May 10, 2011

# USA Technologies, Inc. Reports Results for Fiscal 2011 Third Quarter

**Recurring Revenue - License and Transaction Fees - Up 79%, Total Revenue Up 50%**

MALVERN, Pa.--(BUSINESS WIRE)-- USA Technologies, Inc. (NASDAQ: USAT) a leader in the networking of wireless cashless transactions, today reported results for the third quarter of fiscal 2011 (ended March 31, 2011).

"Quarterly transactions processed and transaction volume both reached record levels in the third quarter of fiscal 2011, performance metrics that clearly indicate consumers are increasingly gravitating to cashless as the payment option of choice at vending, kiosks and similar environments," said George Jensen, Chairman and CEO of USA Technologies, Inc. "Compared to a year ago, connections are up 53%, while customers are up 81%, as USA Technologies strengthens it leading industry position. With a rapidly growing base of customers and connections, we are establishing a solid foundation that we believe can be leveraged into even greater growth as cashless payment applications become increasingly ubiquitous."

## Results for Third Fiscal Quarter

Total revenue for the quarter increased 50% to $5.5 million, compared to $3.7 million in the third quarter of the prior year, while revenue from recurring license and transaction fees increased 79% to $4.3 million compared to $2.4 million for the quarter a year ago. Gross profit for the quarter was $1.6 million, up 20% from $1.3 million a year ago. General and administrative expenses in the quarter were reduced by $340,000 compared to the third quarter of 2010.

For the quarter the company recorded an operating loss of $1.7 million, a $600,000 improvement from the operating loss in the comparable year ago quarter. Net loss for the quarter was $2.5 million, or ($0.11) per diluted share, little changed from the net loss of $2.3 million, or ($0.12) per share a year ago, despite absorbing $850,740 of non-cash charges for a change in the fair value of warrant liabilities in the current quarter.

During the third quarter the Company recorded significant growth across its operating performance metrics, including:

- Increased the number of devices connected to its network to approximately 112,000, up 53%, compared to 73,000 as of March 31, 2011, driving a 79% increase in license and transaction processing revenue as compared to the prior corresponding quarter;
- The number of cashless transactions processed during the quarter increased to 19.3 million and processing volume reached a quarterly record of $31.4 million, representing increases of 95% and 75%, respectively, compared to the comparable year ago quarter;
- Customers on the Company's USALive® Network increased 81% compared to a year ago, with approximately 250 new customers added during the past three months, bringing the total number of such customers to approximately 1,700 as of March 31, 2011. By comparison, in the third quarter of last fiscal year the Company added 125 new customers to end the quarter with approximately 900 customers;
- For the quarter the Company shipped all of the 3,000 new connections to its USALive® Network that were available from inventory, as an industry wide component recall with a key supplier limited the amount of new devices that could be produced in the quarter. As a result, the Company was unable to satisfy the full demand of the 250 new customers added during the quarter. The recall has been resolved and inventory is being rapidly replenished to support customer needs, as well as the expansion of the JumpStart program;
- Closed the sale to institutional investors of an aggregate of 5,200,000 shares of its common stock and warrants to purchase up to 3,900,000 additional shares of its common stock, raising a total of $10.7 million, with net cash proceeds of approximately $9.9 million;
- At the Annual NAMA Vending Expo in Chicago:

  1. Officially announced that a majority of the proceeds of the equity offering will be used to expand the Company's highly-successful JumpStart program, under which the Company generated over 32,000 new connections in calendar year 2010;
  2. In cooperation with ViVOtech, demonstrated NFC mobile payment technology for vending and wireless point of sale;

- Announced a collaboration with Verizon Wireless that the companies believe will accelerate the adoption of small-ticket, wireless, cashless payment services and machine-to-machine applications via USA Technologies' ePort Connect Service. The USA Technologies solution will now include the Verizon Wireless network for connectivity that enables wireless point-of-sale payments at vending machines via credit and debit cards;
- Announced the launch of USALive®1.6—an update to our current USALive® online reporting system, and designed to provide vending operators with real-time business metrics, transaction and sales reports, machine health monitoring, payment reconciliation and the ability to handle settlement of routes for accurate accounting of the business.

Mr. Jensen concluded, "At NAMA late last month, we officially announced the expansion of our incredibly successful JumpStart program. We expect the market to offer this attractive product a very warm reception. Together with our new Verizon Wireless partnership, USALive® 1.6 on line reporting system, and technological advances — such as our NFC trials with ViVOtech - we clearly offer the most robust, comprehensive end-to-end wireless, small-ticket cashless payments solutions available in the market. We will continue to invest in our technology, network, and market efforts to sustain, if not extend, our industry leadership."

**NON-GAAP Financial Measures: EBITDA**

As used herein, EBITDA represents net income (loss) before interest income, interest expense, income taxes, depreciation and amortization, and the change in fair value of warrant liabilities. We believe that EBITDA should exclude the change in fair value of warrant liabilities because it represents a non-cash charge that is not related to the Company's operations. EBITDA is a non-GAAP financial measure is not required by or defined under GAAP (Generally Accepted Accounting Principles), nor is the presentation of this financial measure intended to be considered in isolation or as a substitute for the financial measures prepared and presented in accordance with GAAP, including the net income or net loss of the Company. Management recognizes that non-GAAP financial measures have limitations in that they do not reflect all of the items associated with the Company's net income or net loss as determined in accordance with GAAP, and is not a substitute for or measure of the Company's profitability or net earnings. EBITDA is presented because we believe it is useful to investors as a measure of comparative operating performance and liquidity, as it is less susceptible to variances in actual performance resulting from depreciation and amortization and due to non-cash charges for changes in fair value of warrant liabilities.

| | Three Months Ended | | |
|---|---|---|---|
| | **March 31, 2011** | **December 31, 2010** | **March 31, 2010** |
| Net loss | $(2,514,268) | $ (133,131) | $(2,310,138) |
| Less interest income | (13,936) | (17,469) | (9,226) |
| Plus interest expense | 9,795 | 9,977 | 18,622 |
| Plus income tax expense | -- | -- | -- |
| Plus depreciation expense | 468,611 | 338,358 | 194,169 |
| Plus amortization expense | 258,600 | 258,600 | 258,600 |
| Plus change in fair value of warrant liabilities | 850,740 | -- | -- |
| EBITDA | $ (940,458) | $ 456,335 | $(1,847,973) |

**About USA Technologies**:

USA Technologies is a leader in wireless, small ticket cashless, associated financial/network services and energy management. USA Technologies provides networked credit card and other non-cash systems in the vending, commercial laundry, hospitality and digital imaging industries. The Company has been granted 79 patents and has agreements with AT&T, Visa, Compass and others. Visit our website at www.usatech.com.

**Forward-looking Statements**:

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: All statements other than statements of historical fact included in this release, including without limitation the financial position, anticipated connections to our network, business strategy and the plans and objectives of the Company's management for future operations, are forward-looking statements. When used in this release, words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to, business, financial market and economic conditions, including but not limited to, the ability of the Company to retain key customers from whom a significant portion of its revenues is derived; whether the Company's customers continue to operate or commence operating ePorts shipped to such customers under the Jumpstart program or otherwise at levels currently anticipated by the Company; the ability of the Company to compete with its competitors to obtain market share; the ability of the Company to obtain widespread commercial acceptance of it products; and whether the Company's existing or anticipated customers purchase ePort devices in the future at levels currently anticipated by the Company. Readers are cautioned not to place undue reliance on these forward-looking statements. Any forward-looking statement made by us in this release speaks only as of the date of this release. Unless required by law, the Company does not undertake to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

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

| | Three months ended March 31, | | Nine months ended March 31, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Revenues: | | | | |
| Equipment sales | $ 1,209,474 | $ 1,280,214 | $ 4,566,494 | $ 4,914,674 |
| License and transaction fees | 4,313,503 | 2,413,312 | 11,413,665 | 6,377,326 |
| Total revenues | 5,522,977 | 3,693,526 | 15,980,159 | 11,292,000 |
| | | | | |
| Cost of equipment | 782,244 | 738,431 | 2,274,825 | 3,128,666 |
| Cost of services | 3,187,601 | 1,659,500 | 8,308,612 | 4,828,222 |
| Cost of sales | 3,969,845 | 2,397,931 | 10,583,437 | 7,956,888 |
| Gross profit | 1,553,132 | 1,295,595 | 5,396,722 | 3,335,112 |
| | | | | |
| Operating expenses: | | | | |
| Selling, general and administrative | 2,860,273 | 3,200,739 | 8,036,539 | 11,623,882 |
| Depreciation and amortization | 360,528 | 395,598 | 1,067,746 | 1,181,029 |
| Total operating expenses | 3,220,801 | 3,596,337 | 9,104,285 | 12,804,911 |
| Operating loss | (1,667,669) | (2,300,742) | (3,707,563) | (9,469,799) |
| | | | | |
| Other income (expense): | | | | |
| Interest income | 13,936 | 9,226 | 56,715 | 36,863 |
| Interest expense | (9,795) | (18,622) | (32,424) | (48,758) |
| Change in fair value of warrant liabilities | (850,740) | - | (850,740) | - |
| Net loss | (2,514,268) | (2,310,138) | (4,534,012) | (9,481,694) |
| | | | | |
| Cumulative preferred dividends | (332,226) | (352,436) | (665,577) | (735,139) |
| | | | | |
| Loss applicable to common shares | $ (2,846,494) | $ (2,662,574) | $ (5,199,589) | $ (10,216,83) |
| | | | | |
| Loss per common share (basic and diluted) | $ (0.11) | $ (0.12) | $ (0.20) | $ (0.47) |
| | | | | |
| Weighted average number of common shares outstanding (basic and diluted) | 26,914,004 | 22,730,828 | 26,249,137 | 21,752,580 |

**USA Technologies, Inc.**

## Consolidated Balance Sheets

| | March 31, 2011 (Unaudited) | June 30, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 13,291,877 | $ 7,604,324 |
| Accounts receivable, less allowance for uncollectible accounts of $23,000 and $41,000, respectively | 1,589,543 | 2,048,421 |
| Finance receivables | 246,452 | 242,452 |
| Inventory, net | 1,594,321 | 2,633,971 |
| Prepaid expenses and other current assets | 588,876 | 847,344 |
| Total current assets | 17,311,069 | 13,376,512 |
| Finance receivables, less current portion | 167,069 | 339,341 |
| Property and equipment, net | 7,448,922 | 4,511,889 |
| Intangibles, net | 3,034,853 | 3,810,653 |
| Goodwill | 7,663,208 | 7,663,208 |
| Other assets | 142,992 | 146,821 |
| Total assets | $ 35,768,113 | $ 29,848,424 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,020,591 | $ 4,570,730 |
| Accrued expenses | 1,265,202 | 1,869,367 |
| Current obligations under long-term debt | 211,480 | 344,652 |
| Total current liabilities | 6,497,273 | 6,784,749 |
| Long-term debt, less current portion | 119,694 | 251,503 |
| Common stock warrant liabilities | 2,767,862 | - |
| Total liabilities | 9,384,829 | 7,036,252 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, no par value: Authorized shares- 1,800,000 Series A convertible preferred- Authorized shares 900,000; Issued and outstanding shares- 442,968 and 444,468, respectively (liquidation preference of $14,712,100 and $14,079,523, respectively) | 3,138,056 | 3,148,676 |
| Common stock, no par value: Authorized shares- 640,000,000; Issued and outstanding shares- 31,226,691 and 25,497,155, respectively | 218,107,296 | 209,958,552 |
| Accumulated deficit | (194,862,068) | (190,295,056) |
| Total shareholders' equity | 26,383,284 | 22,812,172 |
| Total liabilities and shareholders' equity | $ 35,768,113 | $ 29,848,424 |

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

| | Nine months ended March 31, 2011 | Nine months ended March 31, 2010 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ (4,534,012) | $ (9,481,694) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Charges incurred in connection with the vesting and issuance of common stock for employee compensation | 9,090 | 80,523 |

| | | |
|---|---|---|
| Charges incurred in connection with the Long-term Equity Incentive Program | 54,395 | 69,353 |
| Charges incurred for change in fair value of warrants | 850,740 | - |
| Bad debt expense | 2,552 | 47,815 |
| Amortization | 775,800 | 775,800 |
| Depreciation, $781,329 and $113,913 of which is allocated to cost of services for the nine months ended March 31, 2011 and 2010 | 1,073,275 | 519,142 |
| Loss on disposal of property and equipment | 10,380 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 456,326 | (779,318) |
| Finance receivables | 168,272 | (351,183) |
| Inventory | (2,740,227) | (2,164,017) |
| Prepaid expenses and other assets | 356,608 | 217,048 |
| Accounts payable | 449,861 | 86,279 |
| Accrued expenses | (560,994) | 111,710 |
| Net cash used in operating activities | (3,627,934) | (10,868,542) |
| | | |
| **Investing activities** | | |
| Purchase of property and equipment, net | (240,811) | (339,441) |
| Net cash used in investing activities | (240,811) | (339,441) |
| | | |
| **Financing activities** | | |
| Net proceeds from the issuance (retirement) of common stock | 9,915,590 | 12,948,491 |
| Payments for the retirement of preferred stock | - | (374,385) |
| Proceeds from issuance of long-term debt | - | 7,500 |
| Repayment of long-term debt | (359,292) | (501,273) |
| Net cash provided by financing activities | 9,556,298 | 12,080,333 |
| | | |
| Net increase in cash and cash equivalents | 5,687,553 | 872,350 |
| Cash and cash equivalents at beginning of period | 7,604,324 | 6,748,262 |
| Cash and cash equivalents at end of period | $13,291,877 | $ 7,620,612 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Prepaid insurance financed with long-term debt | $ 94,311 | $ 85,991 |
| Cash paid for interest | $ 32,141 | $ 51,792 |
| Transfer of inventory to property and equipment for rental units | $ 3,779,877 | $ 1,516,811 |
| Conversion of convertible preferred stock to common stock | $ 10,620 | $ - |
| Conversion of cumulative preferred dividends to common stock | $ 33,000 | $ - |
| Fair value of common stock warrants at issuance | $ 1,917,122 | $ - |
| Equipment acquired under long-term debt | $ - | $ 195,000 |
| Equipment acquired under capital lease | $ - | $ 17,337 |

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