

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM S-2

Registration Statement  
Under  
The Securities Act of 1933

USA TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

Pennsylvania ----- (State or other jurisdiction of incorporation or organization)	7359 ----- (Primary Standard Industrial Classification Code Number)	23-2679963 ----- (I.R.S. Employer Identification No.)
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100 Deerfield Lane, Suite 140  
Malvern, Pennsylvania 19355  
(Address of principal executive offices and zip code)

George R. Jensen, Jr.  
Chief Executive Officer  
USA Technologies, Inc.  
100 Deerfield Lane, Suite 140  
Malvern, Pennsylvania 19355  
(610) 989-0340  
(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

Copies to:  
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Approximate date of proposed sale to  
the public: From time to time after this  
Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant  
to dividend or interest reinvestment plans, check the following box: [ ]

1

If any of the securities being registered on this Form are to be offered on a  
delayed or continuous basis pursuant to Rule 415 under the Securities Act  
of 1933, other than securities offered only in connection with dividend or  
interest reinvestment plans, check the following box: [X]

If this Form is filed to register additional securities for an offering pursuant  
to Rule 462(b) under the Securities Act of 1933, please check the following box  
and list the Securities Act registration statement number of the earlier  
effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under  
the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under  
the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering. [ ]

If the delivery of the prospectus is expected to be made pursuant to Rule 434,  
please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES	AMOUNT	PROPOSED MAXIMUM	PROPOSED MAXIMUM	AMOUNT OF
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TO BE REGISTERED	TO BE REGISTERED	OFFERING PRICE PER UNIT(2)	AGGREGATE OFFERING PRICE	REGISTRATION FEE
COMMON STOCK, NO PAR VALUE	35,000,000 SHARES(1)	\$ .18	\$ 6,300,000.00	\$ 798.21
TOTAL	35,000,000 SHARES		\$ 6,300,000.00	\$ 798.21 (3)

- (1) REPRESENTS SHARES ISSUABLE TO STEVE ILLES PURSUANT TO A COMMON STOCK PURCHASE AGREEMENT.
- (2) PURSUANT TO RULE 457(C), THE REGISTRATION FEE HAS BEEN CALCULATED AT THE AVERAGE OF THE BID AND ASKED PRICE WITHIN 5 DAYS PRIOR TO THE DATE OF THE FILING OF THE REGISTRATION STATEMENT.
- (3) A FILING FEE OF \$570.15 WAS PAID IN CONNECTION WITH THE FILING OF A PREVIOUS REGISTRATION STATEMENT (333-116977) ON JUNE 30, 2004 RELATING TO 25,000,000 OF THE SHARES COVERED BY THE REGISTRATION STATEMENT. THE BALANCE DUE OF \$ 228.06 IS BEING PAID AT THE TIME OF FILING OF THIS REGISTRATION STATEMENT.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission ("SEC") is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

USA TECHNOLOGIES, INC.  
35,000,000 shares of Common Stock

THE OFFERING

The resale by Steve Illes of up to 35,000,000 shares of common stock in the over-the-counter market at the prevailing market price or in negotiated transactions. We will receive no proceeds from the sale of the shares by the selling shareholder. However, we will receive proceeds from the purchase of shares from us by Steve Illes, the selling shareholder, under an agreement with us. Because the selling shareholder will offer and sell the shares at various times, we have not included in this prospectus information about the price to the public of the shares or the proceeds to the selling shareholder.

Our common stock is included for quotation on the over-the-counter bulletin board under the symbol "USTT." The closing bid price for the common stock on August 6, 2004, was \$.16 per share.

THIS INVESTMENT INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS. Please refer to Risk Factors beginning on Page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 10, 2004.

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## PROSPECTUS SUMMARY

### OUR COMPANY

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was founded in January 1992. The Company is a developer and supplier of cashless payment and control network systems and provider of related services. The Company's patented technologies include networked cashless transaction solutions and point of purchase devices. In May 2002, the Company completed the acquisition of Stitch Networks Corporation, a Delaware corporation ("Stitch"), and operates Stitch as a wholly owned subsidiary of the Company. Stitch also is a developer and supplier of cashless payment and control network technologies. Through the acquisition of substantially all of the assets of Bayview Technology Group, LLC (Bayview) in July 2003, the Company now designs and manufactures patented energy conservation devices for equipment such as laser printers, monitors, office peripherals, refrigerated vending machines and glass front merchandisers (referred to as slide or visi coolers).

### OUR BUSINESS

The Company's point of purchase device, called e-Port or TransAct, facilitates the monitor and control, the cashless payment of product and/or services and the collection of sales and inventory data for the host equipment it is connected to or embedded in. Examples of host equipment include copiers, faxes, personal computers, printers, vending machines and kiosks. Our customers connect these devices to a network, developed and operated by the Company, which further facilitates the control and monitoring, the settlement of cashless payments and the reporting of sales and inventory data collected at the point of purchase. The Company's systems support multiple cashless payments methods, such as payments via credit/debit cards, smart cards, Radio Frequency Identification (RFID), Personal Identification Numbers (PINs), and cellular telephones.

Revenue from the sale of equipment is recognized on the terms of freight-on-board shipping point, or upon installation and acceptance of the equipment if installation services are purchased for the related equipment. Transaction processing revenue is recognized upon the usage of the Company's cashless payment and control services and network. Service fees for access to the Company's equipment and network are recognized on a monthly basis. Product revenues are recognized from the sale of products from the Company's vending machines upon purchase and acceptance by the vending customer. Product revenues recognized from the sale of energy conservation products are recognized when shipped to the customer.

### OUR MARKET

The Company has focused on the Vending, Kiosk and Office Equipment industries in which to sell its networked, cashless payment systems, and has developed product offerings in each of these channels. The Company markets and sells its product and services directly to the owner, operator of the equipment and/or to equipment distributors and resellers established in each of the respective markets.

Vending/Kiosk: The Company offers several variations of e-Port to the vending or kiosk industry such as an audit only device and an audit device coupled with cashless payment capabilities. Audit only devices allow the operator of the vending machine to remotely monitor the sales, inventory and diagnostic information of the machine it is embedded into. In addition, our point of purchase device allows the operator of the machine to offer their customers an alternative payment method to cash when purchasing product. Another variation of our e-Port product is our multi-media device. The multi-media e-Port client product is equipped with both the audit and cashless payment features, referred to above, but also includes the capability of displaying interactive advertising and content via a LCD color touch screen. Information obtained at the vending machine by our e-Port client device is transferred back to our network and made available to the operator via the Internet or email.

Office Equipment: The TransAct can be sold separately and connected to office equipment already owned by the purchaser or it can be coupled with office equipment sold by the Company. The combined TransAct and office equipment product is called the Business Express and is sold to hotels wishing to provide their guests with 24x7x365 access to business center services. The same benefits of remote sales and inventory data monitoring, as described above, are available from the TransAct or Business Express product.

#### Energy Conservation Products

With the acquisition of Bayview in July 2003, the Company has acquired the following additional products:

- - VendingMiser(TM) installs in a cold drink vending machine and reduces the power consumption of the vending machine by an average of 46%;
- - CoolerMiser reduces the energy used by sliding glass or pull open glass-front coolers that contain non-perishable goods;
- - SnackMiser reduces the amount of electricity used by non-refrigerated snack vending machines;
- - MonitorMiser Plus is a computer monitor power controller. It works with all operating systems and performs by powering down the monitor based upon keyboard or mouse activity;
- - LaserMiser provides energy conservation to laser printers, shutting them down when they are idle. It is a plug-and-play device that is software transparent and capable of handling any laser printer with a parallel or serial connection;
- - Internal VendingMiser (IVM) is the second generation of the VendingMiser in development. It installs into cold drink vending machines and has the capability to control the cooling system and the advertising lights separately.

## Research and Development Costs

The Company continuously pursues new product offerings related to our existing technology and accordingly invests resources and capital in research and development. For the years ended June 30, 2003 and 2002, the Company expensed approximately \$1,505,000 and \$1,187,000, respectively for the development of our proprietary technology and is reflected in general and administrative expense in the consolidated financial statements.

## ABOUT OUR OFFERING

Our selling shareholder, Steve Illes, has agreed to purchase from us Common Stock for a purchase price of up to \$7,500,000 (35,000,000 shares are being registered in this prospectus).

Based upon the shares outstanding as of May 31, 2004 of 339,453,012, if all of the shares covered by this prospectus were issued and outstanding, we would have 374,453,012 shares outstanding.

These shares would be offered by our selling shareholder at the market price at the time of resale. Our selling shareholder may also sell his shares to other investors in a transaction not on the open market. There is no requirement that our selling shareholder sell his shares pursuant to this prospectus.

We will not receive any of the proceeds raised by the offering. We would receive proceeds from the purchase by Steve Illes from us of shares, as referred to above.

## FORWARD LOOKING STATEMENTS

This prospectus contains certain forward looking statements regarding, among other things, the anticipated financial and operating results of the Company. For this purpose, forward looking statements are any statements contained herein that are not statements of historical fact and include, but are not limited to, those preceded by or that include the words, "believes," "expects," "anticipates," or similar expressions. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause the Company's actual results to differ materially from those projected, include, for example (i) the ability of the Company to generate sufficient sales to generate operating profits, or to sell products at a profit, (ii) the ability of the Company to raise funds in the future through sales of securities, (iii) whether the Company is able to enter into binding agreements with third parties to assist in product or network development, (iv) the ability of the Company to commercialize its developmental products, or if actually commercialized, to obtain commercial acceptance thereof, (v) the ability of the Company to compete with its competitors to obtain market share, (vi) the ability of the Company to obtain sufficient funds through operations or otherwise to repay its debt obligations, including but not limited to Senior Notes, or to fund development and marketing of its products; (vii) the ability of the Company to obtain approval of its pending patent applications; or



(viii) the ability of the Company to satisfy its trade obligations included in accounts payable and accrued liabilities. Although the Company believes that the forward looking statements contained herein are reasonable, it can give no assurance that the Company's expectations will be met.

#### RISK FACTORS

An investment in our common stock is very risky. You should be aware that you could lose the entire amount of your investment. Prior to making an investment decision, you should carefully consider the following risk factors and the other information contained in this prospectus.

1. We have a history of losses since inception and if we continue to incur losses the price of our shares can be expected to fall.

We have experienced losses since inception. We expect to continue to incur losses for the foreseeable future as we expend substantial resources on sales, marketing, and research and development of our products. From our inception through March 31, 2004, our cumulative losses are approximately \$91.6 million. For our fiscal years ended June 30, 2002 and 2003, and for the nine months ended March 31, 2004, we have incurred net losses of \$21,965,499, \$17,314,807 and \$16,424,278, respectively. If we continue to incur losses, the price of our common stock can be expected to fall.

2. Our existence is dependent on our ability to raise capital which may not be available.

There is currently limited experience upon which to assume that our business will prove financially profitable or generate more than nominal revenues. From inception, we have generated funds primarily through the sale of securities. There can be no assurances that we will be able to continue to sell additional securities. We expect to raise funds in the future through sales of our debt or equity securities until such time, if ever, as we are able to operate profitably. There can be no assurance given that we will be able to obtain funds in such manner or on terms that are beneficial to us. For the three months ended March 31, 2004 we were using funds in our operations on a monthly basis of approximately \$700,000. Using that as a basis for estimating cash requirements for the next twelve months, along with requirements for capital expenditures and repayment of long term debt, the Company's cash needs would approximate \$9,000,000 through June 30, 2005. Our inability to obtain needed funding can be expected to have a material adverse effect on our operations and our ability to achieve profitability. If we fail to generate increased revenues or fail to sell additional securities you may lose all or a substantial portion of your investment.

3. We received an opinion from our auditor which raises substantial doubt about our ability to continue as a going concern.

Our auditors, Ernst and Young, LLP, have included an explanatory paragraph in their report on our June 30, 2003 consolidated financial statements indicating that as of June 30, 2003, there is substantial doubt about our ability to continue as a going concern. We will require additional funds in the future, and there can be no assurance that any independent auditors' report on our future financial statements will not include a similar explanatory paragraph if we are unable to raise sufficient funds or generate sufficient cash from operations to cover the cost of our operations. The existence of the explanatory paragraph may adversely affect our relationship with prospective customers, suppliers and potential investors, and therefore could have a material adverse effect on our business, financial condition and results of operations.

4. We depend on our key personnel and if they would leave us, our business could be adversely affected.

We are dependent on key management personnel, particularly the Chairman and Chief Executive Officer, George R. Jensen, Jr. The loss of services of Mr. Jensen or other executive officers would dramatically affect our business prospects. Certain of our employees are particularly valuable to us because:

- o they have specialized knowledge about our company and operations;
- o they have specialized skills that are important to our operations; or
- o they would be particularly difficult to replace.

We have entered into an employment agreement with Mr. Jensen that expires in June 30, 2005. We have also entered into employment agreements with other executive officers, each of which contain non-compete agreements. We have obtained a key man life insurance policy in the amount of \$2,000,000 on Mr. Jensen, and a key man life insurance policy in the amount of \$1,000,000 on our Vice-President-Research and Development, Haven Brock Kolls, Jr.

We do not have and do not intend to obtain key man life insurance coverage on any of our other executive officers. As a result, we are exposed to the costs associated with the death of these key employees.

5. USA's dependence on proprietary technology and limited ability to protect our intellectual property may adversely affect our ability to compete.

A successful challenge to our ownership of our technology could materially damage our business prospects. Our technology may infringe upon the proprietary rights of others. Our success is dependent in part on our ability to obtain patent protection for our proprietary products, maintain trade secret protection and operate without infringing the proprietary rights of others.

To date, we have 39 pending patent applications, and intend to file applications for additional patents covering our future products, although there can be no assurance that we will do so. In addition, there can be no assurance that we will maintain or prosecute these applications. The United States Government and other countries have granted us 49 patents as of May 31, 2004. There can be no assurance that:

- o any of the remaining patent applications will be granted to us;
- o we will develop additional products that are patentable or do not infringe the patents of others;
- o any patents issued to us will provide us with any competitive advantages or adequate protection for our products;
- o any patents issued to us will not be challenged, invalidated or circumvented by others; or
- o any of our products would not infringe the patents of others.

If any of the products are found to have infringed any patent, there can be no assurance that we will be able to obtain licenses to continue to manufacture and license such product or that we will not have to pay damages as a result of such infringement. Even if a patent application is granted for any of our products, there can be no assurance that the patented technology will be a commercial success or result in any profits to us.

6. Competition from others with greater resources could prevent USA from increasing revenue and achieving profitability.

Competition from other companies which are well established and have substantially greater resources may reduce our profitability. Many of our competitors have established reputations for success in the development, sale and service of high quality products. We face competition from the following groups:

- o companies offering automated, credit card activated control systems in connection with facsimile machines, personal computers, debit card purchase/revalue stations, and use of the Internet and e-mail which directly compete with our products;
- o companies which have developed unattended, credit card activated control systems currently used in connection with public telephones, prepaid telephone cards, gasoline dispensing machines, or vending machines and are capable of developing control systems in direct competition with USA; and
- o businesses which provide access to the Internet and personal computers to hotel guests. Although these services are not credit card activated, such services would compete with USA's Business Express(R).

Competition may result in lower profit margins on our products or may reduce potential profits or result in a loss of some or all of our customer base. To the extent that our competitors are able to offer more attractive technology, our ability to compete could be adversely affected.

7. The termination of any of our relationships with third parties upon whom we rely for supplies and services that are critical to our products could adversely affect our business and delay achievement of our business plan.

We depend on arrangements with third parties for a variety of component parts used in our products. We have contracted with RadiSys Corporation and Masterwork Electronics to assist us to develop and manufacture our e-Port(TM) products. For other components, we do not have supply contracts with any of our third-party suppliers and we purchase components as needed from time to time. We have contracted with IBM to develop our network services so that these services are Internet capable as well as interact with our proposed media capable e-Post(TM). We have contracted with IBM to host our network in a secure, 24/7 environment to ensure reliability of our network services. If these business relationships are terminated, the implementation of our business plan may be delayed until an alternative supplier or service provider can be retained. If we are unable to find another source or one that is comparable, the content and quality of our products could suffer and our business, operating results and financial condition could be harmed.

8. We do not expect to pay cash dividends in the foreseeable future and therefore investors should not anticipate cash dividends on their investment.

The holders of our common stock and series A preferred stock are entitled to receive dividends when, and if, declared by our board of directors. Our board of directors does not intend to pay cash dividends in the foreseeable future, but instead intends to retain any and all earnings to finance the growth of the business. To date, we have not paid any cash dividends on the common stock or series A preferred stock and there can be no assurance that cash dividends will ever be paid on the common stock.

In addition, our articles of incorporation prohibit the declaration of any dividends on the Common Stock unless and until all unpaid and accumulated dividends on the Series A preferred stock have been declared and paid. Through May 31, 2004, the unpaid and cumulative dividends on the series A preferred stock equal \$6,677,180. The unpaid and cumulative dividends on the series A preferred stock are convertible into shares of common stock at the rate of \$10.00 per share at the option of the shareholder. Through May 31, 2004, \$2,684,444 of unpaid and cumulative dividends on the Series A Preferred Stock were converted into 288,521 shares of common stock. See "Description of Securities-Series A Convertible Preferred Stock."

9. We may fail to gain widespread market acceptance of our products and not generate sufficient revenues or profit margins to become successful.

There can be no assurance that demand for our products will be sufficient to enable us to become profitable. Likewise, no assurance can be given that we will be able to install the TransActs and e-Ports at enough locations or sell equipment utilizing our network to enough locations to achieve significant revenues or that our operations can be conducted profitably. Alternatively, the locations which would utilize the network may not be successful locations and our revenues would be adversely affected. We may in the future lose locations utilizing our products to competitors, or may not be able to install our products at competitor's locations. In addition, there can be no assurance that our products could evolve or be improved to meet the future needs of the market place.

10. The lack of an established trading market may make it difficult to transfer our stock and you may not be able to sell your shares on our trading market.

Our Common Stock is traded on the OTC Bulletin Board. Although there is limited trading in the Common Stock, there is no established trading market. Until there is an established trading market, holders of the common stock may find it difficult to dispose of, or to obtain accurate quotations for the price of the common stock. See "Description of Securities - Shares Eligible For Future Sale".

11. There are rules governing low-priced stocks that may make it more difficult for you to resell your shares.

Our common stock is currently considered a "penny stock" under federal securities laws since its market price is below \$5.00 per share. Penny stock rules generally impose additional sales practice and disclosure requirements on broker-dealers who sell our shares to certain investors.

Broker-dealers who sell penny stock to certain types of investors are required to comply with the SEC's regulations concerning the transfer of penny stock. If an exemption is not available, these regulations require broker-dealers to:

- - make a suitability determination prior to selling penny stock to the purchaser;
- - receive the purchaser's written consent to the transaction; and - provide certain written disclosures to the purchaser.
- - These rules may affect the ability of broker-dealers to make a market in or trade our shares. This, in turn, may affect your ability to resell those shares in the public market.

12. The substantial market overhang of our shares and registered resales under this prospectus will tend to depress the market price of our shares.

The substantial number of our shares currently eligible for sale in the open market will tend to depress the market price of our shares. See "Description of Securities--Shares Eligible for Future Sale". As of May 31, 2004, these shares consisted of the following:

- - 339,453,012 shares of Common Stock
- - 522,742 shares of Preferred Stock
- - 20,337,777 shares underlying Common Stock options and warrants; and
- - 49,276,805 shares underlying our Convertible Senior Notes.

13. Sales of shares eligible for future sale from exercise of warrants and options could depress the market price of our common stock.

As of May 31, 2004, we have issued and outstanding options to purchase 2,134,232 shares of our common stock and warrants to purchase 18,203,545 shares of our common stock. The shares underlying all of these options and warrants have been registered and may be freely sold upon issuance. Market sales of large amounts of our common stock, or the potential for those sales even if they do not actually occur, may have the effect of depressing the market price of our common stock. In addition, if our future financing needs require us to issue additional shares of common stock or securities convertible into common stock, the supply of common stock available for resale could be increased which could stimulate trading activity and cause the market price of our common stock to drop, even if our business is doing well.

14. We are obligated to make substantial principal and interest payments to the holders of the Senior Notes which may not be available or would use our available working capital.

As of May 31, 2004 we have approximately \$451,152 of unsecured senior notes due on December 31, 2004, approximately \$3,011,791 of unsecured senior notes due on December 31, 2005, approximately \$3,213,500 of unsecured notes due on December 31, 2006, and approximately \$3,404,490 of unsecured notes due on December 31, 2007. These notes accrue cash interest at the rate of twelve percent (12%) per year. We are required to make quarterly interest payments totaling approximately \$302,428 or \$1,209,712 each year.

Until the Senior Notes have been paid by us, they will be reflected as a liability on our financial statements, net of the related unamortized discount and other issuance costs.

Our ability to satisfy the debt obligations is dependent on our future performance, the success of our product lines and on our ability to raise capital. Our performance is also subject to financial, business and market factors affecting our business and operations.

We anticipate that the Senior Notes will be paid from cash from operations, as well as proceeds from securities offerings. However, there can be no assurance that we will meet our obligations to pay quarterly interest on or the principal amount of the senior notes at maturity. The payment of the interest and principal on these notes would utilize our available working capital which would not be available for other purposes.

15. Our exchange of New Senior Notes to our 2004 Senior Note holders may have been in violation of the registration provisions of the securities laws. As a result, certain of our note holders may be granted the right to rescind the exchange and demand the return of their old note to them by us which matures in December 2004. The repayment of these notes in December 2004 would adversely affect our liquidity.

The holders of \$4,067,491 of our Senior Notes due December 31, 2007, may have a right to rescind the exchange of these notes for notes originally due December 31, 2004, and demand that we return to them the \$4,067,491 of notes due December 31, 2004. As of May 31, 2004, \$3,404,490 of these notes remain outstanding. During the period from March 2003 through December 2003, we granted to each holder of the notes due December 31, 2004 the right to extend the notes until December 31, 2007 and in such event agreed that the conversion rate of the note would be reduced from \$.40 to \$.20. On April 14, 2003 we filed a Registration Statement which included the shares underlying the 2007 notes. Because the exchange offering was not completed prior to the filing of this registration statement, the exchange offer may be deemed to have been in violation of the registration requirements of Section 5 of the Act. As a result, we removed all of the shares underlying the 2007 Notes from that registration statement. Generally, the statute of limitations for this type of claim is one year after the date of the alleged violations and if successful, would entitle the Note holders to rescind the issuance of the new notes to them and demand a return of the 2004 Senior Notes. If all of the note holders demanded the return of their notes, we would be obligated to repay the \$4,067,491 principal amount on December 31, 2004 rather than on December 31, 2007. This repayment could significantly exceed our cash reserves and require us to borrow funds (which may not be available) and would materially and adversely affect our results of operations and financial condition.

#### USE OF PROCEEDS

We will not receive any of the proceeds from the sales of our Common Stock by the selling shareholder. We will, however, receive proceeds from the purchase of shares from us by Steve Illes pursuant to his agreement with us.

As of the date of this prospectus, based upon the current price of our shares, we would receive \$5,040,000 of proceeds from the purchase by Steve Illes of all 35,000,000 shares issuable to him under his agreement with us at \$.16 per share. If our share price would be in excess of \$.33, we would receive \$7,500,000 of proceeds from the purchase by Mr. Illes of 25,000,000 shares issuable to him under his agreement with us at \$.30 per share.

#### SELLING SHAREHOLDER

The selling shareholder listed below has, as of the date hereof, agreed to purchase from us the number of shares of common stock set forth opposite such selling shareholder's name. The issuance of the common stock by us to the selling shareholder will be a transaction exempt from the registration requirements of the Act and various state securities laws.

We have agreed, at our expense, to register all of the common stock for resale by the selling shareholder under the Act. We expect to incur expenses of approximately \$30,000 in connection with the registration statement of which this prospectus is a part.

The number of shares that may be actually sold by the selling shareholder will be determined by the selling shareholder. The selling shareholder is under no obligation to sell all or any portion of the shares offered, nor is the selling shareholder obligated to sell such shares immediately under this Prospectus. The selling shareholder does not have a preset intention of selling his shares and

may offer less than the number of shares indicated. Because the selling shareholder may sell all, some or none of the shares of common stock that the selling shareholder holds, no estimate can be given as to the number of shares of our common stock that will be held by the selling shareholder upon termination of the offering. Shares of common stock may be sold from time to time by the selling shareholder or by pledgees, donees, transferees or other successors in interest.

The following table sets forth information with respect to the selling shareholder and the amounts of common stock that may be offered pursuant to this prospectus. The selling shareholder has not had within the past three years any position, office or other material relationship with us, except as noted below. Except as specifically set forth below, following the offering, and assuming all of the common stock offered hereby has been sold, the selling shareholder will not beneficially own one percent (1%) or more of the common stock.

Selling Shareholder	Common Stock Offered Hereby	Beneficial Ownership After Offering	
		Number	Percent
STEVE ILLES(1)	35,000,000	14,520,000	3.53%
- - - - -			

(1) Represents shares that Mr. Illes may purchase from us under the Common Stock Purchase Agreement dated August 6, 2004 during the one year period following the date of this prospectus. USA has the right to require Illes to purchase Common Stock at the lower of: (i) \$.30; or (ii) 90% of the closing bid price per share on the applicable date. We have agreed to register these shares for resale by Illes at our cost and expense for a period of one year. As of the date of this prospectus, no shares have been purchased by Illes from us under the Common Stock Purchase Agreement.

#### PLAN OF DISTRIBUTION

The selling shareholder is free to offer and sell the common shares at such times, in such manner and at such prices as the selling shareholder may determine. The types of transactions in which the common shares are sold may include transactions in the over-the-counter market (including block transactions), negotiated transactions, the settlement of short sales of common shares, or a combination of such methods of sale. The sales will be at market prices prevailing at the time of sale or at negotiated prices. Such transactions may or may not involve brokers or dealers.



The selling shareholder may effect such transactions by selling common stock directly to purchasers or through broker-dealers, which may act as agents or principals. Such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the selling shareholder. They may also receive compensation from the purchasers of common shares for whom such broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

Steve Illes is an "underwriter" within the meaning of the Act in connection with the sale of shares purchased from us under his agreement with us. The ten-percent discount received by him in connection with his purchase of shares from us will be an underwriting discount and the \$45,000 due diligence fee paid to him by us will be underwriting compensation. Any broker-dealers or agents that are involved in selling the shares may also be deemed to be "underwriters" within the meaning of the Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and profit on the resale of the shares purchased by them may be deemed to be underwriting discounts under the Act.

The selling shareholder also may resell all or a portion of the common shares in open market transactions in reliance upon Rule 144 under the Act, provided he meets the criteria and conforms to the requirements of such Rule. We have agreed to bear all the expenses (other than selling commissions) in connection with the registration and sale of the common stock covered by this prospectus. In some circumstances, we have agreed to indemnify the selling shareholder against certain losses and liabilities, including liabilities under the Act.

We have advised the selling shareholder that while he is engaged in a distribution of the shares included in this prospectus he is required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling shareholder, any affiliated purchasers, and any broker-dealer or other person who participates in such distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete.

#### DESCRIPTION OF SECURITIES

##### General

We are authorized to issue up to 475,000,000 shares of common stock, no par value, and 1,800,000 shares of undesignated preferred stock. As of the date hereof, 900,000 preferred shares have been designated as series A convertible preferred stock, no par value. As of May 31, 2004, there were 339,453,012 shares of common stock issued and outstanding and 522,742 shares of series A preferred stock issued and outstanding which are convertible into 522,742 shares of common stock. Through May 31, 2004, a total of 588,408 shares of preferred stock have been converted into 664,852 shares of common stock and \$2,684,444 of accrued and unpaid dividends thereon have been converted into 288,521 shares of common stock.

## Common Stock

The holder of each share of common stock:

- o is entitled to one vote on all matters submitted to a vote of the shareholders of USA, including the election of directors. There is no cumulative voting for directors;
- o does not have any preemptive rights to subscribe for or purchase shares, obligations, warrants, or other securities of USA; and
- o is entitled to receive such dividends as the Board of Directors may from time to time declare out of funds legally available for payment of dividends.

No dividend may be paid on the common stock until all accumulated and unpaid dividends on the series A preferred stock have been paid. Upon any liquidation, dissolution or winding up of USA, holders of shares of common stock are entitled to receive pro rata all of the assets of USA available for distribution, subject to the liquidation preference of the series A preferred stock of \$10.00 per share and any unpaid and accumulated dividends on the series A preferred stock.

## Series A Convertible Preferred Stock

The holders of shares of Series A preferred stock:

- o have the number of votes per share equal to the number of shares of common stock into which each such share is convertible (i.e., 1 share of series A preferred stock equals 1 vote);
- o are entitled to vote on all matters submitted to the vote of the shareholders of USA, including the election of directors; and
- o are entitled to an annual cumulative cash dividend of \$1.50 per annum, payable when, as and if declared by the Board of Directors.

The record dates for payment of dividends on the Series A Preferred Stock are February 1 and August 1 of each year. Any and all accumulated and unpaid cash dividends on the Series A Preferred Stock must be declared and paid prior to the declaration and payment of any dividends on the Common Stock. Any unpaid and accumulated dividends will not bear interest. As of May 31, 2004 the accumulated and unpaid dividends were \$6,677,180.

Each share of Series A Preferred Stock is convertible at any time into 1 share of fully issued and non-assessable Common Stock. Accrued and unpaid dividends earned on shares of Series A Preferred Stock being converted into Common Stock are also convertible into Common Stock at the rate \$10.00 per share of Common Stock at the time of conversion and whether or not such dividends have then been declared by USA. As of May 31, 2004 a total of 588,408 shares of series A Preferred Stock have been converted into common stock and accrued and unpaid dividends thereon have been converted into 288,521 shares of Common Stock. The conversion rate of the Series A Preferred Stock (and any accrued and unpaid dividends thereon) will be equitably adjusted for stock splits, stock combinations, recapitalizations, and in connection with certain other issuances of common stock by USA. Upon any liquidation, dissolution, or winding-up of USA, the holders of Series A Preferred Stock are entitled to receive a distribution in preference to the Common Stock in the amount of \$10.00 per share plus any accumulated and unpaid dividends.

We have the right, at any time, to redeem all or any part of the issued and outstanding series A preferred stock for the sum of \$11.00 per share plus any and all unpaid and accumulated dividends thereon. Upon notice by USA of such call, the holders of the series A preferred stock so called will have the opportunity to convert their shares and any unpaid and accumulated dividends thereon into shares of common stock. The \$11.00 per share figure was the redemption price approved by the Directors and shareholders of USA at the time the series A preferred stock was created and first issued. We currently have no plans to redeem the preferred stock.

#### 12% Senior Notes

As of May 31, 2004, we had outstanding \$3,404,490 of Senior Notes due December 31, 2007, \$3,213,500 of Senior Notes due December 31, 2006, \$3,011,791 of Senior Notes due December 31, 2005 and \$451,152 of Senior Notes due December 31, 2004. The principal amount of each senior note which is not voluntarily converted shall be payable on the maturity date thereof, at which time any unpaid and accrued interest shall also become due. Interest shall accrue at the rate of 12% per annum from and after the date of issuance and shall be payable quarterly in arrears on December 31, March 31, June 30, and September 30 of each year until maturity. The senior notes are senior to all existing equity securities of USA, including the series A preferred stock.

Of the Senior Notes due December 31, 2003, a total of \$3,823,000 were purchased through the exchange of \$3,823,000 of the old senior notes previously due December 31, 2001. The principal amount of these notes is convertible at any time into shares of common stock at the rate of \$1.25 per share. The interest paid on these notes is also convertible into shares of common stock at the rate of \$1.00 per share. For the quarters ended September 31, 2001 and December 31, 2001, the conversion rate relating to the interest payments was reduced to \$.50 per share and for the quarter ended March 31, 2002 to \$.40 per share and for the quarters ended June 30, 2002, September 30, 2002, December 31, 2002, March 31, 2003, June 30, 2003, and September 30, 2003, to \$.20 per share together with one warrant at \$.20 per share for each share issued with an exercise termination date of August 30, 2004. We have agreed to use our best efforts to register these shares as well as the shares underlying the warrants for resale under the Act. These shares and shares underlying the warrants issued by us on account of the December 31, 2003 quarter were registered for resale under the Act in August 2004. In March 2003, each holder of these senior notes was granted the right to have the conversion rate reduced to \$.20 in exchange for extending the maturity date for three additional years or until December 31, 2006 of which certain notes have converted to common stock as of May 31, 2004. A total of \$5,024,000 of these notes have been extended to December 31, 2006 of which certain notes have converted to common stock as of May 31, 2004. In connection with any extensions other than the reduction of the conversion rate, there were no other payments or benefits exchanged between USA and the noteholders.

The principal amount of each Senior Note due December 31, 2004 is convertible at any time into shares of Common Stock at the rate of \$.40 per share. In January 2002, the Company agreed to provide the option to each holder of these senior notes to elect to accept shares in lieu of receiving cash in satisfaction of the interest payments otherwise due to them on account of the last three quarters of fiscal 2002. The conversion rate for this interest payment due for the quarter

ended March 31, 2002 was \$.40 per share. The Company continued this option at \$.20 per share for the quarters ended June 30, 2002, September 30, 2002, December 31, 2002, March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003 together with one warrant at \$.20 for each share issued with an exercise termination date of August 30, 2004. We have agreed to register these shares as well as the shares underlying the warrants for resale under the Act. These shares and shares underlying the warrants issued by us on account of the December 31, 2003 quarter are included in this prospectus. In March 2003, each holder of these senior notes was granted the right to have the conversion rate reduced to \$.20 in exchange for extending the maturity date for three additional years or until December 31, 2007. The noteholder was required to make the election on or prior to December 31, 2003. A total of \$4,191,350 of these notes have been extended to December 31, 2007 and are convertible at \$.20 per share of which certain notes have converted to common stock as of May 31, 2004. In connection with any extensions other than the reduction of the conversion rate, there were no other payments or benefits exchanged between USA and the noteholders.

The principal amount of each Senior Note due December 31, 2005 is convertible at any time into shares of Common Stock at the rate of \$.20 per share. The Company agreed to provide the option to each holder of these senior notes to elect to accept shares in lieu of receiving cash in satisfaction of the interest payments otherwise due to them on account of the last quarter of fiscal 2002 at the rate of \$.20 per share. The Company continued this option at \$.20 per share for the quarters ended September 30, 2002, December 31, 2002, March 31, 2003, June 30, 2003, September 30, 2003, and December 31, 2003 together with one warrant at \$.20 for each share issued with an exercise termination date of August 30, 2004. We have agreed to register these shares as well as the shares underlying the warrants for resale under the Act.

During June 2004, we issued a warrant to purchase one share for each existing warrant then held by the holders of the senior notes who had elected to receive the warrant in lieu of a cash interest payment.

The indebtedness evidenced in the Senior Note is subordinated to the prior payment when due of the principal of, premium, if any, and interest on all "Senior Indebtedness", as defined herein, of USA as follows: Upon any distribution of its assets in a liquidation or dissolution of USA, or in bankruptcy, reorganization, insolvency, receivership or similar proceedings relating to USA, the Lender shall not be entitled to receive payment until the holders of Senior Indebtedness are paid in full. Until a payment default occurs with respect to any Senior Indebtedness, all payments of principal and interest due to Lender under the senior note shall be made in accordance with this senior note. Upon the occurrence of any payment default with respect to any Senior Indebtedness then, upon written notice thereof to USA and Lender by any holder of such Senior Indebtedness or its representative, no payments of principal or interest on the senior note shall be made by USA until such payment default has been cured to the satisfaction of the holder of such Senior Indebtedness or waived by such holder, provided, however, that if during the 180 day period following such default, the holder of Senior Indebtedness has not accelerated its loan, commenced foreclosure proceedings or otherwise undertaken to act on such default, then USA shall be required to continue making payments under the senior note, including any which had not been paid during such 180 day period. In the event that any institutional lender to USA at any time so requires, the Lender shall execute, upon request of USA, any intercreditor or subordination agreement(s) with any such institutional lender on terms not materially more adverse to the Lender than the subordination terms contained in this senior note.

The term "Senior Indebtedness" shall mean (a) all direct or indirect, contingent or certain indebtedness of any type, kind or nature (present or future) created, incurred or assumed by USA with respect to any future bank or other financial institutional indebtedness of USA or (b) any indebtedness created, incurred, or assumed, by USA secured by a lien on any of our assets.

Notwithstanding anything herein to the contrary, Senior Indebtedness does not include:

- o unsecured accounts payable to trade creditors of USA incurred in the ordinary course of business;
- o any debt owed by USA to any officer, director or stockholder of USA;
- o any obligation of Borrower issued or contracted for as payment in consideration of the purchase by USA of the capital stock or substantially all of the assets of another person or in consideration for the merger or consolidation with respect to which USA was a party;
- o any operating lease obligations of USA;
- o any other indebtedness which by its terms is subordinated to the senior note; or
- o any "other indebtedness" which is subordinated to all indebtedness to which the senior note is subordinated in substantially like terms as the senior note; which such "other indebtedness" shall be treated as equal with the indebtedness evidenced by the senior note.

#### Common Stock Purchase Warrants

As of May 31, 2004, there are outstanding warrants to purchase 7,142,858 shares at \$.07 per share, warrants to purchase 5,000,000 shares at \$.10 per share, warrants to purchase 750,000 shares at \$.067 per share, warrants to purchase 3,654,859 shares at \$.20 per share, warrants to purchase 1,200,000 shares at \$.91 per share, warrants to purchase 377,927 shares at \$1.00 per share, warrants to purchase 2,901 shares at \$1.03 per share, and warrants to purchase 75,000 shares at \$1.25 per share.

The exercise price of the warrants and the number of shares of Common Stock issuable upon exercise of the warrants are subject to adjustment in certain circumstances, including a stock split of, stock dividend on, or a subdivision, combination or recapitalization of the common stock. Upon the merger, consolidation, sale of substantially all the assets of USA, or other similar transaction, the warrant holders shall, at the option of USA, be required to exercise the warrants immediately prior to the closing of the transaction, or such warrants shall automatically expire. Upon such exercise, the warrant holders shall participate on the same basis as the holders of common stock in connection with the transaction.

The warrants do not confer upon the holder any voting or any other rights of a shareholder of USA. Upon notice to the warrant holders, USA has the right, at any time and from time to time, to reduce the exercise price or to extend the warrant termination date.

#### Shares Eligible for Future Sale

Of the 339,453,012 shares of common stock issued and outstanding on May 31, 2004, a total of approximately 31,771,925 are restricted securities which are not currently eligible for sale under Rule 144 promulgated under the Act. As of May 31, 2004, there were 522,742 shares of preferred stock issued and outstanding, all of which are freely transferable without further registration under the Act (other than shares held by "affiliates" of USA).

The shares of preferred stock issued and outstanding as of the date hereof are convertible into 522,742 shares of common stock all of which would be fully transferable without further registration under the Act (other than shares held by "affiliates" of USA).

Shares of our common stock which are not freely tradeable under the Act are known as "restricted securities" and cannot be resold without registration under the Act or pursuant to Rule 144 promulgated thereunder.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are required to be aggregated), including any affiliate of USA, who beneficially owns "restricted securities" for a period of at least one year is entitled to sell within any three-month period, shares equal in number to the greater of (i) 1% of the then outstanding shares of the same class of shares, or (ii) the average weekly trading volume of the same class of shares during the four calendar weeks preceding the filing of the required notice of sale with the SEC. The seller must also comply with the notice and manner of sale requirements of Rule 144, and there must be current public information available about USA. In addition, any person (or persons whose shares must be aggregated) who is not, at the time of sale, nor during the preceding three months, an affiliate of the USA, and who has beneficially owned restricted shares for at least two years, can sell such shares under Rule 144 without regard to the notice, manner of sale, public information or the volume limitations described above.

#### Transfer Agent and Registrar

The Transfer Agent and Registrar for our stock and warrants is American Stock Transfer & Trust Company, 40 Wall Street, New York, New York 10005.

#### LEGAL MATTERS

The validity of the common stock has been passed upon for us by Lurio & Associates, P.C., Philadelphia, Pennsylvania 19103. The President of that law firm, Douglas M. Lurio, is a Director of the Company.

#### EXPERTS

The consolidated financial statements of USA Technologies, Inc. appearing in the

USA Technologies, Inc. Annual Report (Form 10-KSB) for the year ended June 30, 2003 and the consolidated financial statements appearing in the USA Technologies, Inc. Annual Report (Form 10-KSB) for the year ended June 30, 2002, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon (which contain explanatory paragraphs describing conditions that raise substantial doubt about the Company's ability to continue as a going concern as described in Note 2 to the consolidated financial statements) or incorporated by reference therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of Bayview Technology Group, LLC as of December 31, 2002 and 2001 and for each of the periods in the two years ended December 31, 2002 incorporated by reference in this Prospectus have been audited by Anton Collins Mitchell LLP, independent registered public accounting firm, as set forth in their report (which contains an explanatory paragraph regarding the Company's ability to continue as a going concern) incorporated herein by reference, and are incorporated herein in reliance upon such report given upon the authority of said firms as experts in auditing and accounting.

#### WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and other reports, proxy statements and other information with the Securities and Exchange Commission. Anyone may inspect a copy of the registration statement or any other reports we file, without charge at the public reference facility maintained by the Securities and Exchange Commission in Room 1024, 450 Fifth Street, NW, Washington, DC 20549. Copies of all or any part of the registration statement may be obtained from that facility upon payment of the prescribed fees. The public may obtain information on the operation of the public reference room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the Securities and Exchange Commission.

You can find additional information concerning us on our website <http://www.usatech.com>. Information on our website is not and should not be considered a part of this prospectus.

#### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission allows us to "incorporate by reference" information into this prospectus, which means that we can disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. The information incorporated by reference is considered to be part of this prospectus, and documents that we file later with the Securities and Exchange Commission will automatically update and supercede previously filed information.

We incorporate by reference the documents set forth below that we have previously filed with the Securities and Exchange Commission. These documents contain important information about our Company and its finances.

1. Annual Report on Form 10-KSB for the year ended June 30, 2003 which was filed on October 14, 2003;
2. Annual Report on Form 10-KSB for the year ended June 30, 2002 which was filed on October 15, 2002;
3. Quarterly Report on Form 10-QSB for the period ended September 30, 2003 which was filed on November 19, 2003;
4. Quarterly Report on Form 10-QSB for the period ended December 31, 2003 which was filed February 12, 2004;
5. Quarterly Report on Form 10-QSB for the period ended March 31, 2004 which was filed on May 17, 2004;
6. Current Report on Form 8-K which was filed on July 14, 2003;
7. Amendment to Current Report on Form 8-K/A which was filed on September 24, 2003;
8. Current Report on Form 8-K which was filed on October 3, 2003;
9. Current Report on Form 8-K which was filed on January 7, 2004;
10. Current Report on Form 8-K which was filed on January 22, 2004; and
11. Current Report on Form 8-K which was filed on May 24, 2004.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

A copy of our above-mentioned Form 10-KSB and Form-10QSB for the quarter ended March 31,2004 are included with this prospectus and are being delivered without charge to each person to whom a prospectus is being delivered.

We will also provide without charge to each person to whom a copy of this prospectus is delivered, upon the written or oral request of such person, a copy of any and all of the documents incorporated by reference herein (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference in such documents). Requests for such copies should be directed to: George R. Jensen, Jr., Chairman and Chief Executive Officer, USA Technologies, Inc., 100 Deerfield Lane, Suite 140, Malvern, PA 19355.



OTHER INFORMATION AND EVENTS

Selected Financial Data

The following selected financial data for the five years ended June 30, 2003 are derived from the audited consolidated financial statements of USA Technologies, Inc. The financial data for the nine-month periods ended March 31, 2004 and 2003 are derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which USA Technologies, Inc. considers necessary for a fair presentation of the financial position and the results of operations for these periods.

Operating results for the nine months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the entire year ended June 30, 2004. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information incorporated by reference herein.

	Year ended June 30					Nine months ended March 31	
	2003	2002	2001	2000	1999	2004	2003
<b>Operations Data</b>							
Revenues	\$ 2,853,068	\$ 1,682,701	\$ 1,451,002	\$ 2,054,341	\$ 3,890,516	\$ 4,947,882	\$ 2,233,330
Loss before cumulative effect of accounting change	\$(21,965,499)	\$(17,314,807)	\$(10,135,244)	\$(8,404,481)	\$(3,651,624)	\$(16,424,278)	\$(12,542,898)
Cumulative effect of accounting change	-	-	(821,000)	-	-	-	-
Net loss	(21,965,499)	(17,314,807)	(10,956,244)	(8,404,481)	(3,651,624)	(16,424,278)	(12,542,898)
Cumulative preferred dividends	(793,586)	(822,561)	(836,541)	(930,078)	(1,002,453)	(786,513)	(793,586)
Loss applicable to common shares	\$(22,759,085)	\$(18,137,368)	\$(11,792,785)	\$(9,334,559)	\$(4,654,077)	\$(17,210,791)	\$(13,336,484)
<b>Loss per common share (basic and diluted)</b>							
Loss before cumulative effect of accounting change	\$ (0.20)	\$ (0.50)	\$ (0.65)	\$ (0.92)	\$ (1.07)	\$ (0.06)	\$ (0.15)
Cumulative effect of accounting change	-	-	(0.05)	-	-	-	-
Net loss	\$ (0.20)	\$ (0.50)	\$ (0.70)	\$ (0.92)	\$ (1.07)	\$ (0.06)	\$ (0.15)
Cash dividends per common share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Balance Sheet Data</b>							
Total assets	\$ 17,892,681	\$ 17,056,773	\$ 6,180,061	\$ 4,509,208	\$ 3,657,854	\$ 25,287,006	\$ 17,372,682
Convertible Senior Notes and other long-term debt	\$ 8,033,083	\$ 7,117,453	\$ 4,289,858	\$ 2,723,367	\$ 2,076,816	\$ 6,620,366	\$ 8,003,969
Shareholders' equity (accumulated deficit)	\$ 3,692,083	\$ 3,395,892	\$(2,400,897)	\$ (155,482)	\$ (643,529)	\$ 12,744,452	\$ (466,333)

(a) The cumulative effect of an accounting change in fiscal year 2001 reflects a catch up adjustment as required by EITF Issue 00-27, Application of EITF Issue 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios to Certain Convertible Instruments" in connection with \$4.6 million of Convertible Senior Notes issued by the Company in 1999.

- (b) During fiscal year 2001, the Company recorded an \$863,000 loss on an exchange of debt which was originally reported as an extraordinary loss. In accordance with the provisions of SFAS No. 145, "Recission of FASB Statements No. 4, 44 and 62, Amendment of SFAS No. 13, and Technical Corrections," such loss was reclassified to a loss from continuing operations.
- (c) In May 2002 the Company acquired Stitch Networks Corporation. In July 2003 the Company acquired substantially all the assets of Bayview Technology Group, LLC. Both acquisitions have been accounted for using the purchase method and, accordingly, are included in the Company's results of operations from their respective dates of acquisition.
- (d) The Company restated the June 30, 2002 balance sheet and statement of shareholders' equity from that originally reported to correct the valuation of the marketable equity securities issued in connection with the Company's May 2002 acquisition of Stitch Networks Corporation in accordance with EITF 99-12: "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination". The restated June 30, 2002 balance sheet and statement of shareholders' equity reflect the marketable securities issued in connection with this transaction at the market price a few days before and a few days after April 10, 2002, the date the definitive agreement was signed. The restated June 30, 2002 consolidated financial statements reflect an increase in Goodwill from \$6,800,827 to \$7,945,580 and an increase in Common Stock from \$55,443,750 to \$56,588,503. The restatement did not impact the net loss or loss per common share reported.

Unaudited quarterly results of operations for the years ended June 30, 2003 and 2002 and the nine months ended March 31, 2004 follow and should be read in conjunction with the consolidated financial statements and management's discussion and analysis of financial condition and results of operations contained in the Company's annual reports on Form 10-KSB and quarterly reports on Form 10-QSB.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Year ended June 30, 2003					
Revenues	\$ 734,445	\$ 774,647	\$ 724,238	\$ 619,738	\$ 2,853,068
Gross profit	\$ 66,985	\$ 102,707	\$ 6,465	\$ (294,532)	\$ (118,375)
Net loss	\$ (3,574,218)	\$ (3,630,997)	\$ (5,337,683)	\$ (9,422,601)	\$ (21,965,499)
Cumulative preferred dividends	\$ (396,962)	\$ -	\$ (396,624)	\$ -	\$ (793,586)
Loss applicable to common shares	\$ (3,971,180)	\$ (3,630,997)	\$ (5,734,307)	\$ (9,422,601)	\$ (22,759,085)
Loss per common share (basic and diluted)	\$ (0.06)	\$ (0.04)	\$ (0.05)	\$ (0.05)	\$ (0.20)
Year ended June 30, 2002					
Revenues	\$ 365,747	\$ 324,882	\$ 427,643	\$ 564,429	\$ 1,682,701
Gross profit	\$ 152,713	\$ 127,884	\$ 225,869	\$ (2,886,666)	\$ (2,380,200)
Net loss	\$ (2,257,638)	\$ (2,462,676)	\$ (3,462,183)	\$ (9,132,310)	\$ (17,314,807)
Cumulative preferred dividends	\$ (413,219)	\$ -	\$ (409,342)	\$ -	\$ (822,561)
Loss applicable to common shares	\$ (2,670,857)	\$ (2,462,676)	\$ (3,871,525)	\$ (9,132,310)	\$ (18,137,368)
Loss per common share (basic and diluted)	\$ (0.11)	\$ (0.08)	\$ (0.11)	\$ (0.20)	\$ (0.50)
Nine months ended March 31, 2004					
Revenues	\$ 1,680,608	\$ 1,914,586	\$ 1,352,689		
Gross profit	\$ 598,445	\$ 831,167	\$ 281,747		
Net loss	\$ (9,303,084)	\$ (3,737,624)	\$ (3,383,570)		
Cumulative preferred dividends	\$ (393,369)	\$ -	\$ (393,144)		
Loss applicable to common shares	\$ (9,696,453)	\$ (3,737,624)	\$ (3,776,714)		
Loss per common share (basic and diluted)	\$ (0.04)	\$ (0.01)	\$ (0.01)		

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

#### Equity Developments

In June 2004 the Board of Directors took certain actions:

Each investor in the 2004-A private placement offering of Common Stock (an offering for the issuance of up to 35,000,000 shares of Common

Stock at \$.15 per share authorized by the Board of Directors in February 2004 resulting in sales through March 31, 2004 of 550,000 shares for gross proceeds of \$82,500 and an aggregate of 28,290,833 shares for gross proceeds of \$4,243,625 through June 30, 2004) will receive warrants to purchase shares of the Company's Common Stock equal to 50% of the number of shares purchased in the offering. These warrants will be exercisable at \$.20 per share and expire on December 31, 2004. As of June 30, 2004, 14,145,417 warrants were issued. The shares underlying these warrants were registered for resale under the Act in August 2004 pursuant to the Registration Statement referred to below.

Warrants granted to holders of Senior Notes who opted to receive payment of interest in Common Shares in lieu of cash had the expiration date of their warrants extended to August 30, 2004 from June 30, 2004. As of June 30, 2004 there were warrants outstanding to purchase 3,716,496 shares of Common Stock at \$.20 per share. In addition, the holders of these warrants were granted one additional warrant for each warrant previously granted with the same exercise price and an expiration date of December 31, 2004. The shares underlying these warrants were registered for resale under the Act in August 2004 pursuant to the Registration Statement referred to below.

The Company and Mr. Illes, an accredited investor, had initially entered into a Common Stock Purchase Agreement on June 18, 2004. On August 6, 2004, the Company and Mr. Illes entered into a new agreement that completely replaces the earlier agreement. During the one year period following the date of effectiveness of a registration statement covering the shares, Illes has agreed to purchase from USA shares of Common Stock, provided that the aggregate purchase price can not exceed \$7,500,000. Under the Agreement, USA has the right at any time to require Illes to purchase Common Stock from USA at the lower of: (i) \$.30; or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by USA to Illes of notice of his obligation to purchase. USA can require Illes to purchase shares under the Agreement only if the shares have been registered by the Company for resale by Illes under the Act. During any calendar month, Illes can not be required by USA to purchase Common Stock for an aggregate purchase price in excess of \$700,000. We have agreed to pay to Illes a due diligence fee of \$45,000.

During August 2004, the Company had a registration statement on Form SB-2 become effective. There were an aggregate of 47,379,930 shares of the Company's Common Stock registered for resale by shareholders who had previously purchased shares of Common Stock from the Company or who had been granted warrants to purchase common shares. The Company will receive no proceeds from any sale or resale of these shares that may take place. To the extent that holders of the warrants would exercise those warrants, the Company would receive proceeds from the exercises. The exercise price per share for all the warrants is \$.20 which is a price in excess of the market price of \$.16 as of August 6, 2004.

#### Liquidity Discussion

As of June 30, 2004, the Company had cash and cash equivalents of approximately \$3,000,000. These cash balances resulted from the proceeds generated from the various private placements of Common Stock that have taken place during fiscal 2004, the most recent of which is the 2004-A offering. The 2004-A offering was initiated in February 2004 and resulted in the sale of 28,290,833 shares at \$.15 per share. Through March 31, 2004, 550,000 shares were sold under this offering resulting in gross proceeds of \$82,500 and subsequent to this date, 27,740,833 shares were sold under this offering resulting in gross proceeds of \$4,161,125. In addition, warrants were exercised during the three months ended June 30, 2004 pursuant to which more than 20,000,000 shares of Common Stock were issued providing proceeds of approximately \$1,800,000. 28

During the year ended June 30, 2003 cash used in operating activities was approximately \$750,000 per month. For the nine months ended March 31, 2004, the average cash used in operating activities was approximately \$850,000 per month. Operating cash flows during the nine months ended March 31, 2004 were impacted by working capital increases that were disproportionate to the increase in revenues, as well as the investment made in working capital to support the energy management equipment line acquired from Bayview. The nine-month period also absorbed cash bonuses of approximately \$600,000, primarily to the Company's executive officers. The Company believes it can improve its management of working capital, primarily related to accounts receivable, and reduce cash used in operating activities to approximately \$700,000 per month, which is comparable to cash used in operating activities during the three months ended March 31, 2004. The foregoing estimated monthly cash requirement assumes no significant increase in revenues. Using that as a basis for estimating cash requirements, along with requirements for capital expenditures and repayment of long-term debt, the Company's cash needs would approximate \$9,000,000 for the twelve months through June 30, 2005.

If cash requirements materialize over the twelve months through June 30, 2005 on the basis described, the Company would expect that the cash resources currently available and in place should be sufficient to provide funding for its operating needs over that period considering cash on hand as of June 30, 2004 and anticipated funding of up to \$7,500,000 under the Common Stock Purchase Agreement with Steve Illes. Other sources of capital include (i) future exercises of warrants for which there are "in the money" warrants with exercise prices below \$0.11 per share that would yield approximately \$1,000,000 based on the warrants outstanding as of May 31, 2004 and (ii) the capital markets which the Company believes are available to raise funding if needed given its current product offerings and the markets it is addressing.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION  
OR SECURITIES ACT LIABILITIES

Section 1746 of the Pennsylvania Business Corporation Law of 1988, as amended ("BCL"), authorizes a Pennsylvania corporation to indemnify its officers, directors, employees and agents under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their holding or having held such positions with the corporation and to purchase and maintain insurance of such indemnification. Our By-laws substantively provide that we will indemnify our officers, directors, employees and agents to the fullest extent provided by Section 1746 of the BCL.

Section 1713 of the BCL permits a Pennsylvania corporation, by so providing in its By-laws, to eliminate the personal liability of a director for monetary damages for any action taken unless the director has breached or failed to perform the duties of his office and the breach or failure constitutes self-dealing, willful misconduct or recklessness. In addition, no such limitation of liability is available with respect to the responsibility or liability of a director pursuant to any criminal statute or for the payment of taxes pursuant to Federal, state or local law. Our By-laws eliminate the personal liability of the directors to the fullest extent permitted by Section 1713 of the BCL.

Insofar as indemnification for liabilities arising under the Act may be permitted to Directors, officers and controlling persons of USA pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following is an itemized statement of the estimated amounts of all expenses payable by the Registrant in connection with the registration of the common stock, other than underwriting discounts and commissions.

Securities and Exchange Commission - Registration Fee . . . . .	\$ 798.21
Printing and Engraving Expenses . . . . .	\$ 4,201.79
Accounting Fees and Expenses . . . . .	\$12,500.00
Legal Fees and Expenses . . . . .	\$12,500.00
	-----
Total . . . . .	\$30,000.00
	=====

Item 15. Indemnification of Officers and Directors.

Section 1746 of the Pennsylvania Business Corporation Law of 1988, as amended ("BCL"), authorizes a Pennsylvania corporation to indemnify its officers, directors, employees and agents under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their holding or having held such positions with the corporation and to purchase and maintain insurance of such indemnification. Our By-laws substantively provide that we will indemnify our officers, directors, employees and agents to the fullest extent provided by Section 1746 of the BCL.

Section 1713 of the BCL permits a Pennsylvania corporation, by so providing in its By-laws, to eliminate the personal liability of a director for monetary damages for any action taken unless the director has breached or failed to perform the duties of his office and the breach or failure constitutes self-dealing, willful misconduct or recklessness. In addition, no such limitation of liability is available with respect to the responsibility or liability of a director pursuant to any criminal statute or for the payment of taxes pursuant to Federal, state or local law. Our By-laws eliminate the personal liability of the directors to the fullest extent permitted by Section 1713 of the BCL.

Item 16. Exhibits.

Exhibit Number	Description
2.1	Asset Purchase Agreement dated July 11, 2003 by and between USA and Bayview Technology Group LLC (Incorporated by reference to Exhibit 2.1 to Form 8-K filed July 14, 2003)
3.1	Amended and Restated Articles of Incorporation of USA filed January 26, 2004 (Incorporated by reference to Exhibit 3.1.19 to Form 10-QSB filed on February 12, 2004).
3.2	By-Laws of USA (Incorporated by reference to Exhibit 3.2 to Form SB-2 Registration Statement No. 33-70992).
4.1	Warrant Agreement dated as of June 21, 1995 between USA and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement No. 33-98808, filed October 31, 1995).
4.2	Form of Warrant Certificate (Incorporated by reference to Exhibit 4.2 to Form SB-2 Registration Statement, No. 33-98808, filed October 31, 1995).
4.3	1996 Warrant Agreement dated as of May 1, 1996 between USA and American Stock Transfer and Trust Company (Incorporated by reference to Exhibit 4.3 to Form SB-2 Registration Statement No. 333-09465).
4.4	Form of 1996 Warrant Certificate (Incorporated by reference to Exhibit 4.4 to Form SB-2 Registration Statement No. 333-09465).
4.5	Form of 1997 Warrant (Incorporated by reference to Exhibit 4.1 to Form SB-2 Registration Statement No. 333-38593, filed February 4, 1998).
4.6	Form of 12% Senior Note (Incorporated by reference to Exhibit 4.6 to Form SB-2 Registration Statement No. 333-81591).
4.7	Warrant Certificate of I. W. Miller Group, Inc. (Incorporated by reference to Exhibit 4.7 to Form SB-2 Registration Statement No. 84513).
4.8	Warrant Certificate of Harmonic Research, Inc. (Incorporated by reference to Exhibit 4.8 to Form SB-2 Registration Statement No. 333-84513).
4.9	Registration Rights Agreement dated August 3, 2001 by and between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.9 to Form 10-KSB filed on October 1, 2001).
4.10	Securities Purchase Agreement dated August 3, 2001 between the Company and La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.10 to Form 10-KSB filed on October 1, 2001).



- 4.11 Form of Conversion Warrants to be issued by the Company to La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.11 to Form 10-KSB filed on October 1, 2001).
- 4.12 \$225,000 principal amount 9 3/4% Convertible Debenture dated August 3, 2001 issued by the Company to La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.12 to Form 10-KSB filed on October 1, 2001).
- 4.13 Warrant certificate dated July 11, 2001 from the Company to La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.13 to Form 10-KSB filed on October 1, 2001).
- 4.14 August 2, 2001 letter from La Jolla Cove Investors, Inc. to the Company (Incorporated by reference to Exhibit 4.14 to Form 10-KSB filed on October 1, 2001).
- 4.15 Subscription Agreement dated October 26, 2001 by and between the Company and Ratner & Prestia, P.C. (Incorporated by reference to Exhibit 4.15 to Form SB-2 Registration Statement No. 333-72302).
- 4.16 Subscription Agreement dated October 26, 2002 by and between the Company and Ratner & Prestia, P.C. (Incorporated by reference to Exhibit 4.16 to Form SB-2 Registration Statement No. 333-101032).
- 4.17 Stock Purchase Agreement dated October 26, 2002 by and between the Company and Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.17 to Form SB-2 Registration Statement No. 333-101032).
- 4.18 Warrant Certificate (no. 189) dated October 26, 2002 in favor of Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.18 to Form SB-2 Registration Statement No. 333-101032).
- 4.19 Registration Rights Agreement dated October 26, 2002 by and between the Company and Kazi Management, Inc. (Incorporated by reference to Exhibit 4.19 to Form SB-2 Registration Statement No. 333-101032).
- 4.20 Warrant Certificate (no. 190) dated October 26, 2002 in favor of Kazi Management VI, Inc. (Incorporated by reference to Exhibit 4.20 to Form SB-2 Registration Statement No. 333-101032).
- 4.21 Subscription Agreement dated November 4, 2002 by and between the Company and Alpha Capital Aktiengesellschaft (Incorporated by reference to Exhibit 4.21 to Form SB-2 Registration Statement No. 333-101032).
- 4.22 Form of Common Stock Purchase Warrant dated November 4, 2002 in favor of Alpha Capital Aktiengesellschaft (Incorporated by reference to Exhibit 4.22 to Form SB-2 Registration Statement No. 333-101032).
- 4.23 Warrant Certificate (No. 196) dated March 17, 2003 in favor of La Jolla Cove Investors, Inc. (Incorporated by reference to Exhibit 4.23 to Form SB-2 Registration Statement No. 333-101032).

- 4.24 Form of 2004 Senior Note (Incorporated by reference to Exhibit 4.24 to Form SB-2 Registration Statement No. 333-101032).
- 4.25 Form of 2005 Senior Note (Incorporated by reference to Exhibit 4.25 to Form SB-2 Registration Statement No. 333-101032).
- 4.26 Stock Purchase Agreement dated May 2, 2003 by and between USA and Providence Investment Management (Incorporated by reference to Exhibit 4.26 to Form SB-2 Registration Statement No. 333-101032).
- 4.27 Stock Purchase Agreement dated March, 2003 by and between USA and Steve Illes (Incorporated by reference to Exhibit 4.27 to Form SB-2 Registration Statement No. 333-101032).
- 4.28 Stock Purchase Agreement dated September 23, 2003 by and between USA and Wellington Management Company, LLC. (Incorporated by reference to Exhibit 4.28 to Form 10-KSB filed on October 14, 2003).
- 4.29 Stock Purchase Agreement dated September 26, 2003 by and between USA and George O'Connell. (Incorporated by reference to Exhibit 4.29 to Form 10-KSB filed on October 14, 2003).
- 4.30 Stock Purchase Agreement dated September 24, 2003 by and between USA and Fulcrum Global Partners, LLC. (Incorporated by reference to Exhibit 4.30 to Form 10-KSB filed on October 14, 2003).
- 4.31 Stock Purchase Agreement dated September 2003 by and between USA and Prophecy Asset Management, Inc. (Incorporated by reference to Exhibit 4.31 to Form 10-KSB filed on October 14, 2003).
- 4.32 Letter Agreement between USA and La Jolla Cove Investors dated October 9, 2003. (Incorporated by reference to Exhibit 4.32 to Form SB-2 Registration Statement No. 333-101032)
- 4.33 Letter Agreement between USA and Alpha Capital Atkiengesellschaft dated October 3, 2003. (Incorporated by reference to Exhibit 4.33 to Form SB-2 Registration Statement No. 333-101032)
- 4.34 Form of 2004-A Warrant Certificate. (Incorporated by reference to Exhibit 4.34 to Form SB-2 Registration Statement No. 333-116977)
- \*\*4.35 Common Stock Purchase Agreement between the Company and Steve Illes dated August 6, 2004.
- \*\* 5.1 Opinion of Lurio & Associates, P.C.
- 10.1 Employment and Non-Competition Agreement between USA and Adele Hepburn dated as of January 1, 1993 (Incorporated by reference to Exhibit 10.7 to Form SB-2 Registration Statement No. 33-70992).

- 10.1.1 First Amendment to Employment and Non-Competition Agreement between USA and Adele Hepburn dated as of February 4, 2004. (Incorporated by reference to Exhibit 10.1.1 to Form 10-QSB filed on February 12, 2004).
- 10.2 Adele Hepburn Common Stock Options dated as of July 1, 1993 (Incorporated by reference to Exhibit 10.12 to Form SB-2 Registration Statement No. 33-70992).
- 10.3 Certificate of Appointment of American Stock Transfer & Trust Company as Transfer Agent and Registrar dated October 8, 1993 (Incorporated by reference to Exhibit 10.23 to Form SB-2 Registration Statement No. 33-70992).
- 10.4 Employment and Non-Competition Agreement between USA and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.32 to Form SB-2 Registration Statement No. 33-70992).
- 10.4.1 First Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.13.1 to Form SB-2 Registration Statement No. 333-09465).
- 10.4.2 Third Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated February 22, 2000 (Incorporated by reference to Exhibit 10.3 to Form S-8 Registration Statement No. 333-341006).
- 10.4.3 Fourth Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated April 15, 2002. (Incorporated by reference to Exhibit 10.4.3 to Form 10-QSB filed on February 12, 2004).
- 10.4.4 Fifth Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated April 20, 2004.
- 10.5 H. Brock Kolls Common Stock Options dated as of May 1, 1994 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 33-70992).
- 10.5.1 H. Brock Kolls Common Stock Options dated as of March 20, 1996 (Incorporated by reference to Exhibit 10.19 to Form SB-2 Registration Statement No. 33-70992)
- 10.6 Barry Slawter Common Stock Options dated as of August 25, 1994 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 33-70992).
- 10.7 Employment and Non-Competition Agreement between USA and Michael Lawlor dated June 7, 1996 (Incorporated by reference to Exhibit 10.28 to Form SB-2 Registration Statement No. 333-09465).
- 10.7.1 First Amendment to Employment and Non-Competition Agreement between USA and Michael Lawlor dated February 22, 2000 (Incorporated by reference to Exhibit 10.5 to Form S-8 Registration Statement No. 333-34106).

- 10.7.2 Separation Agreement between USA and Michael Lawlor dated May 13, 2003. (Incorporated by reference to Exhibit 10.7.2 to Form 10-KSB filed on October 14, 2003).
- 10.8 Michael Lawlor Common Stock Option Certificate dated as of June 7, 1996 (Incorporated by reference to Exhibit 10.29 to Form SB-2 Registration Statement No.333-09465).
- 10.9 Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated April 4, 1996 (Incorporated by reference to Exhibit 10.30 to Form SB-2 Registration Statement No. 333-09465).
- 10.9.1 First Amendment to Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated February 22, 2000 (Incorporated by reference to Exhibit 10.2 to Form S-8 Registration Statement No. 333-34106).
- 10.9.2 Second Amendment to Employment and Non-Competition Agreement between Stephen P. Herbert and the Company dated April 15, 2002 (Incorporated by reference to Exhibit 10.9.2 to Form SB-2 Registration Statement No. 333-101032).
- 10.9.3 Third Amendment to Employment and Non-Competition Agreement between Stephen P. Herbert and USA dated July 25, 2003 (Incorporated by reference to Exhibit 10.9.3 to Form SB-2 Registration Statement No. 333-101032).
- 10.9.4 Fourth Amendment to Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated February 4, 2004. (Incorporated by reference to Exhibit 10.9.4 to Form 10-QSB filed on February 12, 2004).
- 10.10 Stephen P. Herbert Common Stock Option Certificate dated April 4, 1996 (Incorporated by reference to Exhibit 10.31 to Form SB-2 Registration Statement No. 333-09465).
- 10.11 RAM Group Common Stock Option Certificate dated as of August 22, 1996 (Incorporated by reference to Exhibit 10.34 to Form SB-2 Registration No. 33-98808).
- 10.12 RAM Group Common Stock Option Certificate dated as of November 1, 1996 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration No. 33-98808).
- 10.13 Joseph Donahue Common Stock Option Certificate dated as of September 2, 1996 (Incorporated by reference to Exhibit 10.37 to Form SB-2 Registration No. 33-98808).
- 10.14 Employment and Non-Competition Agreement between USA and Leland P. Maxwell dated February 24, 1997 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration No. 33-98808)
- 10.14.1 Second Amendment to Employment and Non-Competition Agreement between USA and Leland P. Maxwell dated February 22, 2000 (Incorporated by reference to Exhibit 10.4 to Form S-8 Registration Statement No. 333-34106)

- 10.14.2 Separation Agreement between USA and Leland P. Maxwell dated May 9, 2003. (Incorporated by reference to Exhibit 10.14.2 to Form 10-KSB filed on October 14, 2003).
- 10.15 Leland P. Maxwell Common Stock Option Certificate dated February 24, 1997 (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration No. 33-98808).
- 10.16 Letter between USA and GEM Advisers, Inc. signed May 15, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on May 22, 1997).
- 10.17 H. Brock Kolls Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement 333-30853).
- 10.18 Stephen Herbert Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.44 to Form SB-2 Registration Statement No. 333-30853).
- 10.19 Michael Feeney Common Stock Option Certificate dated as of June 9, 1997 (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 333-30853).
- 10.20 Joint Venture Agreement dated September 24, 1997 between USA and Mail Boxes Etc. (Incorporated by reference to Exhibit 10.47 to Form 10-KSB filed on September 26, 1997).
- 10.21 Employment and Non-competition Agreement between USA and George R. Jensen, Jr. dated November 20, 1997 (Incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 26, 1997).
- 10.21.1 First Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr., dated as of June 17, 1999. (Incorporated by reference to Exhibit 4.21.1 to Form SB-2 Registration Statement No. 333-94917)
- 10.21.2 Second Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated February 22, 2000 (Incorporated by reference to Exhibit 10.1 to Form S-8 Registration Statement No. 333-34106).
- 10.21.3 Third Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated January 16, 2002 (Incorporated by reference to Exhibit 10.21.3 to Form SB-2 Registration Statement No. 333-101032).
- 10.21.4 Fourth Amendment to Employment and Non-Competiton Agreement between USA and George R. Jensen, Jr., dated April 15, 2002(Incorporated by reference to Exhibit 10.21.4 to Form SB-2 Registration Statement No. 333-101032).

- 10.21.5 Fifth Amendment to Employment and Non-Competiton Agreement between USA and George R. Jensen, Jr., dated July 16, 2003(Incorporated by reference to Exhibit 10.21.5 to Form SB-2 Registration Statement No. 333-101032).
- 10.21.6 Sixth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated February 4, 2004. (Incorporated by reference to Exhibit 10.21.6 to Form 10-QSB filed on February 12, 2004).
- 10.22 Agreement between USA and Promus Hotels, Inc. dated May 8, 1997 (incorporated by reference to Exhibit 10.49 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.23 Agreement between USA and Choice Hotels International, Inc. dated April 24, 1997 (Incorporated by reference to Exhibit 10.50 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.24 Agreement between USA and PNC Merchant Services dated July 18, 1997 (Incorporated by reference to Exhibit 10.51 to Form SB-2 Registration Statement No. 333-38593, filed on February 4, 1998).
- 10.25 Separation Agreement between USA and Keith L. Sterling dated April 8, 1998 (Incorporated by reference to Exhibit to Exhibit 10.1 to Form 10-QSB filed May 12, 1998).
- 10.26 Phillip A. Harvey Common Stock Option Certificate dated as of April 22, 1999 (Incorporated by reference to Exhibit 10.35 to Form SB-2 Registration Statement No. 333-81591).
- 10.27 Consulting Agreement between Ronald Trahan and USA dated November 16, 1998 (incorporated by Reference to Exhibit 28 to Registration Statement No. 333-67503 on Form S-8 filed on November 18, 1998)
- 10.28 Consulting Agreement between Mason Sexton and USA dated March 10, 1999 (incorporated by reference to Exhibit 28 to Registration Statement No. 333-74807 on Form S-8 filed on March 22, 1999).
- 10.29 Financial Public Relations Agreement between USA and I. W. Miller Group, Inc. dated August 1, 1999 (Incorporated by reference to Exhibit 10.38 to Form SB-2 Registration Statement No. 333-84513).
- 10.30 Consulting Agreement between Harmonic Research, Inc. and USA dated August 3, 1999 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-84513).
- 10.31 Investment Agreement between USA and Swartz Private Equity, LLC dated September 15, 2000 (incorporated by reference to Exhibit 10.1 to Form 8-K dated September 21, 2000).
- 10.32 Commitment Warrant issued to Swartz Private Equity LLC dated August 23, 2000 (incorporated by reference to Exhibit 10.2 to Form 8-K dated September 21, 2000).
- 10.33 Warrant Anti-Dilution Agreement between USA and Swartz Private Equity, LLC dated September 15, 2000 (incorporated by reference to Exhibit 10.3 to Form 8-K dated September 21, 2000).

- 10.34 Registration Rights Agreement between USA and Swartz Private Equity dated September 15, 2000 (incorporated by reference to Exhibit 10.4 to Form 8-K dated September 21, 2000).
- 10.35 Agreement for Wholesale Financing and Addendum for Scheduled Payment Plan with IBM Credit Corporation dated May 6, 1999 (incorporated by reference to Exhibit 10.40 to Form 10-KSB for the fiscal year ended June 30, 1999).
- 10.36 Agreement and Plan of Merger dated April 10, 2002, by and among the Company, USA Acquisitions, Inc., Stitch Networks Corporation, David H. Goodman, Pennsylvania Early Stage Partners, L.P., and Maytag Holdings, Inc. (Incorporated by reference to Exhibit 2.1 to Form 10-QSB for the quarter ended March 31, 2002).
- 10.37 Cancellation of subscription Agreement between USA and Ratner & Prestia, P.C. dated March 20, 2003 (Incorporated by reference to Exhibit 10.37 to Form SB-2 Registration Statement No. 333-101032).
- 10.38 Agreement between USA and Mars Electronics, Inc. dated March 8, 2002 (Incorporated by reference to Exhibit 10.38 to Form SB-2 Registration Statement No. 333-101032).
- 10.39 Strategic Alliance Agreement between USA and ZiLOG Corporation dated October 15, 2002 (Incorporated by reference to Exhibit 10.39 to Form SB-2 Registration Statement No. 333-101032).
- 10.40 Vending Placement, Supply and Distribution Agreement between Stitch Networks Corporation, Eastman Kodak Company, Maytag Corporation and Dixie-Narco, Inc. dated December 2000 (Incorporated by reference to Exhibit 10.40 to Form SB-2 Registration Statement No. 333-101032).
- 10.41 Design and Manufacturing Agreement between USA and RadiSys dated June 27, 2000 (Incorporated by reference to Exhibit 10.41 to Form SB-2 Registration Statement No. 333-101032).
- 10.42 Loan Agreement between Stitch Networks Corporation and US Bancorp dated May 22, 2001 (Incorporated by reference to Exhibit 10.42 to Form SB-2 Registration Statement No. 333-101032).
- 10.43 Letter dated October 16, 2003 from Lurio & Associates, P.C. to Gary L. Blum, Esquire (Incorporated by reference to Exhibit 10.43 to Form SB-2 Registration Statement No. 33-101032).
- 10.44 Termination Agreement dated December 31, 2003 by and between Eastman Kodak Company, Maytag Corporation, Dixie-Narco, Inc. and Stitch Networks Corporation. (Incorporated by reference to Exhibit 10.6 to Form 10-QSB filed on February 12, 2004).
- 10.45 Option Certificate (No. 198) dated April 28, 2004 in favor of Mary West Young. (Incorporated by reference to Exhibit 10.45 to Form SB-2 Registration Statement No. 333-116977)

10.46 Employment and Non-Competition Agreement between USA and Mary West Young dated April 28, 2004. (Incorporated by reference to Exhibit 10.46 to Form SB-2 Registration Statement No. 333-116977).

\*\*23.1 Consent of Ernst & Young, LLP

\*\*23.2 Consent of Anton Collins Mitchell, LLP

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\*\* Filed herewith

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement. Provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.



(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

For purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

#### SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing this Form S-2 and has duly caused this Registration Statement on Form S-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in Malvern, Pennsylvania, on August 10, 2004.

USA TECHNOLOGIES, INC.

By: /s/ George R. Jensen, Jr.

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

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints George R. Jensen, Jr. and Stephen P. Herbert, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC, granting unto such attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them or their or his substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been duly signed below by the following persons in the capacities and dates indicated.

Signatures -----	Title -----	Date -----
/s/ George R. Jensen, Jr. ----- George R. Jensen, Jr.	Chairman of the Board, and Chief Executive Officer (Principal and Chief Executive Officer), Director	August 10, 2004
/s/ Mary West Young ----- Mary West Young	Chief Financial Officer (Principal Accounting Officer)	August 10, 2004
/s/ Stephen P. Herbert ----- Stephen P. Herbert	President, Chief Operating Officer, Director	August 10, 2004
/s/ William W. Sellers ----- William W. Sellers	Director	August 10, 2004
/s/ William L. Van Alen, Jr. ----- William L. Van Alen, Jr.	Director	August 10, 2004
/s/ Steven Katz ----- Steven Katz	Director	August 10, 2004
/s/ Douglas M. Lurio ----- Douglas M. Lurio	Director	August 10, 2004

Exhibit Index

Exhibit Number	Description
4.35	Common Stock Purchase Agreement between the Company and Steve Illes dated August 6, 2004.
5.1	Opinion of Lurio & Associates, P.C.
23.1	Consent of Ernst & Young, LLP
23.2	Consent of Anton Collins Mitchell, LLP

THE COMMON STOCK ISSUABLE PURSUANT TO THIS AGREEMENT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW. THE COMMON STOCK ISSUABLE PURSUANT TO THIS AGREEMENT MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT UNDER SUCH ACT AND SUCH LAWS WITH RESPECT TO THE COMMON STOCK ISSUABLE PURSUANT TO THIS AGREEMENT, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

USA TECHNOLOGIES, INC.  
COMMON STOCK PURCHASE AGREEMENT

This COMMON STOCK PURCHASE AGREEMENT is made this 6th day of August 2004 by and between USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA" or the "Company"), and STEVE ILLES ("ILLES" or "Investor").

Background

As more fully set forth herein, ILLES has agreed to purchase from the Company shares of Common Stock of the Company ("Common Stock") for a purchase price not to exceed Seven Million Five Hundred Thousand Dollars (\$7,500,000)(the "Commitment Amount").

Agreement

NOW THEREFORE, intending to be legally bound hereby, the parties agree as follows:

1. Commitment. Subject to the terms and conditions hereof, ILLES agrees to purchase from USA shares of Common Stock with an aggregate purchase price not to exceed the Commitment Amount. The aggregate number of shares of Common Stock to be purchased by ILLES under this Agreement shall be as provided in subsection C. of this Section 1.

During the Put Commitment Period (as defined below), ILLES shall be required to purchase Common Stock from USA from time to time pursuant to the election of USA as described in subsection A. below.

A. During the period of time from and after the effectiveness of the Initial Registration Statement (as defined in Section 7 hereof) and for a period of one year thereafter ("Put Commitment Period"), USA shall have the right at any time and from time to time to require ILLES to purchase Common Stock from the Company at the lower of the following price: (i) Thirty Cents (\$.30) per share (the "Base Per Share Price"); or (ii) 90% of the closing bid price per share on the date prior to the date of the delivery by USA to ILLES of the Commitment To Purchase Form described below. For example, if the closing bid price of the shares on the applicable date was \$.50, then the exercise price would be the Base Per Share Price (i.e., \$.30), and if the closing bid price of the shares on the applicable date was \$.20, then the exercise price would

be \$.18. USA shall require ILLES to purchase Common Stock from USA hereunder by delivery to ILLES (prior to expiration of the Put Commitment Period) of the completed Commitment To Purchase Form that is attached hereto setting forth the purchase price of the Common Stock to be purchased by ILLES from USA ("Commitment Purchase Price") and the aggregate number of shares to be purchased by ILLES. The Commitment Purchase Price shall be delivered to the Company by ILLES within two business days after delivery to ILLES of the Commitment To Purchase Form and shall be paid by ILLES either in cash or by certified check or bank draft payable to the order of the Company. ILLES shall not be required by USA to purchase any Common Stock from USA pursuant to this Section 1.A unless the Common Stock being purchased by ILLES from USA hereunder has been registered for resale by ILLES under the Act pursuant to an effective registration statement, all in accordance with Section 7.

B. Notwithstanding anything else set forth herein during any calendar month during the Put Commitment Period, ILLES shall not purchase (or be required by USA to purchase) under this Agreement Common Stock with an aggregate purchase price of more than Seven Hundred Thousand Dollars (\$700,000).

C. The initial number of shares of Common Stock subject to this Agreement shall be 35,000,000. In order to ensure that ILLES shall purchase Common Stock under this Agreement with a purchase price of up to the Commitment Amount, at any time and from time to time during the Put Commitment Period, and subject to the other terms and conditions of this Agreement, USA shall have the right to increase the number of shares of Common Stock covered by this Agreement by notice to ILLES.

D. USA shall pay to ILLES a due diligence fee in the amount of \$45,000. The due diligence fee shall be credited by USA against the price for initial shares of Common Stock purchased by ILLES hereunder.

2. Share Issuance. Upon the payment of the Commitment Purchase Price as aforesaid, the Company shall issue and cause to be delivered with all reasonable dispatch to ILLES and in the name of ILLES, a certificate or certificates for the number of shares of Common Stock so purchased. Such certificate or certificates shall be deemed to have been issued and ILLES shall be deemed to have become a holder of record of such Common Stock on and as of the date of the delivery to the Company of and payment of the Commitment Purchase Price as aforesaid. If, however, at the date of payment of such Commitment Purchase Price, the transfer books for the Common Stock shall be closed, the certificates

for the Common Stock shall be issued and ILLES shall become a record owner of such Common Stock on and as of the next date on which such books shall be opened, and until such date the Company shall be under no duty to deliver any certificate for such Common Stock.

3. Representations by ILLES. ILLES represents and warrants to the Company as follows:

(a) ILLES has received, read and understands the provisions of each of the following: (i) the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003; (ii) the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on December 19, 2003 (File No. 333-110148); (iii) the Risk Factors section incorporated by reference herein in Section 3(i) hereof; (iv) the Company's Form 10-QSB for the quarter ended

September 30, 2003; (v) the Company's Form 10-QSB for the quarter ended December 31, 2003; (vi) the definitive proxy statement of the Company filed with the SEC on December 15, 2003, and (vii) the Company's Form 10-QSB for the quarter ended March 31, 2004. All of the foregoing together with this Agreement shall be referred to herein as "Offering Materials".

(b) ILLES has relied only upon the information presented and contained in the Offering Materials. ILLES has had the opportunity to ask of the person or persons acting on behalf of the Company any and all relevant questions in connection with any aspect of the Company including, but not limited to, the Common Stock offered by the Offering Materials and has received answers which ILLES considers to be reasonably responsive to such questions. ILLES has had the opportunity to verify the accuracy of the information contained in the Offering Materials.

(c) ILLES understands that ILLES is subscribing for the Common Stock without being furnished any literature or prospectus in connection with the Offering other than the Offering Materials, and that the Offering of the Common Stock presented in the Offering Materials will not have been scrutinized by the securities administrator or similar bureau, agency, or department of the state of my residence.

(d) ILLES understands (i) that the Common Stock has not been registered under the Securities Act of 1933, as amended (the "Act"), or registered or qualified under the securities laws of the state of my residence, (ii) except as provided in Section 7 hereof, ILLES has no right to require such registration or qualification, and (iii) that therefore ILLES must bear the economic risk of the investment for an indefinite period of time because the Common Stock may not be sold unless so registered or qualified or unless an exemption from such registration and qualification is available.

Although the Company has agreed to use its best efforts to register for resale the Common Stock with the SEC, and to use its best efforts to keep such registration statement current and effective, there can be no assurance that such efforts will be successful. In any such event, the Common Stock would not be registered for resale under the Act, and could only be sold in reliance upon exemptions from registration under the Act.

(e) The Common Stock is being purchased for ILLES' own account for investment purposes only and not for the interest of any other person and is not being purchased with a view to or for the resale, distribution, subdivision or fractionalization thereof. Although the Common Stock is currently traded on the OTC Bulletin Board under the symbol USTT, ILLES also understands that there may not be any established public trading market for the sale of such securities.

(f) ILLES is able to bear the economic risks related to purchase of the Common Stock for an indefinite period of time (i.e., ILLES is able to afford a complete loss of the Common Stock ILLES is subscribing to purchase). ILLES' net worth and assets are sufficient to enable him to purchase shares of Common Stock from USA in the amount of the Commitment Amount pursuant to this Agreement.

(g) ILLES' overall commitment to investments which are not readily marketable is not disproportionate to ILLES' net worth and my investment in the Company will not cause such overall commitment to become excessive.

(h) ILLES has adequate means of providing for ILLES' current needs and possible personal contingencies. ILLES has no need for liquidity of the Common Stock subscribed to be purchased hereby and has no reason to anticipate any change in ILLES' personal circumstances, financial or otherwise, which might cause or require any sale or distribution of such Common Stock subscribed to be purchased.

(i) ILLES recognizes that the purchase of the Common Stock involves a high degree of risk including those special risks set forth under the caption "Risk Factors" and "Forward Looking Statements" in Amendment No. 1 to the Form SB-2 Registration Statement of the Company filed with the Commission on December 19, 2003 (No. 333-110148) all of which are incorporated herein by reference.

(j) ILLES understand that ILLES' right to transfer the Common Stock will be restricted as set forth on the certificate evidencing the Common Stock. Such restrictions include provisions against transfer unless such transfer is not in violation of the Act, or applicable state securities laws (including investor suitability standards). ILLES is familiar with Regulation M promulgated under the Act and agrees to comply with his obligations thereunder including those relating to his status as an underwriter of the Common Stock.

(k) All information which ILLES has provided to the Company including, but not limited to, financial position, and status as an accredited investor, and knowledge of financial and business matters is true, correct and complete as of the date of execution of this Agreement. I understand that the Company will rely in a material degree upon the representations contained herein.

(l) ILLES understands that a legend may be placed on any stock certificate representing the Common Stock substantially to the following effect:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES STATUTES AND REGULATIONS. SUCH SHARES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE SOLD, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SHARES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES STATUTES AND REGULATIONS, UNLESS, IN THE OPINION (WHICH SHALL BE IN FORM AND SUBSTANCE SATISFACTORY TO THE CORPORATION) OF COUNSEL SATISFACTORY TO THE CORPORATION, SUCH REGISTRATION IS NOT REQUIRED.

(m) ILLES is an "accredited investor" as defined in Rule 501 promulgated under the Act because ILLES' individual net worth (or ILLES joint net worth with his spouse) on the date hereof exceeds \$1,000,000.

4. Adjustments. Subject and pursuant to the provisions of this Section 4, the Base Per Share Price shall be subject to adjustment from time to time only as set forth hereinafter:

a. In case the Company shall declare a Common Stock dividend on the Common Stock, then the Base Per Share Price shall be proportionately decreased as of the close of business on the date of record of said Common Stock dividend in proportion to such increase of outstanding shares of Common Stock.

b. If the Company shall at any time subdivide its outstanding Common Stock by recapitalization, reclassification or split-up thereof, the Base Per Share Price immediately prior to such subdivision shall be proportionately decreased, and, if the Company shall at any time combine the outstanding shares of Common Stock by recapitalization, reclassification, or combination thereof, the Base Per Share Price immediately prior to such combination shall be proportionately increased. Any such adjustment to the Base Per Share Price shall become effective at the close of business on the record date for such subdivision or combination. The Base Per Share Price shall be proportionately increased or decreased, as the case may be, in proportion to such increase or decrease, as the case may be, of outstanding shares of Common Stock.

c. Whenever the Base Per Share Price is adjusted as herein provided, the Company shall promptly mail to ILLES a statement setting forth the adjusted Base Per Share Price determined as so provided.

5. Reservation. There has been reserved, and the Company shall at all times keep reserved out of the authorized and unissued shares of Common Stock, a number of shares of Common Stock sufficient to provide for the rights of purchase represented by this Agreement. The Company agrees that all shares of Common Stock issued hereunder shall be, at the time of delivery of the certificates for such Common Stock, validly issued and outstanding, fully paid and non-assessable.

6. Securities Laws. As a condition to the issuance of any Common Stock pursuant this Agreement, ILLES shall execute and deliver such representations, warranties, and covenants, that may be required by applicable federal and state securities law, or that the Company determines is reasonably necessary in connection with the issuance of such Common Stock. In addition, the certificates representing the Common Stock shall contain such legends, or restrictive legends, or stop transfer instructions, as shall be required by applicable Federal or state securities laws, or as shall be reasonably required by the Company or its transfer agent.

7. Registration Provisions. Promptly after the date hereof, the Company shall prepare and file, at its sole cost and expense, and thereafter use its best efforts to have declared effective, an appropriate registration statement with the Securities and Exchange Commission registering all of the 35,000,000 shares of Common Stock initially covered by this Agreement for resale by ILLES under the Act (the "Initial Registration Statement"). As provided in Section 1.C hereof, USA has the right from time to time to increase the number of shares of Common Stock to be covered by this Agreement. Any such additional shares may be included in an amendment or post-effective amendment to the Initial Registration Statement, or in a separate additional registration statement.



The term "registration statement" whenever and as used in this Agreement shall mean and include for all purposes the Initial Registration Statement and any amendment or post-effective amendment thereto as well as any additional registration statement or amendment or post-effective amendment thereto covering any Common Stock subject to this Agreement.

The registration statement shall be prepared as a "shelf" registration statement under Rule 415, and the Company shall use its best efforts to have the registration statement maintained effective until the earlier of (i) one year from the effective date of the Initial Registration Statement, or (ii) the date that all of the Common Stock covered by this Agreement is resold by ILLES pursuant to the registration statement or otherwise.

At the Company's request, ILLES shall furnish to the Company such information regarding ILLES, the Common Stock held by ILLES, and the intended method of disposition of such Common Stock to the extent required to effect the registration of the Common Stock. The Company shall include all information provided by ILLES pursuant hereto in the registration statement, substantially in the form supplied, except to the extent such information is not permitted by law. ILLES understands and agrees that ILLES will be listed and disclosed in the registration statement as an underwriter of the Common Stock as such term is defined in Section 2(a)(11) of the Act and as such ILLES will have liability, among other things, under Section 11 of the Act.

All expenses (other than commissions and fees and expenses of counsel to ILLES) incurred in connection with the registration statement, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company, shall be borne by the Company.

8. Binding Effect. This Agreement shall be binding upon the party's respective heirs, personal representatives, successors and assigns; provided, however, that this Agreement shall not be assignable by ILLES, in whole or in part, without the prior consent of the USA.

9. Indemnification. In the event any shares of Common Stock are included in a registration statement under this Agreement:

(a) To the extent permitted by law, the Company will indemnify and hold harmless ILLES, against any losses, claims, damages, or liabilities to which ILLES may become subject under the Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act") (or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements or omissions: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, and the Company will reimburse ILLES for any legal or other expenses reasonably incurred by ILLES in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by ILLES; provided however, that the above shall not relieve the Company from any other liabilities which it might otherwise have.

(b) ILLES shall indemnify and hold harmless the Company, its directors and officers, each underwriter and each other person, if any, who controls (within the meaning of the Act) the Company or such other indemnified party, against any liability, joint or several, to which any such indemnified party may become subject under the Act or any other statute or at common law, insofar as such liability (or actions in respect thereof) arises out of or is based upon (i) any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement under which securities were registered under the Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or (ii) any omission or alleged omission by ILLES to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, preliminary or final prospectus, amendment or supplement thereto in reliance upon and in conformity with information furnished in writing to the Company by ILLES specifically for use therein. ILLES shall reimburse any indemnified party for any legal fees incurred in investigating or defending any such liability.

(c) Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume, the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the reasonably incurred fees and expenses of one such counsel to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflicting interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 9, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 9.

(d) In the event that the indemnity provided in paragraphs (a) and/or (b) of this Section 9 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company and ILLES agree to contribute to the aggregate claims, losses, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Company and ILLES may be subject in such proportion as is appropriate to reflect the relative fault of the Company and ILLES in connection with the statements or omissions which resulted in such Losses. Relative fault shall be determined by reference to whether any alleged untrue statement or omission relates to information provided by the Company or by ILLES. The Company and ILLES agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation that does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 9, each person who controls the Company within the meaning of either the Act or the Exchange Act and each director and officer of the Company shall have the same rights to contribution as the Company, subject in each case to the applicable terms and conditions of this paragraph (d).

(e) The obligations of the Company and ILLES under this Section 9 shall survive the resale, if any, of the Common Stock in a registration statement under this Agreement, and otherwise.

10. Applicable Law. This Agreement shall be deemed to be a contract made under the laws of the Commonwealth of Pennsylvania and for all purposes shall be construed in accordance with the laws thereof regardless of its choice of law rules.

11. Brokers and Finders. USA and ILLES hereby represent to each other that no broker or finder has been employed or engaged by either of them in connection with the transactions contemplated in this Agreement and that all negotiations relative to this Agreement have been carried on directly between the parties hereto without the intervention of any other person.

12. Survival of Representations and Warranties, and Remedies. All representations and warranties contained in this Agreement shall survive the execution and delivery of this Agreement.

13. Entire Agreement. This Agreement constitutes the entire understanding and agreement between the parties hereto with respect to the transactions contemplated herein, supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties, including but not limited to the Common Stock Purchase Agreement between ILLES and USA dated June 18, 2004, and there have been no warranties, representations or promises, written or oral, made by any of the parties hereto except as herein expressly set forth herein.

14. Waiver, Modification, etc.. Any party to this Agreement may waive any of the terms or conditions of this Agreement or agree to an amendment or modification to this Agreement by an agreement in writing executed in the same manner (but not necessarily by the same persons) as this Agreement. No amendment or modification of this Agreement shall be binding unless in writing executed by all of the parties to this Agreement. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar), nor shall any waiver constitute a continuing waiver unless otherwise expressly provided.

15. Notice. Any notice or other communications required or permitted hereunder shall be sufficiently given: (i) three (3) business days after if sent by certified mail, return receipt requested, postage prepaid, or (ii) one (1) business day after sent by Federal Express or other overnight courier providing delivery confirmation for next business day delivery, or (ii) when delivered by personal delivery, telecopier, or e-mail, in any event delivered to or addressed as follows:

If to ILLES:

Mr. Steve Illes  
8006 Southeast 167th Hilltop Loop  
Villages, Florida 32162

If to USA:

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

16. Consent to Jurisdiction. Each of USA and ILLES irrevocably consents and agrees that any legal action or proceeding whatsoever arising out of or in any way connected with this Agreement or the transactions contemplated hereby may be commenced, filed, instituted or brought in the state or federal courts of the Commonwealth of Pennsylvania, and each of the parties hereto irrevocably submits and accepts with regard to any such legal action or proceeding to the jurisdiction of such courts. Each of the parties irrevocably consents to service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the parties hereto, such service to become effective upon mailing. Each of the parties hereto hereby irrevocably waive, to the fullest extent permitted by law, any objection which any of them may now or hereafter have to the laying of the venue of any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, brought in such Pennsylvania courts, and hereby further irrevocably waives any claim, that any such suit, action or proceeding brought in such courts, has been brought in an inconvenient forum.

17. Counterparts. This Agreement may be signed in two or more counterparts which counterparts shall constitute a single, integrated agreement binding upon all the signatories to such counterparts. Delivery of an executed counterpart of this Agreement by facsimile shall be equally as effective as delivery of a manually executed counterpart of this Agreement.

18. Expenses. Except as specifically provided otherwise herein, each party hereto shall pay its or his own expenses arising from this Agreement and the transactions contemplated hereby, including, without limitation, all legal and accounting fees and disbursements; provided, however, that nothing herein shall limit or otherwise modify any right of the parties to recover such expenses (including legal fees and costs of litigation) from the other in the event any party hereto breaches this Agreement.

19. Further Assurances. Each of the parties hereto shall hereafter execute and deliver such further documents and instruments and do such further acts and things as may be required or useful to carry out the intent and purpose of this Agreement and as are not inconsistent with the terms hereof.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Common Stock Purchase Agreement on the date first written above.

USA TECHNOLOGIES, INC.

/s/ Steve Illes

-----  
Steve Illes

By:/s/ George R. Jensen, Jr.

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George R. Jensen, Jr.,  
Chief Executive Officer

Mr. Steve Illes  
8006 Southeast 167th Hilltop Loop  
Villages, Florida 32162

COMMITMENT TO PURCHASE

Pursuant to the Common Stock Purchase Agreement between USA and ILLES, USA hereby irrevocably elects to require ILLES to purchase shares of Common Stock provided for therein at the price of \_\_\_ per share, or an aggregate of \$\_\_\_\_\_, for \_\_\_\_\_ shares of Common Stock. Pursuant to the Agreement, ILLES shall deliver the purchase price for the shares within two business days. The certificate representing such shares of Common Stock shall be issued to and registered in the name of, and delivered to, the ILLES at the address set forth in the Agreement.

Dated: \_\_\_\_\_, 2004  
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USA TECHNOLOGIES, INC.

By: \_\_\_\_\_  
Title:

August 10, 2004

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

Re: USA Technologies, Inc. - Registration Statement on Form S-2

Dear Mr. Jensen:

We have acted as counsel to USA Technologies, Inc., a Pennsylvania corporation (the "Company"), in connection with a Registration Statement on Form S-2, filed with the Securities and Exchange Commission on the date hereof (the "Registration Statement"). The Registration Statement covers 35,000,000 shares of Common Stock ("Common Stock") which are issuable to Steve Illes pursuant to the agreement between the Company and Mr. Illes dated August 6, 2004 (the "Agreement").

In rendering this opinion, we have examined (i) the Articles of Incorporation, as amended, and By-Laws of the Company; (ii) the resolutions of the Board of Directors evidencing the corporate proceedings taken by the Company to authorize the issuance of the Common Stock pursuant to the Agreement; (iii) the Registration Statement (including all exhibits thereto); and (iv) such other documents as we have deemed appropriate or necessary as a basis for the opinion hereinafter expressed.

In rendering the opinion expressed below, we assumed the authenticity of all documents and records examined, the conformity with the original documents of all documents submitted to us as copies and the genuineness of all signatures. We have also assumed that at all relevant times, the Company shall have a sufficient number of authorized shares of Common Stock to cover the issuance by the Company of all shares agreed to be issued in the future under the Agreement.

Based upon and subject to the foregoing, and such legal considerations as we deem relevant, we are of the opinion that when resold as contemplated by the Registration Statement, and subject to effectiveness of the Registration Statement and compliance with applicable state securities laws, the Common Stock when issued will be legally issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion as an Exhibit to the Registration Statement and to references made to this firm under the heading "Legal Matters" in the Prospectus contained in the Registration Statement and all amendments thereto.

Sincerely,

/s/ LURIO & ASSOCIATES, P.C.  
-----  
LURIO & ASSOCIATES, P.C.

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-2 No. 333-000000) and related Prospectus of USA Technologies, Inc. for the registration of 35,000,000 shares of its common stock and to the incorporation by reference therein of our report dated September 12, 2003, except for Note 17, as to which the date is September 30, 2003, with respect to the consolidated financial statements of USA Technologies, Inc. included in its Annual Report (Form 10-KSB) for the year ended June 30, 2003, and our report dated September 27, 2002 with respect to the consolidated financial statements of USA Technologies, Inc. included in its Annual Report (Form 10-KSB) for the year ended June 30, 2002, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania  
August 10, 2004



Consent of Independent Registered Public Accounting Firm

USA Technologies, Inc.  
Malvern, Pennsylvania

We hereby consent to the incorporation by reference in the Prospectus constituting a part of this Registration Statement of our report dated September 4, 2003, relating to the financial statements of Bayview Technology Group, LLC. Our report contains an explanatory paragraph regarding the Company's ability to continue as a going concern.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ Anton Collins Mitchell LLP

Denver, Colorado  
August 10, 2004