SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended December 31, 1997

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

For the transition period from ___________________ to ____________________

Commission file number 33-70992

USA Technologies, Inc.

(Exact name of small business issuer as specified in its charter)

Pennsylvania	23-2679963
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer Identification No.)
200 Plant Avenue, Wayne, Pennsylvania	19087
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, area code first.	(610)-989-0340

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

As of February 9, 1998, there were 35,029,343 shares of Common Stock, no par value, and 555,872 shares of Series A Convertible Preferred Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

INDEX

USA Technologies, Inc.

(A Development Stage Corporation)

Balance Sheets

	December 31, 1997	June 30, 1997
ASSETS:		
Current Assets:	(Unaudited)	
Cash and cash equivalents	$ 274,582	630,266
Accounts receivable less allowance for uncollectible accounts of $22,609 at December 31, 1997 (unaudited) and $19,345 at June 30, 1997	284,815	127,318
Inventory	516,530	378,318
Stock subscriptions receivable		60,000
Prepaid expenses and deposits	15,323	15,670
Total current assets	1,091,250	1,211,572
Property and equipment, at cost, net of accumulated depreciation of $225,823 at December 31, 1997 (unaudited) and $174,829 at June 30, 1997	128,186	178,457
Other assets	23,950	20,250
Total assets	$ 1,243,386	1,410,279
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 500,369	474,646
Accrued expenses	228,369	46,742
Current obligations under capital leases	20,414	18,270
Total current liabilities	749,152	539,658
Obligations under capital leases,less current portion	13,707	24,480
Total liabilities	762,859	564,138
Shareholders' equity:		
Preferred stock,no par value:		
Authorized shares -1,200,000		
Series A Convertible issued and outstanding shares - 555,872 at December 31,1997 (unaudited) and 861,205 at June 30, 1997 (Liquidation preference of $7,881,516 at December 31, 1997 - unaudited)	4,533,703	7,024,811
Common stock, no par value:		
Authorized shares - 55,000,000		
Issued and outstanding shares - 34,989,343 at December 31, 1997 (unaudited) and 29,969,934 at June 30,1997	9,043,768	4,355,334
Deficit accumulated during the development stage	(13,096,944)	(10,534,004)
Total shareholders' equity	480,527	846,141
Total liabilities and shareholders' equity	$ 1,243,386	1,410,279

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Operations

	Three months ended December 31,		Six months ended December 31,		Date of Inception Through	
	1997	1996	1997	1996	December 31, 1997	June 30, 1997
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Revenues:						
Equipment sales	$309,411	$70,572	$619,722	$89,463	$1,110,336	$490,614
License fees	58,638	26,699	102,740	46,943	283,556	180,816
Other	0	5,233	9,342	17,236	9,342	0
Total revenues	368,049	102,504	731,804	153,642	1,403,234	671,430
Expenses:						
Cost of sales	256,497	55,656	549,137	64,885	1,074,227	525,090
General and administrative	490,780	721,492	891,918	1,159,526	6,150,606	5,258,688
Compensation	340,858	272,990	648,075	524,120	4,194,309	3,546,234
Depreciation and amortization	25,497	23,261	50,994	46,522	246,638	195,644
Provision for losses on equipment	--	31,705	--	31,705	400,715	400,715
Costs incurred in connection with abandoned private placement	--	--	--	--	50,000	50,000
Interest expense (income)	(2,612)	10,211	(4,824)	12,021	53,906	58,730
Total expenses	1,111,020	1,115,315	2,135,300	1,838,779	12,170,401	10,035,101
Net loss.	(742,971)	(1,012,811)	(1,403,496)	(1,685,137)	(10,767,167)	(9,363,671)
Cumulative preferred dividends	--	--	(645,154)	--		
Other adjustments	(151,298)	--	(586,420)	(597,019)		
Loss applicable to common shares	($894,269)	($1,012,811)	($2,635,070)	($2,282,156)		
Loss per common share	($0.03)	($0.05)	($0.08)	($0.12)		
Weighted average number of common shares outstanding	34,734,876	19,722,421	33,193,774	19,190,699		

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statement of Shareholders' Equity
(Unaudited)

	Series A Convertible Preferred Stock	Common Stock	Deficit Accumulated During the Development Stage	Total
Balance, June 30, 1997	$7,024,811	$4,355,334	($10,534,004)	$846,141
July 1997-issuance of 40,000 shares of Common Stock in exchange for consulting services		14,355		14,355
July 1997-conversion of 1,000 shares of Convertible Preferred Stock to 12,000 shares of Common Stock.	(8,157)	8,157		--
July 1997-conversion of $1,500 of cumulative preferred dividends into 1,807 shares of Common Stock at $.83 per share		1,500	(1,500)	--
July 1997- Common Stock warrants exercised-21,200 at $.20 per warrant		4,240		4,240
August 1997- Common Stock warrants exercised-986,000 at $.20 per warrant, net of offering costs		185,617		185,617
August 1997-conversion of 49,465 shares of Convertible Preferred Stock to 593,580 shares of Common Stock.	(403,480)	403,480		--
August 1997-conversion of $220,485 of cumulative preferred dividends into 266,903 shares of Common Stock at $.83 per share		220,485	(220,485)	--
September 1997- Common Stock warrants exercised-40,000 at $.25 per warrant		10,000		10,000
September 1997- Common Stock warrants exercised-746,000 at $.20 per warrant, net of offering costs		118,622		118,622
September 1997-Common Stock options exercised-70,000 at $.05		3,500		3,500
September 1997-conversion of 80,755 shares of Convertible Preferred Stock to 969,060 shares of Common Stock.	(658,711)	658,711		--
September 1997-conversion of $306,022 of cumulative preferred dividends into 368,700 shares of Common Stock at $.83 per share		306,022	(306,022)	--
October 1997- Common Stock warrants exercised-1,814,000 at $.25 per warrant		453,500		453,500
October 1997- Common Stock warrants exercised-1,099,800 at $.20 per warrant		219,960		219,960
October 1997-issuance of 5,333 shares of Common Stock in exchange for consulting services...............		2,754		2,754
October 1997-conversion of 17,280 shares of Convertible Preferred Stock to 207,360 shares of Common Stock	(141,004)	141,004		--
October 1997-conversion of $65,353 of cumulative preferred dividends into 78,739 shares of Common Stock at $.83 per share		65,353	(65,353)	--
November 1997-cancellation of 4,365,000 shares of Common Stock by the President of the Company	--	--	--	--
November 1997-issuance of 10,667 shares of Common Stock in exchange for consulting services		4,462		4,462
November 1997-conversion of 9,390 shares of Convertible Preferred Stock to 112,680 shares of Common Stock	(76,622)	76,622		
November 1997-conversion of $43,132 of cumulative preferred dividends into 51,966 shares of Common Stock at $.83 per share		43,132	(43,132)	--
December 1997-issuance of 64,000 shares of Common Stock in exchange for consulting services		18,307		18,307
December 1997-conversion of 147,443 shares of Convertible Preferred Stock to 1,769,316 shares of Common Stock.	(1,203,134)	1,203,134		--
December 1997-conversion of $522,952 of cumulative preferred dividends into 630,062 shares of Common Stock at $.83 per share		522,952	(522,952)	--
December 1997-issuance of 9,500 shares of Common Stock to employees as compensation		2,565		2,565
Net loss			(1,403,496)	(1,403,496)
Balance, December 31, 1997	$4,533,703	$9,043,768	($13,096,944)	$480,527

(See accompanying notes)

USA Technologies, Inc.
(A Development Stage Corporation)

Statements of Cash Flows

	Six months ended December 31, 1997 (Unaudited)	Six months ended December 31, 1996 (Unaudited)
OPERATING ACTIVITIES		
Net loss	($1,403,496)	($1,685,137)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation/amortization	50,994	46,522
Compensation charges incurred in connection with the issuance of Common Stock..................	42,443	125,500
Changes in operating assets and liabilities		
Accounts receivable	(157,497)	(39,809)
Inventory	(138,212)	(42,694)
Prepaid expenses and deposits ...	(3,353)	31,931
Accounts payable	25,723	(114,956)
Accrued expenses	181,627	3,346
Net cash used in operating activities	(1,401,771)	(1,675,297)
INVESTING ACTIVITIES		
Purchase of property and equipment	(723)	(40,766)
Net cash used in investing activities	(723)	(40,766)
FINANCING ACTIVITIES		
Net proceeds from issuance of common stock	1,055,439	575,350
(Repayment)/addition to principal on capital lease obligations	(8,629)	20,215
Net cash provided by financing activities	1,046,810	595,565
Net decrease in cash and cash equivalents	(355,684)	(1,120,498)
Cash and cash equivalents at beginning of period	630,266	1,773,356
Cash and cash equivalents at end of period	$ 274,582	$ 652,858
SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION:		
Capital lease obligations	$ --	$ 27,972

USA TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS
(A Development Stage Corporation)

1. Business

USA Technologies, Inc., a Pennsylvania corporation (the "Company") was founded in January 1992. Substantially all of the Company's activities to date have been devoted to raising capital, developing markets, and starting up operations which commenced during July 1994. The Company is in the development stage and intends to become a leading provider and licensor of unattended, credit card activated control systems for the copying, debit card and personal computer industries. The Company's devices make available credit card payment technology in connection with the sale of a variety of products and services. The Company generates its revenues from retaining a portion of the monies generated from all credit card transactions conducted through its control systems, as well as the direct sale of its control systems and the resale of configured office products.

As of December 31, 1997, the Company had a total of 408 control systems in the field, distributed as follows: 247 Business Express(TM) control systems, 42 Copy Express(TM) control systems, 36 Debit Express(TM) control systems, 21 Fax/Printer Express(TM) control systems, and 62 Public PC(TM) control systems located at various hotels and libraries throughout the United States and Canada.

2. Accounting Policies

Interim Financial Information

The financial statements and disclosures included herein for the three and six months ended December 31, 1997 and 1996 and from the date of inception through December 31, 1997 are unaudited. These financial statements and disclosures have been prepared by the Company in accordance with generally accepted accounting principles and reflect all adjustments consisting of adjustments of a normal and recurring nature which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and the results of its operations and cash flows.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over three to seven years for financial statement purposes and accelerated methods for income tax reporting purposes.

Revenue Recognition

Revenue from the sale of equipment is recognized upon installation and customer acceptance of the related equipment. License fee revenue is recognized upon the usage of the Company's credit card activated control systems.

Loss per Common Share

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which is required to be adopted on December 31, 1997. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded.

Loss per common share is calculated based on the weighted average number of common shares outstanding during the periods. In calculating basic and fully diluted earnings per share, no exercise of stock options, purchase rights, stock purchase warrants, or the conversion of preferred stock and cumulative preferred dividends was assumed because the exercise or conversion of these securities would be antidilutive, in both calculations.

3. Stock Options, Warrants and Purchase Rights

As of December 31, 1997, there was a total of 157,300 Common Stock purchase rights outstanding at a price of $1.00 per share. As of December 31, 1997 there was a total of 4,051,000 options outstanding to purchase Common Stock at exercise prices ranging from $.25 to $.50 per share, of which 3,526,000 were vested. All of the options and purchase rights granted were issued at or above fair market value on the date of grant.

There are also 1,100,000 shares of Common Stock issuable upon exercise of warrants issued to affiliates and/or consultants to GEM Advisors, Inc. in June 1997; 15,000 shares of Common Stock issuable upon exercise of the 1997 warrants issued in 1997; 6,000 shares of Common Stock issuable upon exercise of the 1996-B warrants issued in January and February 1997; 864,000 shares of Common Stock issuable upon exercise of the 1996 warrants issued in 1996; and 694,000 shares of Common Stock issuable upon exercise of the 1995 warrants issued in 1995.

4. Escrow and Cancellation Arrangements

As of June 30, 1997, at the request of the Pennsylvania Securities Commission, the President had agreed to place in escrow 7,593,000 shares of Common Stock, of which 4,365,000 were subject to cancellation if certain events did not occur on or before June 30, 1998. On November 20, 1997, the President cancelled the 4,365,000 shares which had been in escrow, and the remaining 3,228,000 shares held in escrow were returned to the President.

5. Private Placement

On January 29, 1998 the Company commenced a private placement offering of 70 units at a price of $10,000 per unit, with each unit consisting of 2,000 shares of Series A Convertible Preferred Stock and 50,000 1998 Common Stock Purchase Warrants. The offering will terminate on February 28, 1998, unless extended by the Company for up to 90 additional days. Through February 16, 1998, 46.7 units have been purchased, generating gross proceeds to the Company of $467,000.

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

Introduction

Since its inception in January 1992, the Company, a development stage corporation, has been engaged largely in research and development activities focused on designing, developing, and marketing its credit card activated control systems. From inception through December 31, 1997, the Company has had operating revenues of $1,403,234 and has generated funds primarily through the sale of its securities. As of December 31, 1997, the Company has received, net of expenses of such sales, the amount of $5,534,547 in connection with private placements, $2,698,847 from the exercise of Common Stock purchase warrants and options, and $2,345,104 in connection with its initial public offering. The Company has incurred operating losses since its inception through December 31, 1997 of $10,767,167 and such losses are expected to continue at least through the quarter ended September 30, 1998.

Results of Operations

The fiscal quarter ended December 31, 1997 resulted in a net operating loss of $742,971 compared to a net loss of $1,012,811 for the comparable fiscal quarter ended December 31, 1996. On an overall basis these continuing losses reflect the development stage nature of the Company. Losses are projected to continue until sufficient revenue is generated from various applications of the Company's proprietary technology.

Revenue from operations was $368,049 compared to $102,504 from the previous year's fiscal quarter. This $265,545 improvement reflects the Company's revised strategy of selling its proprietary equipment as opposed to relying primarily on licensing and transaction processing revenues. Of the total revenues, equipment sales totaled $309,411, an increase of $238,839 over the same period last year. Licensing and processing revenue increased to $58,638 from $26,699 for the same period during the prior year, an increase of 120%. Despite this revenue increase and change in approach to marketing its products, revenue is still well below the level required for the Company to be profitable.

Cost of sales for the period included labor and equipment of $256,497 which represented an increase of $200,841 over the same period during the prior year, and is directly attributable to the increase in equipment sales.

General and administrative expenses of $490,780 decreased by $230,712 or 32% from the second quarter last year. Reduced consultant fees, product development costs, advertising and promotional expenses contributed to the decrease.

Compensation expense of $340,858 increased by 25% due to permanent and higher personnel requirements in all areas of the Company. Depreciation and amortization expense increased nominally from $23,261 to $25,497, reflecting the increased depreciable capital asset base.

The six month period ended December 31, 1997 resulted in a net loss of $1,403,496, compared to a net loss of $1,685,137 from the same period last year. Net revenue increased to $731,804 from $153,642 for the same period last year. Total expenses rose to $2,135,300 from $1,838,779, reflecting an increase in cost of sales and compensation offset by reductions in general and administrative expenses.

Plan of Operations

As of December 31, 1997, the Company had a total of 408 control systems in the field, distributed as follows: 247 Business Express(TM) control systems, 42 Copy Express(TM) control systems, 36 Debit Express(TM) control systems, 21 Fax/Printer Express(TM) control systems, and 62 Public PC(TM) control systems located at various hotels and libraries throughout the United States and Canada. The total license fee revenues received by the Company from these systems has been increasing but is still well below the level required to achieve profitability.

During the past six months the Company continued to emphasize the resale of equipment utilizing the company's control systems rather than the revenue sharing arrangements previously employed. The Company still retains all rights to software and proprietary technology which it licenses to location operators for their exclusive use. This shift in approach reduces the Company's dependency on licensing revenues and simultaneously reduces the Company's capital asset requirements.

The Company is marketing its products through its full-time sales staff consisting of four persons, either directly to customer locations or through facility management companies servicing these locations.

On September 24, 1997, the Company entered into a Joint Venture Agreement with Mail Boxes Etc. ("MBE"), the leading franchisor of postal, business, and communications retail service centers, with approximately 3,000 locations in North America. The joint venture exclusively sells and markets unattended, credit card activated business centers under the name MBE Business Express(TM) to the hospitality industry, travel industry, convention centers, colleges, universities, supermarkets, banks, military, convenience stores, and mass merchandisers located in the United States. In addition, MBE has ordered 195 TransAct(TM) control boxes from the Company to be used by MBE franchises for their in-store computer workstations. As of December 31, 1997, all of these control boxes have been shipped to MBE, generating gross revenues of approximately $140,000.

On February 17, 1998, Prime Hospitality Corp. ("Prime") entered into an agreement with the joint venture formed by the Company and MBE (the "Joint Venture") pursuant to which Prime would purchase 100 MBE Business Express(TM) units for installation at Prime's owned and managed hotels. The agreement provides that Prime would purchase the first six units on a trial basis. If the 90-day trial period is successful, then Prime would order the remaining 94 units. If the trial period is not successful, Prime would not purchase any additional units and the Joint Venture would repurchase the initial six units from Prime at the price originally paid by Prime. The agreement provides for a purchase price of approximatley $1.3 million for all 100 units.

Liquidity and Capital Resources

For the six month period ended December 31, 1997, there was a net decrease in cash of $355,684. This was attributable to using $1,401,771 for operating activities, partially offset by net proceeds of $1,055,439 raised through the exercise of Common Stock purchase warrants. As of December 31, 1997, total cash on hand was $274,582, and working capital was approximately $342,098 of which $516,530 was invested in inventory.

On September 11, 1997, the Company's Board of Directors decided to maintain the exercise price of the 1996-B and 1997 Common Stock purchase warrants at $.20 through September 30, 1997 (rather than only through August 31, 1997 as previously provided). On November 13, 1997, the Company's Board of Directors decided to maintain the exercise price of the 1996-B and 1997 Common Stock purchase warrants at $.20 through October 31, 1997 (rather than September 30, 1997 as revised above). During the six months ended December 31, 1997, 368,000 1996-B and 1,585,000 1997 Common Stock purchase warrants were exercised for gross proceeds to the Company of $390,600.

On September 11, 1997, the Board of Directors approved a temporary reduction in the exercise price of the 1995 and 1996 Common Stock purchase warrants from $.50 to $.25 during the period of September 11, 1997 through October 31, 1997. During the six month period ending December 31, 1997, a total of 720,000 1995 and 1,134,000 1996 Common Stock purchase warrants were exercised, providing gross proceeds of $463,500 to the Company.

During the six months ended December 31, 1997, GEM Management Limited, an affiliate of GEM Advisors, Inc., exercised Common Stock purchase warrants for 900,000 shares of Common Stock at an exercise price of $.20 per share generating gross proceeds of $180,000.

The Company believes that the above warrant proceeds, together with money available from the exercise of outstanding options and warrants, plus additional funds to be generated by the private placement approved in January 1998, and increased revenues from its business would be sufficient to fund operations through the quarter ending September 30, 1998. There can be no assurance that any such additional sales of securities could be made by the Company or that increased revenues would result from its business. In such event, the Company may cease to be a going concern or may have to reduce its operations or operating procedures.

Part II - Other information

Items 1, 2, 3, and 4 are not applicable.

Item 5. Other Information

During the quarter ended December 31, 1997, the holders of the remaining $70,000 of the $500,000 of Convertible Securities which were issued by the Company in June 1997 converted their Convertible Securities into 347,219 shares of Common Stock.

In connection with the issuance of such Convertible Securities, the Company had issued 2,500,000 shares of Common Stock in escrow so that such shares would be available to the holders of the Convertible Securities upon conversion thereof. Following the conversions referred to above, no shares remain in escrow, and a total of 1,915,736 shares of Common Stock have been issued.

At June 30, 1997, all 2,500,000 shares held in escrow were considered issued and outstanding as Common Stock.

Item 6. Exhibits and Reports on Form 8-K

On November 26, 1997, the Company filed with the Securities and Exchange Commission a Form 8-K which reported items under Item 5. Other Events and Item 9. Sales of Equity Securities Pursuant to Regulation S.

Signatures

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

USA TECHNOLOGIES, INC.

Date: February 17, 1998

/s/ George R. Jensen, Jr.

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

Date: February 17, 1998

/s/ Leland P. Maxwell

Leland P. Maxwell, Senior Vice President, Chief Financial Officer

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USA TECHNOLOGIES, INC
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US DOLLARS

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DEC-31-1997
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