 2006 (Unaudited)	June 30, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,463,055	\$ 2,097,881
Accounts receivable, less allowance for uncollectible accounts of approximately \$161,000 at March 31, 2006 and \$196,000 at June 30, 2005	1,301,844	744,041
Finance receivables	282,749	255,595
Inventory	1,351,028	1,697,236
Prepaid expenses and other current assets	163,124	240,324
Subscriptions receivable	-	35,723
Investment	22,911	39,467
Total current assets	4,584,711	5,110,267
Finance receivables, less current portion	274,763	269,722
Property and equipment, net	1,047,971	684,927
Intangibles, net	8,667,782	9,595,232
Goodwill	7,663,208	7,663,208
Other assets	67,009	68,409
Total assets	\$ 22,305,444	\$ 23,391,765
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 2,520,614	\$ 3,265,928
Accrued expenses	1,632,725	1,479,352
Current obligations under long-term debt	112,140	100,646
Convertible Senior Notes	1,537,273	1,252,161
Total current liabilities	5,802,752	6,098,087
Convertible Senior Notes, less current portion	8,002,804	7,897,314
Long-term debt, less current portion	39,561	87,179
Total liabilities	13,845,117	14,082,580
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred Stock, no par value:		
Authorized shares- 1,800,000		
Series A Convertible Preferred- Authorized shares-900,000 Issued and outstanding shares- 521,542 as of March 31, 2006 and 522,742 as of June 30, 2005 (liquidation preference of \$13,441,681 at March 31, 2006)	3,694,360	3,702,856
Common Stock, no par value:		
Authorized shares- 640,000,000		
Issued and outstanding shares- 5,109,872 at March 31, 2006 and 4,335,679 at June 30, 2005	129,934,619	121,598,475
Subscriptions receivable	-	(233,850)
Accumulated other comprehensive income (loss)	(13,476)	3,080
Accumulated deficit	(125,155,176)	(115,761,376)
Total shareholders' equity	8,460,327	9,309,185
Total liabilities and shareholders' equity	\$ 22,305,444	\$ 23,391,765

See accompanying notes.

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

	Three months ended March 31,		Nine months ended March 31,	
	2006	2005	2006	2005
Revenues:				
Equipment sales	\$ 1,285,138	\$ 801,028	\$ 4,024,183	\$ 2,449,104
License and transaction fees	333,638	321,302	916,231	841,252
Total revenues	1,618,776	1,122,330	4,940,414	3,290,356
Cost of sales	931,027	555,610	3,149,856	2,250,398
Gross profit	687,749	566,720	1,790,558	1,039,958
Operating expenses:				
General and administrative	1,421,333	1,547,866	3,661,107	4,740,060
Compensation	1,566,573	1,469,333	4,359,936	4,128,412
Depreciation and amortization	437,642	399,446	1,269,416	1,187,979
Total operating expenses	3,425,548	3,416,645	9,290,459	10,056,451
Operating loss	(2,737,799)	(2,849,925)	(7,499,901)	(9,016,493)
Other income (expense):				
Interest income	34,080	14,564	70,861	34,656
Interest expense:				
Coupon or stated rate	(357,868)	(325,098)	(1,061,330)	(928,509)
Non-cash interest and amortization of debt discount	(252,281)	(541,590)	(884,460)	(1,237,345)
Total interest expense	(610,149)	(866,688)	(1,945,790)	(2,165,854)
Total other income (expense)	(576,069)	(852,124)	(1,874,929)	(2,131,198)
Net loss	(3,313,868)	(3,702,049)	(9,374,830)	(11,147,691)
Cumulative preferred dividends	(391,232)	(392,057)	(783,289)	(784,114)
Loss applicable to common shares	\$ (3,705,100)	\$ (4,094,106)	\$ (10,158,119)	\$ (11,931,805)
Loss per common share (basic and diluted)	\$ (0.74)	\$ (1.02)	\$ (2.15)	\$ (3.15)
Weighted average number of common shares outstanding (basic and diluted)	5,027,952	4,030,325	4,714,494	3,785,619

See accompanying notes.

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

	Series A Convertible Preferred Stock	Common Stock	Subscriptions Receivable	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance, June 30, 2005	\$ 3,702,856	\$ 121,598,475	\$ (233,850)	\$ 3,080	\$ (115,761,376)	\$ 9,309,185
Issuance of 731,352 shares of Common Stock to accredited investors at varying prices per share	-	7,319,097	-	-	-	7,319,097
Exercise of 36,800 2005-D Common Stock Warrants at \$10 per share	-	368,000	-	-	-	368,000
Cancellation of 15,590 shares of Common Stock issued as part of the 2005-D private placement	-	(233,850)	233,850	-	-	-
Conversion of 1,200 shares of Preferred Stock to 12 shares of Common Stock	(8,496)	8,496	-	-	-	-
Conversion of \$18,320 of cumulative preferred dividends into 18 shares of Common Stock at \$1,000 per share	-	18,320	-	-	(18,970)	(650)
Issuance of 20,913 shares of Common Stock from the conversion of Senior Notes	-	284,135	-	-	-	284,135
Debt discount related to the beneficial conversion feature on Senior Notes	-	123,322	-	-	-	123,322
Issuance of special purchase rights in conjunction with the 2008-C and 2010-A Senior Notes	-	428,941	-	-	-	428,941
Issuance of 1,000 shares of Common Stock for employee compensation	-	12,640	-	-	-	12,640
Stock option compensation charges	-	10,533	-	-	-	10,533
Repayment of fractional shares from reverse split	-	(3,490)	-	-	-	(3,490)
Comprehensive loss:						
Net loss	-	-	-	-	(9,374,830)	(9,374,830)
Unrealized loss on investment	-	-	-	(16,556)	-	(16,556)
Total comprehensive loss						(9,391,386)
Balance, March 31, 2006	<u>\$ 3,694,360</u>	<u>\$ 129,934,619</u>	<u>\$ -</u>	<u>\$ (13,476)</u>	<u>\$ (125,155,176)</u>	<u>\$ 8,460,327</u>

See accompanying notes.

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

	Nine months ended March 31,	
	2006	2005
Operating activities		
Net loss	\$ (9,374,830)	\$ (11,147,691)
Adjustments to reconcile net loss to net cash used in operating activities:		
Charges incurred in connection with the issuance of Common Stock for employee compensation	12,640	84,530
Charges incurred in connection with stock option compensation	10,533	-
Interest amortization related to Senior Notes	884,460	1,237,345
Amortization	927,450	927,450
Depreciation	341,966	260,529
Changes in operating assets and liabilities:		
Accounts receivable	(557,803)	264,483
Finance receivables	(32,195)	(181,816)
Inventory	346,208	(78,094)
Prepaid expenses and other assets	78,600	(17,647)
Accounts payable	(745,314)	54,029
Accrued expenses	152,723	(239,767)
Net cash used in operating activities	(7,955,562)	(8,836,649)
Investing activities		
Purchase of property and equipment, net	(650,110)	(236,318)
Cash received from the sale of assets held for sale	-	23,700
Net cash used in investing activities	(650,110)	(212,618)
Financing activities		
Net proceeds from issuance of Common Stock and exercise of Common Stock Warrants	7,683,607	5,972,918
Collection of subscriptions receivable	35,723	300,000
Net proceeds from the issuance of senior notes	1,314,944	3,305,790
Repayment of senior notes	(972,405)	(131,152)
Net repayment of long-term debt	(91,023)	(229,607)
Net cash provided by financing activities	7,970,846	9,217,949
Net increase (decrease) in cash and cash equivalents	(634,826)	168,682
Cash and cash equivalents at beginning of period	2,097,881	3,019,214
Cash and cash equivalents at end of period	\$ 1,463,055	\$ 3,187,896
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,064,904	\$ 831,562
Conversion of Senior Notes to Common Stock	\$ 284,135	\$ 468,452
Beneficial conversion feature related to Senior Notes	\$ 123,322	\$ 1,864,845
Cancellation of Common Stock in connection with the Bayview acquisition	\$ -	\$ (322,000)
Conversion of Convertible Preferred Stock to Common Stock	\$ 8,496	\$ -
Conversion of Convertible Preferred Dividends to Common Stock	\$ 18,320	\$ -

See accompanying notes.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

1. Accounting Policies

Reverse Stock Split

On February 7, 2006, our shareholders approved a 1-for-100 reverse stock split of our Common Stock. The effective date of the reverse stock split was February 17, 2006. On the effective date of the reverse stock split, (i) each 100 shares of outstanding Common Stock was reduced to one share of Common Stock; (ii) the number of shares of Common Stock into which each outstanding warrant, or option is exercisable was proportionately reduced on a 100-to-1 basis; (iii) the exercise price of each outstanding warrant, or option was proportionately increased on a 1-to-100 basis; (iv) the number of shares of Common Stock into which each share of Series A Preferred Stock is convertible was reduced from 1 share to one-hundredth of a share, and each share is entitled to one-hundredth of a vote rather than one vote per share as previously provided; (v) the conversion rate of the accrued and unpaid dividends on the Series A Preferred Stock was increased from \$10.00 to \$1,000.00 per share of Common Stock; (vi) and the conversion price of each convertible senior note proportionately increased on a 1-to-100 basis, and the number of shares into which each convertible senior note would be convertible was decreased on a 100-to-1 basis. The number of our authorized shares of Common Stock remains unchanged at 640,000,000. All of the share numbers, share prices, exercise prices, and conversion prices have been adjusted, on a retroactive basis, to reflect this 1-for-100 reverse stock split.

Interim Financial Information

The accompanying unaudited consolidated financial statements of USA Technologies, Inc. (the "Company") have been prepared in accordance with 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 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, 2005. In the opinion of management, all adjustments considered necessary, consisting of normal recurring adjustments, have been included. Operating results for the nine-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2006. The balance sheet at June 30, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The Company continues to incur operating losses. These factors raise doubt about the Company's ability to continue as a going concern. Management believes that the actions presently considered or being taken, as described in the liquidity section of item 2, will allow the Company to continue as a going concern.

For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2005.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

1. Accounting Policies (Continued)

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Stitch Networks Corporation ("Stitch"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated 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 the prior period financial statements have been reclassified to conform to the current period presentation.

Inventory

Inventory consists of finished goods and packaging materials. Through November 30, 2005, inventory was stated at the lower of cost (first-in, first-out basis) or market. Due to the implementation of a new accounting system on December 1, 2005, the Company's inventory is stated at the lower of cost (average cost basis) or market. The Company determined that the change in accounting principle was not material and therefore have excluded the current and cumulative effect of the change and pro forma disclosures.

Income Taxes

No provision for income taxes has been made in the nine months ended March 31, 2006 and 2005 given the Company's losses in 2006 and 2005 and available net operating loss carryforwards. A benefit has not been recorded as the realization of the net operating losses is not assured and the timing in which the Company can utilize its net operating loss carryforwards in any year or in total may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations.

Loss Per Common Share

Basic earnings per share is 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 period plus the dilutive effect (unless such effect is anti-dilutive) of potential common shares. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of senior notes, debentures, preferred stock, or cumulative preferred dividends was assumed during the periods presented because the assumed exercise of these securities would be anti-dilutive.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

1. Accounting Policies (Continued)

Accounting For Stock Options

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("FAS 123(R)"), which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

On July 1, 2005, the Company adopted FAS123(R) using the Modified Prospective Application method. For outstanding nonvested share-based awards as of July 1, 2005, compensation expense for the portion of the award for which the requisite services have not been rendered will be recognized in the Statement of Operations as the services are rendered. Compensation expense will be recognized based on the grant-date fair value of the share-based award as previously calculated under FAS 123 at the time of the grant, however, the Company is required to adjust the compensation expense for expected forfeitures. Awards granted subsequent to July 1, 2005 will be based on the guidance provided by FAS 123(R).

Due to the adoption of FAS 123(R), the Company has recognized \$10,533 of compensation expense related to a single grant of 3,000 common stock options during the prior fiscal year that were not fully vested as of the date of adoption. The remainder of the outstanding common stock options were fully vested as of the date of adoption. The effect of the adoption on the Company's operating loss and net loss for the nine months ended March 31, 2006 was \$10,533. There was no impact on cash flows or basic and diluted earnings per share.

2. Accrued Expenses

Accrued expenses consist of the following:

	March 31, 2006 (Unaudited)	June 30, 2005
Accrued compensation and related sales commissions	\$ 460,368	\$ 404,485
Accrued interest	441,921	445,495
Accrued professional fees	132,051	151,220
Accrued taxes and filing fees	99,209	97,860
Accrued consulting fees	30,000	122,500
Advanced customer billings	111,704	65,385
Accrued other	357,472	192,407
	<u>\$ 1,632,725</u>	<u>\$ 1,479,352</u>

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

3.Senior Notes

As of March 31, 2006, the outstanding balance of Senior Notes was \$9,540,077. This is comprised of notes with a face amount of \$11,979,938 less unamortized debt discount of \$2,439,861. Debt discount and other issuance costs associated with the Senior Notes are amortized to interest expense over the remaining life of the Senior Notes. Upon conversion of Senior Notes into Common Stock, unamortized discount relating to the notes converted are charged to interest expense. Total charges to interest for amortization of debt discount and other issuance costs were \$252,281 and \$884,460 for the three and nine months ended March 31, 2006, respectively and \$541,590 and \$1,237,345 for the three and nine months ended March 31, 2005. During the nine months ended March 31, 2006 and 2005, Senior Notes totaling \$284,135 and \$468,452, respectively, were converted into 20,913 and 44,313 shares, respectively, of the Company's Common Stock. During October and November 2005, the Company issued \$544,944 of principal amount 10% Convertible Senior Notes due December 31, 2008 (the "2008-C Senior Notes") and issued special purchase rights to these note holders to acquire up to 54,494 shares of Common Stock at \$20 per share on or before December 31, 2008. Interest on the 2008-C Senior Notes shall be paid on a quarterly basis in arrears at the rate of 10% per annum with the outstanding principal amount of the 2008-C Senior Notes together with all accrued and unpaid interest thereon to be paid in full no later than December 31, 2008. The 2008-C Senior Notes are convertible at any time into Common Stock at the rate of \$10 per share. During January 2006, the holder of each special purchase right agreed to exchange the purchase rights for warrants to purchase shares of Common Stock at \$20 at anytime prior to December 31, 2008. The fair value of the purchase rights issued in conjunction with the 2008-C Senior Notes created debt discount totaling \$184,542, which is being amortized to interest expense through the maturity date of these Senior Notes. The fair value was estimated using the Black-Scholes model.

During October and November 2005, the Company issued \$770,000 of Notes ("Bridge Notes") due January 6, 2006 with interest payable on the due date at a rate of 10% per annum. On January 6, 2006, the Bridge Notes were automatically exchanged, in accordance with the original terms of the Bridge Notes, for a like principal amount of new Convertible Senior Notes due December 31, 2010 ("2010-B Senior Notes") and special purchase rights were issued to these note holders to acquire up to 77,000 shares of Common Stock at \$20 per share on or before December 31, 2008. Interest on the 2010-B Senior Notes is payable quarterly at 10% per annum and is convertible into Common Shares at \$10 per share. During January 2006, the holder of each special purchase right agreed to exchange the purchase rights for warrants to purchase shares of Common Stock at \$20 at anytime prior to December 31, 2008. The fair value of the purchase rights issued in conjunction with the 2010-B Senior Notes created additional debt discount totaling \$244,399, which is being amortized to interest expense through the maturity date of these Senior Notes. The fair value was estimated using the Black-Scholes model.

On January 1, 2006, the Company repaid all of the Senior Notes that matured on December 31, 2005 for a total repayment of \$910,262.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

3. Senior Notes (Continued)

In March 2006, the Company extended the maturity date of the Senior Notes due June 30, 2006 totaling \$320,000 to June 30, 2009, with no other terms being modified.

4. Common Stock

On February 7, 2006, our shareholders approved a 1-for-100 reverse stock split of our Common Stock (see Note 1).

On April 4, 2005, the Company entered into a Common Stock Purchase Agreement ("2005 Common Stock Agreement") with Steve Illes that terminates August 11, 2007. Pursuant to the 2005 Common Stock Agreement, Mr. Illes agreed to purchase shares of the Company's Common Stock, provided that the aggregate purchase price does not exceed \$10,000,000. Under the 2005 Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) \$0.30 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of \$800,000. The Company can require Mr. Illes to purchase shares under the 2005 Common Stock Agreement only if the shares have been registered by the Company for resale under the Act. The Company filed a registration statement related to this agreement that included 205,000 shares of Common Stock and was effective May 13, 2005 and a registration statement that included 360,000 shares of Common Stock and was effective February 14, 2006. During the nine months ended March 31, 2006, the Company issued 291,352 shares of Common Stock under the 2005 Common Stock Agreement for total gross proceeds of \$2,990,590.

On February 17, 2006, the Company entered into a new Common Stock Purchase Agreement (the "2006 Common Stock Agreement") with Mr. Illes. Mr. Illes agreed to purchase shares of the Company's Common Stock with an aggregate purchase price not to exceed \$15,000,000. Under the 2006 Common Stock Agreement, the Company has the right at any time to require Mr. Illes to purchase Common Stock from the Company at the lower of: (i) \$30.00 per share; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by the Company to Mr. Illes of notice of his obligation to purchase. The Company can require Mr. Illes to purchase shares only if the shares have been registered by the Company for resale under the Act. The agreement also states that no additional shares shall be registered under the 2005 Common Stock Agreement. During any calendar month, Mr. Illes cannot be required by the Company to purchase Common Stock for an aggregate purchase price in excess of \$800,000. The Company has the right in the future, if necessary, to register additional shares under the 2006 Common Stock Agreement in order to ensure that a sufficient number of shares are available for purchase by Mr. Illes. The 2006 Common Stock Agreement terminates June 30, 2009. The Company filed a registration statement related to the 2006 Common Stock Agreement that included 1,500,000 shares of Common Stock and was effective April 7, 2006. As of March 31, 2006, no shares were issued under the 2006 Common Stock Agreement.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

4. Common Stock (Continued)

On January 9, 2006, the Company entered into a Stock Purchase Agreement with Rationalwave Onshore Equity Fund, LP ("Rationalwave"). Under this agreement, the Company sold to Rationalwave 40,000 shares of Common Stock for \$10 per share for an aggregate of \$400,000.

On December 13, 2005, the Company entered into a Stock Purchase Agreement with Wellington Management Company, LLP, a large Boston-based institutional investor, on behalf of certain of its clients ("Wellington"). Under this agreement, the Company sold to Wellington 400,000 shares of Common Stock for \$10 per share for an aggregate of \$4,000,000.

5. Common Stock Warrants and Options

As of March 31, 2006, there were 219,481 Common Stock warrants outstanding, all of which were exercisable at exercise prices ranging from \$7 to \$125 per share.

During October 2005, the Company approved a temporary reduction in the exercise price of the 2005-D Common Stock Warrants from \$15 to \$10 per share through November 30, 2005. The Company received \$368,000 and issued 36,800 shares of Common Stock as a result of the exercise of the 2005-D Common Stock Warrants at \$10 per share.

The Company's Board of Directors has granted options to employees and Board members to purchase shares of Common Stock at prices that were at or above fair market value on the dates the options were granted. The option term and vesting schedule were established by the contracts under which the options were granted.

Common Stock Option activity during the year ended June 30, 2005 was as follows. No activity occurred during the nine months ended March 31, 2006.

	OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE
Outstanding at June 30, 2005	20,099	\$ 16.50-\$200
Cancelled or expired	(950)	\$ 100
Outstanding at March 31, 2006 (unaudited)	19,149	\$ 16.50-\$200

The following table shows exercise prices and the weighted average remaining contractual life for options outstanding as of June 30, 2005. All Common Stock Options outstanding as of June 30, 2005 were exercisable except for the options granted at an exercise price of \$20 per share, none of which were exercisable as of June 30, 2005. The 3,000 non-vested options vest through April 30, 2007 and have a grant-date fair value of \$9.00 as noted below.

OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)
14,658	\$ 16.50	1.87
3,000	\$ 20	2.95
1,125	\$ 30	1.31
1,250	\$ 100	0.85
66	\$ 200	0.96
20,099		

The following table shows exercise prices and the weighted average remaining contractual life for options outstanding as of March 31, 2006. All Common Stock Options outstanding as of March 31, 2006 were exercisable except for the options granted at an exercise price of \$20 per share, 1125 of which were exercisable as of March 31, 2006. The 1,875 non-vested options vest through April 30, 2007 and have a grant-date fair value of \$9.00 as noted below. Total expected compensation expense related to the vesting of these options as of March 31, 2006 is \$14,043 and \$11,700 during the years ending June 30, 2006 and 2007.

OPTIONS OUTSTANDING	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE
14,658	\$ 16.50	1.12	\$ 0
3,000	\$ 20	2.20	\$ 0
1,125	\$ 30	0.56	\$ 0
300	\$ 100	0.71	\$ 0
66	\$ 200	0.21	\$ 0
19,149			\$ 0

The total fair value of shares vested during the nine months ended March 31, 2006 and 2005 was \$10,125 and \$18,000, respectively.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

5.Common Stock Warrants and Options (Continued)

There were no stock options granted or exercised during the nine months ended March 31, 2006 and 2005. The pro-forma disclosures required by FAS 123 have not been included as the pro-forma compensation expense related to the vesting of options during the nine months ended March 31, 2005 was not considered to be material.

During the year ended June 30, 2005, stock options were granted to one individual to purchase 3,000 shares of Common Stock of the Company at \$20 per share. The fair value of the stock options granted, \$9.00, was estimated on the date of the grant using the Black-Scholes option-pricing model with the following assumptions.

Dividend yield	0%
Expected stock price volatility	0.922
Risk-free interest rate	4.0%
Expected life, in years	2

6.Commitments and Contingencies

Various legal actions and claims occurring in the normal course of business are pending or may be instituted or asserted in the future against the Company. The Company does not believe that the resolution of these matters will have a material effect on the financial position or results of operations of the Company.

As previously reported, a Complaint was filed against the Company by Swartz Private Equity, LLC ("Swartz") alleging that the Company breached various agreements entered into with Swartz in August and September 2000 in connection with the so-called equity line of credit provided by Swartz to the Company. The Complaint requests money damages of \$4,350,381 representing the alleged value of the warrants currently held by or claimed to be due to Swartz, money damages of \$196,953 representing a termination fee allegedly due in connection with the termination of the agreements, and unspecified money damages relating to the alleged breach of the rights of first refusal.

The Company's response to the Complaint denied any liability to Swartz and asserted various counterclaims against Swartz that seek money damages and other affirmative relief against Swartz. The Company's response, among other things, states that the entire transaction is void and unenforceable because Swartz had failed to register as a broker-dealer under applicable Federal and state securities laws as required in order for Swartz to be engaged in the business of providing equity line products. In September 2005, the Company served various discovery requests upon Swartz that have been partially responded to by Swartz as of the date hereof. During April 2006, the deadline for the completion of discovery was extended from June 1, 2006 until December 1, 2006.

The Company intends to vigorously defend this action and to prosecute its counterclaims. In particular, the Company believes it has a substantial defense to the Complaint because Swartz was not registered as a broker-dealer, and intends to vigorously pursue this defense. At the present time, the Company is unable to estimate the possible range of damages that the Company might incur should this action be resolved against the Company.

During 2005, the Company had committed to purchase approximately \$529,000 of inventory from a third party manufacturer through December 31, 2005. The Company had purchased \$482,000 of this inventory through December 31, 2005 and purchased the remainder during the quarter ended March 31, 2006 upon completion of manufacturing and delivery.

7.Subsequent Events

From April 1 through May 9, 2006, the Company issued an additional 238,647 shares of Common Stock under the 2005 Common Stock Agreement for total gross proceeds of \$1,452,476.

From April 1 through May 12, 2006, the Company issued 612,601 shares of Common Stock under the 2006 Common Stock Agreement for total gross proceeds of \$3,832,524.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

7. Subsequent Events (Continued)

During April 2006, \$363,333 and \$20,000 of the Senior Notes due December 31, 2008 and June 30, 2007, respectively, were converted into 36,333 and 2,000 shares of Common Stock, respectively.

On May 8, 2006, the Company repaid all of the Senior Notes due December 31, 2006, for a total principal repayment of \$1,683,500.

On April 12, 2006, the Board of Directors was increased from six to seven members and Albert Passner was selected to fill the open vacancy. On April 21, 2006, the Board of Directors approved the grant of 12,000 Common Stock Options to each of the outside directors serving as of February 27, 2006 and 6,000 Common Stock Options to Mr. Passner, all with an exercise price of \$7.50 per share and all exercisable at any time within five years following the date of vesting. The options granted to Mr. Sellers and Mr. Van Allen are fully vested. Of the options granted to Mr. Katz and Mr. Lurio, 6,000 vest immediately, 3,000 vest on April 1, 2007, and 3,000 vest on April 1, 2008. Of the options granted to Mr. Passner, 3,000 vest on April 1, 2007, and 3,000 vest on April 1, 2008.

On May 11, 2006, the Company and Mr. Jensen entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Jensen's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Jensen's base salary was increased to \$325,000 per annum. Mr. Jensen's base salary had not been increased since January 1, 2004. Mr. Jensen was granted the right (exercisable at any time prior to the 60th day following the commencement of each fiscal year) to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Jensen has elected to receive shares in lieu of cash for one-half of his base salary for the fiscal year ending June 30, 2007. As a result of such election, 22,080 shares will be issued to him which will vest as follows: 5,520 on July 1, 2006; 5,520 on October 1, 2006; 5,520 on January 1, 2007; and 5,520 on April 1, 2007. Mr. Jensen was also granted 75,000 fully vested shares of Common Stock and an additional amount of options to purchase up to 75,000 shares of Common Stock at \$7.50 per share. The options vest as follows: 25,000 on May 11, 2006; 25,000 on June 30, 2007; and 25,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. As previously provided in his employment agreement, upon the occurrence of a USA Transaction (as defined in the employment agreement), the Company will issue to Mr. Jensen 140,000 shares of Common Stock. All of the shares granted to or to be issued to Mr. Jensen under his employment agreement, and the shares underlying the options granted to Mr. Jensen, are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

On May 11, 2006, the Company and Mr. Herbert entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Herbert's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Herbert's base salary was increased to \$285,000 per annum. Mr. Herbert's base salary had not been increased since January 1, 2004. Mr. Herbert was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Herbert was also granted 50,000 shares of Common Stock and an additional amount of options to purchase up to 18,000 shares of Common Stock at \$7.50 per share. The 50,000 shares of Common Stock vest as follows: 16,667 on June 1, 2006; 16,667 on January 1, 2007; and 16,666 on June 1, 2007. The options vest as follows: 6,000 on May 11, 2006; 6,000 on June 30, 2007; and 6,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. All of the shares granted to or to be issued to Mr. Herbert under his employment agreement, and the shares underlying the options granted to Mr. Herbert, are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

USA Technologies, Inc.
Notes To Consolidated Financial Statements
(Unaudited)

7. Subsequent Events (Continued)

On May 11, 2006, the Company and Mr. DeMedio entered into an amendment to his Employment Agreement pursuant to which the term of Mr. DeMedio's employment with the Company was extended to June 30, 2008. Effective May 11, 2006, Mr. DeMedio's base salary was increased to \$165,000 per annum. Mr. DeMedio was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, and June 30, 2008 paid in shares of Common Stock rather than cash. Mr. DeMedio was also granted options to purchase up to 7,000 shares of Common Stock at \$7.50 per share. The options vest as follows: 2,334 on May 11, 2006; 2,333 on June 30, 2007; and 2,333 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. All of the shares underlying the options granted to Mr. DeMedio under his employment agreement are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

Total expected expense related to the vesting of the options granted on April 21 and May 11, 2006 is approximately \$420,000, \$330,000 and \$108,000 during the years ending June 30, 2006, 2007 and 2008. The fair value of the stock options granted on April 21 and May 11, \$4.83 and \$5.51, respectively, was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions.

Dividend yield	0%
Expected stock price volatility	0.823
Risk-free interest rate	4.0%
Expected life, in years	5

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 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, "believes," "expects," "anticipates," 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 (i) the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit, (ii) the ability of the Company to raise funds in the future through sales of securities, (iii) whether the Company is able to enter into binding agreements with third parties to assist in product or network development, (iv) the ability of the Company to commercialize its developmental products, or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, (vi) the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations, including but not limited to Senior Notes, or to fund development and marketing of its products, (vii) the ability of the Company to obtain approval of its pending patent applications or the risk that its technologies would infringe patents owned by others, (viii) the ability of the Company to satisfy its trade obligations included in accounts payable and accrued liabilities, and (ix) the ability of the Company to predict or estimate its future quarterly or annual revenues given the developing and unpredictable market for its products and the lack of established revenues. Although the Company believes that the forward looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met.

Executive Overview

Our Company offers a suite of networked devices and associated wireless non-cash payment, control/access management, remote monitoring, and data reporting services, as well as energy control devices. Our networked devices and associated services enable the owners and operators of distributed assets, such as vending machines, personal computers, copiers, faxes, kiosks, and laundry equipment the ability to remotely monitor, control, and report on the results of these distributed assets, as well as the ability to offer their customers alternative cashless payment options. The Company offers Intelligent Vending®, a vending solution that bundles e-Port®, USALive®, and its Web-based remote monitoring, management, reporting, and payment processing; e-Suds™, a solution developed for the commercial laundry industry; TransAct®, a payment technology system developed for self-service business center devices; Business Express®, a solution comprising the TransAct payment terminal and a suite of office equipment; and KIOSK, a solution that utilizes e-Port and USALive to offer a cash-free payment option and Web-based remote monitoring and management for all kiosk types. Our energy control devices include VendingMiser®, CoolerMiser™, SnackMiser™, and PlugMiser™, which reduce the power consumption of various equipment, such as refrigerated vending machines and glass front coolers. Our customers include vending machine owners and/or operators, business center operators, commercial laundry operators, energy utility companies, schools, and operators of glass front coolers. USA Technologies markets its products through direct sales, distributors, channel sales and licensing. The Company has strategic relationships with IBM Corporation; ZiLOG, Inc.; Mars Electronics, Inc.; Cingular Wireless and Pepsi. USA Technologies was founded in 1992 and is based in Malvern, Pennsylvania. The Company has 50 employees.

Our Product and Services

Intelligent Vending(R)

Developed for the vending industry, Intelligent Vending(R) is our end-to-end vending solution. Vending operators purchasing our Intelligent Vending(R) products and services will have the capability: to conduct cashless transactions via credit cards, debit cards, RFID tags and other payment mediums such as employee/student ids and hotel room keys; to offer a variety of items with increasingly higher price points; to reduce operational costs through utilization of our remote monitoring technology, thereby maximizing the scheduling of service visits and limiting 'out-of-stock' machines; to reduce theft and vandalism by providing 100% accountability of all sales transactions and reducing the cash reserves inside the machine; and to offer improved customer service by keeping machine inventory at a desirable level and giving consumers access to our 1-800 help-desk center for customer purchasing inquiries.

e-Suds(TM)

e-Suds(TM) is our end-to-end solution developed for the commercial laundry industry. Laundry operators purchasing our eSuds(TM) system will have the capability: to conduct cashless transactions via credit cards, debit cards and other payment mediums such as student ids; to reduce operational costs through utilization of our remote monitoring technology, thereby maximizing the scheduling of service visits and increasing machine up-time. Users of the system can enjoy the convenience of the e-Suds Internet portal and email alerts that notify them of machine availability, cycle completion and other events. The system can also increase customer satisfaction through higher machine availability and the convenience of non-cash transactions.

TransAct(R) And Business Express(R)

TransAct(R) enables self-service business centers to accept cashless payments via the swipe of a credit or debit card. Business Express bundles the TransAct(R) device payment terminal with business center devices, such as PCs, fax machines, and copiers, for hotels. Although larger hotels are expected to provide business centers to its guests, operation of the center can be costly. Business Express(R) offers a cost-effective solution that provides 24/7 services to travelers.

Kiosk

Our kiosk solution offers a cashless payment option and web-based remote monitoring and management for all kiosk types. Kiosks permit a host of new services to become available at the point-of-demand, such as Sony's self-service, PictureStation kiosks, where consumers can produce prints from their own digital media. Our solution also enables kiosks to sell a variety of more expensive items.

Energy Management Products

The Miser family of energy-control devices, include:

VendingMiser(R) - installs in a cold drink vending machine and can reduce the electrical power consumption of the vending machine by an average of up to 46%.

CoolerMiser™ - reduces the electrical energy used by sliding glass or pull open glass-front coolers that contain non-perishable goods.

VM2IQ™ and CM2IQ™ - The second generation of the VendingMiser™ and CoolerMiser™ devices that is installed directly inside the machine and has the capability to control the cooling system and the advertising lights separately.

SnackMiser™ - reduces the amount of electricity used by non-refrigerated snack vending machines.

PlugMiser™ - reduces the amount of electricity used by all types of plug loads including those found in personal or modular offices (printers, personal heaters, and radios), video arcade games, and more.

Results of Operations

Three months ended March 31, 2006

Revenues for the three months ended March 31, 2006 were \$1,618,776 compared to \$1,122,330 for the corresponding three-month period in the previous fiscal year. This \$496,446 or 44% increase was primarily due to an increase in equipment sales of approximately \$484,000 and license and transaction fees of approximately \$12,000. The increase in equipment sales was due to an increase in sales of approximately \$469,000 of energy conservation equipment and approximately \$32,000 in e-Port vending equipment sales, which was offset by a decrease in sales of approximately \$17,000 in business center and other equipment sales.

Cost of sales for the period consisted of equipment costs of approximately \$719,000 and network and transaction related costs of approximately \$212,000. The increase in cost of sales of \$375,417 or 68% over the prior year period was due to an increase in equipment costs of approximately \$321,000 and an increase of approximately \$54,000 of network and transaction related costs.

Gross profit for the three months ended March 31, 2006 was \$687,748, compared to gross profit of \$566,720 for the corresponding three-month period in the previous fiscal year. This 21% increase is due to the change in our product mix, specifically, 68% of equipment sales in the current three-month period were from higher margin energy equipment sales as compared to 50% in the corresponding three-month period in the previous fiscal year.

General and administrative expense of \$1,421,333 decreased by \$126,533 or 8% primarily due to a reduction in consulting fees of approximately \$93,000 and a reduction in public relations fees of approximately \$41,000.

Non-cash interest expense and amortization of debt discount decreased by \$289,309 or 53% due to a decrease in non-cash charges for accelerated interest on the unamortized debt discount and other issuance costs on the Senior Notes that were converted into Common Stock during the corresponding three months of the prior fiscal year. Conversions of Senior Notes totaled \$421,160 during the three-month period ended March 31, 2005 whereas only \$25,000 of Senior Notes were converted during the corresponding period of the current fiscal year.

Compensation expense of \$1,566,573 increased by \$97,240 or 7% primarily due to an increase in salaries and benefits expense of approximately \$183,000 due to an increase in the number of employees, offset by a decrease in bonus expense of approximately \$85,000.

The quarter ended March 31, 2006 resulted in a net loss of \$3,313,868 (approximately \$0.7 million of non-cash charges) compared to a net loss of \$3,702,049 (approximately \$1.0 million of non-cash charges) for the quarter ended March 31, 2005.

Nine months ended March 31, 2006

Revenues for the nine months ended March 31, 2006 were \$4,940,414 compared to \$3,290,356 for the corresponding nine-month period in the previous fiscal year. This \$1,650,057 or 50% increase was primarily due to an increase in equipment sales of approximately \$1,575,000 and license and transaction fees of approximately \$75,000. The increase in equipment sales was due to an increase in sales of approximately \$876,000 of energy conservation equipment, approximately \$544,000 in e-Port vending equipment sales, and approximately \$175,000 in laundry equipment, offset by a decrease of approximately \$19,000 in business center and other equipment sales.

Cost of sales for the period consisted of equipment costs of approximately \$2,491,000 and network and transaction related costs of \$659,000. The increase in cost of sales of \$899,458 or 40% over the prior year period was due to an increase in equipment costs of approximately \$1,059,000, offset by a decrease of approximately \$159,000 of network and transaction related costs. The increase in equipment costs directly relates to the increase in equipment sales. The decrease in network and transaction related costs is due to a decrease from the prior year period related to the one-time cost of switching our e-Port vending customers to the Cingular wireless network and the processing of customer credit card transactions in the prior period.

Gross profit for the nine months ended March 31, 2006 was \$1,790,558, compared to gross profit of \$1,039,958 for the corresponding nine-month period in the previous fiscal year. This 72% increase is due to the 50% increase in revenues with only a 40% increase in equipment and transaction costs as described above.

General and administrative expense of \$3,661,107 decreased by \$1,286,863 or 27% primarily due to a reduction in consulting fees of approximately \$1,022,000 and a reduction in public relations fees of approximately \$230,000.

Compensation expense of \$4,359,936 increased by \$231,524 or 6% primarily due to an increase in salaries and benefits expense of approximately \$388,000 due to an increase in the number of employees, offset by a decrease in bonus expense of approximately \$97,000 and a decrease of \$60,000 in commissions. The decrease in commissions is due to changes made to the commission program in the current fiscal year.

Non-cash interest expense and amortization of debt discount decreased by \$352,885 or 29% due to a decrease in non-cash charges for accelerated interest on the unamortized debt discount and other issuance costs on the Senior Notes that were converted into Common Stock during the corresponding nine months of the prior fiscal year. Conversions of Senior Notes totaled \$468,452 during the nine-month period ended March 31, 2005 whereas only \$284,135 of Senior Notes were converted during the corresponding period of the current fiscal year.

The nine-month period ended March 31, 2006 resulted in a net loss of \$9,374,830 (approximately \$2.2 million of non-cash charges) compared to a net loss of \$11,147,691 (approximately \$2.5 million of non-cash charges) for the nine-month period ended March 31, 2005.

Liquidity and Capital Resources

For the nine months ended March 31, 2006, net cash of \$7,955,562 was used by operating activities, primarily due to the net loss of \$9,374,830 offset by non-cash charges totaling \$2,177,049 for transactions involving the issuance of Common Stock for services, stock option compensation charges, depreciation and amortization of assets, and amortization of debt discount. In addition to these non-cash charges, the Company's net operating assets increased by \$757,131 primarily due to an increase in accounts receivable and a decrease in accounts payable.

Proceeds from financing activities for the nine months ended March 31, 2006 provided \$7,970,846 of funds, which were necessary to support cash used in operating and investing activities. These proceeds were realized from the issuance of Common Stock and exercise of Common Stock Warrants (\$7,683,607), the issuance of Senior Notes (\$1,314,944), the collection of Common Stock subscriptions receivable (\$35,723), offset by cash used to repay long-term debt and Senior Notes (\$1,063,428).

The Company has incurred losses since inception. Cumulative losses through March 31, 2006 amounted to approximately \$122,000,000. The Company has continued to raise capital through equity and debt offerings to fund operations.

During the year ended June 30, 2005, cash used in operating activities was approximately \$992,000 per month. During the first half of fiscal year 2006, the Company continued to make efforts to improve its working capital management. For the three months ended March 31, 2006, cash used in operating activities was approximately \$883,000 per month. Using the actual cash requirements for the first nine months of the fiscal year and the last three months to estimate the remaining three months of the fiscal year as a basis for estimating cash requirements for the entire year ending June 30, 2006 (which assumes a static level of revenues), cash requirements for fiscal year 2006, including requirements for capital expenditures and repayments of long-term debt, would be approximately \$12,400,000.

As of March 31, 2006, the Company had approximately \$1,463,000 of cash and cash equivalents on hand.

On April 4, 2005, the Company and Mr. Illes entered into the 2005 Common Stock Agreement, as more fully described in Note 4 to the accompanying Condensed Consolidated Financial Statements. From April 1 through May 5, 2006, the Company issued the remaining 238,647 shares of Common Stock under the 2005 Common Stock Agreement for total gross proceeds of \$1,452,476.

On February 17, 2006, the Company entered into the 2006 Common Stock Agreement with Mr. Illes, as more fully described in Note 4 to the accompanying Condensed Consolidated Financial Statements. As previously stated, the Company has registered for resale by Mr. Illes an aggregate of 1,500,000 shares. These shares would provide \$10,500,000 of funds based on a purchase price of \$7 per share. Through May 12, 2006, the Company issued 612,601 shares of Common Stock under the 2006 Common Stock Agreement for total gross proceeds of \$3,832,524.

Funding sources in place to meet the Company's cash requirements for the year ending June 30, 2006 are primarily comprised of approximately \$1,463,000 in cash and cash equivalents on hand as of March 31, 2006 and the proceeds received from the 2005 and 2006 Common Stock Purchase Agreement (\$5,285,000). The Company believes these sources should provide sufficient funds through June 30, 2006.

Additionally, the Company has approximately \$6,212,000 of available funds under the 2006 Common Stock Agreement based on a purchase price of \$7 per share. The Company believes the funds available under this Agreement should provide sufficient funds through March 31, 2007.

Guidance

On October 3, 2005, the Company announced that according to its forecasts, it expected to reach its goal of attaining an operating profit (before interest expense and other non-operating income and expenses) and positive cash flow from operations during one or more of the calendar months in the quarter ending June 30, 2006. The Company is currently in negotiations with several Fortune 500 companies for the purchase of our products. The Company anticipated these contracts would be finalized and result in fourth quarter revenues. Although the Company is optimistic that these negotiations will result in contracts and material future revenues, the Company does not anticipate it will be able to achieve this forecast during the quarter ending June 30, 2006.

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 Senior Notes and long-term debt are generally fixed and its investments in cash equivalents and other securities are not significant. Market risks related to fluctuations of foreign currencies are not significant and the Company has no derivative financial 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 December 31, 2005. Based on this evaluation, they conclude that the disclosure controls and procedures effectively ensure that the information required to be disclosed in our filings and submissions under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal controls.

There have been no changes during the quarter ended December 31, 2005 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 1. Legal Proceedings

See Note 6 to the accompanying Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended March 31, 2006, the Company and Steve Illes entered into the 2006 Common Stock Agreement that is more fully described in Note 4 to the accompanying Condensed Consolidated Financial Statements. The offer and sale of the shares covered by this agreement were exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. Mr. Illes is an accredited investor, made appropriate investment representations, was afforded access to all public filings and all other information that the Company could reasonably obtain. We have agreed to register the shares to be purchased by Mr. Illes under the agreement for resale under the Act through April 2007.

During the quarter ended March 31, 2006, the Company entered into a Stock Purchase Agreement with Rationalwave Onshore Equity Fund, LP ("Rationalwave"). Pursuant thereto, the Company sold to Rationalwave 40,000 shares of Common Stock for \$10 per share for an aggregate of \$400,000. The offer and sale of the shares was exempt from registration under Rule 506 promulgated under Section 4(2) of the Act. We have agreed to register the shares for resale under the Act through January 9, 2007.

Item 3. Defaults Upon Senior Securities

There were no defaults on any senior securities. However, on February 1, 2006, an additional \$391,232 of dividends accrued on our cumulative Series A Convertible Preferred Stock. The total accrued and unpaid dividends on our Series A Convertible Preferred Stock as of May 12, 2006 are \$8,226,261. 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.

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

(a) A Special Meeting of Shareholders was held on February 7, 2006.

(c) The following matters were voted on and approved at the Special Meeting:

Approval of an amendment to the Company's Bylaws increasing the number of directors to eleven members:

Affirmative Votes	385,814,460
Negative Votes	26,973,233
Abstaining Votes	2,855,142

Approval of Plan on Recapitalization effecting a 1-for-100 reverse split of Common Stock:

Affirmative Votes	380,357,685
Negative Votes	33,816,854
Abstaining Votes	1,476,296

Item 5. Other Information

On May 11, 2006, the Company and Mr. Jensen entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Jensen's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Jensen's base salary was increased to \$325,000 per annum. Mr. Jensen's base salary had not been increased since January 1, 2004. Mr. Jensen was granted the right (exercisable at any time prior to the 60th day following the commencement of each fiscal year) to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Jensen has elected to receive shares in lieu of cash for one-half of his base salary for the fiscal year ending June 30, 2007. As a result of such election, 22,080 shares will be issued to him which will vest as follows: 5,520 on July 1, 2006; 5,520 on October 1, 2006; 5,520 on January 1, 2007; and 5,520 on April 1, 2007. Mr. Jensen was also granted 75,000 shares of Common Stock and an additional amount of options to purchase up to 75,000 shares of Common Stock at \$7.50 per share. The 75,000 shares of Common Stock vest as follows: 25,000 on June 1, 2006; 25,000 on January 1, 2007; and 25,000 on June 1, 2007. The options vest as follows: 25,000 on May 11, 2006; 25,000 on June 30, 2007; and 25,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting.

As previously provided in his employment agreement, upon the occurrence of a USA Transaction (as defined in the employment agreement), the Company will issue to Mr. Jensen 140,000 shares of Common Stock.

All of the shares granted to or to be issued to Mr. Jensen under his employment agreement, and the shares underlying the options granted to Mr. Jensen, are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

On May 11, 2006, the Company and Mr. Herbert entered into an Amended and Restated Employment Agreement pursuant to which the term of Mr. Herbert's employment with the Company was extended to June 30, 2009. Effective May 11, 2006, Mr. Herbert's base salary was increased to \$285,000 per annum. Mr. Herbert's base salary had not been increased since January 1, 2004. Mr. Herbert was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009 paid in shares of Common Stock rather than cash. Mr. Herbert was also granted 50,000 shares of Common Stock and an additional amount of options to purchase up to 18,000 shares of Common Stock at \$7.50 per share. The 50,000 shares of Common Stock vest as follows: 16,667 on June 1, 2006; 16,667 on January 1, 2007; and 16,666 on June 1, 2007. The options vest as follows: 6,000 on May 11, 2006; 6,000 on June 30, 2007; and 6,000 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. All of the shares granted to or to be issued to Mr. Herbert under his employment agreement, and the shares underlying the options granted to Mr. Herbert, are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

On May 11, 2006, the Company and Mr. DeMedio entered into an amendment to his Employment Agreement pursuant to which the term of Mr. DeMedio's employment with the Company was extended to June 30, 2008. Effective May 11, 2006, Mr. DeMedio's base salary was increased to \$165,000 per annum. Mr. DeMedio was granted the right to elect to have one-half of his base salary for each of the fiscal years ending June 30, 2007, and June 30, 2008 paid in shares of Common Stock rather than cash. Mr. DeMedio was also granted options to purchase up to 7,000 shares of Common Stock at \$7.50 per share. The options vest as follows: 2,334 on May 11, 2006; 2,333 on June 30, 2007; and 2,333 on June 30, 2008. The options may be exercised at any time within 5 years of vesting. All of the shares underlying the options granted to Mr. DeMedio under his employment agreement are not and will not be registered under the Securities Act of 1933, as amended, and constitute restricted securities as such term is defined in Rule 144 promulgated under the 1933 Act.

Item 6. Exhibits

- 10.1 Amended and Restated Employment and Non-Competition Agreement between the Company and George R. Jensen, Jr., dated May 11, 2006
- 10.2 Amended and Restated Employment and Non-Competition Agreement between the Company and Stephen P. Herbert dated May 11, 2006
- 10.3 First Amendment to Employment and Non-Competition Agreement between the Company and David M. DeMedio dated May 11, 2006
- 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 Certifications by the Chief Executive Officer and Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

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.

USA TECHNOLOGIES, INC.

Date: May 15, 2006

/s/ George R. Jensen, Jr.

George R. Jensen, Jr., Chairman,
Chief Executive Officer

Date: May 15, 2006

/s/ David M. DeMedio

David M. DeMedio, Chief Financial Officer

AMENDED AND RESTATED
EMPLOYMENT AND NON-COMPETITION AGREEMENT

Agreement made this 11th day of May, 2006, by and between GEORGE R. JENSEN, JR., an individual ("Jensen"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA").

BACKGROUND

Jensen is the founder as well as the Chairman and Chief Executive Officer of USA. Jensen and USA had entered into an Employment And Non-Competition Agreement dated November 20, 1997, a First Amendment thereto dated as of June 17, 1999, a Second Amendment thereto dated February 22, 2000, a Third Amendment thereto dated January 16, 2002, a Fourth Amendment thereto dated April 15, 2002, a Fifth Amendment thereto dated July 16, 2003, and a Sixth Amendment thereto dated February 4, 2004. As more fully set forth herein, the parties desire to amend, completely restate, and replace the foregoing agreements.

AGREEMENT

NOW, THEREFORE, in consideration of the covenants set forth herein, and intending to be legally bound hereby, the parties agree as follows:

SECTION 1. Employment.

(a) USA shall employ Jensen as Chairman and Chief Executive Officer commencing on the date hereof and continuing through June 30, 2009 (the "Employment Period"), and Jensen hereby accepts such employment. Unless terminated by either party hereto upon at least 60-days notice prior to end of the original Employment Period ending June 30, 2009, or prior to the end of any one year extension of the Employment Period, the Employment Period shall not be terminated and shall automatically continue in full force and effect for consecutive one year periods.

(b) During the Employment Period, Jensen shall devote his full time, energy, skills, and attention to the business of USA, and shall not be engaged or employed in any other business activity whatsoever, whether or not such activity is pursued for gain, profit or other pecuniary advantage. During the Employment Period, Jensen shall perform and discharge well and faithfully such executive management duties for USA as shall be necessary and as otherwise may be directed by the Board of Directors of USA.

(c) Nothing contained in subparagraph 1(b) hereof shall prohibit Jensen from investing his personal assets in businesses which do not compete with USA, where the form or manner of such investments will not require more than minimal services on the part of Jensen in the operation of the affairs of the business in which such investments are made, or in which his participation is solely that of a passive investor; or from serving as a member of boards of directors, boards of trustees, or other governing bodies of any organization, provided that USA approves such activities in advance; or from participating in trade associations, charitable, civic and any similar activities of a not-for-profit, philanthropic or eleemosynary nature; or from attending educational events or classes. It is understood and agreed that any such permitted activities which shall occur during business hours shall be limited to no greater than forty hours per year.

SECTION 2. Compensation and Benefits

(a) In consideration of his services rendered, commencing on the date hereof, USA shall pay to Jensen a base salary of \$325,000 per year during the Employment Period, subject to any withholding required by law. Jensen's base salary may be increased from time to time in the discretion of the Board of Directors.

For each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009, Jensen shall have the option to elect to have fifty percent (50%) of his base salary paid in Common Stock of USA (“Common Stock”) rather than cash. Any such election must be made not later than 60-days following the commencement of each such fiscal year by appropriate notice by Jensen to USA. For the purposes of determining the number of shares to be issued to Jensen, the shares shall be valued at the average closing bid price for the Common Stock during the 30 trading days immediately preceding the date of any such election by Jensen. If any such election is made, the shares issuable to Jensen for the fiscal year would vest ratably on a quarterly basis. Jensen acknowledges that the issuance of the shares to him represents taxable income to him and that he (and not USA) shall be responsible for the payment of any and all income taxes attributable to the issuance of the shares to him. Jensen shall make appropriate cash payments to USA to pay for any withholding tax liability of USA in connection with the shares. Jensen acknowledges that the Common Stock has not been registered under the Securities Act of 1933, as amended (the “Act”) or under any state securities law, and the Common Stock can not be sold or transferred unless such Common Stock has been registered under the Act or such state securities laws, or unless USA has received an opinion of its counsel that such registration is not required. Jensen understands that USA has not agreed to register the Common Stock under the Act or any state securities laws. In addition, the certificates representing the Common Stock shall contain such legends, or restrictive legends, or stop transfer instructions, as shall be required by applicable Federal or state securities laws, or as shall be reasonably required by USA or its transfer agent.

(b) In addition to the base salary provided for in subparagraph (a), Jensen shall be eligible to receive such bonus or bonuses as the Board of Directors of USA may, in their discretion, pay to Jensen from time to time based upon his performance and/or the performance of USA. All awards in this regard may be made in cash or in Common Stock.

(c) Jensen shall be entitled to be reimbursed by USA for all reasonable expenses reasonably incurred by Jensen in connection with his employment duties hereunder. Such expenses shall include, but not be limited to, all reasonable business travel expenses such as tolls, gasoline and mileage. Jensen shall reasonably document all requests for expense reimbursements.

(d) As a further incentive to Jensen, USA believes it is in the best interest of USA to issue to Jensen shares of Common Stock in the event there is a USA Transaction (as defined below), all as more fully described in Section 3 hereof.

(e) At the time of the signing of this Agreement by each of USA and Jensen, USA shall issue to Jensen options to acquire up to 75,000 shares of USA Common Stock for an exercise price of \$7.50 per share (which is equal to the average closing bid price for the Common Stock during the 30 trading days immediately preceding the execution and delivery by USA and Jensen of this Agreement). The options shall vest as follows: 25,000 on the date hereof; 25,000 on June 30, 2007; and 25,000 on June 30, 2008. The options shall be exercisable at any time within five years of vesting. All of the terms and conditions of the options are set forth in the Option Certificate attached hereto as Exhibit "A".

Jensen acknowledges that such options are not incentive stock options as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended, or part of an employee stock purchase plan as defined in Section 423 thereunder. As a result, among other things, taxable income will be realized by Jensen at the time of the exercise of any such options.

Jensen also acknowledges that neither the options nor the Common Stock underlying the options have been registered under the Act, or under any state securities laws, and neither the options nor the Common Stock underlying the options can be sold or transferred unless such options or Common Stock have been registered under the Act or such state securities laws, or unless USA has received an opinion of counsel that such registration is not required. Jensen understands that USA has not agreed to register the options or the underlying Common Stock under the Act or any state securities laws.

(f) On the date of the execution and delivery by each of USA and Jensen of this Agreement, USA shall issue to Jensen 75,000 nonvested shares of Common Stock as a bonus. These shares shall vest as follows: 25,000 on June 1, 2006; 25,000 on January 1, 2007; and 25,000 on June 1, 2007. Jensen acknowledges that the Common Stock has not been registered under the Act or under any state securities law, and the Common Stock can not be sold or transferred unless such Common Stock has been registered under the Act or such state securities laws, or unless USA has received an opinion of its counsel that such registration is not required. Jensen acknowledges that the issuance of the shares to him represents taxable income to him and that he (and not USA) shall be responsible for the payment of any and all income taxes attributable to the issuance of the shares to him. Jensen shall make appropriate cash payments to USA to pay for any withholding tax liability of USA in connection with the shares. In addition, the certificates representing the Common Stock shall contain such legends, or restrictive legends, or stop transfer instructions, as shall be required by applicable Federal or state securities laws, or as shall be reasonably required by USA or its transfer agent.

SECTION 3. Common Stock Rights.

A. If at any time after the date hereof there shall be a USA Transaction, USA shall issue to Jensen an aggregate of 140,000 shares of Common Stock (the "Jensen Stock") subject to adjustment as provided in subparagraph B of this Section 3. At the time of any USA Transaction, all of the shares of Jensen Stock shall automatically and without any action on Jensen's part be deemed to be issued and outstanding immediately prior to any such USA Transaction, and shall be entitled to be treated as any other issued and outstanding share of Common Stock in connection with such USA Transaction. In connection with a USA Transaction, USA and/or such successor or purchasing corporation, person, or entity, as the case may be, shall recognize and specifically provide for the Jensen Stock as provided for in this Section 3.

B. The number of shares of Common Stock to be issued to Jensen upon the occurrence of a USA Transaction shall be subject to adjustment from time to time only as set forth hereinafter: (i) in case USA shall declare a Common Stock dividend on the Common Stock, then the number of shares shall be proportionately increased as of the close of business on the date of record of said Common Stock dividend in proportion to such increase of outstanding shares of Common Stock; or (ii) if USA shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the number of shares shall be proportionately increased, and, if USA shall at any time combine the outstanding shares of Common Stock by recapitalization, reclassification, reverse stock split, or combination thereof, the number of shares shall be proportionately decreased. Any such adjustment to the number of shares shall become effective at the close of business on the record date for such subdivision or combination. All shares of Common Stock issued to Jensen shall be, at the time of delivery of the certificates for such Common Stock, validly issued and outstanding, fully paid and non-assessable.

C. For purposes hereof, the term "USA Transaction" shall mean:

(i) the acquisition by any person, entity or group required to file (or which would be required to file if USA had been subject to such provisions) a Schedule 13D or Schedule 14d-1 promulgated under the Securities Exchange Act of 1934 ("Exchange Act") or any acquisition by any person entitled to file (or which would be entitled to file if USA had been subject to such provisions) a Form 13G under the Exchange Act with respect to such acquisition of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 51% or more of USA's then outstanding voting securities entitled to vote generally in the election of Directors (the "Outstanding Shares"); or

(ii) approval by the shareholders of USA of a reorganization, merger , consolidation, liquidation , or dissolution of USA, or the sale, transfer, lease or other disposition of all or substantially all of the assets of USA ("Business Combination").

(iii) Notwithstanding subsection (ii) above, and other than in connection with a liquidation or dissolution of USA, a Business Combination described in subsection (ii) above shall not constitute a USA Transaction if following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Shares immediately prior to such Business Combination beneficially own, directly or indirectly , more than 51% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of Directors of the entity resulting from such business combination (including without limitation, an entity which as a result of such transactions owns USA or all or substantially all of USA's assets either directly or through one or more subsidiaries), and (B) no person owns, directly or indirectly, 49% or more of the combined voting power of the then outstanding voting securities of the entity resulting from such Business Combination except to the extent that such ownership existed prior to the Business Combination.

D. USA shall at its sole cost and expense, take such action as shall be required to have the Jensen Stock registered or exempted from registration under applicable Federal and state securities laws. As a condition to the issuance by USA of any Jensen Stock, Jensen shall execute and deliver such representations, warranties, and covenants, that may be required by applicable Federal and state securities law, or that USA determines is reasonably necessary in connection with the issuance of such Jensen Stock. In addition, the certificates representing the Jensen Stock shall contain such legends, or restrictive legends, or stop transfer instructions, as shall be required by applicable Federal or state securities laws, or as shall be reasonably required by USA or its transfer agent.

E. The Jensen Stock granted hereunder to Jensen shall be irrevocable by USA and are unconditional, absolute and fully vested obligations of USA. The Jensen Stock shall not be subject to any right of set off, recoupment or any other equitable defenses by USA and shall be issued to Jensen in strict accordance with their terms. The terms and conditions of this Section 3 shall not be affected by the termination of Jensen's employment with USA for any reason whatsoever, and whether or not any "cause" exists therefore, and shall not be affected by Jensen's breach of this Agreement or any other agreement with USA.

F. The right to receive the Jensen Stock shall be transferable by Jensen, or by any subsequent assignee, in whole or in part, at any time or from time to time, by notice to USA. As a condition precedent of such transfer, the assignee shall execute and deliver such representations, warranties, and covenants that may be required by applicable Federal and state securities laws. In addition, USA may require that the transferor deliver to USA an opinion of counsel, acceptable to USA, to the effect that such transfer is permitted under and does not violate any applicable state or Federal securities laws. The right to receive the Jensen Stock shall be transferable under and pursuant to the last will and testament of Jensen in accordance with this subparagraph F, and the death of Jensen shall not affect the right to receive the Jensen Stock, and in such event the right to receive the Jensen Stock shall continue in full force and effect in accordance with this Section 3.

G. There has been reserved, and the Company shall at all times keep reserved out of the authorized and unissued shares of Common Stock, a number of shares of Common Stock sufficient to provide for the Jensen Stock. The Company agrees that the Jensen Stock shall be, at the time of delivery of the certificates for such Jensen Stock, validly issued and outstanding, fully paid and non-assessable.

SECTION 4. Termination. Notwithstanding anything else contained herein, USA may terminate the employment of Jensen at any time upon notice delivered to Jensen in the event that (i) Jensen commits any criminal or fraudulent act; or (ii) Jensen breaches any term or condition of this Agreement; or (iii) Jensen willfully abandons his duties hereunder. Upon such termination neither party hereto shall have any further duties or obligations hereunder whatsoever; provided, however, that all of the terms and conditions of Section 3 hereof as well as Jensen's obligations under Sections 7 and 8 hereof shall survive any such termination.

SECTION 5. Death and Disability.

(a) If Jensen shall die during the Employment Period, this Agreement shall terminate as of the date of such death and except for all of the terms and conditions of Section 3 hereof as well as any base salary owed to or bonuses accrued to Jensen as of such date, USA shall have no further duties or obligations hereunder whatsoever.

(b) If USA determines in good faith that Jensen is incapacitated by accident, sickness or otherwise so as to render him mentally or physically incapable of performing the services required of him hereunder for an aggregate of ninety (90) consecutive days, upon the expiration of such period or at any time thereafter, by action of USA, Jensen's employment hereunder may be terminated immediately, upon giving him at least 30 days written notice to that effect, and upon such termination except for any base salary or bonuses accrued as of such date neither party hereto shall have any further duties or obligations hereunder; provided, however, that all of the terms and conditions of Section 3 hereof as well as Jensen's obligations under Sections 6 and 7 hereof shall survive any such termination. USA shall be entitled to rely upon the advice and opinion of any physician of its choosing in making any determination with respect to any such disability. In the case of such termination, USA agrees to maintain existing health care and disability benefits on behalf of Jensen for a minimum of one year following the date of termination.

SECTION 6. Business Secrets.

(a) Except in connection with his duties hereunder, Jensen shall not, directly or indirectly, at any time from and after the date hereof, and for a one (1) year period following the termination of the Employment Period, or for a one (1) year period following the termination of Jensen's employment hereunder if earlier, make any use of, exploit, disclose, or divulge to any other person, firm or corporation, any trade or business secret, customer or supplier information, documents, know-how, data, marketing information, method or means, or any other confidential (i.e. not already otherwise disseminated to or available to the public) information concerning the business or policies of USA, that Jensen learned as a result of, in connection with, through his employment with, or through his affiliation with USA, whether or not pursuant to this Agreement.

(b) From and after the date hereof, except in connection with his duties hereunder, and for a one (1) year period following the termination of the Employment Period, or for a one (1) year period following the termination of Jensen's employment hereunder if earlier, Jensen shall not solicit, or divert business from, or serve, or sell to, any customer or account of USA of which Jensen is or becomes aware, or with which Jensen has had personal contact as a result of, in connection with, through his employment with, or through his affiliation with USA, whether or not pursuant to this Agreement. Notwithstanding the prior sentence, following the termination of Jensen's employment with USA, Jensen shall be permitted to sell products to customers or accounts of USA, provided such products are not competitive with, or similar to, any products of USA, whether such products are offered now or at any time in the future by USA.

(c) All documents, data, know-how, designs, inventions, names, marketing information, method or means, materials, software programs, hardware, configurations, information, data processing reports, lists and sales analyses, price lists or information, or any other materials or data of any kind furnished to Jensen by USA, or developed by Jensen on behalf of USA or at USA's direction or for USA's use, or otherwise devised, developed, created, or invented in connection with Jensen's employment hereunder or his affiliation with USA, are and shall remain the sole and exclusive property of USA, and Jensen shall have no right or interest whatsoever thereto, including but not limited to, any copyright or patent interest whatsoever. If USA requests the return of any such items (including all copies) at any time whatsoever, Jensen shall immediately deliver the same to USA.

(d) All documents, data, know-how, designs, products, ideas, equipment, inventions, names, devices, marketing information, method or means, materials, software programs, hardware, configurations, information, or any other materials or data of any kind developed by Jensen on behalf of USA or at its direction or for USA's use, or otherwise devised, developed, created, or invented in connection with Jensen's employment with USA or Jensen's affiliation with USA, and whether before or after the date of this Agreement, are and shall remain the sole and exclusive property of USA, and Jensen has and shall have no right or interest whatsoever thereto. Jensen hereby agrees to and affirms the work-for-hire doctrine and acknowledges that all such rights to intellectual property shall belong exclusively to USA and not to Jensen. Any and all rights of ownership in connection with any of the foregoing shall belong solely to USA, and all copyright, patent, trademark, or similar rights or interests shall be the sole and exclusive property of USA. Jensen hereby assigns, transfers, and conveys to USA all of Jensen's right, title and interest in and to any and all such inventions, discoveries, improvements, modifications and other intellectual property rights and agrees to take all such actions as may be required by USA at any time and with respect to any such invention, discovery, improvement, modification or other intellectual property rights to confirm or evidence such assignment, transfer and conveyance. At USA's direction and request, Jensen shall execute and deliver any and all forms, documents, or applications required under any applicable copyright, patent, trademark, or other law, rule or regulation.

SECTION 7. Restrictive Covenant. From and after the date hereof, and for a one (1) year period following the termination of the Employment Period, or for a one (1) year period following the termination of Jensen's employment hereunder if earlier, Jensen shall be prohibited from competing in the United States with the business of USA as presently or as hereinafter conducted, including but not limited to the ownership and licensing of unattended, credit card activated control systems in the vending, copying, debit card, or personal computer industries. For the purposes hereof, the term "competing" shall mean acting, directly or indirectly, as a partner, principal, stockholder, joint venturer, associate, independent contractor, creditor of, consultant, trustee, lessor to, sublessor to, employee or agent of, or to have any other involvement with, any person, firm, corporation, or other business organization which is engaged in the businesses described in this Section.

SECTION 8. Remedies. Jensen acknowledges that any breach by him of the obligations set forth in Sections 6 or 7 hereof would substantially and materially impair and irreparably harm USA's business and goodwill; that such impairment and harm would be difficult to measure; and, therefore, total compensation in solely monetary terms would be inadequate. Consequently, Jensen agrees that in the event of any breach or any threatened breach by Jensen of any of the provisions of Section 6 or 7 hereof, USA shall be entitled in addition to monetary damages or other remedies, to equitable relief, including injunctive relief, and to the payment by Jensen of all costs and expenses incurred by USA in enforcing the provisions thereof, including attorneys' fees. The remedies granted to USA in this Agreement are cumulative and are in addition to remedies otherwise available to USA at law or in equity.

SECTION 9. Waiver of Breach. The waiver by USA of a breach of any provision of this Agreement by Jensen shall not operate or be construed as a waiver of any other or subsequent breach by Jensen of such or any other provision.

SECTION 10. Notices. All notices required or permitted hereunder shall be in writing and shall be sent by certified or registered mail, return receipt requested, postage prepaid, as follows:

To USA:

USA Technologies, Inc.
100 Deerfield Lane, Suite 140
Malvern, Pennsylvania 19355
Attn: Stephen P. Herbert, President

To Jensen:

Mr. George R. Jensen, Jr.
517 Legion Drive
West Chester, Pennsylvania 19380

or to such other address as either of them may designate in a written notice served upon the other party in the manner provided herein. All notices required or permitted hereunder shall be deemed duly given and received on the second day next succeeding the date of mailing.

SECTION 11. Severability. If any term or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of any such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law. If any of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, scope, activity or subject, it shall be construed by limiting and reducing it, so as to be valid and enforceable to the extent compatible with the applicable law.

SECTION 12. Governing Law. The implementation and interpretation of this Agreement shall be governed by and enforced in accordance with the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws rules.

SECTION 13. Binding Effect and Assignability. The rights and obligations of both parties under this Agreement shall inure to the benefit of and shall be binding upon their personal representatives, heirs, successors and assigns. This Agreement, or any part thereof, may not be assigned by Jensen; provided, however, that the Rights described in Section 3 hereof may be assigned in whole or in part, and from time to time, by Jensen or his assignees all as permitted in Section 3. F. hereof.

SECTION 14. Entire Agreement. This Agreement constitutes the entire agreement with respect to the subject matter hereof between the parties hereto and there are no other agreements between the parties relating to the subject matter hereof. This Agreement completely replaces and supersedes the prior employment agreements entered into between Jensen and USA. This Agreement may only be modified by an agreement in writing executed by both USA and Jensen.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

USA TECHNOLOGIES, INC.

By:

Stephen P. Herbert, President

GEORGE R. JENSEN, JR.

AMENDED AND RESTATED
EMPLOYMENT AND NON-COMPETITION AGREEMENT

Agreement made this 11th day of May, 2006, by and between STEPHEN P. HERBERT, an individual ("Herbert"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA").

BACKGROUND

Herbert is the President and Chief Operating Officer of USA. Herbert and USA have entered into an Employment And Non-Competition Agreement dated April 4, 1996, a first amendment thereto dated as of February 22, 2000, a second amendment thereto dated as of April 15, 2002, a third amendment thereto dated as of July 25, 2003, a fourth amendment thereto dated February 4, 2004, and a fifth amendment thereto dated February 28, 2005. As more fully set forth herein, the parties desire to amend, completely restate, and replace the foregoing agreements.

AGREEMENT

NOW, THEREFORE, in consideration of the covenants set forth herein, and intending to be legally bound hereby, the parties agree as follows:

SECTION 1. Employment.

(a) USA shall employ Herbert as President and Chief Operating Officer, for a period commencing on the date hereof and continuing through June 30, 2009 (the "Employment Period"), and Herbert hereby accepts such employment. Unless terminated by either party hereto upon at least 60-days notice prior to the end of the original Employment Period ending June 30, 2009, or prior to the end of any one-year extension of the Employment Period, the Employment Period shall not be terminated and shall automatically continue in full force and effect for consecutive one year periods.

(b) During the Employment Period, Herbert shall devote his full time, energy, skills, and attention to the business of USA, and shall not be engaged or employed in any other business activity whatsoever, whether or not such activity is pursued for gain, profit or other pecuniary advantage. During the Employment Period, Herbert shall perform and discharge well and faithfully such executive management duties for USA as shall be necessary and as otherwise may be directed by the Chairman or Board of Directors of USA.

Nothing contained in the prior paragraph shall prohibit Herbert from investing his personal assets in businesses which do not compete with USA, where the form or manner of such investments will not require more than minimal services on the part of Herbert in the operation of the affairs of the business in which such investments are made, or in which his participation is solely that of a passive investor; or from serving as a member of boards of directors, boards of trustees, or other governing bodies of any organization, provided that USA approves such activities in advance; or from participating in trade associations, charitable, civic and any similar activities of a not-for-profit, philanthropic or eleemosynary nature; or from attending educational events or classes. It is understood and agreed that any such permitted activities which shall occur during business hours shall be limited to no greater than forty hours per year.

(c) If during the Employment Period, Herbert shall be required to take a role which is substantively different than that contemplated by this Agreement, or if during the Employment Period a USA Transaction (as such term is defined in the Employment Agreement of George R. Jensen, Jr.) shall occur, then Herbert may upon thirty days prior notice to USA, terminate the Employment Period. Upon such termination by Herbert, neither party shall have any further duties or obligations hereunder, provided, however, that Herbert' obligations under Sections 5 and 6 hereof shall survive any such termination.

SECTION 2. Compensation and Benefits

(a) In consideration of his services rendered, commencing on the date hereof, USA shall pay to Herbert a base salary of \$285,000 per year during the Employment Period, subject to any withholding required by law. Herbert' base salary may be increased from time to time in the discretion of the Board of Directors.

For each of the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009, Herbert shall have the option to elect to have fifty percent (50%) of his base salary paid in Common Stock of USA ("Common Stock") rather than cash. Any such election must be made not later than 60-days following the commencement of each such fiscal year by appropriate notice by Herbert to USA. For purposes of determining the number of shares to be issued to Herbert, the shares shall be valued at the average closing bid price for the Common Stock during the 30 trading days immediately preceding the date of any such election by Herbert. If any such election is made, the shares issuable to Herbert for the fiscal year would vest ratably on a quarterly basis. Herbert acknowledges that the issuance of the shares to him represents taxable income to him and that he (and not USA) shall be responsible for the payment of any and all income taxes attributable to the issuance of the shares to him. Herbert shall make appropriate cash payments to USA to pay for any withholding tax liability of USA in connection with the shares. Herbert acknowledges that the Common Stock has not been registered under the Securities Act of 1933, as amended (the "Act") or under any state securities law, and the Common Stock can not be sold or transferred unless such Common Stock has been registered under the Act or such state securities laws, or unless USA has received an opinion of its counsel that such registration is not required. Herbert understands that USA has not agreed to register the Common Stock under the Act or any state securities laws. In addition, the certificates representing the Common Stock shall contain such legends, or restrictive legends, or stop transfer instructions, as shall be required by applicable Federal or state securities laws, or as shall be reasonably required by USA or its transfer agent.

(b) In addition to the base salary provided for in subparagraph (a), Herbert shall be eligible to receive such bonus or bonuses as the Board of Directors of USA may, in their discretion, pay to Herbert from time to time based upon his performance and/or the performance of USA. All awards in this regard may be made in cash or in Common Stock.

(c) Herbert shall be entitled to be reimbursed by USA for all reasonable expenses reasonably incurred by Herbert in connection with his employment duties hereunder. Such expenses shall include but not be limited to all reasonable business travel expenses such as tolls, gasoline and mileage. Herbert shall reasonably document all requests for expense reimbursements.

(d) At the time of the signing of this Agreement by each of USA and Herbert, USA shall issue to Herbert options to acquire up to 18,000 shares of USA Common Stock for an exercise price of \$7.50 per share (which is equal to the average closing bid price for the Common Stock during the 30 trading days immediately preceding the execution and delivery by USA and Herbert of this Agreement). The options shall vest as follows: 6,000 on the date hereof; 6,000 on June 30, 2007; and 6,000 on June 30, 2008. The options shall be exercisable at any time within five years of vesting. All of the terms and conditions of the options are set forth in the Option Certificate attached hereto as Exhibit "A".

Herbert acknowledges that such options are not incentive stock options as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended, or part of an employee stock purchase plan as defined in Section 423 thereunder. As a result, among other things, taxable income will be realized by Herbert at the time of the exercise of any such options.

Herbert also acknowledges that neither the options nor the Common Stock underlying the options have been registered under the Securities Act of 1933, as amended ("Act"), or under any state securities laws, and neither the options nor the Common Stock underlying the options can be sold or transferred unless such options or Common Stock have been registered under the Act or such state securities laws, or unless USA has received an opinion of counsel that such registration is not required. Herbert understands that USA has not agreed to register the options or the underlying Common Stock under the Act or any state securities laws.

(e) On the date of the execution and delivery by each of USA and Herbert of this Agreement, USA shall issue to Herbert 50,000 nonvested shares of Common Stock as a bonus. These shares shall vest as follows: 16,667 on June 1, 2006; 16,667 on January 1, 2007; and 16,666 on June 1, 2007. Herbert acknowledges that the Common Stock has not been registered under the Act or under any state securities law, and the Common Stock can not be sold or transferred unless such Common Stock has been registered under the Act or such state securities laws, or unless USA has received an opinion of its counsel that such registration is not required. Herbert acknowledges that the issuance of the shares to him represents taxable income to him and that he (and not USA) shall be responsible for the payment of any and all income taxes attributable to the issuance of the shares to him. Herbert shall make appropriate cash payments to USA to pay for any withholding tax liability of USA in connection with the shares. In addition, the certificates representing the Common Stock shall contain such legends, or restrictive legends, or stop transfer instructions, as shall be required by applicable Federal or state securities laws, or as shall be reasonably required by USA or its transfer agent.

SECTION 3. Termination. Notwithstanding anything else contained herein, USA may terminate the employment of Herbert at any time upon notice delivered to Herbert in the event that (i) Herbert commits any criminal or fraudulent act; or (ii) Herbert breaches any term or condition of this Agreement; or (iii) Herbert willfully abandons his duties hereunder. Upon such termination neither party hereto shall have any further duties or obligations hereunder whatsoever; provided, however, that Herbert' obligations under Sections 5 and 6 hereof shall survive any such termination.

SECTION 4. Death and Disability.

(a) If Herbert shall die during the Employment Period, this Agreement shall terminate as of the date of such death and except for any base salary or bonuses accrued as of such date USA shall have no further duties or obligations hereunder whatsoever.

(b) If USA determines in good faith that Herbert is incapacitated by accident, sickness or otherwise so as to render him mentally or physically incapable of performing the services required of him hereunder for an aggregate of ninety (90) consecutive days, upon the expiration of such period or at any time thereafter, by action of USA, Herbert's employment hereunder may be terminated immediately, upon giving him 30 days written notice to that effect, and upon such termination except for any base salary or bonuses accrued as of such date neither party hereto shall have any further duties or obligations hereunder; provided, however, that Herbert's obligations under Sections 5 and 6 hereof shall survive any such termination. USA shall be entitled to rely upon the advice and opinion of any physician of its choosing in making any determination with respect to any such disability. In the case of such termination, USA agrees to maintain existing health care and disability benefits on behalf of Herbert for a minimum of one year following the date of termination.

SECTION 5. Business Secrets.

(a) Except in connection with his duties hereunder, Herbert shall not, directly or indirectly, at any time from and after the date hereof, and whether or not the Employment Period has terminated, or whether or not Herbert's employment has terminated for any reason whatsoever, make any use of, exploit, disclose, or divulge to any other person, firm or corporation, any trade or business secret, customer or supplier information, documents, know-how, data, marketing information, method or means, or any other confidential (i.e. not already otherwise disseminated to or available to the public) information concerning the business or policies of USA, that Herbert learned as a result of, in connection with, through his employment with, or through his affiliation with USA, whether or not pursuant to this Agreement.

(b) From and after the date hereof, except in connection with his duties hereunder, and for a one (1) year period following the termination of the Employment Period, or for a one (1) year period following the termination of Herbert's employment hereunder if earlier, Herbert shall not solicit, or divert business from, or serve, or sell to, any customer or account of USA of which Herbert is or becomes aware, or with which Herbert has had personal contact as a result of, in connection with, through his employment with, or through his affiliation with USA, whether or not pursuant to this Agreement. Notwithstanding the prior sentence, following the termination of Herbert's employment with USA, Herbert shall be permitted to sell products to customers or accounts of USA, provided such products are not competitive with, or similar to, any products of USA, whether such products are offered now or at any time in the future by USA.

(c) All documents, data, know-how, designs, inventions, names, marketing information, method or means, materials, software programs, hardware, configurations, information, data processing reports, lists and sales analyses, price lists or information, or any other materials or data of any kind furnished to Herbert by USA, or developed by Herbert on behalf of USA or at USA's direction or for USA's use, or otherwise devised, developed, created, or invented in connection with Herbert' employment hereunder or his affiliation with USA, are and shall remain the sole and exclusive property of USA, and Herbert shall have no right or interest whatsoever thereto, including but not limited to, any copyright or patent interest whatsoever. If USA requests the return of any such items (including all copies) at any time whatsoever, Herbert shall immediately deliver the same to USA.

(d) All documents, data, know-how, designs, products, ideas, equipment, inventions, names, devices, marketing information, method or means, materials, software programs, hardware, configurations, information, or any other materials or data of any kind developed by Herbert on behalf of USA or at its direction or for USA's use, or otherwise devised, developed, created, or invented in connection with Herbert's employment with USA or Herbert's affiliation with USA, and whether before or after the date of this Agreement, are and shall remain the sole and exclusive property of USA, and Herbert does not and shall not have any right, title or interest whatsoever thereto. Herbert hereby affirms and agrees to the work-for-hire doctrine and acknowledges that all such rights to intellectual property shall belong exclusively to USA and not to Herbert. Any and all rights of ownership in connection with any of the foregoing shall belong solely to USA, and all copyright, patent, trademark, or similar rights or interests shall be the sole and exclusive property of USA. Herbert hereby assigns, transfers, and conveys to USA all of his right, title and interest in and to any and all such inventions, discoveries, improvements, modifications and other intellectual property rights and agrees to take all such actions as may be required by USA at any time and with respect to any such invention, discovery, improvement, modification or other intellectual property rights to confirm or evidence such assignment, transfer and conveyance. At USA's direction and request, Herbert shall execute and deliver any and all forms, documents, or applications required under any applicable copyright, patent, trademark, or other law, rule or regulation.

SECTION 6. Restrictive Covenant. From and after the date hereof, and for a one (1) year period following the termination of the Employment Period, or for a one (1) year period following the termination of Herbert' employment hereunder if earlier, Herbert shall be prohibited from competing in the United States with the business of USA as presently or as hereinafter conducted, including but not limited to, the ownership and licensing of credit card activated control systems in the vending, copying, debit card, or personal computer industries. For the purposes hereof, the term "competing" shall mean acting, directly or indirectly, as a partner, principal, stockholder, joint venturer, associate, independent contractor, creditor of, consultant, trustee, lessor to, sublessor to, employee or agent of, or to have any other involvement with, any person, firm, corporation, or other business organization which is engaged in the businesses described in this Section.

SECTION 7. Remedies. Herbert acknowledges that any breach by him of the obligations set forth in Sections 5 or 6 hereof would substantially and materially impair and irreparably harm USA's business and goodwill; that such impairment and harm would be difficult to measure; and, therefore, total compensation in solely monetary terms would be inadequate. Consequently, Herbert agrees that in the event of any breach or any threatened breach by Herbert of any of the provisions of Section 5 or 6 hereof, USA shall be entitled in addition to monetary damages or other remedies, to equitable relief, including injunctive relief, and to the payment by Herbert of all costs and expenses incurred by USA in enforcing the provisions thereof, including attorneys' fees. The remedies granted to USA in this Agreement are cumulative and are in addition to remedies otherwise available to USA at law or in equity.

SECTION 8. Waiver of Breach. The waiver by USA of a breach of any provision of this Agreement by Herbert shall not operate or be construed as a waiver of any other or subsequent breach by Herbert of such or any other provision.

SECTION 9. Notices. All notices required or permitted hereunder shall be in writing and shall be sent by certified or registered mail, return receipt requested, postage prepaid, as follows:

To USA:

USA Technologies, Inc.
100 Deerfield Lane, Suite 140
Malvern, Pennsylvania 19355
Attn: George R. Jensen, Jr.,
Chief Executive Officer

To Herbert:

Mr. Stephen P. Herbert
28 Briar Road
Strafford, Pennsylvania 19087

or to such other address as either of them may designate in a written notice served upon the other party in the manner provided herein. All notices required or permitted hereunder shall be deemed duly given and received on the second day next succeeding the date of mailing.

SECTION 10. Severability. If any term or provision of this Agreement or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of any such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law. If any of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, scope, activity or subject, it shall be construed by limiting and reducing it, so as to be valid and enforceable to the extent compatible with the applicable law.

SECTION 11. Governing Law. The implementation and interpretation of this Agreement shall be governed by and enforced in accordance with the laws of the Commonwealth of Pennsylvania without regard to its conflict of laws rules.

SECTION 12. Binding Effect and Assignability. The rights and obligations of both parties under this Agreement shall inure to the benefit of and shall be binding upon their personal representatives, heirs, successors and assigns. This Agreement, or any part thereof, may not be assigned by Herbert.

SECTION 13. Entire Agreement. This Agreement constitutes the entire agreement with respect to the subject matter hereof between the parties hereto and except as provided herein there are no other agreements between the parties relating to the subject matter hereof. This Agreement may only be modified by an agreement in writing executed by both USA and Herbert. This Agreement shall supercede and completely replace the prior employment agreements entered into between Herbert and USA.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

USA TECHNOLOGIES, INC.

By:

George R. Jensen, Jr.,
Chief Executive Officer

STEPHEN P. HERBERT

**FIRST AMENDMENT TO EMPLOYMENT AND
NON-COMPETITION AGREEMENT**

This First Amendment is made on the 11th day of May 2006, by and between DAVID M. DeMEDIO ("DeMedio"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA").

Background

USA and DeMedio entered into an Employment And Non-Competition Agreement dated April 12, 2005 (the "Agreement"). As more fully set forth herein, the parties desire to amend the Agreement in certain respects.

Agreement

NOW, THEREFORE, in consideration of the covenants set forth herein, and intending to be legally bound hereby, the parties agree as follows:

1. Amendments.

A. The date "April 30, 2006" appearing in the first and second sentences of subparagraph (a) of Section 1. Employment of the Agreement is hereby deleted and the date "June 30, 2008" is hereby substituted in its place.

B. The following new subparagraph (c) shall be added to Section 1. Employment of the Agreement:

(c) If during the Employment Period a USA Transaction (as such term is defined in the Employment Agreement of George R. Jensen, Jr.) shall occur, then DeMedio may upon thirty days prior notice to USA, terminate the Employment Period. Upon such termination by DeMedio, neither party shall have any further duties or obligations hereunder, provided, however, that DeMedio's obligations under Sections 5 and 6 hereof shall survive any such termination.

C. Subparagraph (a) of Section 2. Compensation and Benefits of the Agreement is hereby deleted and the following new subparagraph (a) is hereby substituted in its place:

(a) In consideration of his services rendered, commencing on the date hereof, USA shall pay to DeMedio a base salary of \$165,000 per year during the Employment Period, subject to any withholding required by law. DeMedio's base salary may be increased from time to time in the discretion of the Board of Directors.

For each of the fiscal years ending June 30, 2007, and June 30, 2008, DeMedio shall have the option to elect to have fifty percent (50%) of his base salary paid in Common Stock of USA ("Common Stock") rather than cash. Any such election must be made not later than 60-days following the commencement of each such fiscal year by appropriate notice by DeMedio to USA. For the purposes of calculating the number of shares to be issued to DeMedio, the shares shall be valued at the average closing bid price for the Common Stock during the 30 trading days immediately preceding the date of any such election by DeMedio. If any such election is made, the shares issuable to DeMedio for the fiscal year would vest ratably on a quarterly basis. DeMedio acknowledges that the issuance of the shares to him represents taxable income to him and that he (and not USA) shall be responsible for the payment of any and all income taxes attributable to the issuance of the shares to him. DeMedio shall make appropriate cash payments to USA to pay for any withholding tax liability of USA in connection with the shares. DeMedio acknowledges that the Common Stock has not been registered under the Securities Act of 1933, as amended (the "Act"), or under any state securities law, and the Common Stock can not be sold or transferred unless such Common Stock has been registered under the Act or such state securities laws, or unless USA has received an opinion of its counsel that such registration is not required. DeMedio understands that USA has not agreed to register the Common Stock under the Act or any state securities laws. In addition, the certificates representing the Common Stock shall contain such legends, or restrictive legends, or stop transfer instructions, as shall be required by applicable Federal or state securities laws, or as shall be reasonably required by USA or its transfer agent.

D. The following new subsection (e) shall be added to Section 2. Compensation and Benefits of the Agreement:

(e) At the time of the signing of this First Amendment by each of USA and DeMedio, USA shall issue to DeMedio options to acquire up to 7,000 shares of USA Common Stock for an exercise price of \$7.50 per share (which is equal to the average closing bid price for the Common Stock during the 30 trading days immediately preceding the execution and delivery by USA and DeMedio of this First Amendment). The options shall vest as follows: 2,334 on the date hereof; 2,333 on June 30, 2007; and 2,333 on June 30, 2008. The options shall be exercisable at any time within five years of vesting. All of the terms and conditions of the options are set forth in the Option Certificate attached hereto as Exhibit "A".

DeMedio acknowledges that such options are not incentive stock options as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended, or part of an employee stock purchase plan as defined in Section 423 thereunder. As a result, among other things, taxable income will be realized by DeMedio at the time of the exercise of any such options.

DeMedio also acknowledges that neither the options nor the Common Stock underlying the options have been registered under the Act or under any state securities laws, and neither the options nor the Common Stock underlying the options can be sold or transferred unless such options or Common Stock have been registered under the Act or such state securities laws, or unless USA has received an opinion of counsel that such registration is not required. DeMedio understands that USA has not agreed to register the options or the underlying Common Stock under the Act or any state securities laws.

2. Modification. Except as otherwise specifically set forth in Paragraph 1, the Agreement shall not be amended or modified in any respect whatsoever and shall continue in full force and effect.

3. Capitalized Terms. Except as specifically provided otherwise herein, all capitalized terms used herein shall have the meanings ascribed to them in the Agreement.

4. Effective Time. The amendments to the Agreement made in Paragraph 1 hereof shall be effective from and after the date hereof.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment on the day and year first above written.

DAVID M. DeMEDIO

USA TECHNOLOGIES, INC.

By:

Stephen P. Herbert,
President

CERTIFICATIONS

I, George R. Jensen, Jr., Chief Executive Officer of the registrant, 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 registrant 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)) 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. 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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors:
 - 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 registrant'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 registrant's internal control over financial reporting.

Date: May 15, 2006

/s/ George R. Jensen, Jr.

George R. Jensen, Jr.,
Chief Executive Officer

CERTIFICATIONS

I, David M. DeMedio, Chief Financial Officer of the registrant, 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 registrant 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)) 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. 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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the registrant's auditors and the audit committee of the registrant's board of directors:
 - 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 registrant'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 registrant's internal control over financial reporting.

Date: May 15, 2006

/s/ David M. DeMedio

David M. DeMedio,
Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended March 31, 2006 (the "Report"), I, George R. Jensen, Jr., Chief Executive Officer of the Company, hereby certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), 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.

/s/ George R. Jensen, Jr.

George R. Jensen, Jr.
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended March 31, 2006 (the "Report"), I, David M. DeMedio, Chief Financial Officer of the Company, hereby certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), 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.

/s/ David M. DeMedio

David M. DeMedio
Chief Financial Officer