

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

FORM 10-Q

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

For the quarterly period ended December 31, 2020

OR

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

For the transition period from _____ to _____

Commission file number 001-33365

USA Technologies, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-2679963

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

100 Deerfield Lane, Suite 300, Malvern, Pennsylvania

(Address of principal executive offices)

19355

(Zip Code)

(610) 989-0340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name Of Each Exchange On Which Registered |
|----------------------------|----------------|---|
| Common Stock, no par value | USAT | The NASDAQ Stock Market LLC |

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of January 29, 2021 there were 65,285,674 outstanding shares of Common Stock, no par value.

USA TECHNOLOGIES, INC.
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Part I. Financial Information
Item 1. Consolidated Financial Statements

USA Technologies, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

| (\$ in thousands, except share data) | December 31, 2020 | June 30, 2020 |
|---|----------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 28,162 | \$ 31,713 |
| Accounts receivable, net | 20,080 | 17,273 |
| Finance receivables, net | 7,196 | 7,468 |
| Inventory, net | 8,794 | 9,128 |
| Prepaid expenses and other current assets | 1,419 | 1,782 |
| Total current assets | 65,651 | 67,364 |
| Non-current assets: | | |
| Finance receivables due after one year | 10,296 | 11,213 |
| Property and equipment, net | 7,185 | 7,872 |
| Operating lease right-of-use assets | 4,799 | 5,603 |
| Intangibles, net | 21,501 | 23,033 |
| Goodwill | 63,945 | 63,945 |
| Other assets | 2,130 | 1,993 |
| Total non-current assets | 109,856 | 113,659 |
| Total assets | \$ 175,507 | \$ 181,023 |
| Liabilities, convertible preferred stock and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 26,907 | \$ 27,058 |
| Accrued expenses | 29,479 | 30,265 |
| Current obligations under long-term debt | 3,804 | 3,328 |
| Deferred revenue | 1,648 | 1,698 |
| Total current liabilities | 61,838 | 62,349 |
| Long-term liabilities: | | |
| Deferred income taxes | 148 | 137 |
| Long-term debt, less current portion | 13,901 | 12,435 |
| Operating lease liabilities, non-current | 4,241 | 4,749 |
| Total long-term liabilities | 18,290 | 17,321 |
| Total liabilities | 80,128 | 79,670 |
| Commitments and contingencies (Note 13) | | |
| Convertible preferred stock: | | |
| Series A convertible preferred stock, 900,000 shares authorized, 445,063 issued and outstanding, with liquidation preferences of \$21,113 and \$20,779 at December 31, 2020 and June 30, 2020, respectively | 3,138 | 3,138 |
| Shareholders' equity: | | |
| Preferred stock, no par value, 1,800,000 shares authorized | — | — |
| Common stock, no par value, 640,000,000 shares authorized, 65,285,674 and 65,196,882 shares issued and outstanding at December 31, 2020 and June 30, 2020, respectively | 404,433 | 401,240 |
| Accumulated deficit | (312,192) | (303,025) |
| Total shareholders' equity | 92,241 | 98,215 |
| Total liabilities, convertible preferred stock and shareholders' equity | \$ 175,507 | \$ 181,023 |

See accompanying notes.

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

| (\$ in thousands, except per share data) | Three months ended December 31, | | Six months ended December 31, | |
|---|------------------------------------|-------------------|----------------------------------|--------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue: | | | | |
| License and transaction fees | \$ 33,214 | \$ 35,754 | \$ 66,322 | \$ 70,363 |
| Equipment sales | 5,071 | 8,297 | 8,840 | 17,047 |
| Total revenue | 38,285 | 44,051 | 75,162 | 87,410 |
| Cost of sales: | | | | |
| Cost of license and transaction fees | 20,617 | 22,579 | 39,953 | 44,668 |
| Cost of equipment sales | 5,367 | 8,710 | 8,668 | 18,564 |
| Total cost of sales | 25,984 | 31,289 | 48,621 | 63,232 |
| Gross profit | 12,301 | 12,762 | 26,541 | 24,178 |
| Operating expenses: | | | | |
| Selling, general and administrative | 13,831 | 16,161 | 30,641 | 31,342 |
| Investigation, proxy solicitation and restatement expenses | — | 3,277 | — | 9,768 |
| Depreciation and amortization | 1,052 | 1,080 | 2,120 | 2,102 |
| Total operating expenses | 14,883 | 20,518 | 32,761 | 43,212 |
| Operating loss | (2,582) | (7,756) | (6,220) | (19,034) |
| Other income (expense): | | | | |
| Interest income | 325 | 283 | 675 | 577 |
| Interest expense | (596) | (833) | (3,881) | (1,298) |
| Total other income (expense), net | (271) | (550) | (3,206) | (721) |
| Loss before income taxes | (2,853) | (8,306) | (9,426) | (19,755) |
| Provision for income taxes | (49) | (72) | (89) | (131) |
| Net loss | (2,902) | (8,378) | (9,515) | (19,886) |
| Preferred dividends | — | — | (334) | (334) |
| Net loss applicable to common shares | \$ (2,902) | \$ (8,378) | \$ (9,849) | \$ (20,220) |
| Net loss per common share | | | | |
| Basic | \$ (0.04) | \$ (0.13) | \$ (0.15) | \$ (0.33) |
| Diluted | \$ (0.04) | \$ (0.13) | \$ (0.15) | \$ (0.33) |
| Weighted average number of common shares outstanding | | | | |
| Basic | 64,913,364 | 63,664,256 | 64,886,183 | 61,891,197 |
| Diluted | 64,913,364 | 63,664,256 | 64,886,183 | 61,891,197 |

See accompanying notes.

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

Six Month Period Ended December 31, 2020

| (\$ in thousands, except share data) | Common Stock | | Accumulated Deficit | Total |
|--------------------------------------|--------------|------------|------------------------|-----------|
| | Shares | Amount | | |
| Balance, June 30, 2020 | 65,196,882 | \$ 401,240 | \$ (303,025) | \$ 98,215 |
| Impact of adoption of ASC 326 | — | — | 348 | 348 |
| Stock based compensation | 56,083 | 1,502 | — | 1,502 |
| Net loss | — | — | (6,613) | (6,613) |
| Balance, September 30, 2020 | 65,252,965 | 402,742 | (309,290) | 93,452 |
| Stock based compensation | 32,709 | 1,691 | — | 1,691 |
| Net loss | — | — | (2,902) | (2,902) |
| Balance, December 31, 2020 | 65,285,674 | \$ 404,433 | \$ (312,192) | \$ 92,241 |

Six Month Period Ended December 31, 2019

| (\$ in thousands, except share data) | Common Stock | | Accumulated Deficit | Total |
|--|--------------|------------|------------------------|------------|
| | Shares | Amount | | |
| Balance, June 30, 2019 | 60,008,481 | \$ 376,853 | \$ (262,430) | \$ 114,423 |
| Stock based compensation | — | 290 | — | 290 |
| Net loss | — | — | (11,508) | (11,508) |
| Balance, September 30, 2019 | 60,008,481 | 377,143 | (273,938) | 103,205 |
| Issuance of common stock in relation to private placement, net of offering costs incurred of \$1,102 | 3,800,000 | 16,777 | — | 16,777 |
| Stock based compensation | 362,941 | 1,742 | — | 1,742 |
| Net loss | — | — | (8,378) | (8,378) |
| Balance, December 31, 2019 | 64,171,422 | \$ 395,662 | \$ (282,316) | \$ 113,346 |

See accompanying notes.

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

| (\$ in thousands) | Six months ended December 31, | |
|---|----------------------------------|------------------|
| | 2020 | 2019 |
| OPERATING ACTIVITIES: | | |
| Net loss | \$ (9,515) | \$ (19,886) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock based compensation | 3,149 | 2,032 |
| Amortization of debt discount and issuance costs | 2,657 | 311 |
| Provision for expected losses | 1,286 | 862 |
| Provision for inventory reserve | 1,262 | 1,006 |
| Depreciation and amortization included in operating expenses | 2,120 | 2,102 |
| Depreciation included in cost of sales for rental equipment | 1,054 | 1,391 |
| Other | 957 | 1,072 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,987) | 2,133 |
| Finance receivables | 429 | (990) |
| Inventory | (928) | (1,055) |
| Prepaid expenses and other assets | 243 | (411) |
| Accounts payable and accrued expenses | 195 | 2,424 |
| Operating lease liabilities | (526) | (776) |
| Deferred revenue | (50) | (52) |
| Net cash provided by operating activities | <u>(654)</u> | <u>(9,837)</u> |
| INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (970) | (1,361) |
| Proceeds from sale of property and equipment | 11 | 31 |
| Net cash used in investing activities | <u>(959)</u> | <u>(1,330)</u> |
| FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt issuance by Antara, net of issuance costs paid to Antara | — | 14,790 |
| Proceeds from equity issuance by Antara, net of issuance costs paid to Antara | — | 18,560 |
| Payment of third-party debt issuance costs | — | (33) |
| Repayment of 2018 JPMorgan Revolving Credit Facility | — | (10,000) |
| Proceeds from 2021 JPMorgan Revolving Credit Facility | 1,750 | — |
| Repayment of 2021 JPMorgan Revolving Credit Facility | (1,750) | — |
| Proceeds from long-term debt issuance by JPMorgan Chase Bank, N.A., net of debt issuance costs | 14,550 | — |
| Repayment of long-term debt | (15,364) | (2,109) |
| Proceeds from exercise of common stock options | 76 | — |
| Payment of Antara prepayment penalty and commitment termination fee | (1,200) | — |
| Net cash used in (provided by) financing activities | <u>(1,938)</u> | <u>21,208</u> |
| Net (decrease) increase in cash and cash equivalents | (3,551) | 10,041 |
| Cash and cash equivalents at beginning of year | 31,713 | 27,464 |
| Cash and cash equivalents at end of period | <u>\$ 28,162</u> | <u>\$ 37,505</u> |
| <i>Supplemental disclosures of cash flow information:</i> | | |
| Interest paid in cash | \$ 615 | \$ 565 |
| <i>Supplemental disclosures of noncash financing activities:</i> | | |
| Third-party debt issuance costs related to Antara financing, incurred during the six months ended December 31, 2019 and paid the nine months ended March 31, 2020 | \$ — | \$ 1,947 |
| Registration termination fee related to Antara financing, incurred during the six months ended December 31, 2019 and paid during the nine months ended March 31, 2020 | \$ — | \$ 1,223 |

See accompanying notes.

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

1. BUSINESS

USA Technologies, Inc. (“USAT” or the “Company”) was incorporated in the Commonwealth of Pennsylvania in January 1992. We are a provider of technology-enabled solutions and value-added services that facilitate electronic payment transactions and consumer engagement services primarily within the unattended Point of Sale (“POS”) market. We are a leading provider in the small ticket, beverage and food vending industry in the United States and are expanding our solutions and services to other unattended market segments, such as gas and car charging stations, laundromats, kiosks, amusements and more. Since our founding, we have designed and marketed systems and solutions that facilitate electronic payment options, as well as telemetry and Internet of Things services, which include the ability to remotely monitor, control, and report on the results of distributed assets containing our electronic payment solutions. Historically, these distributed assets have relied on cash for payment in the form of coins or bills, whereas, our systems allow them to accept cashless payments such as through the use of credit or debit cards or other emerging contactless forms, such as mobile payment. The ePort Connect platform also enables consumer loyalty programs, national rewards programs and digital content, including advertisements and product information to be delivered at the point of sale.

We have evolved from unlocking the potential of cashless payments in vending to transforming into the first platform as a service (PaaS) to power unattended retail operations, from hardware to software for a variety of brands. Today, the unattended retail experience is constantly expanding into new markets and enables brands and merchants to work in new ways. USAT’s mission is to deliver a superior operational and payments platform for unattended retail, that is quick to implement, easy to integrate, flexible to operate, cost effective and provides valuable, real-time customer knowledge. The Company’s PaaS is transforming the unattended retail community by offering one cohesive, integrated solution for payments processing, logistics, and back-office management. It is intended to increase consumer engagement and sales revenue through contactless payments, digital advertising and customer loyalty programs, while providing retailers with control and visibility over their operations and inventory.

Impact of COVID-19

The coronavirus (COVID-19) was first identified in China in December 2019, and subsequently declared a global pandemic in March 2020 by the World Health Organization. COVID-19 containment measures began in parts of the United States in March 2020 resulting in forced closure of non-essential businesses and social distancing protocols. As a result, COVID-19 has impacted our business, significantly reducing foot traffic to distributed assets containing our electronic payment solutions and reducing discretionary spending by consumers. The Company did not observe meaningful reductions in processing volume until mid-March, when average daily processing volume decreased approximately 40%. By mid-April, processing volumes began to recover and had steadily improved through September 2020. As of September 30, 2020, our average daily processing volume had increased 53% from the lows in April. During the second half of the current quarter, we have experienced an approximately 7% decrease in volumes driven by an increase in COVID-19 cases across the country and seasonality of the business. Continued COVID-19 recurrences could result in further reductions in foot traffic to distributed assets containing our electronic payment solutions and reduced discretionary spending by consumers. In addition, the length of time required for an effective vaccine or therapy to become widely available is uncertain. At this time, we are unable to reasonably estimate the length of time that containment measures will be needed in the United States. Furthermore, even after containment measures are lifted there can be no assurance as to the time required to regain operations and sales at levels prior to the pandemic.

In response to the outbreak and business disruption, first and foremost, we prioritized the health and safety of our employees while continuing to diligently serve our customers. An internal task force was created at the start of the pandemic to develop measures to protect the business in light of the volatility and uncertainty caused by the COVID-19 pandemic. This included such aspects as ensuring the safety of our employees and our community by implementing work from home policies, conserving liquidity, evaluating cost saving actions, partnering with customers to position USAT for renewed growth post crisis, and temporarily pausing plans for international expansion. The liquidity conservation and cost savings initiatives included: a 20% salary reduction for the senior leadership team through December 2020; deferral of all cash-based director fees until calendar year 2021; a temporary furlough of approximately 10% of our employee base; negotiations with and concessions from vendors in regard to cost reductions and/or payment deferrals; an increased collection effort to reduce outstanding accounts receivables; and various supply chain/inventory improvements. During the summer of 2020 as restrictions lifted, our offices were opened with strict guidelines for social distancing and with adherence to state and local mandates. As a result of an increase in COVID-19 cases during the current quarter and additional lockdowns mandated by state officials, most of our employees continue to work remotely as of December 31, 2020. All of our furloughed employees returned to work, primarily remotely, by June 26, 2020. To date, our supply chain network has not been significantly disrupted and we are continuously

monitoring for the impact from COVID-19. In addition, the Company received loan proceeds from the Paycheck Protection Program in the fourth quarter of fiscal year 2020. See Note 8 for additional information.

We continue to monitor the continuously evolving situation and follow guidance from federal, state and local public health authorities. As such, given the dynamic nature of this situation, the Company cannot, at this time, reasonably estimate the longer-term repercussions of COVID-19 on our financial condition, results of operations or cash flows in the future. However, based on current trends and if the pandemic is not substantially contained in the near future, COVID-19 may have a material adverse impact on our revenue growth as well as our overall profitability in fiscal year 2021, and may lead to higher sales-related, inventory-related, and operating reserves. As of December 31, 2020, we have evaluated the potential impact of the COVID-19 outbreak on our financial statements, including, but not limited to, the impairment of goodwill and intangible assets, impairment of long-lived assets including operating lease right-of-use assets, property and equipment and allowance for doubtful accounts for accounts and finance receivables. We have concluded that there are no material impairments as a result of our evaluation. Where applicable, we have incorporated judgments and estimates of the expected impact of COVID-19 in the preparation of the financial statements based on information currently available. These judgments and estimates may change, as new events develop and additional information is obtained, and are recognized in the consolidated financial statements as soon as they become known.

BASIS OF PRESENTATION AND PREPARATION

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements and therefore should be read in conjunction with the Company's June 30, 2020 Annual Report on Form 10-K. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. Operating results for the three and six months ended December 31, 2020 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2021. Actual results could differ from estimates. The balance sheet at June 30, 2020 has been derived from the audited consolidated financial statements at that date, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The Company operates as one operating segment because its chief operating decision maker, who is the Chief Executive Officer, reviews its financial information on a consolidated basis for purposes of making decisions regarding allocating resources and assessing performance.

As previously disclosed in the Company's June 30, 2020 Annual Report on Form 10-K and the September 30, 2020 Quarterly Report on Form 10-Q, during the fourth quarter of fiscal year 2020, the Company reclassified certain operating expenses previously reported in the first three quarters of fiscal year 2020 as Selling, general and administrative expenses to Investigation, proxy solicitation and restatement expenses. The reclassifications resulted from management's conclusion that those operating expenses related to non-recurring professional services fees to assist the Company with accounting and compliance activities following the filing of the 2019 Form 10-K, as well as the proxy solicitation costs incurred in fiscal year 2020. These reclassifications did not affect Total operating expenses or Net loss.

As part of the Company's financial statement close process for the quarter ended December 31, 2020, management identified that the previously reported reclassification amounts from Selling, general and administrative expenses to Investigation, proxy solicitation and restatement expenses as disclosed in the June 30, 2020 Annual Report on Form 10-K and the September 30, 2020 Quarterly Report on Form 10-Q needed to be revised to properly reflect expense accrual amounts for certain vendors that were incorrectly excluded from the previously calculated amounts. These revisions to the reclassification amounts do not affect the previously reported Depreciation and amortization, Total operating expenses or Net loss for the quarters ended September 30, 2019, December 31, 2019, March 31, 2020, June 30, 2020 or the full year ended June 30, 2020 and other interim reporting periods. The Company analyzed the potential impact of the reclassification error in accordance with the appropriate guidance, from both a qualitative and quantitative perspective, and concluded that the error was not material to any individual interim or annual period.

Operating expenses for each quarter of fiscal year 2020 and other reporting periods *before and after the revision* discussed above are as follows:

| (\$ in thousands) | Three months ended | | | | Other reporting periods | | |
|--|--------------------|-------------------|------------------|------------------|--------------------------|------------------------------------|----------------------------------|
| | September 30, 2019 | December 31, 2019 | March 31, 2020 | June 30, 2020 | Year ended June 30, 2020 | Six months ended December 31, 2019 | Nine months ended March 31, 2020 |
| Selling, general and administrative, before revision ^{(a) (b)} | \$ 17,196 | \$ 12,520 | \$ 18,065 | \$ 12,485 | \$ 60,266 | \$ 29,716 | \$ 47,781 |
| Investigation, proxy solicitation and restatement expenses, before revision ^{(a) (b)} | 4,476 | 6,918 | 2,004 | 7,894 | 21,292 | 11,394 | 13,398 |
| Additional amounts reclassified from (to) Selling, general and administrative to (from) Investigation, proxy solicitation and restatement expenses | 2,015 | (3,641) | 2,177 | (2,033) | (1,482) | (1,626) | 551 |
| Selling, general and administrative, after revision ^(c) | 15,181 | 16,161 | 15,888 | 14,518 | 61,748 | 31,342 | 47,230 |
| Investigation, proxy solicitation and restatement expenses, after revision ^(c) | 6,491 | 3,277 | 4,181 | 5,861 | 19,810 | 9,768 | 13,949 |
| Depreciation and amortization, no change ^{(a) (b) (d)} | 1,022 | 1,080 | 1,107 | 1,098 | 4,307 | 2,102 | 3,209 |
| Total operating expenses, no change ^{(a) (b) (d)} | <u>\$ 22,694</u> | <u>\$ 20,518</u> | <u>\$ 21,176</u> | <u>\$ 21,477</u> | <u>\$ 85,865</u> | <u>\$ 43,212</u> | <u>\$ 64,388</u> |

(a) The amounts for the three months ended September 30, 2019, December 31, 2019, March 31, 2020 and full year ended June 30, 2020 were presented in the Company's June 30, 2020 Annual Report on Form 10-K.

(b) The amounts for the three months ended September 30, 2019 were presented in the Company's September 30, 2020 Quarterly Report on Form 10-Q.

(c) The revised amounts for the three and six months ended December 2019 are presented in the Condensed Consolidated Statements of Operations.

(d) No changes noted for these amounts. The amounts for the three and six months ended December 2019 are presented in the Condensed Consolidated Statements of Operations.

2. ACCOUNTING POLICIES

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting pronouncements adopted

ASC Topic 326 - Credit Losses

On July 1, 2020, we adopted Topic 326, *Financial Instruments-Credit Losses*, which was primarily introduced under Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments – Measurement of Credit Losses on Financial Instruments". Topic 326 introduces a new credit loss impairment methodology for financial assets measured at amortized cost, requiring recognition of the full lifetime expected credit losses upon initial recognition of the financial asset and each reporting period, replacing current GAAP, which generally requires that a loss be incurred before it is recognized. The expected credit loss model is based on historical experience, current conditions, and reasonable and supportable economic forecasts of collectability.

The Company adopted Topic 326 using the modified retrospective approach through an adjustment to retained earnings, and began calculating our allowance for accounts and finance receivables under an expected loss model rather than an incurred loss model.

We estimate our allowances using an aging analysis of the receivables balances, primarily based on historical loss experience, as there have been no significant changes in the mix or risk characteristics of the receivable revenue streams used to calculate historical loss rates. We also take into consideration that receivables for monthly service fees that are collected as part of the flow of funds from our transaction processing service have a lower risk profile than receivables for equipment and service fees billed under the Company's standard payment terms of 30 to 60 days from invoice issuance, and adjust our aging analysis to incorporate those risk assessments. Current conditions are analyzed at each measurement date as we reassess whether our receivables continue to exhibit similar risk characteristics as the prior measurement date, and determine if the reserve calculation needs to be adjusted for new developments, such as a customer's inability to meet its financial obligations. Lastly, we also factor reasonable and supportable economic expectations into our allowance estimate for the asset's entire expected life, which is generally less than one year for accounts receivable and five years for finance receivables.

The adoption of this pronouncement on July 1, 2020 resulted in a net increase of \$0.3 million in retained earnings, with an offsetting adjustment to the allowance for doubtful accounts and finance receivables.

The following table represents a rollforward of the allowance for doubtful accounts for accounts and finance receivables for the six months ending December 31, 2020:

| (\$ in thousands) | Six months ended December 31, 2020 | |
|--|------------------------------------|--------------------|
| | Accounts receivable | Finance receivable |
| Beginning balance of allowance at June 30, 2020, prior to adopting ASC 326 | \$ 7,676 | \$ 150 |
| Impact of adoption of ASC 326 | (757) | 409 |
| Provision for expected losses | 394 | — |
| Balance at September 30, 2020 | 7,313 | 559 |
| Provision for expected losses | 542 | 350 |
| Balance at December 31, 2020 | \$ 7,855 | \$ 909 |

ASU 2018-15 - Intangibles—Goodwill and Other (Topic 350): Internal-Use Software

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles—Goodwill and Other (Topic 350): Internal-Use Software.” This standard aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The adoption of this ASU on July 1, 2020 did not have a material impact on our condensed consolidated financial statements.

Accounting pronouncements to be adopted

The Company is evaluating whether the effects of the following recent accounting pronouncements, or any other recently issued but not yet effective accounting standards, will have a material effect on the Company’s condensed consolidated financial position, results of operations or cash flows.

ASU 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” ASU 2019-12 is intended to simplify accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The Company does not expect the changes to have a material impact on its financial statements.

ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” This standard provides practical expedients for contract modifications with the transition from reference rates, such as LIBOR, that are expected to be discontinued. This guidance is applicable for the Company’s revolving credit facility and secured term facility with JPMorgan Chase Bank, N.A., which uses LIBOR as a reference rate. In addition, the facility provides for an alternative rate of interest if LIBOR is discontinued. The Company will continue to evaluate ASU 2020-04 to determine the timing and extent to which we will apply the provided accounting relief.

ASU 2020-10, Codification Improvements

In October 2020, the FASB issued ASU 2020-10, “Codification Improvements.” The purpose of the ASU is to update a variety of ASC Topics to make conforming amendments, clarifications to guidance, simplifications to wording or structure of guidance, and other minor improvements. The ASU is effective for fiscal years beginning after December 15, 2020 with early application permitted. The Company does not expect the changes to have a material impact on its financial statements.

3. LEASES

Lessee Accounting

The Company determines if an arrangement is a lease at inception. The Company has operating leases for office space, warehouses, automobiles and office equipment. USAT’s leases have lease terms of one year to eight years and some include

options to extend and/or terminate the lease. The exercise of lease renewal options is at the Company's sole discretion. When deemed reasonably certain of exercise, the renewal options are included in the determination of the lease term. The Company's lease agreements do not contain any material variable lease payments, material residual value guarantees or any material restrictive covenants.

Right-of-Use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date of the lease based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate, which is the collateralized rate of interest that we would pay to borrow over a similar term an amount equal to the lease payments, based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives received. USAT has lease agreements with lease and non-lease components. The Company elected the practical expedient related to treating lease and non-lease components as a single lease component for all leases as well as electing a policy exclusion permitting leases with an original lease term of less than one year to be excluded from the ROU assets and lease liabilities. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

At December 31, 2020, the Company has the following balances recorded in the balance sheet related to its lease arrangements:

| (\$ in thousands) | Classification | As of December 31, 2020 |
|--------------------|--|-------------------------|
| Assets | Operating lease right-of-use assets | \$ 4,799 |
| Liabilities | | |
| Current | Accrued expenses | 1,114 |
| Long-term | Operating lease liabilities, non-current | \$ 4,241 |

Components of lease cost are as follows:

| (\$ in thousands) | Three months ended December 31, 2020 | Three months ended December 31, 2019 |
|------------------------|--------------------------------------|--------------------------------------|
| Operating lease costs* | 535 | 753 |

* Includes short-term lease and variable lease costs, which are not material.

| (\$ in thousands) | Six months ended December 31, 2020 | Six months ended December 31, 2019 |
|------------------------|------------------------------------|------------------------------------|
| Operating lease costs* | 1,064 | 1,454 |

* Includes short-term lease and variable lease costs, which are not material.

Supplemental cash flow information and non-cash activity related to our leases are as follows:

| (\$ in thousands) | Six months ended December 31, 2020 | Six months ended December 31, 2019 |
|--|------------------------------------|------------------------------------|
| Supplemental cash flow information: | | |
| Cash paid for amounts included in the measurement of operating lease liabilities | \$ 802 | \$ 962 |
| Non-cash activity | | |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating lease liabilities | \$ — | \$ 3,384 |

Weighted-average remaining lease term and discount rate for our leases are as follows:

| | Six months ended December 31, 2020 |
|--|---------------------------------------|
| Weighted-average remaining lease term (years) | |
| Operating leases | 4.8 |
| Weighted-average discount rate | |
| Operating leases | 6.8 % |

Maturities of lease liabilities by fiscal year for our leases are as follows:

| (\$ in thousands) | Operating Leases |
|------------------------------------|---------------------|
| Remainder of 2021 | \$ 723 |
| 2022 | 1,460 |
| 2023 | 1,492 |
| 2024 | 1,029 |
| 2025 | 707 |
| Thereafter | 893 |
| Total lease payments | \$ 6,304 |
| Less: Imputed interest | (949) |
| Present value of lease liabilities | \$ 5,355 |

Lessor Accounting

The Company offers its customers financing for the lease of our POS electronic payment devices. We account for these transactions as sales-type leases. Our sales-type leases generally have a non-cancellable term of 60 months. Certain leases contain an end-of-term purchase option that is generally insignificant and is reasonably certain to be exercised by the lessee. Leases that do not meet the criteria for sales-type lease accounting are accounted for as operating leases, which are typically our JumpStart program leases, which are agreements for renting POS electronic payment devices. JumpStart terms are typically 36 months and are cancellable with 30 to 60 days' written notice.

The Company treats lease and non-lease components as a single component for those leases where the timing and pattern of transfer for the non-lease component and associated lease component are the same and the stand-alone lease component would be classified as an operating lease if accounted for separately. The combined component is then accounted for under Topic 606, *Revenue from Contracts with Customers* or Topic 842 depending on the predominant characteristic of the combined component, which was Topic 606 for the Company's operating leases. All QuickStart leases are sales-type and do not qualify for the election.

Lessor consideration is allocated between lease components and the non-lease components using the requirements under Topic 606. Revenue from sales-type leases is recognized upon shipment to the customer and the interest portion is deferred and recognized as earned. The revenues related to the sales-type leases are included in Equipment sales in the Condensed Consolidated Statements of Operations and a portion of the lease payments as interest income. Revenue from operating leases is recognized ratably over the applicable service period with service fee revenue related to the leases included in License and transaction fees in the Condensed Consolidated Statements of Operations.

Property and equipment used for the operating lease rental program consisted of the following:

| (\$ in thousands) | December 31, 2020 | June 30, 2020 |
|--------------------------|----------------------|------------------|
| Cost | \$ 32,432 | 32,445 |
| Accumulated depreciation | (28,298) | (27,745) |
| Net | \$ 4,134 | \$ 4,700 |

The Company's net investment in sales-type leases (carrying value of lease receivables) and the future minimum amounts to be collected on these lease receivables as of December 31, 2020 are disclosed within Note 5 - Finance Receivables.

4. REVENUE

Disaggregated Revenue

Based on similar operational and economic characteristics, the Company's revenue from contracts with customers is disaggregated by License and transaction fees and Equipment sales, as reported in the Company's Condensed Consolidated Statements of Operations. The Company believes these revenue categories depict how the nature, amount, timing, and uncertainty of its revenue and cash flows are influenced by economic factors, and also represent the level at which management makes operating decisions and assesses financial performance.

Transaction Price Allocated to Future Performance Obligations

In determining the transaction price allocated to unsatisfied performance obligations, we do not include non-recurring charges. Further, we apply the practical expedient to not consider arrangements with an original expected duration of one year or less, which are primarily month to month rental agreements. The majority of our contracts have a contractual term of between 36 and 60 months based on implied and explicit termination penalties. These amounts will be converted into revenue in future periods as work is performed, primarily based on the services provided or at delivery and acceptance of products, depending on the applicable accounting method for the services or products being delivered.

The following table reflects the estimated fees to be recognized in the future related to performance obligations that are unsatisfied at the end of the period:

| (\$ in thousands) | As of December 31, 2020 |
|---------------------|-------------------------|
| Remainder of 2021 | \$ 6,033 |
| 2022 | 11,154 |
| 2023 | 9,312 |
| 2024 | 5,160 |
| 2025 and thereafter | 2,361 |
| Total | <u>\$ 34,020</u> |

Contract Liabilities

The Company's contract liability (i.e., deferred revenue) balances are as follows:

| (\$ in thousands) | Three months ended December 31, 2020 | Three months ended December 31, 2019 |
|---|--|--|
| Deferred revenue, beginning of the period | \$ 1,639 | \$ 1,649 |
| Deferred revenue, end of the period | 1,648 | 1,629 |
| Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period | \$ 95 | \$ 209 |

| (\$ in thousands) | Six months ended December 31, 2020 | Six months ended December 31, 2019 |
|---|--|--|
| Deferred revenue, beginning of the period | \$ 1,698 | \$ 1,681 |
| Deferred revenue, end of the period | 1,648 | 1,629 |
| Revenue recognized in the period from amounts included in deferred revenue at the beginning of the period | \$ 184 | \$ 360 |

The change in the contract liability balances period-over-period is primarily the result of timing difference between the Company's satisfaction of a performance obligation and payment from the customer.

Contract Costs

At December 31, 2020 and June 30, 2020, the Company had net capitalized costs to obtain contracts of \$0.4 million included in Prepaid expenses and other current assets and \$1.8 million included in Other noncurrent assets on the Condensed Consolidated Balance Sheet. None of these capitalized contract costs were impaired. During the three and six months ended December 31, 2020, amortization of capitalized contract costs was \$0.1 million and \$0.3 million. During the three and six months ended December 31, 2019, amortization of capitalized contract costs was \$0.1 million and \$0.2 million.

5. FINANCE RECEIVABLES

The Company's finance receivables consist of financed devices under the Quickstart program and devices contractually associated with the Seed platform. Predominately all of the Company's finance receivables agreements are classified as non-cancellable sixty month sales-type leases. As of December 31, 2020 and June 30, 2020, finance receivables consist of the following:

| (\$ in thousands) | December 31, 2020 | June 30, 2020 |
|---|----------------------|------------------|
| Current finance receivables, net | \$ 7,196 | 7,468 |
| Finance receivables due after one year, net | 10,296 | 11,213 |
| Total finance receivables, net of allowance of \$909 and \$150, respectively | \$ 17,492 | \$ 18,681 |

We collect lease payments from customers primarily as part of the flow of funds from our transaction processing service. Balances are considered past due if customers do not have sufficient transaction revenue to cover the monthly lease payment by the end of the monthly billing period. The Company routinely monitors customer payment performance and uses prior payment performance as a measure to assess the capability of the customer to repay contractual obligations of the lease agreements as scheduled. On an as-needed basis, qualitative information may be taken into consideration if new information arises related to the customer's ability to repay the lease.

Credit risk for these receivables is continuously monitored by management and reflected within the allowance for finance receivables by aggregating leases with similar risk characteristics into pools that are collectively assessed. Because the Company's lease contracts generally have similar terms, customer characteristics around transaction processing volume and sales were used to disaggregate the leases. Our key credit quality indicator is the amount of transaction revenue we process for each customer relative to their lease payment due, as we consider this customer characteristic to be the strongest predictor of the risk of customer default. Customers with low processing volume or with transaction sales that are insufficient to cover the lease payment are considered to be at a higher risk of customer default.

Customers are pooled based on their ratio of gross sales to required monthly lease obligations. We categorize outstanding receivables into two categories: high ratio customers (customers who have adequate transaction processing volumes to cover monthly fees) and low ratio customers (customers that do not consistently have adequate transaction processing volumes to cover monthly fees). Using these two categories, we performed an analysis of historical write-offs to calculate reserve percentages by aging buckets for each category of customer.

At December 31, 2020, the gross lease receivable by current payment performance on a contractual basis and year of origination consisted of the following:

| (\$ in thousands) | Leases by Origination | | | | | | Total |
|----------------------------------|-----------------------|------------------------------|------------------------------|------------------------------|------------------------------|--------------------------|------------------|
| | Up to 1 Year Ago | Between 1 and 2 Years Ago | Between 2 and 3 Years Ago | Between 3 and 4 Years Ago | Between 4 and 5 Years Ago | More than 5 Years Ago | |
| Current | \$ 4,161 | \$ 6,291 | \$ 3,127 | \$ 2,583 | \$ 683 | \$ 53 | \$ 16,898 |
| 30 days and under | 16 | 57 | 25 | 40 | 7 | — | 145 |
| 31-60 days | 32 | 84 | 24 | 34 | 2 | — | 176 |
| 61-90 days | 30 | 51 | 15 | 34 | 2 | — | 132 |
| Greater than 90 days | 330 | 367 | 108 | 211 | 32 | 2 | 1,050 |
| Total finance receivables | \$ 4,569 | \$ 6,850 | \$ 3,299 | \$ 2,902 | \$ 726 | \$ 55 | \$ 18,401 |

At June 30, 2020, the gross lease receivable by current payment performance on a contractual basis and year of origination consisted of the following:

| (\$ in thousands) | Leases by Origination | | | | | | Total |
|---------------------------|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------|-----------|
| | Up to 1 Year Ago | Between 1 and 2 Years Ago | Between 2 and 3 Years Ago | Between 3 and 4 Years Ago | Between 4 and 5 Years Ago | More than 5 Years Ago | |
| Current | \$ 4,950 | \$ 4,406 | \$ 4,811 | \$ 2,730 | \$ 555 | \$ 22 | \$ 17,474 |
| 30 days and under | 40 | 66 | 121 | 28 | 11 | 1 | 267 |
| 31-60 days | 13 | 15 | 13 | — | — | — | 41 |
| 61-90 days | 10 | 44 | 62 | 19 | 3 | — | 138 |
| Greater than 90 days | 22 | 263 | 537 | 67 | 14 | 8 | 911 |
| Total finance receivables | \$ 5,035 | \$ 4,794 | \$ 5,544 | \$ 2,844 | \$ 583 | \$ 31 | \$ 18,831 |

At December 31, 2020, credit quality indicators by year of origination consisted of the following:

| (\$ in thousands) | Leases by Origination | | | | | | Total |
|---------------------------|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------|-----------|
| | Up to 1 Year Ago | Between 1 and 2 Years Ago | Between 2 and 3 Years Ago | Between 3 and 4 Years Ago | Between 4 and 5 Years Ago | More than 5 Years Ago | |
| High ratio customers | \$ 3,940 | \$ 6,158 | \$ 2,659 | \$ 2,369 | \$ 525 | \$ 49 | \$ 15,700 |
| Low ratio customers | 629 | 692 | 640 | 533 | 201 | 6 | 2,701 |
| Total finance receivables | \$ 4,569 | \$ 6,850 | \$ 3,299 | \$ 2,902 | \$ 726 | \$ 55 | \$ 18,401 |

The following table represents a rollforward of the allowance for finance receivables for the six months ending December 31, 2020 and 2019:

| (\$ in thousands) | Six months ended December 31, | |
|-------------------------------|-------------------------------|--------|
| | 2020 | 2019 |
| Balance at June 30 | \$ 150 | \$ 606 |
| Impact of ASC 326 * | 409 | — |
| Provision for expected losses | — | 1 |
| Balance at September 30 | 559 | 607 |
| Provision for expected losses | 350 | — |
| Write-offs | — | (5) |
| Balance at December 31 | \$ 909 | \$ 602 |

* The Company adopted ASC 326 on July 1, 2020.

Cash to be collected on our performing finance receivables due for each of the fiscal years are as follows:

| (\$ in thousands) | |
|---------------------------------|------------------|
| 2021 | \$ 7,561 |
| 2022 | 5,875 |
| 2023 | 4,561 |
| 2024 | 2,818 |
| 2025 | 1,204 |
| Thereafter | 85 |
| Total amounts to be collected | 22,104 |
| Less: interest | (3,703) |
| Less: allowance for receivables | (909) |
| Total finance receivables | <u>\$ 17,492</u> |

6. LOSS PER SHARE

The calculation of basic and diluted loss per share are presented below:

| (\$ in thousands, except per share data) | Three months ended December 31, | |
|--|------------------------------------|------------|
| | 2020 | 2019 |
| Numerator for basic and diluted loss per share | | |
| Net loss applicable to common shareholders | \$ (2,902) | \$ (8,378) |
| Denominator for basic loss per share - Weighted average shares outstanding | 64,913,364 | 63,664,256 |
| Effect of dilutive potential common shares | — | — |
| Denominator for diluted loss per share - Adjusted weighted average shares outstanding | 64,913,364 | 63,664,256 |
| Basic loss per share | \$ (0.04) | \$ (0.13) |
| Diluted loss per share | \$ (0.04) | \$ (0.13) |

| (\$ in thousands, except per share data) | Six months ended December 31, | |
|--|-------------------------------|-------------|
| | 2020 | 2019 |
| Numerator for basic and diluted loss per share | | |
| Net loss applicable to common shareholders | \$ (9,849) | \$ (20,220) |
| Denominator for basic loss per share - Weighted average shares outstanding | 64,886,183 | 61,891,197 |
| Effect of dilutive potential common shares | — | — |
| Denominator for diluted loss per share - Adjusted weighted average shares outstanding | 64,886,183 | 61,891,197 |
| Basic loss per share | \$ (0.15) | \$ (0.33) |
| Diluted loss per share | \$ (0.15) | \$ (0.33) |

Anti-dilutive shares excluded from the calculation of diluted loss per share were 2,586,480 for the three and six months ended December 31, 2020 and 1,529,381 for the three and six months ended December 31, 2019.

7. GOODWILL AND INTANGIBLES

Intangible asset balances and goodwill consisted of the following:

| (\$ in thousands) | As of December 31, 2020 | | | Amortization Period |
|--------------------------------|-------------------------|--------------------------|------------------|---------------------|
| | Gross | Accumulated Amortization | Net | |
| Intangible assets: | | | | |
| Brand and tradenames | \$ 1,735 | \$ (817) | \$ 918 | 3 - 7 years |
| Developed technology | 10,939 | (6,032) | 4,907 | 5 - 6 years |
| Customer relationships | 19,049 | (3,373) | 15,676 | 10 - 18 years |
| Total intangible assets | \$ 31,723 | \$ (10,222) | \$ 21,501 | |
| Goodwill | 63,945 | — | 63,945 | Indefinite |

| (\$ in thousands) | As of June 30, 2020 | | | Amortization Period |
|--------------------------------|---------------------|--------------------------|------------------|---------------------|
| | Gross | Accumulated Amortization | Net | |
| Intangible assets: | | | | |
| Brand and tradenames | 1,695 | (699) | 996 | 3 - 7 years |
| Developed technology | 10,939 | (5,110) | 5,829 | 5 - 6 years |
| Customer relationships | 19,049 | (2,841) | 16,208 | 10 - 18 years |
| Total intangible assets | \$ 31,683 | \$ (8,650) | \$ 23,033 | |
| Goodwill | 63,945 | — | 63,945 | Indefinite |

For the three and six months ended December 31, 2020 and 2019, there was \$0.8 million and \$1.6 million in amortization expense related to intangible assets, respectively, that was recognized.

The Company performs an annual goodwill impairment test on April 1 and more frequently if events and circumstances indicate that the asset might be impaired. The Company has determined that there is a single reporting unit for purposes of testing goodwill for impairment. During the three and six months ended December 31, 2020, the Company did not recognize any impairment charges related to goodwill.

8. DEBT AND OTHER FINANCING ARRANGEMENTS

The Company's debt and other financing arrangements as of December 31, 2020 and June 30, 2020 consisted of the following:

| (\$ in thousands) | As of December 31, 2020 | As of June 30, 2020 |
|--|-------------------------|---------------------|
| 2020 Antara Term Facility | \$ — | \$ 15,000 |
| 2021 JPMorgan Credit Facility | 14,813 | — |
| PPP and other loans | 3,183 | 3,358 |
| Less: unamortized issuance costs and debt discount | (291) | (2,595) |
| Total | 17,705 | 15,763 |
| Less: debt and other financing arrangements, current | (3,804) | (3,328) |
| Debt and other financing arrangements, noncurrent | \$ 13,901 | \$ 12,435 |

Details of interest expense presented on the Condensed Consolidated Statements of Operations are as follows:

| (\$ in thousands) | Three months ended | | Six months ended | |
|---|--------------------|--------|------------------|----------|
| | December 31, | | December 31, | |
| | 2020 | 2019 | 2020 | 2019 |
| 2020 Antara Term Facility | \$ — | \$ 379 | \$ 2,779 | \$ 379 |
| 2021 JPMorgan Credit Facility | 303 | — | 475 | — |
| 2018 JPMorgan Revolving Credit Facility | — | 226 | — | 303 |
| 2018 JPMorgan Term Loan | — | — | — | 160 |
| Other interest expense | 293 | 228 | 627 | 456 |
| Total interest expense | \$ 596 | \$ 833 | \$ 3,881 | \$ 1,298 |

JPMorgan Chase Bank Credit Agreement

On August 14, 2020, the Company repaid all amounts outstanding under the \$30.0 million senior secured term loan facility (“2020 Antara Term Facility”) with Antara Capital Master Fund LP (“Antara”) and entered into a credit agreement with JPMorgan Chase Bank, N.A.

The 2021 JPMorgan Credit Agreement provides for a \$5 million secured revolving credit facility (the “2021 JPMorgan Revolving Facility”) and a \$15 million secured term facility (the “2021 JPMorgan Secured Term Facility”) and together with the 2021 JPMorgan Revolving Facility, the “2021 JPMorgan Credit Facility”), which includes an uncommitted expansion feature that allows the Company to increase the total revolving commitments and/or add new tranches of term loans in an aggregate amount not to exceed \$5 million. In connection with the consummation of the 2021 JPMorgan Credit Agreement, the Company repaid all amounts outstanding under the 2020 Antara Term Facility. The Company recognized \$2.8 million of interest expense related to the 2020 Antara Term Facility during the fiscal quarter ended September 30, 2020, including the recognition of \$2.6 million of unamortized issuance costs and debt discount as interest expense, reflecting the difference between the carrying value of the 2020 Antara Term Facility and the amount due upon repayment.

The 2021 JPMorgan Credit Facility has a three year maturity, with interest determined, at the Company’s option, on a base rate of LIBOR or Prime Rate plus an applicable margin tied to the Company’s total leverage ratio and having ranges between 2.75% and 3.75% for Prime rate loans and between 3.75% and 4.75% for LIBOR rate loans. In the event of default, the interest rate may be increased by 2.00%. The 2021 JPMorgan Credit Facility will also carry a commitment fee of 0.50% per annum on the unused portion. Through December 31, 2021, the applicable interest rate was Prime Rate plus 3.75%. Principal payments are due in quarterly installments of \$187,500 beginning December 31, 2020 through September 30, 2022 for a total annual repayment of \$750,000 and total repayment over the period of \$1,500,000. Beginning December 31, 2022 through June 30, 2023, principal payments are due in quarterly installments of \$375,000 for a total repayment over the period of \$1,125,000. The remaining unpaid principal amounts are due at the maturity date of the 2021 JPMorgan Credit Facility.

The Company’s obligations under the 2021 JPMorgan Credit Facility are secured by first priority security interests in substantially all of the assets of the Company. The 2021 JPMorgan Credit Agreement includes customary representations, warranties and covenants, and acceleration, indemnity and events of default provisions, including a financial covenant requiring the Company to maintain an adjusted quick ratio of not less than 2.00 to 1.00 through and including September 30, 2020, not less than 2.50 to 1.00 beginning October 1, 2020, not less than 2.75 to 1.00 beginning January 1, 2021 and not less than 3.00 to 1.00 beginning April 1, 2021, and a financial covenant requiring the Company to maintain, as of the end of each of its fiscal quarters commencing with the fiscal quarter ended December 31, 2021, a total leverage ratio of not greater than 3.00 to 1.00. The Company was in compliance with its financial covenants as of December 31, 2020.

Term Facility with Antara

On October 9, 2019, the Company entered into a commitment letter with Antara, pursuant to which Antara committed to extend to the Company a \$30.0 million senior secured term loan facility. On October 31, 2019, the Company entered into a Financing Agreement with Antara to draw \$15.0 million on the 2020 Antara Term Facility and agreed to draw an additional \$15.0 million at any time between July 31, 2020 and April 30, 2021, subject to the terms of the Financing Agreement. If the Company failed to make the subsequent draw on the 2020 Antara Term Facility by April 30, 2021, the Company would pay Antara a commitment termination fee equal to 3% of the subsequent draw commitment. The outstanding amount of the draws under the 2020 Antara Term Facility bore interest at 9.75% per annum, payable monthly in arrears. The proceeds of the initial draw were

used to repay the outstanding balance of the 2018 JPMorgan Revolving Credit Facility (as defined below) due to JPMorgan in the amount of \$10.1 million, including accrued interest, and to pay transaction expenses. The Company would also incur a prepayment premium of 5% of the principal balance if prepaid on or prior to December 31, 2020.

On October 9, 2019, the Company also sold shares of the Company's common stock to Antara at a price below market value. Since the 2020 Antara Term Facility and equity issuance were negotiated in contemplation of each other and executed within a short period of time, the Company evaluated the debt and equity financing as a combined arrangement, and estimated the fair values of the debt and equity components to allocate the proceeds, net of the registration rights agreement liability on a relative fair value basis between the debt and equity components. The non-lender fees incurred to establish the debt and equity financing arrangement were allocated to the debt and equity components on a relative fair value basis and capitalized on the Company's balance sheet. \$0.9 million was allocated to debt issuance costs and \$0.1 million was allocated to debt commitment fees. The 2020 Antara Term Facility agreement also contained a mandatory prepayment feature that was determined to be an embedded derivative, requiring bifurcation and fair value recognition for the derivative liability. The allocation of the proceeds to the debt component and the bifurcation of the embedded derivative liability resulted in a \$2.1 million debt discount, which was de-recognized during the three months ended September 30, 2020.

On August 14, 2020, the Company repaid all amounts outstanding under the 2020 Antara Term Facility and entered into the 2021 JPMorgan Credit Agreement. The Company recorded a liability for the commitment termination fee and prepayment premium for \$1.2 million as of June 30, 2020, which was paid during the three months ended September 30, 2020.

Revolving Credit Facility and Term Loan with JPMorgan Chase

On November 9, 2017, in connection with the acquisition of Cantaloupe, the Company entered into a five year credit agreement among the Company, as the borrower, its subsidiaries, as guarantors, and JPMorgan, as the lender and administrative agent for the lender (the "Lender"), pursuant to which the Lender (i) made a \$25 million term loan ("2018 JPMorgan Term Loan") to the Company and (ii) provided the Company with a line of credit ("2018 JPMorgan Revolving Credit Facility") under which the Company may borrow revolving credit loans in an aggregate principal amount not to exceed \$12.5 million at any time. All advances under the 2018 JPMorgan Revolving Credit Facility and all other obligations were required to be paid in full at maturity on November 9, 2022. The applicable interest rate on the loans for the year to date ended October 31, 2019 was LIBOR plus 4%. On September 30, 2019, the Company prepaid the remaining principal balance of the 2018 JPMorgan Term Loan, and on October 31, 2019, the Company repaid the outstanding balance on the 2018 JPMorgan Revolving Credit Facility.

Other Borrowings

In the fourth quarter of fiscal year 2020, we received loan proceeds of approximately \$3.1 million (the "PPP Loan") pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration (the "SBA"). We used the PPP Loan in accordance with the provisions of the CARES Act. The loan bears a fixed interest rate of 1% over a two year term from the approval date of April 28, 2020. The application for these funds required the Company to, in good faith, certify that the economic uncertainty caused by COVID-19 made the loan request necessary to support the ongoing operations of the Company. This certification further required the Company to take into account our current business activity and our ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria. The Company anticipates filing for the forgiveness of the loan in the quarter ended March 31, 2021.

9. ACCRUED EXPENSES

Accrued expenses consisted of the following as of December 31, 2020 and June 30, 2020:

| (\$ in thousands) | As of December 31, 2020 | As of June 30, 2020 |
|---|----------------------------|------------------------|
| Accrued sales tax | \$ 22,007 | \$ 20,036 |
| Accrued compensation and related sales commissions | 3,502 | 2,757 |
| Operating lease liabilities, current | 1,114 | 1,075 |
| Accrued professional fees | 848 | 924 |
| Income taxes payable | 126 | 123 |
| Accrued other taxes and filing fees | 327 | 220 |
| Accrued other, including settlement of shareholder class action lawsuit | 1,555 | 5,130 |
| Total accrued expenses | <u>\$ 29,479</u> | <u>\$ 30,265</u> |

10. FAIR VALUE MEASUREMENTS

The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received in the sale of an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

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

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

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

Financial assets and liabilities are initially recorded at fair value. The carrying amounts of certain of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued expenses, are carried at cost which approximates fair value due to the short-term maturity of these instruments and are Level 1 assets or liabilities of the fair value hierarchy. We have not identified material impacts from COVID-19 on the fair value of our financial assets and liabilities.

The Company's obligations under its long-term debt agreements are carried at amortized cost, which approximates their fair value as of December 31, 2020. The fair value of the Company's obligations under its long-term debt agreements with JPMorgan Chase were considered Level 2 liabilities of the fair value hierarchy because these instruments have interest rates that reset frequently. The fair value of the Company's obligations under its long-term debt agreements with Antara as of June 30, 2020 was approximately \$15.8 million and considered a Level 3 liability of the fair value hierarchy because this instrument used significant unobservable inputs consistent with those used in determining the embedded derivative liability values, as discussed below.

As discussed in Note 8, the Company's 2020 Antara Term Facility agreement contained a mandatory prepayment feature that was determined to be an embedded derivative, requiring bifurcation and fair value recognition. At June 30, 2020, the Company's embedded derivative liability was measured at fair value using a probability-weighted discounted cash flow model including assumptions for (1) management's estimates of the probability and timing of future cash flows and related events; (2) the Company's risk-adjusted discount rate that includes a company-specific risk premium; and (3) the Company's cost of debt; and was classified as a Level 3 liability of the fair value hierarchy and included as a component of Accrued expenses on the

consolidated balance sheets as of June 30, 2020. The Company paid the prepayment premium on the 2020 Antara Term Facility and derecognized the embedded derivative liability during the three months ended September 30, 2020.

11. INCOME TAXES

On December 21, 2020, Congress approved the Consolidated Appropriations Act, 2021 (the “Appropriations Act”), which was signed into law by the President on December 27, 2020. The Appropriations Act funds the federal government to the end of the fiscal year and provides further COVID-19 economic relief. Some of the business provisions included in the Appropriations Act are additional Paycheck Protection Program (PPP) loans, clarification of the deductibility of business expenses that were paid for with PPP funds, expansion of the employee retention credit, and temporary full deduction for business expenses for food and beverages provided by a restaurant. The Appropriations Act did not have a material impact on the Company’s income taxes. The Company will continue to monitor for additional legislation related to COVID-19 and its impact on our results of operations.

For the three months ended December 31, 2020, the Company recorded an income tax provision of \$49 thousand. For the six months ended December 31, 2020, the Company recorded an income tax provision of \$89 thousand. As of December 31, 2020, the Company reviewed the existing deferred tax assets and continues to record a full valuation against its deferred tax assets. The income tax provisions primarily relate to the Company’s uncertain tax positions, as well as state income and franchise taxes. As of December 31, 2020, the Company had a total unrecognized income tax benefit of \$0.2 million. The provision is based upon actual loss before income taxes for the six months ended December 31, 2020, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision. The Company will continue to monitor the status of the COVID-19 pandemic and its impact on our results of operations.

For the three months ended December 31, 2019, the Company recorded an income tax provision of \$72 thousand. For the six months ended December 31, 2019, an income tax provision of \$131 thousand was recorded. As of December 31, 2019, the Company continued to record a full valuation against its deferred tax assets. The income tax provision primarily relates to the Company’s uncertain tax positions, as well as state income and franchise taxes. As of December 31, 2019, the Company had a total unrecognized income tax benefit of \$0.3 million. The provision is based upon actual loss before income taxes for the six months ended December 31, 2019, as the use of an estimated annual effective income tax rate does not provide a reliable estimate of the income tax provision.

12. EQUITY

WARRANTS

The Company had 23,978 warrants outstanding as of December 31, 2020 and June 30, 2020, all of which were exercisable at \$5.00 per share. The warrants have an expiration date of March 29, 2021.

STOCK OPTIONS

The Company estimates the grant date fair value of the stock options it grants using a Black-Scholes valuation model. The Company’s assumption for expected volatility is based on its historical volatility data related to market trading of its own common stock. The Company uses the simplified method to determine expected term, as the Company does not have adequate historical exercise and forfeiture behavior on which to base the expected life assumption. The dividend yield assumption is based on dividends expected to be paid over the expected life of the stock option. The risk-free interest rate assumption is determined by using the U.S. Treasury rates of the same period as the expected option term of each stock option.

During the three and six months ended December 31, 2020, the Company granted stock options to certain employees which vest each year over a three-year period. Certain of those stock options are also subject to the achievement of goals to be established by the Company for each fiscal year. Because the performance conditions of those stock options granted had not yet been established as of December 31, 2020, a measurement date under ASC 718, Compensation - Stock Compensation, has not yet been established for those stock options and compensation cost will not be measured and recorded until the date on which those specific performance terms are established and mutually understood with the awardee. In January 2021, the Compensation Committee of the Board of Directors established and approved the performance metrics applicable to the above mentioned stock options.

The fair value of all options granted during the six months ended December 31, 2020 and 2019 was determined using the following assumptions and includes only options with an established measurement date under ASC 718:

| | Six months ended December 31, | |
|--|-------------------------------|---------------|
| | 2020 | 2019 |
| Expected volatility (percent) | 76.3% - 77.3% | 74.6% - 90.1% |
| Weighted average expected life (years) | 4.5 | 3.5 - 4.5 |
| Dividend yield (percent) | 0.0 % | 0.0 % |
| Risk-free interest rate (percent) | 0.2% - 0.4% | 1.4% - 1.6% |
| Number of options granted | 650,000 | 340,760 |
| Weighted average exercise price | \$ 8.00 | \$ 6.85 |
| Weighted average grant date fair value | \$ 4.69 | \$ 6.84 |

Stock based compensation related to stock options for the three and six months ended December 31, 2020 was \$1.4 million and \$2.5 million, respectively, and for the three and six months ended December 31, 2019 was \$1.1 million and \$1.4 million, respectively.

COMMON STOCK

There were no significant new common stock awards granted during the three and six months ended December 31, 2020.

The total expense recognized for all common stock awards for the three and six months ended December 31, 2020 was \$0.3 million and \$0.7 million, respectively, and for the three and six months ended December 31, 2019 was \$0.5 million.

13. COMMITMENTS AND CONTINGENCIES

Litigation

We are a party to litigation and other proceedings that arise in the ordinary course of our business. These types of matters could result in fines, penalties, compensatory or treble damages or non-monetary sanctions or relief. In accordance with the accounting guidance for contingencies, we reserve for litigation claims and assessments asserted or threatened against us when a loss is probable and the amount of the loss can be reasonably estimated. We cannot predict the outcome of legal or other proceedings with certainty.

Eastern District of Pennsylvania Consolidated Shareholder Class Actions

As previously reported, on September 11, 2018, Stéphane Gouet filed a putative class action complaint against the Company, Stephen P. Herbert, the then-current Chief Executive Officer, and Priyanka Singh, the then-current Chief Financial Officer, in the United States District Court for the District of New Jersey. The class was defined as purchasers of the Company's securities from November 9, 2017 through September 11, 2018. The complaint alleged that the Company disclosed on September 11, 2018 that it was unable to timely file its Annual Report on Form 10-K for the fiscal year ended June 30, 2018 (the "2018 Form 10-K"), and that the Audit Committee of the Company's Board of Directors was in the process of conducting an internal investigation of current and prior period matters relating to certain of the Company's contractual arrangements, including the accounting treatment, financial reporting and internal controls related to such arrangements. The complaint alleged that the defendants disseminated false statements and failed to disclose material facts and engaged in practices that operated as a fraud or deceit upon Gouet and others similarly situated in connection with their purchases of the Company's securities during the proposed class period. The complaint alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "1934 Act") and Rule 10b-5 promulgated thereunder.

Two additional class action complaints, containing substantially the same factual allegations and legal claims, were filed against the Company, Herbert and Singh in the United States District Court for the District of New Jersey. On September 13, 2018, David Gray filed a putative class action complaint, and on October 3, 2018, Anthony E. Phillips filed a putative class action complaint. Subsequently, multiple shareholders moved to be appointed lead plaintiff, and on December 19, 2018, the Court consolidated the three actions, appointed a lead plaintiff (the "Lead Plaintiff"), and appointed lead counsel for the consolidated actions (the "Consolidated Action").

On February 28, 2019, the Court approved a Stipulation agreed to by the parties in the Consolidated Action for the filing of an amended complaint within fourteen days after the Company filed its 2018 Form 10-K. On January 22, 2019, the Company and Herbert filed a motion to transfer the Consolidated Action to the United States District Court for the Eastern District of Pennsylvania. On February 5, 2019, the Lead Plaintiff filed its opposition to the Motion to Transfer. On August 12, 2019, the University of Puerto Rico Retirement System (“UPR”) filed a putative class action complaint in the United States District Court for the District of New Jersey against the Company, Herbert, Singh, the Company’s Directors at the relevant time (Steven D. Barnhart, Joel Books, Robert L. Metzger, Albin F. Moschner, William J. Reilly and William J. Schoch) (the “Independent Directors”), and the investment banking firms who acted as underwriters for the May 2018 follow-on public offering of the Company (the “Public Offering”): William Blair & Company; LLC; Craig-Hallum Capital Group, LLC; Northland Securities, Inc.; and Barrington Research Associates, Inc. (the “Underwriters”). The class was defined as purchasers of the Company’s shares pursuant to the registration statement and prospectus issued in connection with the Public Offering. Plaintiff sought to recover damages caused by Defendants’ alleged violations of the Securities Act of 1933 (as amended, the “1933 Act”), and specifically Sections 11, 12 and 15 thereof. The complaint generally sought compensatory damages, rescissory damages and attorneys’ fees and costs. The UPR complaint was consolidated into the Consolidated Action and the UPR docket was closed.

On September 30, 2019, the Court granted the motion to transfer and transferred the Consolidated Action to the United States District Court for the Eastern District of Pennsylvania, Docket No. 19-cv-04565. On November 20, 2019, Plaintiff filed an amended complaint that asserted claims under both the 1933 Act and the 1934 Act. Defendants filed motions to dismiss on February 3, 2020. Before briefing on the motions was completed, the parties participated in a private mediation on February 27, 2020, which ultimately resulted in a settlement. On May 29, 2020, the plaintiffs filed documents with the Court seeking preliminary approval of the settlement, with the defendants supporting approval of the settlement. On June 9, 2020, the Court granted preliminary approval of the settlement and issued a scheduling order for further action on the settlement. The settlement provides for a payment of \$15.3 million which includes all administrative costs and plaintiffs’ attorneys’ fees and expenses. The Company’s insurance carriers paid approximately \$12.7 million towards the settlement and the Company paid approximately \$2.6 million towards the settlement. The settlement payments were deposited into an escrow account in July 2020. Only one putative class member submitted an objection to the settlement. On October 30, 2020, the Court held a hearing on the motion for final settlement approval and granted approval. Under the settlement, payment of plaintiffs’ counsel’s fees and expenses may be distributed within three business days of approval (subject to being returned if the settlement is reversed based on any appeal). The deadline for filing an appeal has now passed, so final settlement approval order is no longer at risk of being reversed or revised on appeal and this action is completed.

Chester County, Pennsylvania Class Action

As previously reported, a putative shareholder class action complaint was filed against the Company, its chief executive officer and chief financial officer at the relevant time, its directors at the relevant time, and the Underwriters, in the Court of Common Pleas, Chester County, Pennsylvania, Docket No. 2019-04821-MJ. The complaint alleged violations of the 1933 Act. As also previously reported, on September 20, 2019 the Court granted the defendants’ Petition for Stay and stayed the Chester County action until the Consolidated Action reaches a final disposition. On October 18, 2019, plaintiff filed an appeal to the Pennsylvania Superior Court from the Order granting defendants’ Petition for Stay, Docket No. 3100 EDA 2019. On December 6, 2019, the Pennsylvania Superior Court issued an Order stating that the Stay Order does not appear to be final or otherwise appealable and directed plaintiff to show cause as to the basis of the Pennsylvania Superior Court’s jurisdiction. The plaintiff filed a Response to the Order to Show Cause on December 16, 2019, and the defendants filed an Application to Quash Appeal on December 26, 2019. On February 20, 2020, the Pennsylvania Superior Court quashed the appeal. This action has remained stayed pending final disposition of the Consolidated Action. The Company expects that this action will be dismissed, but there can be no guarantee as to the outcome.

Department of Justice Subpoena

As previously reported, in the third quarter of fiscal year 2020, the Company responded to a subpoena received from the U.S. Department of Justice that sought records regarding Company activities that occurred during prior financial reporting periods, including restatements. The Company is cooperating fully with the agency’s queries.

Other Shareholder Demand Letters

By letter dated October 12, 2018, Peter D’Arcy, a purported shareholder of the Company, demanded that the Board of Directors investigate, remedy and commence proceedings against certain of the Company’s former officers and directors for breach of fiduciary duties. The letter alleged the officers and directors made false and misleading statements that failed to disclose that the Company’s accounting treatment, financial reporting and internal controls related to certain of the Company’s contractual agreements would result in an internal investigation and would delay the Company’s filing of its 2018 Form 10-K, and that the

Company failed to maintain adequate internal controls. By letter dated October 18, 2018, Chiu Jen-Ting, a purported shareholder of the Company, demanded that the Board of Directors investigate, remedy and commence proceedings against certain of the Company's former officers and directors for breach of fiduciary duties in connection with issues similar to those asserted by Mr. D'Arcy. By letter dated August 2, 2019, Stan Emanuel, a purported shareholder of the Company, demanded that the Board of Directors investigate, remedy and commence proceedings against certain of the Company's former officers and directors for breach of fiduciary duties in connection with issues similar to those asserted by Mr. D'Arcy. In accordance with Pennsylvania law, the Board of Directors formed a special litigation committee (the "SLC"), currently consisting of Lisa P. Baird, Douglas L. Braunstein and Michael K. Passilla, in order to, among other things, investigate and evaluate the demand letters. The SLC and its counsel are currently investigating the matters raised in these letters. During the second fiscal quarter of 2021, the Company reached a settlement in principle with these shareholders. The settlement consists of a payment of \$500,000 in attorney's fees to the shareholders' counsel and adoption of various corporate governance reforms. The final settlement documents are being negotiated and, once finalized, the derivative shareholders' counsel will file a complaint naming each of the former officers and directors as defendants and the Company as a nominal defendant. They will then file the motion for preliminary approval of the proposed settlement along with all of the related settlement documents. Assuming the court preliminarily approves the settlement and the proposed form of notice, the Company will have to provide notice of the settlement and final approval hearing to shareholders through publication and filing a Form 8-K with the notice and settlement papers attached and posting the Form 8-K with attachments on its website. The court will provide shareholders an opportunity to submit objections to the settlement and then will hold a hearing to consider final approval of the settlement. There can be no guarantee that the settlement will be approved. We have recognized an accrual for the \$500,000 within our consolidated financial statements for the six months ended December 31, 2020.

Leases

The Company has entered into various operating lease obligations. See Note 3 for additional information.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the condensed consolidated financial statements.

Forward-Looking Statements

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

- general economic, market or business conditions unrelated to our operating performance, including the impact of the coronavirus disease 2019 (COVID-19) pandemic on the Company's operations, financial condition, and the demand for the Company's products and services;
- failure to comply with the financial covenants of our credit agreement with JPMorgan Chase Bank, N.A. entered into on August 14, 2020;
- the ability of the Company to raise funds in the future through sales of securities or debt financing in order to sustain its operations in the normal course of business or if an unexpected or unusual event would occur;
- the ability of the Company to compete with its competitors to obtain market share;
- whether the Company's current or future customers purchase, lease, rent or utilize ePort devices or our other products in the future at levels currently anticipated by our Company;
- whether the Company's customers continue to utilize the Company's transaction processing and related services, as our customer agreements are generally cancelable by the customer on thirty to sixty days' notice;
- the ability of the Company to satisfy its trade obligations included in accounts payable and accrued expenses;
- the ability of the Company to sell to third party lenders all or a portion of our finance receivables, or to do so in a timely manner;
- the ability of a sufficient number of our customers to utilize third party financing companies under our QuickStart program in order to improve our net cash used by operating activities;
- the incurrence by us of any unanticipated or unusual non-operating expenses which would require us to divert our cash resources from achieving our business plan;
- the ability of the Company to predict or estimate its future quarterly or annual revenue and expenses given the developing and unpredictable market for its products;
- the ability of the Company to retain key customers from whom a significant portion of its revenue is derived;
- the ability of a key customer to reduce or delay purchasing products from the Company;
- the ability of the Company to obtain widespread commercial acceptance of its products and service offerings such as ePort QuickConnect, mobile payment and loyalty programs;
- whether any patents issued to the Company will provide the Company with any competitive advantages or adequate protection for its products, or would be challenged, invalidated or circumvented by others;
- the ability of the Company to operate without infringing the intellectual property rights of others;
- the ability of the Company to maintain the resilience of our electronic platforms, soundness of our business continuity and disaster recovery plans and to avoid unauthorized hacking or credit card fraud;
- whether we will experience material weaknesses in our internal controls over financial reporting in the future, and are not able to accurately or timely report our financial condition or results of operations;

- whether our suppliers would increase their prices, reduce their output or change their terms of sale; and
- the risks associated with the currently pending litigation or possible regulatory action arising from the internal investigation conducted by the Audit Committee in fiscal year 2019 and its findings (the “2019 Investigation”), from the failure to timely file our periodic reports with the Securities and Exchange Commission, from the restatement of the affected financial statements, from allegations related to the registration statement for the follow-on public offering, or from potential litigation or other claims arising from the shareholder demands for derivative action or from the subpoena the Company received from the U.S. Department of Justice.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Actual results or business conditions may differ materially from those projected or suggested in forward-looking statements as a result of various factors including, but not limited to, those described above, or those discussed under Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2020 and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020 (“2020 Form 10-K”). We cannot assure you that we have identified all the factors that create uncertainties. Moreover, new risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Readers should not place undue reliance on forward-looking statements.

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

OVERVIEW OF THE COMPANY

USA Technologies, Inc. is a cashless payments and software services company that provides end-to-end technology solutions for the unattended and self-service retail markets through its Platform as a Service (PaaS). Our ePort® technology can be installed and/or embedded into everyday devices such as vending machines, a variety of kiosks, amusement games, and commercial laundry via either our ePort hardware or our Quick Connect solution. Our associated service, ePort Connect®, is a PCI-compliant, comprehensive service that includes simplified credit/debit card processing and support, consumer engagement services as well as telemetry, Internet of Things, and machine-to-machine services, including the ability to remotely monitor, control and report on the results of distributed assets containing our electronic payment solutions. Our comprehensive platform combines the ePort’s cashless, interactive and digital payment capabilities with the Seed suite’s comprehensive software solution, for better business efficiencies, using real-time data and analytics, as well as offering a loyalty component; all of which results in a true digital transformation at the point of purchase.

The Company’s fiscal year ends June 30. The Company generates revenue in multiple ways. During the three and six months ended December 31, 2020, we derived approximately 87% and 88%, respectively of our revenue from recurring license and transaction fees related to our ePort Connect service and approximately 13% and 12%, respectively, of our revenue from equipment sales. Active Devices on our service stem from the sale or lease of our point of sale (POS) electronic payment devices, certified payment software, or the servicing of similar third-party installed POS terminals. Devices utilizing the ePort Connect service are the most significant driver of the Company’s revenue, particularly the recurring revenue from license and transaction fees. Customers can obtain POS electronic payment devices from us in the following ways:

- Purchasing devices directly from the Company or one of its authorized resellers;
- Financing devices under the Company’s QuickStart Program, which are non-cancellable sixty month sales-type leases, through an unrelated equipment financing company, if available, or directly from the Company; and
- Renting devices under the Company’s JumpStart Program, which are cancellable month-to-month operating leases.

As of December 31, 2020, highlights of the Company are below:

- 18,304 Active Customers and 1,154,932 Active Devices to our service;
- Three direct sales teams at the national, regional, and local customer-level and a growing number of original equipment manufacturers and national distribution partners;
- Relisting of the Company on Nasdaq in November 2020;

- Announcement of the rebrand of the Company from USA Technologies to Cantaloupe;
- Launched upgrade program for 2G and 3G devices to 4G LTE;
- Upgraded and expanded the ePort product family to accept EMV contact and contactless payments;
- Launched “UR Tech Insiders” podcast program;
- Over 150 employees; and
- We have offices in Malvern, Pennsylvania, Denver, Colorado, and Atlanta, Georgia.

COVID-19 Update

The coronavirus (COVID-19) was first identified in China in December 2019, and subsequently declared a global pandemic in March 2020 by the World Health Organization. COVID-19 containment measures began in parts of the United States in March 2020 resulting in forced closure of non-essential businesses and social distancing protocols. As a result, COVID-19 has impacted our business, significantly reducing foot traffic to distributed assets containing our electronic payment solutions and reducing discretionary spending by consumers. The Company did not observe meaningful reductions in processing volume until mid-March, when average daily processing volume decreased approximately 40%. By mid-April, processing volumes began to recover and had steadily improved through September 2020. As of September 30, 2020, our average daily processing volume had increased 53% from the lows in April. During the second half of the current quarter, we have experienced an approximately 7% decrease in volumes driven by an increase in COVID-19 cases across the country and seasonality of the business. Continued COVID-19 recurrences could result in further reductions in foot traffic to distributed assets containing our electronic payment solutions and reduced discretionary spending by consumers. In addition, the length of time required for an effective vaccine or therapy to become widely available is uncertain. At this time, we are unable to reasonably estimate the length of time that containment measures will be needed in the United States. Furthermore, even after containment measures are lifted there can be no assurance as to the time required to regain operations and sales at levels prior to the pandemic.

In response to the outbreak and business disruption, first and foremost, we prioritized the health and safety of our employees while continuing to diligently serve our customers. An internal task force was created at the start of the pandemic to develop measures to protect the business in light of the volatility and uncertainty caused by the COVID-19 pandemic. This included such aspects as ensuring the safety of our employees and our community by implementing work from home policies, conserving liquidity, evaluating cost saving actions, partnering with customers to position USAT for renewed growth post crisis, and temporarily pausing plans for international expansion. The liquidity conservation and cost savings initiatives included: a 20% salary reduction for the senior leadership team through December 2020; deferral of all cash-based director fees until calendar year 2021; a temporary furlough of approximately 10% of our employee base; negotiations with and concessions from vendors in regard to cost reductions and/or payment deferrals; an increased collection effort to reduce outstanding accounts receivables; and various supply chain/inventory improvements. During the summer of 2020 as restrictions lifted, our offices were opened with strict guidelines for social distancing and with adherence to state and local mandates. As a result of an increase in COVID-19 cases during the current quarter and additional lockdowns mandated by state officials, most of our employees continue to work remotely as of December 31, 2020. All of our furloughed employees returned to work, primarily remotely, by June 26, 2020. To date, our supply chain network has not been significantly disrupted and we are continuously monitoring for the impact from COVID-19. In addition, the Company received loan proceeds from the Paycheck Protection Program in the fourth quarter of fiscal year 2020. See Note 8 for additional information.

We continue to monitor the continuously evolving situation and follow guidance from federal, state and local public health authorities. As such, given the dynamic nature of this situation, the Company cannot, at this time, reasonably estimate the longer-term repercussions of COVID-19 on our financial condition, results of operations or cash flows in the future. However, based on current trends and if the pandemic is not substantially contained in the near future, COVID-19 may have a material adverse impact on our revenue growth as well as our overall profitability in fiscal year 2021, and may lead to higher sales-related, inventory-related, and operating reserves. As of December 31, 2020, we have evaluated the potential impact of the COVID-19 outbreak on our financial statements, including, but not limited to, the impairment of goodwill and intangible assets, impairment of long-lived assets including operating lease right-of-use assets, property and equipment and allowance for doubtful accounts for accounts and finance receivables. We have concluded that there are no material impairments as a result of our evaluation. Where applicable, we have incorporated judgments and estimates of the expected impact of COVID-19 in the preparation of the financial statements based on information currently available. These judgments and estimates may change, as new events develop and additional information is obtained, and are recognized in the consolidated financial statements as soon as they become known.

FINANCIAL HIGHLIGHTS

The following tables summarize our results of operations and significant changes in our financial performance for the periods presented:



Financial Summary

| (\$ in thousands, except per share data) | Three months ended December 31, | | Percent Change |
|--|---------------------------------|-----------|----------------|
| | 2020 | 2019 | |
| Revenue | \$ 38,285 | \$ 44,051 | (13.1)% |
| Cost of sales | 25,984 | 31,289 | (17.0)% |
| Gross profit | 12,301 | 12,762 | (3.6)% |
| Operating expenses | 14,883 | 20,518 | (27.5)% |
| Operating loss | (2,582) | (7,756) | (66.7)% |
| Other expense, net | (271) | (550) | (50.7)% |
| Provision for income taxes | (49) | (72) | (31.9)% |
| Net loss | (2,902) | (8,378) | (65.4)% |
| Net loss per common share - diluted | (0.04) | (0.13) | (69.2)% |
| Adjusted EBITDA ^(a) | \$ 958 | \$ (900) | 206.4 % |

(a) Adjusted EBITDA is a non-GAAP measurement. See Reconciliations of Non-GAAP Measures for a reconciliation of Adjusted EBITDA to net loss.

Revenue. Total revenue decreased \$5.8 million for the three months ended December 31, 2020 compared to the same period in 2019. Approximately \$3.2 million of the decrease relates to fewer equipment shipments and revenue in the quarter as compared to the prior year quarter. Additionally, \$2.5 million of the decrease relates to lower transaction volumes due to the impacts of COVID-19 in the current quarter compared to the prior year quarter.

Cost of sales. Cost of sales decreased \$5.3 million for the three months ended December 31, 2020 compared to the same period in 2019. The change was driven by a \$3.3 million decrease in cost of equipment sales, and a \$2.0 million decrease in cost of license and transaction fees due to lower transaction volumes and a decrease in network service fees. See “Revenue and Gross Profit” below for a discussion on the significant changes in the cost of sales.

Operating expenses. Operating expenses decreased \$5.6 million for the three months ended December 31, 2020 from the comparable prior period. See “Operating Expenses” below for a discussion of the significant changes in our operating expenses.

Financial Summary

| (\$ in thousands, except per share data) | Six months ended December 31, | | Percent Change |
|--|-------------------------------|-----------|----------------|
| | 2020 | 2019 | |
| Revenue | \$ 75,162 | \$ 87,410 | (14.0)% |
| Cost of sales | 48,621 | 63,232 | (23.1)% |
| Gross profit | 26,541 | 24,178 | 9.8 % |
| Operating expenses | 32,761 | 43,212 | (24.2)% |
| Operating loss | (6,220) | (19,034) | (67.3)% |
| Other expense, net | (3,206) | (721) | 344.7 % |
| Provision for income taxes | (89) | (131) | (32.1)% |
| Net loss | (9,515) | (19,886) | (52.2)% |
| Net loss per common share - diluted | \$ (0.15) | \$ (0.33) | (54.5)% |
| Adjusted EBITDA ^(a) | 436 | (3,741) | 111.7 % |

(a) Adjusted EBITDA is a non-GAAP measurement. See Reconciliations of Non-GAAP Measures for a reconciliation of Adjusted EBITDA to net loss.

Revenue. Total revenue decreased \$12.2 million for the six months ended December 31, 2020 compared to the same period in 2019. Approximately \$8.2 million of the decrease relates to fewer equipment shipments and revenue in the year-to-date as compared to the prior year-to-date. Additionally, \$4.0 million of the decrease relates to lower transaction volumes due to the impacts of COVID-19 in the current year-to-date compared to the prior year-to-date.

Cost of sales. Cost of sales decreased \$14.6 million for the six months ended December 31, 2020 compared to the same period in 2019. The change was driven by a \$9.9 million decrease in cost of equipment sales, including a \$5.5 million sale of equipment to a strategic partner in the prior year period, and a \$4.7 million decrease in cost of license and transaction fees due to lower transaction volumes and a decrease in network service fees. See “Revenue and Gross Profit” below for a discussion on the significant changes in the cost of sales.

Operating expenses. Operating expenses decreased \$10.5 million for the six months ended December 31, 2020 from the comparable prior period. See “Operating Expenses” below for a discussion of the significant changes in our operating expenses.

RESULTS OF OPERATIONS

QUARTERLY FINANCIAL AND NON-FINANCIAL DATA

The following table shows certain financial and non-financial data that management believes give readers insight into certain trends and relationships about the Company’s financial performance. We believe the metrics (Active Devices and Net New Active Devices, Active Customers and Net Change in Active Customers and Total Number of Transactions and Total Dollar Volume of Transactions) are useful in allowing management and readers to evaluate our strategy of driving growth in devices and transactions and the Financing Structure of Devices metric is useful in allowing management and readers to evaluate the growth of our QuickStart program and direct sales compared to the JumpStart program.

Active Devices and Net New Active Devices (new presentation)

Active Devices is defined as a device that has communicated with us or has had a transaction in the last 12 months. Included in the number of Active Devices are devices that communicate through other devices that communicate or transact with us. A self-service retail location that utilizes an ePort cashless payment device as well as Seed management services constitutes only one device.

Net New Active Devices during the quarter are defined as the net change in Active Devices from prior quarter.

Active Customers and Net Change in Active Customers

The Company defines Active Customers as all customers with at least one active device. Net Change in Active customers is defined by the net change in Active Customers from the prior period.

Total Number Of Transactions and Total Dollar Volume of Transactions

Transactions are defined as electronic payment transactions that are processed by our technology-enabled solutions. Management uses Total Number and Dollar Volume of transactions to evaluate the effectiveness of our new customer strategy and ability to leverage existing customers and partners.

Financing Structure of Devices

The Financing Structure of Devices is determined by identifying the gross new devices during the quarter and determining which devices were due to devices financed by the JumpStart program compared to devices financed by the QuickStart program or purchased outright. We monitor this metric as we are able to increase cash collections from direct sales to customers or under QuickStart sales by utilizing lease companies which improves cash provided by operating activities.

| | As of and for the three months ended | | | | |
|--|--------------------------------------|--------------------|---------------|----------------|-------------------|
| | December 31, 2020 | September 30, 2020 | June 30, 2020 | March 31, 2020 | December 31, 2019 |
| Devices, new presentation: | | | | | |
| Active Devices | 1,154,932 | 1,133,754 | 1,117,805 | 1,103,242 | 1,089,406 |
| Net New Active Devices | 21,178 | 15,949 | 14,563 | 13,836 | 25,744 |
| Customers: | | | | | |
| Active Customers | 18,304 | 17,760 | 17,249 | 16,808 | 16,489 |
| Net Change in Active Customers | 544 | 511 | 441 | 319 | 479 |
| Volumes: | | | | | |
| Total Number of Transactions (millions) | 211.8 | 201.9 | 167.7 | 237.3 | 243.4 |
| Total Dollar Volume of Transactions (millions) | 422.6 | 406.3 | 329.1 | 462.7 | 476.4 |
| Financing structure of Devices: | | | | | |
| JumpStart | 4.3 % | 3.0 % | 6.2 % | 1.4 % | 4.3 % |
| QuickStart & all others ^(a) | 95.7 % | 97.0 % | 93.8 % | 98.6 % | 95.7 % |
| Total | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

a) Includes credit sales with standard trade receivable terms.

Highlights of USAT's devices and customers for the quarter ended December 31, 2020 include:

- An increase of 544 Active Customers and 21,178 Active Devices during the quarter;
- 1,154,932 Active Devices compared to the same quarter last year of 1,089,406, an increase of 65,526 Net New Active Devices, or 6.01%;
- 18,304 Active Customers to our service compared to the same quarter last year of 16,489, an increase of 1,815 Net Change in Active Customers, or 11.01%.

Total Connections (historical presentation)

Historically, connections is a performance metric that has been used by the Company. Connections to the Company's service include those resulting from the sale or lease of our POS electronic payment devices, telemetry devices or certified payment software or the servicing of similar third-party installed POS terminals or telemetry devices. The Company records a connection upon shipment of an activated device or the activation of a non-device location on our platform to a customer under contract. If a customer provides sufficient notice to deactivate a device or non-device location, in accordance with the terms of the contract, we stop counting the existing connection as a connection after the applicable notice period. A previously installed telemeter or cashless payment system that is no longer being utilized by our customer is still considered and reported as an existing connection until the customer requests deactivation and the contractual notice period has expired.

As noted in the previous section, management is now focused on Active Devices and Active Customers as set forth in the new presentation above.

| | As of and for the three months ended | | | | |
|---|--------------------------------------|--------------------|---------------|----------------|-------------------|
| | December 31, 2020 | September 30, 2020 | June 30, 2020 | March 31, 2020 | December 31, 2019 |
| Total connections, historical presentation | 1,358,000 | 1,335,000 | 1,320,000 | 1,289,000 | 1,255,000 |

Network Incident

During the three months ended September 30, 2020, the Company experienced a network incident on its ePort transaction processing platform, resulting in certain devices being unable to process payment transactions during the outage. The Company has remediated the incident. For the three months ended September 30, 2020 and December 31, 2020, we accrued approximately \$1.4 million (of which \$1.1 million is included in Selling, general and administrative expenses and \$0.3 million is included in Cost of sales) and \$0.6 million (of which \$0.4 million is included in Selling, general and administrative expenses and \$0.2 million is included in Cost of sales) of costs associated with the event, respectively.

Three Months Ended December 31, 2020 Compared to Three Months Ended December 31, 2019

Revenue and Gross Profit

| (\$ in thousands) | Three months ended December 31, | | Percent Change |
|--------------------------------------|---------------------------------|-----------|----------------|
| | 2020 | 2019 | |
| Revenue: | | | |
| License and transaction fees | \$ 33,214 | \$ 35,754 | (7.1)% |
| Equipment sales | 5,071 | 8,297 | (38.9)% |
| Total revenue | 38,285 | 44,051 | (13.1)% |
| Cost of sales: | | | |
| Cost of license and transaction fees | 20,617 | 22,579 | (8.7)% |
| Cost of equipment sales | 5,367 | 8,710 | (38.4)% |
| Total cost of sales | 25,984 | 31,289 | (17.0)% |
| Gross profit: | | | |
| License and transaction fees | 12,597 | 13,175 | (4.4)% |
| Equipment sales | (296) | (413) | 28.3 % |
| Total gross profit | \$ 12,301 | \$ 12,762 | (3.6)% |
| Gross margin: | | | |
| License and transaction fees | 37.9 % | 36.8 % | |
| Equipment sales | (5.8)% | (5.0)% | |
| Total gross margin | 32.1 % | 29.0 % | |

Revenue. Total revenue decreased \$5.8 million for the three months ended December 31, 2020 compared to the same period in 2019. Approximately \$3.2 million of the decrease relates to fewer equipment shipments and revenue in the quarter as compared to the prior year quarter. Additionally, \$2.5 million of the decrease relates to lower transaction volumes due to the impacts of COVID-19 in the current quarter compared to the prior year quarter.

Cost of sales. Cost of sales decreased \$5.3 million for the three months ended December 31, 2020 compared to the same period in 2019. The change was driven by a \$3.3 million decrease in cost of equipment sales, and a \$2.0 million decrease in cost of license and transaction fees due to lower transaction volumes and a decrease in network service fees.

Gross margin. Total gross margin increased from 29.0% for the three months ended December 31, 2019 to 32.1% for the three months ended December 31, 2020. The change was driven primarily by decreased costs of equipment and lower transaction processing volumes.

Operating Expenses

| Category (\$ in thousands) | Three months ended December 31, | | Percent Change |
|--|---------------------------------|-----------|----------------|
| | 2020 | 2019 | |
| Selling, general and administrative expenses | \$ 13,831 | \$ 16,161 | (14.4)% |
| Investigation, proxy solicitation and restatement expenses | — | 3,277 | NM |
| Depreciation and amortization | 1,052 | 1,080 | (2.6)% |
| Total operating expenses | \$ 14,883 | \$ 20,518 | (27.5)% |

NM — not meaningful

Total operating expenses. Total operating expenses decreased approximately \$5.6 million (approximately 27.5%) for the three months ended December 31, 2020, as compared to the same period in 2019. This change was primarily driven by a reduction in professional fees incurred by the Company relating to the investigation and the restatements of previously filed financial statements and a decrease in usage of external legal and accounting professional services firms.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased approximately \$2.3 million for the three months ended December 31, 2020, as compared to the same period in 2019. This change was primarily driven by \$0.8 million in lower legal and accounting professional services costs, \$0.8 million of lower compensation expense related to severance in the prior year and \$0.4 million of lower travel expenses as a result of COVID-19.

Investigation, proxy solicitation and restatement expenses. Investigation, proxy solicitation and restatement expenses were incurred in fiscal year 2020 in connection with the 2019 Investigation and the restatements of previously filed financial statements, bank consents, the remediation of deficiencies in our internal control over financial reporting, the proxy solicitation, and professional services fees to assist with accounting and compliance activities in fiscal year 2020 following the filing of the 2019 Form 10-K.

Depreciation and amortization. Depreciation and amortization expense was consistent with the same period in 2019.

Other Income (Expense), Net

| (\$ in thousands) | Three months ended December 31, | | Percent Change |
|-----------------------------------|---------------------------------|----------|----------------|
| | 2020 | 2019 | |
| Other income (expense): | | | |
| Interest income | \$ 325 | \$ 283 | 14.8 % |
| Interest expense | (596) | (833) | (28.5)% |
| Total other income (expense), net | \$ (271) | \$ (550) | (50.7)% |

Other income (expense), net. Other income (expense), net was comparable for the three months ended December 31, 2020 and the same period in 2019.

Six Months Ended December 31, 2020 Compared to Six Months Ended December 31, 2019
Revenue and Gross Profit

| (\$ in thousands) | Six months ended December 31, | | Percent Change |
|--------------------------------------|-------------------------------|-----------|----------------|
| | 2020 | 2019 | |
| Revenue: | | | |
| License and transaction fees | \$ 66,322 | \$ 70,363 | (5.7)% |
| Equipment sales | 8,840 | 17,047 | (48.1)% |
| Total revenue | 75,162 | 87,410 | (14.0)% |
| Cost of sales: | | | |
| Cost of license and transaction fees | 39,953 | 44,668 | (10.6)% |
| Cost of equipment sales | 8,668 | 18,564 | (53.3)% |
| Total cost of sales | 48,621 | 63,232 | (23.1)% |
| Gross profit: | | | |
| License and transaction fees | 26,369 | 25,695 | 2.6 % |
| Equipment sales | 172 | (1,517) | 111.3 % |
| Total gross profit | \$ 26,541 | \$ 24,178 | 9.8 % |
| Gross margin: | | | |
| License and transaction fees | 39.8 % | 36.5 % | |
| Equipment sales | 1.9 % | (8.9)% | |
| Total gross margin | 35.3 % | 27.7 % | |

Revenue. Total revenue decreased \$12.2 million for the six months ended December 31, 2020 compared to the same period in 2019. Approximately \$8.2 million of the decrease relates to fewer equipment shipments and revenue in the current year as compared to the prior year period, which included revenue for the initial shipments of equipment to a new, larger contract. Additionally, \$4.0 million of the decrease relates to lower transaction volumes due to the impacts of COVID-19 in the current year compared to the prior year period.

Cost of sales. Cost of sales decreased \$14.6 million for the six months ended December 31, 2020 compared to the same period in 2019. The change was driven by a \$9.9 million decrease in cost of equipment sales, including a \$5.5 million sale of equipment to a strategic partner in the prior year period, and a \$4.7 million decrease in cost of license and transaction fees due to lower transaction volumes and a decrease in network service fees.

Gross margin. Total gross margin increased from 27.7% for the six months ended December 31, 2019 to 35.3% for the six months ended December 31, 2020. The change was driven primarily by decreased costs of equipment, lower transaction processing volumes, and the prior year adjustment related to equipment costs referred in Note 1 - Business.

Operating Expenses

| Category (\$ in thousands) | Six months ended December 31, | | Percent Change |
|--|-------------------------------|-----------|----------------|
| | 2020 | 2019 | |
| Selling, general and administrative expenses | \$ 30,641 | \$ 31,342 | (2.2)% |
| Investigation, proxy solicitation and restatement expenses | — | 9,768 | NM |
| Depreciation and amortization | 2,120 | 2,102 | 0.9 % |
| Total operating expenses | \$ 32,761 | \$ 43,212 | (24.2)% |

NM — not meaningful

Total operating expenses. Total operating expenses decreased approximately \$10.5 million (approximately 24.2%) for the six months ended December 31, 2020, as compared to the same period in 2019. This change was primarily driven by a reduction in professional fees incurred by the Company relating to the investigation and the restatements of previously filed financial statements and a decrease in usage of external legal and accounting professional services firms.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased approximately \$0.7 million for the six months ended December 31, 2020, as compared to the same period in 2019. This change was primarily driven by \$1.6 million in lower legal and accounting professional services costs offset by \$1.1 million of costs related to the network incident discussed above recognized in the six months ended December 31, 2020.

Investigation, proxy solicitation and restatement expenses. Investigation, proxy solicitation and restatement expenses were incurred in fiscal year 2020 in connection with the 2019 Investigation and the restatements of previously filed financial statements, bank consents, the remediation of deficiencies in our internal control over financial reporting, the proxy solicitation, and professional services fees to assist with accounting and compliance activities in fiscal year 2020 following the filing of the 2019 Form 10-K.

Depreciation and amortization. Depreciation and amortization expense was consistent with the same period in 2019.

Other Income (Expense), Net

| (\$ in thousands) | Six months ended December 31, | | Percent Change |
|-----------------------------------|-------------------------------|----------|----------------|
| | 2020 | 2019 | |
| Other income (expense): | | | |
| Interest income | \$ 675 | \$ 577 | 17.0 % |
| Interest expense | (3,881) | (1,298) | 199.0 % |
| Total other income (expense), net | \$ (3,206) | \$ (721) | 344.7 % |

Other income (expense), net. Other income (expense), net decreased approximately \$2.5 million for the six months ended December 31, 2020 as compared to the same period in 2019. This change was primarily related to the recognition of the remaining balance of unamortized issuance costs and debt discount related to the senior secured term loan facility (the “2020 Antara Term Facility”) with Antara Capital Master Fund LP (“Antara”) of \$2.6 million into interest expense, related to the repayment of all amounts outstanding under the 2020 Antara Term Facility.

Reconciliations of Non-GAAP Measures

Adjusted earnings before income taxes, depreciation, and amortization (“Adjusted EBITDA”) is a non-GAAP financial measure which is not required by or defined under U.S. GAAP (Generally Accepted Accounting Principles). We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision making. The presentation of this financial measure is not intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with U.S. GAAP, including our net income or net loss or net cash used in operating activities. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with our net income or net loss as determined in accordance with U.S. GAAP, and are not a substitute for or a measure of our profitability or net earnings. Adjusted EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance. Additionally, we utilize Adjusted EBITDA as a metric in our executive officer and management incentive compensation plans.

We define Adjusted EBITDA as U.S. GAAP net loss before (i) interest income, (ii) interest expense, (iii) income taxes, (iv) depreciation, (v) amortization, (vi) stock-based compensation expense, and (vii) non-recurring fees and charges that were incurred in connection with the 2019 Investigation and financial statement restatement activities as well as proxy solicitation costs.

Below is a reconciliation of U.S. GAAP net loss to Adjusted EBITDA:

| (\$ in thousands, including endnotes to table) | Three months ended December 31, | |
|--|---------------------------------|------------|
| | 2020 | 2019 |
| U.S. GAAP net loss | \$ (2,902) | \$ (8,378) |
| Less: interest income | (325) | (283) |
| Plus: interest expense | 596 | 833 |
| Plus: income tax provision | 49 | 72 |
| Plus: depreciation expense included in cost of sales for rentals | 515 | 757 |
| Plus: depreciation and amortization expense in operating expenses | 1,052 | 1,080 |
| EBITDA | (1,015) | (5,919) |
| Plus: stock-based compensation ^(a) | 1,640 | 1,742 |
| Plus: investigation, proxy solicitation and restatement expenses ^{(b)(c)} | — | 3,277 |
| Plus: asset impairment charge ^(b) | 333 | — |
| Adjustments to EBITDA | 1,973 | 5,019 |
| Adjusted EBITDA ^{(d)(e)} | \$ 958 | \$ (900) |

(a) As an adjustment to EBITDA, we have excluded stock-based compensation, as it does not reflect our cash-based operations.

(b) As an adjustment to EBITDA, we have excluded the professional fees incurred in connection with the non-recurring costs and expenses related to the 2019 Investigation, financial statement restatement activities, and proxy solicitation costs, and non-cash impairment charges related to long-lived assets because we believe that they represent charges that are not related to our operations.

(c) The previously reported amounts for the three months ended December 31, 2019 were reclassified to include additional operating expenses that related to non-recurring professional services fees. The adjustment amount for the three months ended December 31, 2019 has been revised as disclosed in the basis of presentation and preparation section of Note 1 to the interim Condensed Consolidated Financial Statements.

(d) As a result of the adjustment noted in (c), the Adjusted EBITDA for the year ended June 30, 2020 and three months ended June 30, 2020 as previously reported in the Company's June 30, 2020 Annual Report on Form 10-K should be revised from \$(8,253) to \$(9,735) and \$(85) to \$(2,118), respectively. Similarly, the Adjusted EBITDA for the three months ended September 30, 2019 as previously reported in the Company's September 30, 2020 Quarterly Report on Form 10-Q should be revised from \$(4,856) to \$(2,841).

(e) As a result of the adjustment noted in (c) and the subsequent revision to the reclassification amounts as noted in Note 1 to the interim Condensed Consolidated Financial Statements, the Adjusted EBITDA for the three months ended December 31, 2019 as previously reported in the Company's December 31, 2019 Quarterly Report on Form 10-Q should have been revised from \$(2,324) to \$(900) as presented in table above.

| (\$ in thousands, including endnotes to table) | Six months ended December 31, | |
|--|-------------------------------|-------------|
| | 2020 | 2019 |
| Net loss | \$ (9,515) | \$ (19,886) |
| Less: interest income | (675) | (577) |
| Plus: interest expense | 3,881 | 1,298 |
| Plus: income tax provision | 89 | 131 |
| Plus: depreciation expense included in cost of sales for rentals | 1,054 | 1,391 |
| Plus: depreciation and amortization expense in operating expenses | 2,120 | 2,102 |
| EBITDA | (3,046) | (15,541) |
| Plus: stock-based compensation ^(a) | 3,149 | 2,032 |
| Plus: investigation, proxy solicitation and restatement expenses ^{(b)(c)} | — | 9,768 |
| Plus: asset impairment charge ^(b) | 333 | — |
| Adjustments to EBITDA | 3,482 | 11,800 |
| Adjusted EBITDA ^(d) | \$ 436 | \$ (3,741) |

(a) As an adjustment to EBITDA, we have excluded stock-based compensation, as it does not reflect our cash-based operations.

(b) As an adjustment to EBITDA, we have excluded the professional fees incurred in connection with the non-recurring costs and expenses related to the 2019 Investigation, financial statement restatement activities, and proxy solicitation costs, and non-cash impairment charges related to long-lived assets because we believe that they represent charges that are not related to our operations.

(c) The previously reported amounts for the six months ended December 31, 2019 were reclassified to include additional operating expenses that related to non-recurring professional services fees. The adjustment amount for the six months ended December 31, 2019 has been revised as disclosed in the basis of presentation and preparation section of Note 1 to the interim Condensed Consolidated Financial Statements.

(d) As a result of the adjustment noted in (c) and the subsequent revision to the reclassification amounts as noted in Note 1 to the interim Condensed Consolidated Financial Statements, the Adjusted EBITDA for the six months ended December 31, 2019 as previously reported in the Company's December 31, 2019 Quarterly Report on Form 10-Q should have been revised from \$(7,977) to \$(3,741) as presented in table above.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities was \$0.7 million for the six months ended December 31, 2020 compared to cash used of \$9.8 million in the same period in the prior year. The change in cash used in operating activities reflects net cash provided by a \$10.4 million decrease in net loss and an increase in non-cash operating expenses of \$3.7 million, offset by net cash used by the change in various operating assets and liabilities of \$4.9 million. The change in operating assets and liabilities is primarily driven by the net cash used by the change of accounts receivable of \$5.1 million.

Cash used in investing activities was \$1.0 million for the six months ended December 31, 2020 compared to cash used of \$1.3 million in the same period in the prior year, as purchases for equipment were relatively consistent compared to the same period last year.

Cash used in financing activities was \$1.9 million for the six months ended December 31, 2020 compared to cash provided of \$21.2 million in the same period in the prior year. For the six months ended December 31, 2020, the Company paid \$1.2 million as a prepayment penalty and commitment termination fee to Antara as part of the repayment of the 2020 Antara Term Facility and paid \$0.5 million of debt issuance costs as a result of entering into the 2021 JPMorgan Credit Facility (as defined below). For the six months ended December 31, 2019, the Company entered into a debt and equity financing with Antara and also repaid the outstanding balance on the 2018 JPMorgan Revolving Credit Facility.

Sources and Uses of Cash

The Company has the following primary sources of capital available: (1) cash and cash equivalents on hand of \$28.2 million as of December 31, 2020; (2) the cash which may be provided by operating activities; and (3) up to \$5 million available to be drawn on the 2021 JPMorgan Revolving Facility (as defined below). In addition, management has recently implemented efficiencies in working capital that are designed to increase our cash balances.

In the six months ended December 31, 2020, the Company entered into the 2021 JPMorgan Credit Agreement (as defined below) and repaid all amounts outstanding under the 2020 Antara Term Facility. The Company also paid \$1.2 million to Antara for the commitment termination fee and prepayment premium, and paid \$2.6 million towards the settlement of a shareholder class action lawsuit.

The Company also has estimated and recorded for potential sales tax and related interest and penalty liabilities of \$22.0 million in the aggregate as of December 31, 2020. The Company continues to evaluate these liabilities and the amount and timing of any such payments.

In the fourth quarter of fiscal year 2020, we received loan proceeds of approximately \$3.1 million (the “PPP Loan”) pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) administered by the U.S. Small Business Administration (the “SBA”). We intend to use the PPP Loan in accordance with the provisions of the CARES Act. The loan bears a fixed interest rate of 1% over a two year term from the approval date of April 28, 2020. The application for these funds required the Company to, in good faith, certify that the current economic uncertainty caused by COVID-19 made the loan request necessary to support the ongoing operations of the Company. This certification further required the Company to take into account our current business activity and our ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria. The Company anticipates filing for the forgiveness of the loan in the quarter ended March 31, 2021.

The Company believes that its current financial resources will be sufficient to fund its current twelve-month operating budget from the date of issuance of these consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

As a result of the July 1, 2020 adoption of Topic 326, the Company has updated the critical accounting policies disclosed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2020 Form 10-K as follows:

Allowances for Doubtful Accounts and Finance Receivables. We maintain lifetime expected loss allowances for doubtful accounts and finance receivables based on historical experience of payment performance, current conditions of the customer, and reasonable and supportable economic forecasts of collectability for the asset’s entire expected life, which is generally less than one year for accounts receivable and five years for finance receivables. Historical loss experience is utilized as there have

been no significant changes in the mix or risk characteristics of the receivable revenue streams used to calculate historical loss rates. Current conditions are analyzed at each measurement date to reassess whether our receivables continue to exhibit similar risk characteristics as the prior measurement date, and determine if the reserve calculation needs to be adjusted for new developments, such as a customer's inability to meet its financial obligations. Reasonable and supportable macroeconomic trends also are incorporated into the analysis. Estimating the allowances therefore requires us to apply judgment in relying on historical customer payment experience, regularly analyzing the financial condition of our customers, and developing macroeconomic forecasts to adequately cover expected credit losses on our receivables. By nature, such estimates are highly subjective, and it is possible that the amount of receivables that we are unable to collect may be different than the amounts initially estimated in the allowances.

Recent Accounting Pronouncements

See Note 2 - Accounting Policies to the interim Condensed Consolidated Financial Statements for a description of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

On August 14, 2020, the Company repaid all amounts outstanding under the 2020 Antara Term Facility and entered into a credit agreement with JPMorgan Chase Bank, N.A (the "2021 JPMorgan Credit Agreement") for a \$5 million secured revolving credit facility (the "2021 JPMorgan Revolving Facility") and a \$15 million secured term facility (the "2021 JPMorgan Secured Term Facility" and together with the 2021 JPMorgan Revolving Facility, the "2021 JPMorgan Credit Facility"). Through December 31, 2021, the applicable interest rate on the 2021 JPMorgan Credit Facility will be Prime Rate plus 3.75%. An increase of 100 basis points in Prime Rate would not have a material impact of on our interest expense or condensed consolidated financial statements.

Our other exposures to market risk have not changed materially since June 30, 2020.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures

We maintain disclosure controls and procedures to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness as of the end of the period covered by this Form 10-Q of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, our management, including our chief executive officer and chief financial officer, has concluded that our disclosure controls and procedures are effective as of December 31, 2020.

(b) Changes in Internal Control over Financial Reporting

Other than the remediation plan disclosed in Item 9A. of the 2020 Form 10-K for the material weakness identified in fiscal year 2020 related to the accounting impact of a non-routine and complex transaction, there were no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

As discussed in Item 9A. of our 2020 Form 10-K, we reinforced our existing internal control structure to ensure that one-time and unusual transactions are subject to timely and formal evaluation by senior finance and accounting leadership to ensure proper accounting treatment to address the material weakness in our internal control over financial reporting. Management has concluded that the control has operated for a sufficient period of time and concluded, through testing, that the control is operating effectively, and that this material weakness was remediated as of December 31, 2020.

Part II - Other Information

Item 1. Legal Proceedings.

The information required by this Item is incorporated herein by reference to the Notes to Condensed Consolidated Financial Statements, Note 13 – Commitments and Contingencies in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

For a discussion of the Company's risk factors, see the information under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2020, as supplemented by the amended risk factor set forth below.

Disruptions to our systems, breaches in the security of transactions involving our products or services, or failure of our processing systems could adversely affect our reputation, business and results of operations.

We rely on information technology and other systems to transmit financial information of consumers making cashless transactions and to provide accounting and inventory management services to our customers. As such, the information we transmit and/or maintain is exposed to the ever-evolving threat of compromised security, in the form of a risk of potential breach, system failure, computer virus, cyber-attack or unauthorized or fraudulent use by consumers, customers, company employees, or employees of third party vendors. A cybersecurity incident could result in disclosure of confidential information and intellectual property, or cause operational disruptions and compromised data. We may be unable to anticipate or prevent techniques to obtain unauthorized access or to sabotage systems because they change frequently and often are not detected until after an incident has occurred.

In addition, our processing systems may experience errors, interruptions, delays or damage from a number of causes, including, but not limited to, power outages, hardware, software and network failures, internal design, manual or usage errors, terrorism, workplace violence or wrongdoing, catastrophic events, natural disasters and severe weather conditions. The steps we take to deter and mitigate these risks, including annual validation of our compliance with the Payment Card Industry Data Security Standard, may not be successful, and any resulting compromise or loss of data or systems could adversely impact the marketplace acceptance of our products and services, and could result in significant remedial expenses to not only assess and repair any damage to our systems, but also to reimburse customers for losses that occur from service interruptions or the fraudulent use of confidential data. Additionally, we could become subject to significant fines, litigation, and loss of reputation, potentially impacting our financial results.

Further, substantially all of the cashless payment transactions handled by our network involve Visa U.S.A. Inc. ("Visa") or MasterCard International Incorporated ("MasterCard"). If we fail to comply with the applicable standards or requirements of the Visa and MasterCard card associations relating to security, Visa or MasterCard could suspend or terminate our registration with them. The termination of our registration with them or any changes in the Visa or MasterCard rules that would impair our registration with them could require us to stop providing cashless payment services through our network. In such event, our business plan and/or competitive advantages in the market place would be materially adversely affected.

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

N/A.

Item 3. Defaults Upon Senior Securities.

There were no defaults on any senior securities. The total accrued and unpaid dividends on our Series A Convertible Preferred Stock as of December 31, 2020 was \$21.1 million. 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. Mine Safety Disclosures.

N/A.

Item 5. Other Information.

N/A.

Item 6. Exhibits.

| Exhibit Number | Description |
|-----------------------|---|
| 3.1 | Amended and Restated Articles of Incorporation, as amended through May 29, 2020 (incorporated by reference to Exhibit 3.1 to Form 8-A12B filed on November 17, 2020). |
| 3.2 | Amended and Restated Bylaws, as amended through May 4, 2020 (incorporated by reference to Exhibit 3.2 to Form 8-A12B filed on November 17, 2020). |
| 4.1 | Warrant dated March 29, 2016 in favor of Heritage Bank of Commerce (incorporated by reference to Exhibit 4.2 to Form 10-K filed on September 13, 2016). |
| 10.1† | Separation and Transition Agreement, by and between Jeff Vogt and USA Technologies, Inc., dated as of January 11, 2021 (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 12, 2021). |
| 31.1* | Certifications of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 31.2* | Certifications of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934. |
| 32.1* | Certification of the Chief Executive Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of the Chief Financial Officer pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial information from our Quarterly Report on Form 10-Q for the quarter ended December 31, 2020, filed with the SEC on February 5, 2021, is formatted in Inline Extensible Business Reporting Language (“iXBRL”): (1) the Condensed Consolidated Balance Sheets as of December 31, 2020 and June 30, 2020, (2) the Condensed Consolidated Statements of Operations for the three-month and six-month periods ended December 31, 2020 and 2019, (3) the Condensed Consolidated Statements of Shareholders’ Equity for the three-month and six-month periods ended December 31, 2020 and 2019, (4) the Condensed Consolidated Statements of Cash Flows for the six-month periods ended December 31, 2020 and 2019, and (5) the Notes to Consolidated Financial Statements. |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104 | The cover page from our Quarterly Report on Form 10-Q for the quarter ended December 31, 2020, filed with the SEC on February 5, 2021, is formatted as Inline iXBRL and contained in Exhibit 101. |

* Filed herewith.

† Management contract or compensatory plan or arrangement.

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: February 5, 2021

/s/ Sean Feeney
Sean Feeney
Chief Executive Officer

Date: February 5, 2021

/s/ R. Wayne Jackson
R. Wayne Jackson
Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sean Feeney, certify that:

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

Date: February 5, 2021

/s/ Sean Feeney

Sean Feeney
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, R. Wayne Jackson, certify that:

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

Date: February 5, 2021

/s/ R. Wayne Jackson

R. Wayne Jackson
Chief Financial Officer

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

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-Q for the period ended December 31, 2020 (the "Report"), I, Sean Feeney, Chief Executive Officer of the Company, hereby certify that to my knowledge:

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

Date: February 5, 2021

/s/ Sean Feeney

Sean Feeney
Chief Executive Officer

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

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the “Company”) on Form 10-Q for the period ended December 31, 2020 (the “Report”), I, R. Wayne Jackson, Chief Financial Officer of the Company, hereby certify that to my knowledge:

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

Date: February 5, 2021

/s/ R. Wayne Jackson

R. Wayne Jackson
Chief Financial Officer