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

FORM 1O-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, 2003

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

For the transition period from ____________________ to _____________________

Commission file number 0-50054

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.) |
| 100 Deerfield Lane, Suite 140, Malvern, Pennsylvania | 19355 |
| (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 10, 2004 there were 293,516,953 shares of Common Stock, no par value, outstanding.

USA TECHNOLOGIES, INC.

INDEX

USA Technologies, Inc.
Consolidated Balance Sheets

| | DECEMBER 31, 2003 (UNAUDITED) | JUNE 30, 2003 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,521,804 | $ 2,384,455 |
| Accounts receivable, less allowance for uncollectible accounts of $121,000 at December 31, 2003 and $65,000 at June 30, 2003 | 1,850,832 | 414,796 |
| Other receivable | 674,649 | -- |
| Inventory | 1,017,214 | 457,900 |
| Prepaid expenses and other current assets | 344,661 | 201,383 |
| Subscriptions receivable | 11,237 | 1,013,400 |
| Investment | 794,645 | 904,049 |
| Assets held for sale | 135,000 | -- |
| Total current assets | 7,350,042 | 5,375,983 |
| Property and equipment, less accumulated depreciation of $2,762,518 at December 31, 2003 and $3,216,139 at June 30, 2003 | 728,416 | 943,784 |
| Software development costs, at cost, less accumulated amortization of $4,993,300 at December 31, 2003 and $4,327,526 at June 30, 2003 | 332,887 | 998,660 |
| Goodwill | 7,985,207 | 7,945,580 |
| Intangibles, less accumulated amortization of $918,868 at December 31, 2003 and $328,500 at June 30, 2003 | 11,450,132 | 2,591,500 |
| Other assets | 8,544 | 37,174 |
| Total assets | $ 27,855,228 | $ 17,892,681 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 2,609,907 | $ 2,266,156 |
| Accrued expenses | 2,841,181 | 2,720,743 |
| Current obligations under long-term debt | 639,611 | 830,674 |
| Convertible Senior Notes | 365,123 | 349,942 |
| Total current liabilities | 6,455,822 | 6,167,515 |
| Convertible Senior Notes, less current portion | 6,327,306 | 7,808,469 |
| Long-term debt, less current portion | 23,048 | 224,614 |
| Total liabilities | 12,806,176 | 14,200,598 |
| Shareholders' equity: | | |
| Preferred Stock, no par value: | | |
| Authorized shares--1,800,000 | | |
| Series A Convertible Preferred--Authorized shares - 900,000 | | |
| Issued and outstanding shares--524,192 at December 31, 2003 and 524,492 at June 30, 2003 (liquidation preference of $11,544,576 at December 31, 2003) | 3,713,121 | 3,715,246 |
| Common Stock, no par value: | | |
| Authorized shares--400,000,000 | | |
| Issued and outstanding shares--287,317,721 at December 31, 2003 and 218,741,042 at June 30, 2003 | 102,939,543 | 78,790,405 |
| Accumulated other comprehensive income | 254,484 | -- |
| Accumulated deficit | (91,858,096) | (78,813,568) |
| Total shareholders' equity | 15,049,052 | 3,692,083 |
| Total liabilities and shareholders' equity | $ 27,855,228 | $ 17,892,681 |

See accompanying notes.

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

| | Three months ended December 31, 2003 | Three months ended December 31, 2002 | Six months ended December 31, 2003 | Six months ended December 31, 2002 |
|---|---|---|---|---|
| Revenues: | | | | |
| Equipment sales | $ 1,425,176 | $ 384,459 | $ 2,711,654 | $ 572,947 |
| Product sales and other | 222,253 | 75,576 | 296,734 | 278,880 |
| License and transaction fees | 267,157 | 314,612 | 586,806 | 657,265 |
| Total revenues | 1,914,586 | 774,647 | 3,595,194 | 1,509,092 |
| Cost of sales (including amortization of software development costs) | 1,083,419 | 671,940 | 2,165,582 | 1,339,400 |
| Gross profit | 831,167 | 102,707 | 1,429,612 | 169,692 |
| Operating expenses: | | | | |
| General and administrative | 1,780,242 | 1,368,373 | 3,282,011 | 3,010,751 |
| Compensation | 1,740,012 | 838,713 | 7,443,210 | 1,684,432 |
| Depreciation and amortization | 420,945 | 247,579 | 815,904 | 494,663 |
| Loss on debt modification | 41,618 | -- | 318,915 | -- |
| Total operating expenses | 3,982,817 | 2,454,665 | 11,860,040 | 5,189,846 |
| Operating loss | (3,151,650) | (2,351,958) | (10,430,428) | (5,020,154) |
| Other income (expense): | | | | |
| Interest income | 12,087 | 4,263 | 19,816 | 7,237 |
| Gain on termination of contract | 515,844 | -- | 515,844 | -- |
| Gain on sale of investment | -- | -- | 31,361 | -- |
| Interest expense: | | | | |
| Coupon or stated rate | (241,749) | (329,677) | (507,240) | (585,955) |
| Non-cash interest and amortization of debt discount | (872,156) | (953,625) | (2,670,061) | (1,606,343) |
| Total interest expense | (1,113,905) | (1,283,302) | (3,177,301) | (2,192,298) |
| Total other income (expense) | (585,974) | (1,279,039) | (2,610,280) | (2,185,061) |
| Net loss | (3,737,624) | (3,630,997) | (13,040,708) | (7,205,215) |
| Cumulative preferred dividends | -- | -- | (393,369) | (396,962) |
| Loss applicable to common shares | $ (3,737,624) | $ (3,630,997) | $ (13,434,077) | $ (7,602,177) |
| Loss per common share (basic and diluted) | $ (0.01) | $ (0.04) | $ (0.05) | $ (0.10) |
| Weighted average number of common shares outstanding (basic and diluted) | 284,277,552 | 87,713,910 | 267,133,382 | 79,493,416 |

See accompanying notes.

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

| | SERIES A CONVERTIBLE PREFERRED STOCK | COMMON STOCK | ACCUMULATED DEFICIT | ACCUMULATED OTHER COMPREHENSIVE INCOME | TOTAL |
|---|---|---|---|---|---|
| Balance, June 30, 2003 | $ 3,715,246 | $ 78,790,405 | $ (78,813,568) | $ -- | $ 3,692,083 |
| Issuance of 300 shares of Common Stock from the conversion of 300 shares of Preferred Stock | (2,125) | 2,125 | -- | -- | -- |
| Issuance of 382 shares of Common Stock from the conversion of cumulative preferred dividends at $10.00 per share | -- | 3,820 | (3,820) | -- | -- |
| Exercise of 3,035,258 Common Stock Warrants at $0.10 per share | -- | 303,526 | -- | -- | 303,526 |
| Issuance of 9,971,669 shares of Common Stock from the conversion of 12% Senior Notes | -- | 1,994,334 | -- | -- | 1,994,334 |
| Issuance of 594,000 shares of Common Stock in exchange for salaries and professional services | -- | 215,980 | -- | -- | 215,980 |
| Issuance of 10,500,000 shares of Common Stock to executive in connection with employment agreement | -- | 4,620,000 | -- | -- | 4,620,000 |
| Issuance of 23,239,036 shares of Common Stock with various private placement offerings at varying prices per share | -- | 5,270,529 | -- | -- | 5,270,529 |
| Issuance of shares of Common Stock and related Common 1,066,034 Stock Warrants in lieu of cash payment for interest on the 12% Senior Notes | -- | 479,617 | -- | -- | 479,617 |
| Debt discount relating to beneficial conversion feature on 12% Senior Notes | -- | 1,981,007 | -- | -- | 1,981,007 |
| Issuance of 20,170,000 shares of Common Stock in connection with the Bayview acquisition | -- | 9,278,200 | -- | -- | 9,278,200 |
| Net loss | -- | -- | (13,040,708) | -- | (13,040,708) |
| Unrealized gain on investment | -- | -- | -- | 254,484 | 254,484 |
| Total comprehensive loss | | | | | (12,786,224) |
| Balance, December 31, 2003 | $ 3,713,121 | $ 102,939,543 | $ (91,858,096) | $ 254,484 | $ 15,049,052 |

See accompanying notes

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

| | SIX MONTHS ENDED DECEMBER 31, 2003 | 2002 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net loss | $(13,040,708) | $ (7,205,215) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Charges incurred in connection with the issuance of Common Stock, Common Stock Purchase Warrants and Senior Notes | 4,835,980 | 399,187 |
| Interest expense on Senior Notes paid through the issuance of Common Stock | 479,617 | 318,011 |
| Interest amortization related to Senior Notes and Convertible Debentures | 2,190,444 | 1,288,332 |
| Amortization | 1,256,142 | 728,552 |
| Depreciation | 271,294 | 348,663 |
| Loss on debt modification | 318,915 | -- |
| Gain on sale of investment | (31,361) | -- |
| Gain on contract settlement | (515,844) | -- |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,442,536) | (82,311) |
| Inventory | (559,314) | 135,199 |
| Prepaid expenses and other assets | (131,744) | (48,190) |
| Accounts payable | 474,592 | 1,006,528 |
| Accrued expenses | 410,372 | 25,182 |
| Net cash used in operating activities | (5,484,151) | (3,086,062) |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (229,369) | (92,484) |
| Cash paid in connection with Bayview acquisition | (727,969) | -- |
| Cash received for sale of Jubilee shares | 395,249 | -- |
| Net cash used in investing activities | (562,089) | (92,484) |
| FINANCING ACTIVITIES | | |
| Net proceeds from issuance of Common Stock and exercise of Common Stock Warrants | 5,574,055 | 1,657,583 |
| Net proceeds from issuance of Senior Notes and Convertible Debentures | -- | 1,792,150 |
| Net repayment of long-term debt | (392,629) | (346,348) |
| Collection of subscriptions receivable | 1,002,163 | 35,000 |
| Net cash provided by financing activities | 6,183,589 | 3,138,385 |
| Net increase (decrease) in cash and cash equivalents | 137,349 | (40,161) |
| Cash and cash equivalents at beginning of period | 2,384,455 | 557,970 |
| Cash and cash equivalents at end of period | $ 2,521,804 | $ 517,809 |
| Supplemental disclosures of cash flow information: | | |
| Conversion of Convertible Preferred Stock to Common Stock | $ 2,125 | $ 1,062 |
| Conversion of Convertible Preferred Dividends to Common Stock | $ 3,820 | $ 1,570 |
| Cash paid for interest | $ 464,864 | $ 371,972 |
| Subscriptions receivable | $ 11,237 | $ 276,000 |
| Conversion of Senior Notes and Convertible Debenture to Common Stock | $ 1,994,334 | $ 273,058 |
| Beneficial conversion feature related to Senior Notes | $ 1,981,007 | $ 1,084,120 |
| Prepaid stock expenses through issuance of Common Stock | $ 105,000 | $ 236,800 |
| Prepaid Senior Note issuances | $ -- | $ 1,329,800 |
| Issuance of Common Stock in connection with the Bayview acquisition | $ 9,278,200 | $ -- |
| Other receivable from termination of contract | $ 674,649 | $ -- |
| Deposits used to fund debt and equity | $ -- | $ 360,000 |
| Issuance of Common Stock related to Senior Note Offering | $ -- | $ 1,750,062 |

See accompanying notes.

1. BUSINESS

USA Technologies, Inc., a Pennsylvania corporation (the "Company"), was incorporated on January 16, 1992. The Company provides unattended cashless payment/control systems and associated network and services for the copy, fax, debit card, smart card, personal computer, laundry, and vending industries. The Company's devices make available credit and debit card and other payment methods in connection with the sale of a variety of products and services. The Company's customers are principally located in the United States and are comprised of hotels, chains, consumer package goods companies, information technology and vending operators.

The Company offers the Business Express(R) and Business Express(R) Limited Service (LSS) principally to the hospitality industry. The Business Express(R) and Business Express(R) Limited Service (LSS) combines the Company's business applications for computers, copiers and facsimile machines into a business center unit. The Company has developed its next generation of cashless control/payment systems (e-Port(TM)), which includes capabilities for interactive multimedia and e-commerce, acceptance of other forms of electronic payments and remote monitoring of host machine data and is being marketed and sold to operators, distributors and original equipment manufacturers (OEM) primarily in the vending industry.

With the acquisition of the assets of Bayview Technology Group, LLC in July 2003, the Company also sells and distributes energy saving devices. These devices control energy consumption in vending machines, glass front coolers, laser printers, monitors and other office peripherals, and are used throughout the United States by many of the same customers that use the Company's other equipment and services.

2. ACCOUNTING POLICIES

INTERIM FINANCIAL INFORMATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary have been included. Operating results for the three and six month periods ended December 31, 2003 are not necessarily indicative of the results that may be expected for the year ending June 30, 2004. The balance sheet at June 30, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended June 30, 2003.

RECLASSIFICATION

Certain amounts in the prior period financial statements have been reclassified to conform to the current year presentation.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CONSOLIDATION

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

CASH EQUIVALENTS

Cash equivalents represent all highly liquid investments with original maturities of three months or less. Cash equivalents are comprised of a money market fund and certificates of deposit.

INVENTORY

Inventory, which principally consists of finished goods and components, is stated at the lower of cost (first-in, first-out basis) or market.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. The straight-line method of depreciation is used over the estimated useful lives of the related assets. Leasehold improvements are amortized on the straight-line basis over the lesser of the estimated useful life of the asset or the respective lease terms.

IMPAIRMENT OF LONG LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-lived Assets", the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value.

In the period when the plan of sale criteria of SFAS 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and the assets are reported at the lower of carrying value or fair value less costs to sell.

## GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets". Under SFAS No. 142, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment, if any. The Company uses a discounted cash flow analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date. During the six months ended December 31, 2003, no events or circumstances arose indicating that impairment of goodwill may have occurred.

Intangible assets include patents, trademarks and non-compete arrangements purchased in acquisitions. Amortization of these intangibles is computed using the straight-line method over their estimated useful lives of five and ten years. Amortization expense was $309,150 and $590,368 for the three and six months ended December 31, 2003, respectively, and $73,000 and $146,000 for the three and six months ended December 31, 2002, respectively.

## REVENUE RECOGNITION

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 network. Service fees for access to the Company's equipment and network services are recognized on a monthly basis. Product revenues are recognized from the sale of products from Company owned vending machines when there is purchase and acceptance of product by the vending customer. Customers have the ability to return vended products for a full refund. The Company estimates an allowance for product returns at the date of sale.

## INVESTMENT

The Company accounts for investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities". Management determines the appropriate classifications of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of shareholders' equity in accumulated other comprehensive income (loss). If the investment sustains an other-than-temporary decline in fair value, the investment is written down to its fair value by a charge to earnings.

## SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs pursuant to Statement of Financial Accounting Standards No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", after technological feasibility of the software is established and through the product's availability for general release to the Company's customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Amortization of software development costs commences when the product becomes available for general release to customers. Amortization of software development costs is calculated as the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight-line method over the remaining estimated economic life of the product. The Company reviews the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset.

Software development costs are being amortized over a useful life of two-years. Amortization expense, reflected in cost of sales, was $332,887 and $665,774 for the three and six months ended December 31, 2003, respectively, and $291,276 and $582,552 for the three and six months ended December 31, 2002, respectively.

## ACCOUNTING FOR STOCK OPTIONS

Statement of Financial Accounting Standards No. 123 (SFAS No.123), "Accounting for Stock-Based Compensation", provides companies with a choice to follow the provisions of SFAS No. 123 in determination of stock-based compensation expense or to continue with the provisions of APB No. 25 (APB 25), "Accounting for Stock Issued to Employees and Related Interpretations in Accounting for Stock-Compensation Plans" and the related FASB Interpretation No. 44. The Company has elected to follow the provisions of APB 25. Under APB 25, if the exercise price of the Company's stock options granted to employees and directors equals or exceeds the market price of the underlying Common Stock on the date of grant, no compensation expense is recognized. All stock options granted by the Company have been at prices equal to the market price of the Company's Common Stock on the dates of grant. Under SFAS No. 123 the fair value of stock options is estimated at the date of grant using an option pricing model such as Black-Scholes and the value determined is amortized to expense over the option vesting period.

There were no stock options granted during the year ended June 30, 2003 or during the six months ended December 31, 2003. All options granted through June 30, 2002 were vested as of that date. Therefore pro-forma net loss and pro-forma net loss per common share under SFAS 123 for the three months and six months ended December 31, 2003 and 2002 would be the same as reported by the Company under APB 25.

LOSS PER COMMON SHARE

Basic earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing income (loss) applicable to common shares by the weighted average common shares outstanding for the period plus the dilutive effect (unless such effect is anti-dilutive) of equity instruments. No exercise of stock options, purchase rights, stock purchase warrants, or the conversion of senior notes, debentures, preferred stock, or cumulative preferred dividends was assumed for the periods presented because the assumed exercise of these securities would be anti-dilutive.

3. ACQUISITIONS

BAYVIEW TECHNOLOGY GROUP, LLC

On July 11, 2003, the Company acquired substantially all of the assets of Bayview Technology Group, LLC (Bayview). Under the terms of the asset purchase agreement the Company issued to Bayview 20,000,000 shares of its restricted Common Stock and cash of $631,247 to settle an obligation of Bayview. The definitive agreement also provides for the Company to assume certain obligations under a royalty agreement expiring May 31, 2006. In connection with this transaction the Company also agreed to issue 170,000 shares of its restricted Common Stock to a consultant who provided certain services to the Company in connection with this acquisition.

The acquired energy control equipment is used to reduce energy consumption in vending machines, glass front coolers, laser printers, monitors and other office peripherals throughout the United States. As a result of the acquisition, the Company believes it will be a leading provider of end-to-end networked solutions that includes wireless and internet connections, cashless transaction and security/ID capability and interactive media functionality, and remote inventory and auditing control and energy cost reductions and environmental emissions reductions. The Company also expects to reduce costs through economies of scale.

The acquisition cost of Bayview was $10,030,894, which principally was comprised of the issuance of 20,000,000 shares of restricted Common Stock valued at $9,200,000 and a cash payment of $631,247. The value of the 20,000,000 shares of Common Stock was determined based on the average market price of the Company's Common Stock over the two-day period before and after the definitive agreement date of July 11, 2003. The purchase price also included acquisition related costs of $199,647.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition.

| | |
|---|---|
| Current assets | $ 7,628 |
| Property and equipment | 244,704 |
| Intangible assets | 9,449,000 |
| Goodwill | 329,562 |
| Total assets acquired | $10,030,894 |

Of the $9,449,000 of acquired intangible assets, $7,424,000 was assigned to patents that are subject to amortization over a 10-year period, $1,011,000 was assigned to non-compete agreements that are subject to amortization over a 5-year period and $1,014,000 was assigned to trademarks and trade names that are not subject to amortization.

The acquisition was accounted for using the purchase method and, accordingly, the results of operations of Bayview have been included in the accompanying consolidated statements of operations since the date of acquisition. Results of operations of the Company for the six months ended December 31, 2003 would not have been significantly different than reported had the acquisition taken place July 1, 2003 as the acquisition occurred on July 11, 2003. Pro-forma combined results for the six months ended December 31, 2002 would have been as follows had the acquisition taken place July 1, 2002 - revenues of $4,628,479; net loss of $7,234,269; loss applicable to common shares of $7,631,231; loss per common share (basic and diluted) of $0.08.

STITCH NETWORKS CORPORATION

In connection with the acquisition of Stitch, in May 2002, the Company determined that it would vacate the office space previously occupied by Stitch. Accordingly, the Company accrued the remaining lease exit costs relating to this lease in the amount of approximately $354,000 as part of the cost of purchasing Stitch.

In November 2003, Stitch and the lessor of the office space reached an agreement that required Stitch to pay the lessor $55,000 as consideration to release Stitch from any further obligations under the lease. In addition, a security deposit of approximately $9,000 was retained by the lessor. Accordingly, the difference between estimated lease exit costs accrued and actual consideration paid, was recorded as a reduction of goodwill in the amount of $290,000 during the three months ended December 31, 2003.

4. INVESTMENT IN JUBILEE INVESTMENT TRUST

During the year ended June 30, 2003, the Company issued 15,000,000 shares of its Common Stock for an investment in 1,870,091 shares of Jubilee Investment Trust, PLC ("Jubilee"), a United Kingdom Investment Trust whose shares trade on the London Stock Exchange. The Company agreed not to sell the Jubilee shares for a period of 90 days from January 24, 2003 and to not sell more than 10% of the Jubilee shares during each month thereafter. Jubilee has agreed not to sell the Company's shares of Common Stock for a period of two years from the date of issuance unless agreed to by the Company. In September 2003, the Company sold 700,000 of its Jubilee shares for net proceeds of $395,249, and realized a gain of $31,361 from the sale of these shares. An unrealized gain of $254,484 on the remaining shares held by the Company is reflected in shareholders' equity as Accumulated other comprehensive income at December 31, 2003.

5. FINANCING ACTIVITIES

The Company had issued five series of Senior Notes with an interest rate of 12%, which are convertible into shares of the Company's Common Stock. The notes were scheduled to mature on December 31, 2003, 2004, 2005, 2006 and 2007. In March 2003, holders of the Senior Notes scheduled to mature on December 31, 2003 and 2004, respectively, were granted the right to extend their maturity to December 31, 2006 and 2007, respectively, in exchange for reducing the conversion rates from $1.25 to $0.20 per share for the 2003 Senior Notes and from $0.40 to $0.20 per share for the 2004 Senior Notes. This offer expired on December 31, 2003. During the six months ended December 31, 2003, certain Senior Note holders agreed to exchange an aggregate of $2,301,453 of these notes for new notes maturing in 2006 and 2007. These exchanges included all but $20,000 of the Notes scheduled to mature on December 31, 2003. This amount, and Notes scheduled to mature on December 31, 2004, are reflected as a current liability as of December 31, 2003.

The exchange of the 2003 Senior Notes and 2004 Senior Notes for 2006 Senior Notes and 2007 Senior Notes was deemed a significant modification of the terms of the 2003 and 2004 Senior Notes and, accordingly, the 2003 and 2004 Senior Notes that were exchanged have been extinguished. The unamortized debt discount and other issuance costs of $318,915 remaining on the 2003 and 2004 Senior Notes exchanged and extinguished during the six months ended December 31, 2003 have been expensed and have been reported in the consolidated statements of operations as a Loss on debt modification ($41,618 for the three months ended December 31, 2003).

During the six months ended December 31, 2003, the Company's share price, on days when certain noteholders agreed to exchange their 2003 or 2004 Senior Notes for 2006 and 2007 Senior Notes, respectively, was greater than the conversion price of the 2006 and 2007 Senior Notes. Therefore, the intrinsic value of this beneficial conversion feature of $1,981,007 is reflected as additional equity and debt discount and is being amortized to interest expense through the maturity dates of these Senior Notes.

Debt discount and other issuance costs associated with the Senior Notes are being amortized to interest expense over the remaining life of the debt instruments. Upon conversion of Senior Notes into Common Stock, unamortized costs relating to the notes converted are also charged to interest expense. Total charges to interest for debt discount and other issuance costs were $756,369 and $2,190,444 for the three and six months ended December 31, 2003, respectively, and $774,727 and $1,288,332 for the three and six months ended December 31, 2002, respectively.

As of December 31, 2003, outstanding debt for Senior Notes reflected in the consolidated balance sheet was $6,692,429. This is comprised of $10,552,484 face amount of notes less unamortized debt discount and other issuance costs of $3,860,055.

The holders of the Senior Notes have had the right to purchase shares of the Company's Common Stock at $0.20 per share using quarterly interest payments that are due in lieu of a cash payment for the interest. Additionally, for each share purchased, the note holder is entitled to receive a warrant to purchase one share of the Company's Common Stock at $0.20 per share exercisable at any time through June 30, 2004. The Board of Directors authorized the Company to offer Common Stock and Common Stock Warrants for cash interest due through December 31, 2003. For the six months ended December 31, 2003, 1,066,034 common shares were issued (along with an identical number of warrants) for payment of interest due for the period of $213,188 to those note holders accepting the offer. The fair value of the warrants issued and the beneficial conversion feature related to the $0.20 per share rate used to convert the interest to Common Stock totaled $266,429 and has been recorded as additional interest expense for the period. For the three months ended December 31, 2003, $115,786 was charged to interest expense for these transactions.

During the six months ended December 31, 2003, the Company issued shares of Common Stock in various transactions:

- 2,729,036 shares were issued at $0.10 per share under the 2003-A Private Placement Offering authorized during fiscal year 2003 which generated net proceeds of $268,029. The Company also issued 295,000 shares under this offering for services rendered by consultants amounting to $105,000.

- 20,010,000 shares of Common Stock were issued to accredited investors at $0.25 per share in four private placement offerings, which generated proceeds of $5,002,500.

- 500,000 shares of Common Stock were issued to an accredited investor as settlement resulting from a non-registration event as defined under the agreement of sale entered into during November 2002.

6. LONG-TERM DEBT

Long-term debt consisted of the following:

| | December 31, 2003 | June 30, 2003 |
|---|---|---|
| Bank facility | $ 516,009 | $ 828,466 |
| Working capital loans | 96,765 | 166,765 |
| Other, including capital lease obligations | 49,885 | 60,057 |
| | 662,659 | 1,055,288 |
| Less current portion | 639,611 | 830,674 |
| | $ 23,048 | $ 224,614 |

The bank facility (the Facility) was utilized to fund the purchase of vending machines placed at locations where Kodak film products are sold. Borrowings were made from time to time under the Facility, with repayment schedules set at the time of each borrowing, including equal monthly payments over 36 months and an interest rate based upon 495 basis points over the three year U.S. Treasury Notes. The Company granted the bank a security interest in the vending machines. Repayment of principal is also insured by a Surety Bond issued by a third-party insurer in exchange for an initial fee paid by the Company. Final maturity, scheduled to extend into the fiscal year ending June 30, 2005, is anticipated to occur during the year ending June 30, 2004 due to the termination of the vending placement agreement and the removal from service and sale of the vending machines used as collateral for the bank facility. See Note 9 Termination of Vending Agreement.

In connection with the Stitch acquisition, the Company assumed long-term debt which included a vending equipment borrowing facility and working capital loans. These loans are secured by certain assets of Stitch and bear interest at 6.75% per annum. Such loans were payable on July 8, 2002. During fiscal year 2003, the bank extended the due date on these loans on several occasions under forbearance agreements. On November 6, 2003, the Company reached an agreement with the bank to make monthly installments that will repay the remaining balance by October 2004.

7. STOCK OPTIONS AND STOCK WARRANTS

The Company has granted options to employees to purchase shares of Common Stock at prices that were at or above fair market value on the dates the options were granted. The option term and vesting schedule were established by the contract that granted the option. As of December 31, 2003, there were 2,638,985 options outstanding to purchase Common Stock at exercise prices ranging from $0.165 to $2.00 per share, all of which were fully vested. As of December 31, 2003, there were 44,591,785 fully vested warrants to purchase Common Stock at exercise prices ranging from $0.067 to $1.25 per share.

8. AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT AND COMPENSATION ARRANGEMENTS

In July 2003 the Company and the Company's Chief Executive Officer (CEO) amended the terms of his employment agreement (expiring June 2005). Under the terms of the previous Executive Employment Agreement, the CEO would have been granted seven percent (non-dilutive) of all the then issued and outstanding shares of the Company's Common Stock in the event a "USA Transaction" (as defined) occurs, which among other events includes a change in control of the Company. The amended terms of the Executive Employment Agreement, eliminates the seven percent (non-dilutive) right to receive Common Stock upon a "USA Transaction" and now grants the CEO an aggregate of 14,000,000 shares of Common Stock subject to adjustment for stock splits or combinations in the event a "USA Transaction" occurs. In exchange for the amendment of these terms, the Company issued an aggregate of 10,500,000 shares of its Common Stock to the CEO valued at $4,620,000 or $0.44 per share representing the quoted market price of the Company's Common Stock on the date the purchase agreement was entered into and the shares were granted as required by generally accepted accounting principles. The issuance of the shares to the CEO had no effect on shareholders' equity and did not impact the Company's cash flow from operations. In connection with this amendment, the CEO also entered into a lock-up agreement pursuant to which he shall not sell 2,500,000 of these shares for a one-year period and 8,000,000 of these shares for a two-year period. The CEO will not be required to pay any additional consideration for these shares of Common Stock. At the time of a "USA Transaction", all of the 14,000,000 shares to be issued to the CEO in connection with this amendment are automatically deemed to be issued and outstanding, and will be entitled to be treated as any other issued and outstanding shares of Common Stock. These shares will be irrevocable and fully vested, and have no expiration date and will not be affected by the termination of the CEO with the Company for any reason whatsoever.

During December 2003, the Company awarded cash bonuses based on recent performance to its executive officers and an employee in the aggregate amount of $645,000 that included a $250,000 bonus to its Chief Executive Officer and a $225,000 bonus to its President.

9. TERMINATION OF KODAK VENDING PLACEMENT AGREEMENT

The Company's wholly owned subsidiary, Stitch, had entered into a vending placement agreement whereby Stitch agreed to purchase film and cameras directly from Eastman Kodak Company and vending machines from a supplier. Stitch placed the vending machines at numerous locations throughout the United States under agreements negotiated with the location owners and derived revenues amounting to $144,000 and $347,000 for three and six months ended December 31, 2003, respectively.

As previously reported, Stitch alleged that the supplier and another party to the vending agreement breached the vending agreement and the supplier and another party to the vending agreement alleged that Stitch had breached the vending agreement. Effective December 31, 2003, the parties finalized a settlement of this matter which resulted in the termination of the vending agreement as of December 31, 2003. Per the settlement agreement, the Company will receive a payment from Kodak of approximately $675,000, which was received in January 2004. The Company will also receive payments of $300 per vending machine from the supplier of the vending machines, as the machines are pulled from service at the supplier's sole cost and expense. Upon receipt of the $300 per machine, title to the vending machine will transfer from Stitch to the supplier. The settlement agreement provides that all machines are to be pulled from service no later than mid calendar year 2004. The agreement also provided for the supplier to cancel a $124,000 obligation of Stitch for the purchase of vending machines.

The vending machines were used as collateral to secure the bank facility used to purchase the machines under which $516,009 was outstanding as of December 31, 2003. The Company will repay this debt as the vending machines are returned to the supplier.

This termination agreement resulted in a gain of $515,844 during the quarter ended December 31, 2003 and such amount is reflected as Other income in the December 31, 2003 Consolidated Statement of Operations. This gain is comprised of the payment from Kodak of approximately $675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately $124,000 reduced by a write down of the carrying value of vending machines of approximately $283,000 to reflect the vending machines at their realizable value of $300 per machine. The vending machines are reported as assets held for sale in the December 31, 2003 Consolidated Balance Sheet, as it was determined that the plan of sale criteria in FAS 144 was met in the termination agreement, at which time depreciation of these assets ceased. To the extent any costs are incurred by Stitch to fulfill its obligations under the settlement agreement, these costs will be recorded as incurred, as any additional costs cannot be reasonably estimated at this time.

10. SUBSEQUENT EVENT

On January 16, 2004, an increase in the number of authorized shares, from 400,000,000 to 475,000,000, was approved during the Company's Annual Meeting of Shareholders.

Subsequent to December 31, 2003, 5,215,370 Common Stock Warrants were exercised, which resulted in $465,070 of proceeds to the Company.

Pursuant to the registration rights agreement with La Jolla Cove Investors, Inc., we agreed to maintain an effective registration statement for the resale by La Jolla of the 2,252,683 shares and the 17,465,370 shares underlying the unexercised warrants held by La Jolla at all times from and after the date of issuance of the shares or warrants, as the case may be. These shares and warrants were issued by us to La Jolla in April, May and June 2003. From and after the date of issuance of these securities and until December 22, 2003, there was no effective registration statement covering these shares. In January 2004, we received a letter from La Jolla claiming, among other things, damages in an unspecified amount because the Company had failed to maintain an effective registration statement for these shares. We have informed La Jolla that any delay in having the registration statement declared effective was reasonable under the circumstances, and La Jolla is not entitled to damages. The Company believes that the claims of La Jolla are without merit and that it will prevail in this matter. Accordingly, there has been no provision recorded for this claim in the financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS.

### CRITICAL ACCOUNTING POLICIES

### GENERAL

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Company believes that its critical accounting policies and estimates relate to revenue recognition, software development costs, impairment of long-lived assets, goodwill and intangible assets and investments. Future results may differ from the estimates under different assumptions or conditions.

### REVENUE RECOGNITION

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 network. Service fees for access to the Company's equipment and network services are recognized on a monthly basis. Product revenues are recognized from the sale of products from Company owned vending machines when there is purchase and acceptance by the vending customer. Customers have the ability to return vended products for a full refund. The Company estimates an allowance of product returns at the date of sale.

### SOFTWARE DEVELOPMENT COSTS

The Company capitalizes software development costs pursuant to Statement of Financial Accounting Standards No. 86 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", after technological feasibility of the software is established and through the product's availability for general release to the Company's customers. All costs incurred in the research and development of new software and costs incurred prior to the establishment of technological feasibility are expensed as incurred. Amortization of software development costs commences when the product becomes available for general release to customers. Amortization of software development costs is calculated as the greater of the amount computed using (i) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues of that product or (ii) the straight-line method over the remaining estimated economic life of the product. The Company reviews the unamortized software development costs at each balance sheet date and, if necessary, will write down the balance to net realizable value if the unamortized costs exceed the net realizable value of the asset.

Software development costs are being amortized over a useful life of two years ending in April 2004. Amortization expense, reflected in cost of sales, was $333,000 and $666,000 for the three and six months ended December 31, 2003, respectively, and $291,000 and $583,000 for the three and six months ended December 31, 2002, respectively.

## IMPAIRMENT OF LONG LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets", the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of an asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value.

In the period when the plan of sale criteria of SFAS 144 are met, long-lived assets are reported as held for sale, depreciation and amortization cease, and assets are reported at the lower of carrying value or fair value less costs to sell.

## GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of cost over fair value of the net assets purchased in acquisitions. The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets". Under SFAS No. 142, goodwill is not amortized to earnings, but instead is subject to periodic testing for impairment. The Company tests goodwill for impairment using a two-step process. The first step screens for potential impairment, while the second step measures the amount of impairment, if any. The Company uses a discounted cash flow analysis to complete the first step in this process. Testing for impairment is to be done at least annually and at other times if events or circumstances arise that indicate that impairment may have occurred. The Company has selected April 1 as its annual test date. To date, no impairment of goodwill has occurred.

Intangible assets include patents, trademarks and non-compete arrangements purchased in acquisitions. Amortization of these intangibles is computed using the straight-line method over their estimated useful lives of five and ten years. Amortization expense was $309,000 and $590,000 for the three and six months ended December 31, 2003, respectively, and $73,000 and $146,000 for the three and six months ended December 31, 2002, respectively.

## INVESTMENT

The Company accounts for investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities". Management determines the appropriate classifications of securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported as a separate component of shareholders' equity in accumulated other comprehensive income (loss).

A judgmental aspect of accounting for investments involves determining whether an other-than-temporary decline in value of the investment has been sustained. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. Such evaluation is dependent on the specific facts and circumstances. Factors that are considered by the Company each quarter in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. In evaluating the factors above for available-for-sale securities, management presumes a decline in value to be other-than-temporary if the quoted market price of the security is below the investment's cost basis for a period of six months or more. However, the presumption of an other-than-temporary decline in these instances may be overcome if there is persuasive evidence indicating that the decline is temporary in nature (e.g., strong operating performance of investee, historical volatility of investee, etc.).

FORWARD LOOKING STATEMENTS

This Form 10-QSB 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, including but not limited to the exercise of outstanding options and warrants, (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.

RESULTS OF OPERATIONS

For the three months ended December 31, 2003 versus the three months ended December 31, 2002

The three month period ended December 31, 2003 resulted in a net operating loss of $3,737,624 (approximately $1.3 million non-cash) compared to a net loss of $3,630,997 (approximately $1.7 million non-cash) for the comparable quarter in the prior fiscal year.

Revenues for the three month period ended December 31, 2003 increased to $1,914,586 from $774,647 during the same period in the prior fiscal year, an increase of $1,139,939 or 147%. This increase was primarily attributed to sales of the Company's energy conservation equipment for the three months ended December 31, 2003, as such revenues did not exist in the corresponding quarter of the prior fiscal year since the acquisition of Bayview occurred in July 2003. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $1,425,176 from $384,459 in the corresponding quarter of the prior fiscal year, an increase of $1,040,717 or 271%. This increase is mainly due to sales of the Company's energy conservation equipment of approximately $1,162,000 for the three months ended December 31, 2003, as such revenues did not exist in the corresponding quarter of the prior year, since the acquisition of Bayview occurred in July 2003. The increase from energy conservation equipment sales was offset by a decrease in Business Center equipment sales of approximately $86,000 due to a lower average selling price per Business Center. The average selling price per business center decreased as a result of the popularity of the Company's newly introduced, lower priced Space Saver product.

License and transaction fees: Revenues from license and transaction fees decreased $47,455 or 15% from $314,612 to $267,157 for the three months ended December 31, 2002 and 2003, respectively. This decrease was due to a decrease in fees earned from the Kodak Vending Placement Agreement of approximately $59,000 as a result of the wind down of the contract, offset by an increase in fees of approximately $12,000 as a result of an increase in the number of the Company's e-Port and TransAct units connected to the Company's network.

Product sales and other: Revenues from product sales and other increased to $222,253 from $75,576, an increase of $146,677 or 194% over the same period of the prior fiscal year. This increase was due to $200,000 recorded for the three months ended December 31, 2003 related to the Strategic Alliance Agreement executed in October 2003 between the Company and Conopco, Inc dba Unilever Home & Personal Care North America. This was offset by a decrease in camera and film sales from Company owned vending machines of approximately $56,000 as a result of the wind down of the Kodak Vending Placement Agreement.

Cost of sales consisted of equipment, product and labor costs of approximately $615,000 and $242,000 for the three months ended December 31, 2003 and 2002, respectively, an increase of $373,000; software development amortization of approximately $333,000 and $292,000 for the three months ended December 31, 2003 and 2002, respectively, an increase of $41,000; and network and transaction related costs of $135,000 and $139,000 for the three months ended December 31, 2003 and 2002, respectively, a decrease of $4,000. The increase in total cost of sales to $1,083,419 from $671,940 in the same period prior fiscal year, an increase of $411,479 or 61%, was principally attributable to the increase in equipment sales.

Gross profit for the three months ended December 31, 2003 was $831,167, compared to gross profit of $102,707 in the same period in the prior fiscal year. The increase of $728,460 or 709% was primarily due to the addition of our higher margin, energy conservation equipment sales that were not present in the same period in the prior fiscal year.

Total operating expenses for the three months ended December 31, 2003 was $3,982,817, an increase of $1,528,152 or 62% over the same period from the prior fiscal year. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this significant increase are explained further below:

General and administrative expenses increased from $1,368,373 for the three months ended December 31, 2002 to $1,780,242 for the three months ended December 31, 2003, an increase of $411,869 or 30%. This increase is due to increases in overall general and administrative expenses of approximately $369,000 related to the acquired energy conservation operation, as such expenses did not exist in the comparable period last fiscal year, an increase of $89,000 in consulting and temporary services, primarily for network services and a $41,000 increase in utility expenses. These increases were offset by decreases in expenses related to professional fees of $130,000, primarily related to promotion and public relations.

Compensation expense increased to $1,740,012 for the three months ended December 31, 2003, a $901,299 or 107% increase over the comparable period last fiscal year. This increase is due to approximately $641,000 increase in bonus expenses, primarily to the Company's executive officers and approximately $205,000 of additional compensation, including sales commissions, related to the acquired energy conservation operations in July 2003, as such expenses did not exist in the comparable period last fiscal year.

Depreciation and amortization expense for the three months ended December 31, 2003 was $420,945, compared to $247,579 for the same period in the prior fiscal year, a $173,366 or 70% increase. This increase was attributable to amortization expense of intangible assets of $236,000 and depreciation expense of fixed assets of $30,000 acquired from Bayview in July 2003. These increases were offset by a decrease of $93,000 of depreciation expense in this quarter compared to the same period last fiscal year, due to assets reaching the end of their estimated useful life after December 31, 2002 but prior to the quarter ended December 31, 2003.

The Company incurred a charge this quarter relating to the modification of debt terms for certain of the 2003 and 2004 Senior Notes in the amount of $41,618. There was no such comparable charge in the same quarter of the prior year. This charge relates to the unamortized debt discount remaining for the Senior Notes maturing in December 2003 and December 2004 whose conversion and maturity terms were modified. The Company offered these note modifications to the Note holders, and recognized the related non-cash charge to operations in order to manage short-term cash flows.

In the three months ended December 31, 2003, a gain of $515,844 was recorded relating to the termination of the Kodak Vending Placement Agreement. This gain is comprised of the payment from Kodak of approximately $675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately $124,000 reduced by a write down of the carrying value of vending machines of approximately $283,000 to their realizable value of $300 per vending machine. To the extent any costs are incurred by Stitch to fulfill its obligations under the settlement agreement, these costs will be recorded as incurred, as any additional costs cannot be reasonably estimated at this time.

Total interest expense decreased from $1,283,302 to $1,113,905 for the three months ended December 31, 2002 and 2003, respectively, a decrease of $169,397 or 13%. This decrease was primarily due to lower principal balances on the Company's 12% Senior Notes as the result of conversions of the Senior Notes into shares of the Company's Common Stock. At the time of conversion, the note holder is issued shares equivalent to the conversion rate on the Senior Note, any unamortized debt discount on the note is accelerated and charged to interest expense and future interest on the converted note ceases to accrue. Therefore, interest expense and debt discount amortization for the three months ended December 31, 2003 decreased from the comparable period last fiscal year.

For the six months ended December 31, 2003 versus the six months ended December 31, 2002

The six month period ended December 31, 2003 resulted in a net operating loss of $13,040,708 (approximately $8.8 million non-cash) compared to a net loss of $7,205,215 (approximately $3.1 million non-cash) for the comparable period in the prior fiscal year.

Revenues for the six month period ended December 31, 2003 increased to $3,595,194 from $1,509,092 during the same period in the prior fiscal year, an increase of $2,086,102 or 138%. This increase was primarily attributed to sales of the Company's energy conservation equipment for the six months ended December 31, 2003, as such revenues did not exist in the corresponding period of the prior fiscal year since the acquisition of Bayview occurred in July 2003. Revenues are discussed in more detail as follows:

Equipment sales: Revenues from equipment sales increased to $2,711,654 from $572,947 in the corresponding period of the prior fiscal year, an increase of $2,138,707 or 373%. This increase is mainly due to sales of the Company's energy conservation equipment of approximately $2,107,383. During the period, the Company fulfilled purchase orders for its energy conservation equipment from customers such as food and drug retailer, Albertsons, automotive parts retailer, AutoZone, and Texas energy utility company, Austin Energy. Revenue from the sales of the Company's e-Port device increased to approximately $264,000 for the six months ended December 31, 2003, an increase of $136,000 or 106%, from $128,000 for the six months ended December 31, 2002. During the period, the Company fulfilled purchase orders for its e-Port device from customers such as vending management company, International Vending Management (IVM), and food service and vending company, Canteen. The increases from energy conservation equipment and e-Port sales was offset by a slight decrease in Business Center equipment sales of approximately $76,000 due to a lower average selling price per business center. The average selling price per business center decreased as a result of the popularity of the Company's newly introduced, lower priced Space Saver product.

License and transaction fees: Revenues from license and transaction fees decreased $70,459 or 11% from $657,265 to $586,806 for the six months ended December 31, 2002 and 2003, respectively. This decrease was due to a decrease in fees earned from the Kodak Vending Placement Agreement of approximately $94,000 as a result of the wind down of the contract, offset by an increase in fees of approximately $24,000 as a result of an increase in the number of the Company's e-Port and TransAct units connected to the Company's network.

Product sales and other: Revenues from product sales and other increased to $296,734 from $278,880, an increase of $17,854 or 6% over the same period of the prior fiscal year. This increase was due to $200,000 recorded in the quarter ended December 31, 2003 related to the Strategic Alliance Agreement executed in October 2003 between the Company and Conopco, Inc dba Unilever Home & Personal Care North America. This increase was offset by a decrease in camera and film sales from Company owned vending machines of approximately $182,000 as a result of the wind down of the Kodak Vending Placement Agreement.

Cost of sales consisted of equipment, product and labor costs of approximately $1,213,000 and $451,000 for the six months ended December 31, 2003 and 2002, respectively, an increase of $762,000; software development amortization of approximately $666,000 and $583,000 for the six months ended December 31, 2003 and 2002, respectively, an increase of $83,000; and network and transaction related costs of $287,000 and $306,000 for the six months ended December 31, 2003 and 2002, respectively, a decrease of $19,000. The increase in total cost of sales to $2,165,582 from $1,339,400 in the same period prior fiscal year, an increase of $826,182 or 62%, was primarily attributable to the increase in equipment sales.

Gross profit for the six months ended December 31, 2003 was $1,429,612, compared to gross profit of $169,692 in the same period in the prior fiscal year. The increase of $1,259,920 or 742% was primarily due to the addition of our higher margin, energy conservation equipment sales that were not present in the same period in the prior fiscal year.

Total operating expenses for the six months ended December 31, 2003 was $11,860,040, an increase of $6,670,194 or 129% over the same period from the prior fiscal year. The components of operating expenses (General and administrative, Compensation, Depreciation and amortization and Loss on debt modification) and the causes of this significant increase in each category are explained further below:

General and administrative expenses increased from $3,010,751 for the six months ended December 31, 2002 to $3,282,011 for the six months ended December 31, 2003, an increase of $271,260 or 9%. This increase is due to increases in overall general and administrative expenses of approximately $731,000 related to the acquired energy conservation operation, as such expenses did not exist in the comparable period last fiscal year. This increase was offset by decreases of $240,000 related to professional fees, primarily related to promotion and public relations, $140,000 of utility expenses and $120,000 in consulting and temporary services, primarily for network services.

Compensation expense increased to $7,443,210 for the six months ended December 31, 2003, a $5,758,778 or 342% increase over the comparable period last fiscal year. This increase is primarily due to the issuance of 10,500,000 shares of Common Stock to the Company's Chief Executive Officer in connection with the amendment of his employment agreement. This was a one-time, non-cash payment valued at $4,620,000 representing 80% of the total increase. Other components of this increase were due to approximately $711,000 increase in bonus expenses, primarily to the Company's executive officers and approximately $412,000 of additional compensation, including sales commissions, related to the acquired energy conservation operations in July 2003, as such expenses did not exist in the comparable period last fiscal year.

Depreciation and amortization expense for the six months ended December 31, 2003 was $815,904, compared to $494,663 for the same period in the prior fiscal year, a $321,241 or 65% increase. This increase was attributable to amortization expense of intangible assets of $444,000 and depreciation expense of fixed assets of $60,000 acquired from Bayview in July 2003. These increases were offset by a decrease of $183,000 of depreciation expense during the current six month compared to the same period last fiscal year, due to assets reaching the end of their estimated useful life after December 31, 2002.

The Company incurred a charge during the six months ended December 31, 2003 relating to the modification of debt terms for certain of the 1999 and 2000 Senior Notes in the amount of $318,915. There was no such comparable charge in the same period of the prior year. This charge relates to the unamortized debt discount remaining for the Senior Notes maturing in December 2003 and December 2004 whose conversion and maturity terms were modified. The Company offered these note modifications to the Note holders, and recognized the related non-cash charge to operations in order to manage short-term cash flows.

In the six months ended December 31, 2003, a gain of $515,844 was recorded relating to the termination the Kodak Vending Placement Agreement. This gain is comprised of the payment from Kodak of approximately $675,000 plus the cancellation of Stitch's obligation to the supplier of the vending machines of approximately $124,000 less a write down of the carrying value of vending machines of approximately $283,000 to their realizable value of $300 per vending machine. To the extent any costs are incurred by Stitch to fulfill its obligations under the settlement agreement, these costs will be recorded as incurred, as any additional costs cannot be reasonably estimated at this time.

Total interest expense increased from $2,192,298 to $3,177,301 for the six months ended December 31, 2002 and 2003, respectively, an increase of $985,003 or 45%. This increase was primarily attributable to charges incurred due to the acceleration of unamortized debt discount and other issuance costs on the 12% Senior Notes that were converted into Common Stock during the six month period.

PLAN OF OPERATIONS

With the acquisition of Bayview on July 11, 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). These energy conservation devices reduce power consumption of various types of equipment by allowing the equipment to operate in power saving mode when full power mode is not necessary. These devices, which include the VendingMiser, CoolerMiser, SnackMiser, MonitorMiser and LaserMiser can use activity, occupancy, temperature, timing or other various methods to determine which mode the equipment should be in. Route to market for the energy conservation devices is much the same as the Company's e-Port technology, with the notable addition of governmental and utility rebate and give-away programs, where by part or all of the cost of the energy management device is covered by government funds allocated to energy conservation projects.

In October 2003, the Company signed a strategic alliance agreement with Conopco, Inc. dba Unilever Home & Personal Care North America to be the exclusive provider of laundry detergent for the e-Suds program to be used in colleges and universities located in the United States. Per the terms of the agreement, the Company agrees to be a reseller of Unilever Products that are dispensed through the USA e-Suds System and the Company will also receive fees from Unilever based on the number of injections of Unilever Products through the USA e-Suds System.

In December 2003, the parties to the Kodak Vending Placement Agreement agreed to the termination of the contract effective December 31, 2003. The settlement resulted in the termination of the vending agreement pursuant to which the Company will receive a payment from Kodak of approximately $675,000 (received in January 2004) and payments equal to $300 per vending machine, due from the supplier of the vending machines, as the machines are pulled from service at the supplier's sole cost and expense. Upon receipt of the $300 per vending machine, title to the vending machine will transfer from Stitch to the supplier. The settlement agreement provides that all machines are to be pulled from service no later than mid calendar year 2004. In addition, the supplier agreed to cancel an obligation for the purchase of vending machines owed by Stitch in the approximate amount of $124,000.

The vending machines were used as collateral to secure a bank facility used to purchase the machines under which $516,009 was outstanding as of December 31, 2003. Final payment of the debt will occur no later than the time Stitch transfers title of the machines to the supplier.

Although revenues of the Company will be reduced as a result of vending contract termination, because the Kodak program is and has been operating at a loss, the termination of the program would eliminate these ongoing losses. Revenues related to the Kodak program through the fiscal year ended June 30, 2003 were approximately $1,092,000 and approximately $144,000 and $352,000 for the three and six months ended December 31, 2003, respectively.

In October 2002, the Company signed a Strategic Alliance Agreement with ZiLOG Corporation, a semiconductor company, which is a supplier of microprocessors to the retail point of sale industry. The agreement allows the Company's proprietary network software (USALive) to be embedded on a chip produced by ZiLOG. The Company will license its software to the purchaser and will be entitled to receive a fee for this license. A second revenue stream could be generated from purchasers who buy the retail point of sales terminals and begin to use them, if they elect to use the USA network embedded on the chip. To date, no products have been available for commercial use and accordingly, no revenues have been generated.

In laundry, American Sales Inc. (ASI) has signed a five-year agreement to purchase units of Stitch's e-Suds laundry solution for their university locations in the Midwest, with initial installations to begin in the fall of 2003. In October 2003, the Company installed a system at ASI's facilities for final testing. To date, the system has not completed final testing, and the Company anticipates unit sales to begin during the fourth quarter of fiscal year 2004.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended December 31, 2003, net cash of $5,484,151 was used by operating activities, primarily due to the net loss of $13,040,708 offset by non-cash charges aggregating to $8,805,187 for transactions involving issuing Common Stock for services and in connection with the amendment to the CEO's employment agreement, depreciation and amortization of assets, amortization of debt discount, loss on debt modifications relating to the Senior Notes and interest expense relating to the Senior Notes paid through the issuance of Common Stock and Common Stock Warrants, offset by a gain on the sale of investment and gain on the termination of a contract. In addition, the Company's net operating assets increased by $1,248,630 (primarily inventory and accounts receivable), a substantial portion of which relates to the addition of the energy conservation equipment line from the Bayview acquisition.

For the six months ended December 31, 2003, net cash used in investing activities was $562,089, comprised of the cash component of the investment in Bayview, purchases of property and equipment and the proceeds received from the sale of a portion of the investment in the Jubilee Trust.

Proceeds from financing activities for the six months ended December 31, 2003 provided the funds necessary to support cash used in operating and investing activities. Proceeds of $6,576,218 were realized from several private placement offerings of Common Stock, the exercise of Common Stock Warrants and collection of Common Stock subscriptions receivable. Payments of long-term debt and capital leases totaled $392,629.

Long-term debt obligations of the Company as of December 31, 2003 were as follows:

| | |
|---|---|
| Bank facility | $ 516,009 |
| Working capital loans | 96,765 |
| Other, including capital lease obligations | 49,885 |
| | 662,659 |
| Less current portion | 639,611 |
| | $ 23,048 |

The bank facility (the Facility) was utilized to fund the purchase of vending machines placed at locations where Kodak film products are sold. Borrowings were made from time to time under the Facility, with repayment schedules set at the time of each borrowing, including equal monthly payments over 36 months and an interest rate based upon 495 basis points over the three year U.S. Treasury Notes. The Company granted the bank a security interest in the vending machines. Repayment of principal is also insured by a Surety Bond issued by a third-party insurer in exchange for an initial fee paid by the Company. Final maturity, scheduled to extend into the fiscal year ending June 30, 2005, is anticipated to occur during the year ending June 30, 2004 due to the termination of the vending placement agreement and the removal from service and sale of the vending machines used as collateral for the bank facility. As described above, the debt, with a balance outstanding at December 31, 2003 of $516,009, will be repaid no later than the time Stitch returns the vending machines to the supplier.

In connection with the Stitch acquisition, the Company assumed long-term debt which included a vending equipment borrowing facility and working capital loans. These loans are secured by certain assets of Stitch and bear interest at 6.75% per annum, payable on July 8, 2002. During fiscal year 2003 the bank extended the due date on these loans on several occasions under forbearance agreements. On November 6, 2003, the Company reached an agreement with the bank to make monthly installments that will repay the remaining balance by October 2004.

The Company has incurred losses since inception. For the six months ended December 31, 2003, the net loss was $13,040,708 of which $8,805,187 related to non-cash charges. Cumulative losses through December 31, 2003 amounted to approximately $92 million. The Company has continued to raise capital through equity and debt offerings to fund operations.

The impact of the Bayview acquisition on cash flow for the six months ended December 31, 2003 was a net cash outflow of approximately $1.2 million - $500,000 of cash used in operations and $728,000 invested in operating assets and liabilities in connection with the purchase. The structure of the acquisition of the energy conservation equipment line from Bayview did not include acquiring the working capital required to support the business. The six months' operating cash flows reflected an investment for this working capital.

During the year ended June 30, 2003, cash used in operating activities was approximately $750,000 per month. For the six months ended December 31, 2003 cash used in operating activities, was approximately $915,000 per month. Operating cash flows during the six months ended December 31, 2003 was impacted by increases in inventory and accounts receivable that were disproportionate to the increase in revenues by approximately $600,000. The period also absorbed costs for 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 receivables, and operating costs to reduce cash used in operating activities to approximately $700,000 per month. Using that as a basis for estimating capital 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 $9.4 million from January 1, 2004 through December 31, 2004.

This estimate does not consider the positive impact the Company expects to achieve from the Bayview acquisition during the remainder of the year and the incremental revenues from the Company's other products and services. The energy conservation equipment line acquired from Bayview is expected to generate revenues of $5 million during the fiscal 2004 year and produce operating cash flow of approximately $1.5 million during the remainder of the year. As the Bayview acquisition only occured in July 2003, we do not have historical experience with this operation as integrated into the Company's operations and, therefore, the achievement of the positive cash flow impact is not certain at this stage of integration and operation. However, deficits in consolidated operating cash flows are still anticipated for the remainder of fiscal year 2004.

As of December 31, 2003, the Company had $2.5 million of cash and cash equivalents, primarily as a result of proceeds from several private placements of Common Stock entered into during the three months ended September 30, 2003. In September 2003, the Company also sold 700,000 shares of its investment in the Jubilee Trust generating net proceeds of $395,000 and could sell a substantial portion of the remaining Jubilee shares during fiscal year 2004 creating additional cash of approximately $1 million based on the investment's current quoted market price.

As of December 31, 2003, there were 44,591,785 fully vested warrants to purchase Common Stock at exercise prices ranging from $0.067 to $1.25 per share. There are 39,251,092 warrants that are "in the money", with exercise prices below $0.11 per share. The potential exercise of these "in the money" warrants could provide $3,460,260 of additional proceeds to the Company. Subsequent to December 31, 2003, 5,215,370 warrants were exercised, generating $465,070 of proceeds to the Company. However, future exercises of warrants is uncertain and the Company does not expect to rely on the proceeds from the potential exercise of warrants to meet its capital requirements through the end the of 2004 fiscal year.

Based on current revenue and operating levels, cash on hand of $2.5 million, proceeds received from the exercise of warrants subsequent to December 31, 2003 of $465,070, as well as working capital management initiatives and the potential proceeds, at current market prices, generated from the sale of the Jubilee shares, the Company believes it will have sufficient funds to meet its requirements for the remainder of the 2004 fiscal year (through June 30, 2004). However, if revenues remain at current levels during the next twelve months, additional capital of at least $5.5 million will be required to meet cash flow needs during this period from July 1, 2004 and through December 31, 2004 considering the assumptions described above of approximately $9.4 million cash need, cash on hand of $2.5 million and $1 million of additional cash from the sale of its investment in Jubilee, based on current market prices and proceeds of $0.5 million from warrant exercises subsequent to December 31, 2003. The Company intends to meet this capital requirement by raising additional funds through the sale its securities, and given the Company's current product offerings and the markets it is addressing, the Company believes the capital markets should be available to raise sufficient capital to fund its operating needs. However, if revenues increase significantly over this period, cash generated from such improved operations and additional proceeds from the potential exercise of "in the money" warrants could meet a substantial portion of these capital requirements.

ITEM 3. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of December 31, 2003. Based on this evaluation, they conclude that the disclosure controls and procedures effectively ensure that the information required to be disclosed in the Company's filings and submissions under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal controls.

There have been no changes during the quarter ended December 31, 2003 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 2. CHANGES IN SECURITIES

In December 2003, the Company agreed to issue 488,577 shares of Common Stock and Common Stock Warrants to purchase up to 488,577 shares to holders of its Convertible Senior Notes who elected to receive these securities in lieu of the cash interest payment due for the quarter ended December 31, 2003. The shares were purchased at the rate of $0.20 per share and the warrants are exercisable at $0.20 per share at any time through June 30, 2004. The Company has agreed to use its best efforts to register these shares and the shares underlying the warrants under the Act for resale through June 30, 2004. The securities were offered and sold under the exemption from registration set forth in Rule 506 promulgated under Section 4(2) of the Act. All of the note holders are accredited investors and there was no general solicitation or advertising.

During the quarter ended December 31, 2003, 31 holders of $350,000 principal amount of the Senior Notes that matured in December 2003 elected to extend these notes until December 31, 2006 and to have the conversion rate reduced from $1.25 per share to $0.20 per share. The note exchange was exempt from the registration requirements of the Act pursuant to Section 3(a)(9) thereof.

During the quarter ended December 31, 2003, 24 holders of $127,357 principal amount of the Senior Notes maturing in December 2004 elected to extend these notes until December 31, 2007 and to have the conversion rate reduced from $0.40 per share to $0.20 per share. The note exchange was exempt from the registration requirements of the Act pursuant to Section 3(a)(9) thereof.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

3.1.19 Nineteenth Amendment to Articles of Incorporation of USA filed January 16, 2004.

3.1.20 Amended and Restated Articles of Incorporation of USA filed January 26, 2004.

10.1.1 First Amendment to Employment and Non-Competition Agreement between USA and Adele Hepburn dated as of February 4, 2004.

10.4.3 Fourth Amendment to Employment and Non-Competition Agreement between USA and H. Brock Kolls dated April 15, 2002.

10.9.4 Fourth Amendment to Employment and Non-Competition Agreement between USA and Stephen P. Herbert dated February 4, 2004.

10.21.6 Sixth Amendment to Employment and Non-Competition Agreement between USA and George R. Jensen, Jr. dated February 4, 2004.

10.6 Termination Agreement dated December 31, 2003 by and between Eastman Kodak Company, Maytag Corporation, Dixie-Narco, Inc. and Stitch Networks Corporation.

31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

On October 3, 2003, the Company filed a Form 8-K to report on Items 5 and 7(c) the sale of 20,000,000 shares of Common Stock, with the form of Stock Purchase Agreement and a Press Release attached as exhibits thereto.

SIGNATURES

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

USA TECHNOLOGIES, INC.

Date: February 12, 2004

/ s / George R. Jensen, Jr.

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

Date: February 12, 2004

/ s / David M. DeMedio

David M. DeMedio, Chief Financial Officer

EXHIBIT 3.1.19

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Articles of Amendment-Domestic Corporation
(15 Pa.C.S.)

X Business Corporation (ss 1915)

2072587 ----- Nonprofit Corporation (ss 5915)

DOCUMENT WILL BE RETURNED TO THE NAME AND ADDRESS YOU ENTER TO THE LEFT.

Name

Address <---------

City State Zip Code

Fee: $70
...........

Filed in the Department of State on ____________

____________________
Secretary of the Commonwealth

In compliance with the requirements of the applicable provisions (relating to articles of amendment), the undersigned, desiring to amend its articles, hereby states that:

1. The Name of the corporation is:

USA TECHNOLOGIES, INC.

2. The (a) address of this corporation's current registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is: (the Department is hereby authorized to correct the following information to conform to the records of the Department)

| (a) Number and Street | City | State | Zip | County |
|---|---|---|---|---|
| 100 DEERFIELD LANE, SUITE 140 | MALVERN | PA | 19355 | CHESTER |

(b) Name of Commercial Registered Office Provider County

c/o

3. The statute by or under which it was incorporated: BUSINESS CORPORATION LAW OF 1988

4. The date of its incorporation: JANUARY 16, 1992

5. Check, and if appropriate complete, one of the following:

X The amendment shall be effective upon filing these Articles of Amendment in the Department of State

__ The amendment shall be effective on: ______________ at ______________
Date Hour

- ---------------------------------------------------------------------------------

- ---------------------------------------------------------------------------------

6. check one of the following :

X The amendment was adopted by shareholders pursuant to 15 Pa.C.S. ss 1914(a) and (b) or ss 5914(a).

__ The amendment was adopted by the board of directors pursuant to 15 Pa.C.S. ss 1914(c) or ss 5914(b)

- ---------------------------------------------------------------------------------

- ---------------------------------------------------------------------------------

7. Check , and if appropriate, complete on of the following:

__ The amendment adopted by the corporation, set forth in full, is as follows.

X The amendment adopted by the corporation, is set forth in full in Exhibit A attached hereto and made a part hereof.

- ---------------------------------------------------------------------------------

- ---------------------------------------------------------------------------------

8. Check if the amendment restated the Article:

__ The restated Article of Incorporation supersede the original articles and all amendments thereto.

-------------------------------------------

IN TESTIMONY WHEREOF, the undersigned has caused this Application for Registration to be signed by a duly authorized officer thereof this

16th day of January 2004

USA TECHNOLOGIES, INC.

Name of Corporation Limited Partnership

/s/ George R. Jensen, Jr.

George R. Jensen, Signature

Chief Executive Officer

Title

EXHIBIT A
TO THE
ARTICLES OF AMENDEMNT TO THE

ARTICLES OF INCORPORATION
OF
TECHNOLOGIES, INC.

Paragraph (A) Classes of stock of Article 4 of the Articles of Incorporation of the Company shall be amended and restated to read in full as follows:

> "A) Classes of stock. The aggregated number of shares which the corporation shall have authority to issue is 476,800,000 shares, consisting of 475,000,000 shares of Common Stock, without par value, and 1,800,000 shares of Series Preferred Stock, without par value."

EXHIBIT 3.1.20

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Articles of Amendment-Domestic Corporation
(15 Pa.C.S.)

X Business Corporation (ss 1915)

2072587 ----- Nonprofit Corporation (ss 5915)

| | |
|---|---|
| Name<br>DOUGLAS M. LURIO, ESQUIRE | DOCUMENT WILL BE RETURNED TO THE NAME AND ADDRESS YOU ENTER TO THE LEFT. |
| Address<br>2005 MARKET STREET, SUITE 2340 | <--------- |
| City State Zip Code<br>PHILADELPHIA PA 19103 | |

Fee: $70
...........

Filed in the Department of State on ____________

______________________________
Secretary of the Commonwealth

In compliance with the requirements of the applicable provisions (relating to articles of amendment), the undersigned, desiring to amend its articles, hereby states that:

1. The Name of the corporation is:

USA TECHNOLOGIES, INC.

2. The (a) address of this corporation's current registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is: (the Department is hereby authorized to correct the following information to conform to the records of the Department)

| (a) Number and Street | City | State | Zip | County |
|---|---|---|---|---|
| 100 DEERFIELD LANE, SUITE 140 | MALVERN | PA | 19355 | CHESTER |

(b) Name of Commercial Registered Office Provider County

c/o

3. The statute by or under which it was incorporated: BUSINESS CORPORATION LAW OF 1988

4. The date of its incorporation: JANUARY 16, 1992

5. Check, and if appropriate complete, one of the following:

X The amendment shall be effective upon filing these Articles of Amendment in the Department of State

__ The amendment shall be effective on: ______________ at ______________
Date Hour

- ------------------------------------------------------------------------------

- ------------------------------------------------------------------------------

6. check one of the following :

__ The amendment was adopted by shareholders pursuant to 15 Pa.C.S. ss 1914(a) and (b) or ss 5914(a).

X The amendment was adopted by the board of directors pursuant to 15 Pa.C.S. ss 1914(c) or ss 5914(b)

- ------------------------------------------------------------------------------

- ------------------------------------------------------------------------------

7. Check , and if appropriate, complete on of the following:

__ The amendment adopted by the corporation, set forth in full, is as follows.

X The amendment adopted by the corporation, is set forth in full in Exhibit A attached hereto and made a part hereof.

- ------------------------------------------------------------------------------

- ------------------------------------------------------------------------------

8. Check if the amendment restated the Article:

X The restated Article of Incorporation supersede the original articles and all amendments thereto.

------------------------------------------

IN TESTIMONY WHEREOF, the undersigned has caused this Application for Registration to be signed by a duly authorized officer thereof this

23rd day of January 2004

USA TECHNOLOGIES, INC.

Name of Corporation Limited Partnership

/s/ George R. Jensen, Jr.

George R. Jensen, Signature

Chief Executive Officer

Title

EXHIBIT A

AMENDED AND RESTATED
ARTICLES OF INCORPORATION

1. The name of the corporation is USA TECHNOLOGIES, INC.

2. The address of the corporation's current registered office in the Commonwealth is 100 Deerfield Lane, Suite 140, Malvern, PA 19355, Montgomery County.

3. The corporation is incorporated under the Business Corporation Law of 1988.

4. Capital Stock.

(A) Classes of Stock. The aggregate number of shares which the corporation shall have authority to issue is 476,800,000 shares, consisting of 475,000,000 shares of Common Stock, without par value, and 1,800,000 shares of Series Preferred Stock, without par value.

(B) Rights, Preferences and Restrictions of Series Preferred Stock. The Series Preferred Stock authorized by these Articles may be issued from time to time in one or more series. The Board of Directors of the corporation shall have the full authority permitted by law to establish one or more series and the number of shares constituting each such series and to fix by resolution full, limited, multiple or fractional, or no voting rights, and such designations, preferences, qualifications, privileges, limitations, restrictions, options, conversion rights and other special or relative rights of any series of the Series Preferred Stock that may be desired. Excluding the Series A Preferred Stock referred to hereinafter and subject to the limitation on the total number of shares of Series Preferred Stock which the corporation has authority to issue hereunder, the Board of Directors is also authorized to increase or decrease the number of shares of any series, subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

(C) Designation of Series A Convertible Preferred Stock. There is hereby established a series of the Series Preferred Stock designated "Series A Convertible Preferred Stock" (herein referred to as "Series A Preferred Stock"), consisting of 900,000 shares, having the relative rights, designations, preferences, qualifications, privileges, limitations, and restrictions applicable thereto as follows:

1. Dividend Provisions.

(a) The holders of shares of Series A Preferred Stock shall be entitled to receive dividends, out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock or other securities and rights convertible into or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock of this corporation) on the Common Stock of this corporation, at the rate of $1.50 per share per annum, payable when, as and if declared by the Board of Directors. Such dividends shall be cumulative, but accumulations of dividends shall not bear interest.

(b) No deposit, payment, or distribution of any kind shall be made in or to any purchase or redemption requirement applicable to any class or series of junior shares unless all accumulations of dividends earned on the Series A Preferred Stock as of the last day of the most recently ended year shall have been paid. So long as any Series A Preferred Stock shall remain outstanding, no dividend (payable other than in Common Stock or other securities and rights convertible into or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock of this corporation) or other distribution (except in junior shares) shall be paid or made on the Common Stock of the corporation or on other junior shares of the corporation and no share of Common Stock or other junior shares shall be purchased or otherwise acquired by the corporation or any subsidiary of the corporation other than upon exercise of the corporation's rights under any restricted stock purchase agreement or by exchange therefor of junior shares or out of the proceeds of the substantially concurrent sale of junior shares, unless (whether or not there shall be funds legally available therefor) all accumulations of dividends earned on the Series A Preferred Stock as of the last day of the most recently ended year shall have been paid. The term "junior shares" shall mean any class or series of stock junior to the Series A Preferred Stock as to dividends and the distribution of assets upon liquidation, dissolution, bankruptcy, reorganization or other insolvency proceeding, and upon the winding up of the corporation.

Subject to the above limitations, dividends may be paid on the Common Stock or any other junior shares out of any funds legally available for such purpose when and as declared by the Board of Directors.

2. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the corporation, either voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of this corporation to the holders of Common Stock by reason of their ownership thereof, an amount per share equal to the sum of (i) $10.00 for each outstanding share of Series A Preferred Stock and (ii) all accumulations of unpaid dividends on each share of Series A Preferred Stock (such amount being referred to herein as the "Premium"). If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series A Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the corporation legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock in proportion to the amount of such stock owned by each such holder.

(b) After the distribution described in subsection (a) has been paid, and subject to any distributions to be made to any holders of junior shares, the remaining assets of the corporation available for distribution to shareholders shall be distributed among the holders of Common Stock pro rata based on the number of shares of Common Stock held by each such holder.

(c) A consolidation or merger of this corporation with or into any other corporation or corporations, or a sale, conveyance or disposition of all or substantially all of the assets of this corporation or the effectuation by the corporation of a transaction or series of related transactions in which more than 50% of the voting power of the corporation is disposed of, shall be deemed to be a liquidation, dissolution or winding up within the meaning of this Section 2, if the holders of at least 60% of the outstanding Series A Preferred Stock elect to have such transaction treated as a liquidation.

3. Conversion. The holders of the Series A Preferred Stock shall have conversion rights as follows:

(a) Conversion Rights.

(i) Each share of Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of this corporation or any transfer agent for the Series A Preferred Stock, into such number of fully paid and no assessable shares of Common Stock as is determined by dividing $1.00 (provided, however, that such number shall be $1.20 rather than $1.00 for each share of Series A Preferred Stock converted into shares of Common Stock during the period of time from March 24, 1997 through December 31, 1997) by the Conversion Price at the time in effect for such share. The initial Conversion Price per share for shares of Series A Preferred Stock shall be $.10; provided, however, that the Conversion Price for the Series A Preferred Stock (the "Conversion Price") shall be subject to adjustment as set forth in Subsection 3(c).

(ii) Upon conversion of any Series A Preferred Stock, any accrued but unpaid dividends on such Series A Preferred Stock may at the option of the holder of such Series A Preferred Stock be converted into fully paid and nonassessable shares of Common Stock at the price of $1.00 per share of Common Stock; provided, however, that during the period of time from March 24, 1997 through December 31, 1997, the price shall be $.83 for each share of Common Stock. The price at which shares of Common Stock may be acquired pursuant to this subparagraph (ii) shall be appropriately increased or decreased from time to time to reflect any split, subdivision or combination of the issues and outstanding Common Stock as the case may be.

(b) Mechanics of Conversion. Before any holder of Series A Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the corporation or of any transfer agent for the Series A Preferred Stock, and shall give written notice by mail, postage prepaid, to the corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series A Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of whole shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series A Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. If the conversion is in connection with an underwritten offer of securities registered pursuant to the Securities Act of 1933, the conversion may at the option of any holder tendering Series A Preferred Stock for conversion, be conditioned upon the closing with the underwriter of the sale of the securities pursuant to such offering, in which event the person(s) entitled to receive the Common Stock issuable upon such conversion of the Series A Preferred Stock shall not be deemed to have converted such Series A Preferred Stock until immediately prior to the closing of the sale of such securities.

(c) Conversion Price Adjustments of Preferred Stock. The Conversion Price shall be subject to adjustment from time to time as follows:

(i) (A) If the corporation shall issue any Additional Stock (as defined below) for a consideration per share less than the Conversion Price in effect immediately prior to the issuance of such Additional Stock, the Conversion Price in effect immediately prior to each such issuance shall forthwith (except as otherwise provided in this clause (i)) be adjusted to a price for such series determined by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of shares of Common Stock which the aggregate consideration received by the corporation for all such Additional Stock so issued would purchase at such Conversion Price in effect immediately prior to the issuance of such Additional Stock, and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of shares of such Additional Stock; provided that, for the purpose of this subsection 3(c)(i)(A), all shares of Common Stock (except as otherwise provided in this clause (i)) issuable upon conversion of all outstanding shares of Series A Preferred Stock shall be deemed to be outstanding, and immediately after any shares of Additional Stock are deemed to be issued pursuant to subsection 3(c)(i)(E), such shares of Additional Stock shall be deemed to be outstanding.

(B) No adjustment of the Conversion Price for the Series A Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments which are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment made prior to 3 years from the date of the event giving rise to the adjustment being carried forward, or, if no such adjustment is made, shall be made at the end of 3 years from the date of the event giving rise to the adjustment being carried forward. Except to the limited extent provided for in subsections (E)(3) and (E)(4), no adjustment of such Conversion Price pursuant to this subsection 3(c)(i) shall have the effect of increasing the Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any discounts, commissions or other expenses allowed, paid or incurred by the corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of the Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as reasonably determined by the Board of Directors, irrespective of any accounting treatment.

(E) In the case of the issuance of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities (which are not excluded from the definition of Additional Stock), the following provisions shall apply:

1. The aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 3(c)(i)(C) and(c)(i)(D)), if any, received by the corporation upon the issuance of such options or rights plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby.

2. The aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by

the corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections 3(c)(i)(C) and (c)(i)(D).

3. In the event of any change in the number of shares of Common Stock deliverable or any increase in the consideration payable to the corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Conversion Price of the Series A Preferred Stock obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities, and any subsequent adjustments based thereon, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

4. Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price of the Series A Preferred Stock obtained with respect to the adjustment which was made upon the issuance of such options, rights or securities or options or rights related to such securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities.

(ii) "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection (3)(c)(i)(E)) by this corporation after October 1, 1992 (the "Purchase Date") other than

(A) Common Stock issued pursuant to a transaction described in subsection 3(c)(iii) hereof,

(B) shares of Common Stock issuable or issued (or deemed to have been issued pursuant to subsection 3(c)(i)(E)) after the Purchase Date to employees, officers, directors, or consultants of this corporation directly or pursuant to a stock option plan or restricted stock plan approved by the shareholders and directors of this corporation, or

(C) Common Stock issued or issuable upon conversion of the Series A Preferred Stock.

(iii) In the event the corporation should at any time or from time to time after the Purchase Date fix a record date for the effectuation of a split or subdivision of the outstanding shares of common stock or the determination of holders of common stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of common stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Conversion Price of the Series A Preferred stock shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase of outstanding shares determined in accordance with subsection 3(c )(i)(E).

(iv) If the number of shares of common stock outstanding at any time after the Purchase Date is decreased by a combination of the outstanding shares of Common Stock, then following the record date of such combination, the Conversion Price for the series A Preferred Stock shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

(c) Other Distributions. In the event the corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by the corporation or other persons, assets (excluding cash dividends) or options or rights not referred to in subsection 3(c)(i), then, in each such case for the purpose of this subsection 3(d), the holders of the Series A Preferred Stock shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the corporation into which their shares of Series A Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the corporation entitled to receive such distribution.

(d) Recapitalizations. If at any time or from time to time there shall be a recapitalization of the Common stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Section 3) provision shall be made so that the holders of the Series A Preferred Stock shall thereafter be entitled to receive upon conversion of the Series A Preferred Stock the number of shares of stock or other securities or property of the corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 3 with respect to the rights of the holders of the Series A Preferred Stock after the recapitalization to the end that the provisions of this Section 3 (including adjustment of the Conversion Price then in effect and the number of shares purchasable upon conversion of the Series A Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(e) No Impairment. The corporation will not, by amendment of its Articles or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 3 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of the Series A Preferred Stock against impairment.

(f) No Fractional Shares; Certificate as to Adjustments.

(i) No fractional shares shall be issued upon conversion of the Series A Preferred Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series A Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment or readjustment of the Conversion Price of Series A Preferred Stock pursuant to this Section 3, the corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of Series A Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series A Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (A) such adjustment and readjustment, (B) the Conversion Price at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of a share of Series A Preferred Stock.

(g) Notices of Record Date. In the event of any taking by the corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock or any class of any other securities or property, or to receive any other right, this corporation shall mail to each holder of Series A Preferred Stock, at least 20 days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

(h) Reservation of Stock Issuable Upon Conversion. This corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of the Series A Preferred Stock such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, in addition to such other remedies as shall be available to the holder of such Preferred Stock, this corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(i) Notices. Any notice required by the provisions of this Section 3 to be given to the holders of shares of Series A Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his address appearing on the books of this corporation.

4. Voting Rights. The holder of each share of Series A Preferred Stock shall have the right to one vote for each share of Common Stock into which such Series A Preferred Stock could then be converted (with any fractional share determined on an aggregate conversion basis being rounded to the nearest whole share), and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of Common Stock, and shall be entitled, notwithstanding any provision hereof, to notice of any shareholders' meeting in accordance with the by-laws of this corporation, and shall be entitled to vote, together with holders of Common Stock, with respect to any question upon which holders of Common Stock have the right to vote.

5. Status of Converted Stock. In the event any shares of Series A Preferred Stock shall be converted pursuant to Section 3 hereof, the shares so converted shall be cancelled and shall not be reissuable by the corporation, and the Articles of this corporation shall be appropriately amended to affect the corresponding reduction in the corporation's authorized capital stock.

6. Optional Redemption. The Series A Preferred Stock may be called for redemption and redeemed at the option of the corporation by resolution of the Board of Directors, in whole at any time or in part at any time or from time to time, but in no event earlier than January 1, 1998, upon notice given to the record holders of any such shares, by the payment therefor of $11.00 per share of such Series A Preferred Stock, plus an amount equal to the accrued and unpaid cumulative dividends thereon to the date fixed by the Board of Directors as the redemption date. The record holders of any such shares to be redeemed pursuant to this subsection (C)6 may convert each such share (as well as any accrued and unpaid cumulative dividends thereon) pursuant to subsection (C)3 Conversion of Article 4 of the Articles of Incorporation at any time prior to the date of such redemption.

(D) Common Stock.

1. Dividend Rights. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to dividends, the holders of the Common Stock shall be entitled to receive, when and as declared by the Board of Directors, out of any assets of the corporation legally

available therefor, such dividends as may be declared from time to time by the Board of Directors.

2. Liquidation Rights. Subject to the prior rights of holders of all classes of stock at the time outstanding having prior rights as to liquidation, upon the liquidation, dissolution or winding up of the corporation, the assets of the corporation shall be distributed to the holders of Common Stock.

3. Redemption. The Common Stock is not redeemable.

4. Voting Rights. The holder of each share of Common Stock shall have the right to one vote, and shall be entitled to notice of any shareholders' meeting in accordance with the by-laws of this corporation, and shall be entitled to vote upon such other matters and in such manner as may be provided by law.

5. The date of its incorporation is January 16, 1992.

6. The shareholders of the corporation shall not have the right to cumulate their votes for the election of the directors of the corporation.

Exhibit 10.1.1

# FIRST AMENDMENT TO EMPLOYMENT AND NON-COMPETITION AGREEMENT

This First Amendment is made as of the 4th day of February 2004, by and between ADELE HEPBURN ("Hepburn"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA").

## Background

USA and Hepburn entered into an Employment And Non-Competition Agreement dated as of January 1, 1993 (the "Agreement"). As more fully set forth herein, the parties desire to amend the Agreement in certain respects.

## Agreement

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

1. Amendment. Paragraph A of Section 2. Compensation and Benefits of the Agreement is hereby deleted and the following new paragraph A is hereby substituted in its place:

> A. In consideration of her services rendered, commencing July 1, 2003, USA shall pay to Hepburn a base salary of $130,000 per year during the Employment Period, subject to any withholding required by law. Hepburn's base salary may be increased from time to time in the discretion of the Board of Directors.

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

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

4. Original Part. The amendments to the Agreement made in Paragraph 1 hereof shall be effective from and after July 1, 2003.

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

By: /s/ Stephen P. Herbert
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Stephen P. Herbert,
President

/s/ Adele Hepburn
--------------------------
ADELE HEPBURN

Exhibit 10.4.3

# FOURTH AMENDMENT TO EMPLOYMENT AND NON-COMPETITION AGREEMENT

This Fourth Amendment is made as of the 15th day of April 2002, by and between HAVEN BROCK KOLLS, JR. ("Kolls"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA").

## Background

USA and Kolls entered into an Employment And Non-Competition Agreement dated May 1, 1994, a First Amendment thereto dated May 1, 1995, a Second Amendment thereto dated March 20, 1996, and a Third Amendment thereto dated February 22, 2000 (collectively, the "Agreement"). As more fully set forth herein, the parties desire to amend the Agreement in certain respects.

## Agreement

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

1. Amendments.

A. Subparagraph (a) of Section 1. Employment of the Agreement is hereby deleted and the following new subparagraph (a) is hereby substituted in its place:

> (a) USA shall employ Kolls as Senior Vice President, Research & Development, commencing on the date hereof and continuing through June 30, 2004 (the "Employment Period") and Kolls hereby accepts such employment. Unless terminated by either party hereto upon at least 60-days notice prior to end of the original Employment Period ending June 30, 2004, or prior to the end of any one year extension of the Employment Period, the Employment Period shall not be terminated and shall automatically continue in full force and effect for consecutive one year periods.

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

> (a) In consideration of his services rendered, commencing April 15, 2002, USA shall pay to Kolls a base salary of $150,000 per year during the Employment Period, subject to any withholding required by law. Kolls"s base salary may be increased from time to time in the discretion of the Board of Directors.

C. The following new subparagraphs (v), (vi) and (vii) are added to Subparagraph (b) of Section 2. Compensation and Benefits of the Agreement:

(v) On April 15, 2002, USA shall issue to Kolls 200,000 shares of fully vested Common Stock as a bonus. Kolls acknowledges that the Common Stock has not been registered under the Act or under any state securities law, and the Common Stock can not be sold or transferred unless such Common Stock has been registered under the Act or such state securities laws, or unless USA has received an opinion of its counsel that such registration is not required. Notwithstanding the foregoing, USA shall at its cost and expense prepare and file a registration statement with the Securities and Exchange Commission covering these shares for resale under the Act, and shall use its best efforts to have such registration statement declared effective and to remain current and effective. These shares shall represent the shares underlying the options to purchase up to 200,000 shares at $.40 per share which were granted to Kolls by USA in November 2001 (and which became vested in March 2002). These options shall be canceled upon the issuance to Kolls by USA of the shares without any payment by Kolls to USA.

(vi) USA shall pay to Kolls the sum of $50,000 in cash in order to reimburse Kolls for the income tax payable by him as a result of the shares of Common Stock delivered to him as a bonus during the 2001 calendar year. These monies shall be paid to Kolls as follows: up to fifty percent on April 15, 2002, with the balance to be paid in six equal consecutive monthly installments commencing May 2002. In the alternative, and in lieu of any cash payment, Kolls may elect to receive shares of Common Stock or other securities of USA having a value equal to such cash payment.

(vii) Effective April 15, 2002, USA shall issue to Kolls fully vested options to purchase up to 50,000 shares of Common Stock. Each option shall be exercisable at $.40 per share. The options shall be exercisable at any time on or before April 15, 2005 and shall have a cashless exercise feature. Kolls acknowledges that all of the foregoing options are non-qualified stock options and not part of a qualified stock option plan and do not constitute incentive stock options as such term is defined under Section 422 of the Internal Revenue Code of 1986, as amended, and are not part of an employee stock purchase plan as defined in Section 423 thereunder. Kolls acknowledges that neither the options nor the Common Stock underlying the options has been registered under the Act or under any state securities law, and can not be sold or transferred unless such options or Common Stock has been registered under the Act or such state securities laws, or unless USA has received an opinion of its counsel that such registration is not required. Notwithstanding the foregoing, USA shall at its cost and expense prepare and file a registration statement with the Securities and Exchange Commission covering the shares of Common Stock underlying the options for resale under the Act, and shall use its best efforts to have such registration statement declared effective and to remain current and effective.

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

USA TECHNOLOGIES, INC.

By: /s/ Stephen P. Herbert
--------------------------
Stephen P. Herbert,
President

/s/ Haven Brock Kolls, Jr.
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HAVEN BROCK KOLLS, JR.

Exhibit 10.6

# TERMINATION AGREEMENT

This Termination Agreement (this "Agreement") is made this 31st day of December, 2003, by and between Eastman Kodak Company, a New Jersey corporation ("Kodak"), Maytag Corporation, a Delaware corporation ("Maytag"), Dixie-Narco, Inc., a Delaware corporation, and wholly-owned subsidiary of Maytag Holdings, Inc, which is a wholly-owned subsidiary of Maytag ("Dixie"), and Stitch Networks Corporation, a Delaware corporation, which is a wholly-owned subsidiary of USA Technologies, Inc. and successor in interest to e-Vend.net Corporation ("Stitch").

## BACKGROUND

Kodak, Maytag, Dixie, and Stitch are parties to that certain Vending Placement, Supply and Distribution Agreement dated December 1, 2000, the First Amendment thereto dated as of December 18, 2000, and the Second Amendment thereto dated as of June 20, 2001 (collectively, "Vending Agreement"; capitalized terms used without definition herein shall have the meanings assigned to them in the Vending Agreement). Pursuant to the Vending Agreement, the parties formed a strategic alliance to market and execute a large scale, national vending program under which Stitch purchased all of its requirements of Kodak consumer cameras and film from Kodak, and distributed and sold the Kodak merchandise solely from vending machines purchased from Dixie. As more fully set forth herein, the parties desire to terminate the Vending Agreement.

## AGREEMENT

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

1. Termination. Subject to the terms and conditions set forth below, the parties hereby terminate the Vending Agreement as of the date hereof. From and after the date hereof, the Vending Agreement shall have no further force or effect whatsoever and shall be null and void, other than any provisions of the Vending Agreement which survive expiration or termination pursuant to Section 34 of the Vending Agreement or pursuant to the terms of this Agreement.

2. Kodak Payment. On the date hereof, Kodak has delivered to USA Technologies, Inc. ("USA") the sum of $736,399 (the "Kodak Payment") and Stitch hereby acknowledges that it has authorized USA to receive such sum on Stitch's behalf. The Kodak Payment consists of a cash payment by Kodak to USA in the amount of $674,649 and a credit of $61,750 representing the amount owed by Stitch to Kodak in connection with payments made by Kodak to Stitch for removal of Vending Machines. Stitch hereby represents and warrants that the Kodak Payment represents payment in full by Kodak of all of the amounts due to U.S. Bancorp Leasing & Financial by Stitch under Master Agreement dated May 22, 2001 by and between U.S. Bancorp and Stitch (the "Master Agreement") and that the

funds borrowed by Stitch under the Master Agreement were used by Stitch to fund the purchase from Dixie of the Vending Machines covered by the Vending Agreement. The parties agree that the payment by Kodak of the Kodak Payment is in full and final resolution of all payments due by Kodak and that no further sums are or will be owed, either under the Master Agreement, the Vending Agreement or the Termination Agreement.

3. Maytag, Dixie and Stitch Actions.

A. As of the date hereof, the vending machines covered by the Vending Agreement ("Vending Machines") are located at the 284 locations identified in Exhibit "A" attached hereto ("Locations"). Maytag and Dixie shall use their reasonable best efforts to remove all of the Vending Machines from the Locations within 180 days from the date hereof at their sole cost and expense and shall purchase each Vending Machine from Stitch as described in Paragraph C below. For each of those nineteen (19) Locations designated as legend type "C" in Exhibit "A" whose Customer Agreements (as defined in Paragraph E below) do not terminate within ninety (90) days of the date hereof, Stitch shall use its best efforts to negotiate at its sole cost and expense the early termination of the Customer Agreement during such ninety (90) day period. If any such Customer Agreement is not so terminated by March 31, 2004, then Maytag and Dixie shall not be required to remove such Vending Machine from the Location, and in such event, Stitch shall, at its sole cost and expense, remove any such Vending Machine from the Location upon termination of the related Customer Agreement.

B. Stitch shall be responsible for accurately informing Maytag and Dixie of the location of each Vending Machine and will work with Maytag and Dixie to the extent reasonably necessary in order to co-ordinate the removal by Maytag and Dixie of each Vending Machine from each Location. If the Vending Machine is not located at the place Stitch indicates, then Maytag and Dixie shall be reimbursed by Stitch for all of its expenses in attempting to remove the Vending Machine. If Stitch does not reimburse Dixie within thirty (30) days of notice of any such expenses, Dixie shall have no further obligation to remove any Vending Machines under this Agreement, and in such event, Stitch shall, at its sole cost and expense, remove any remaining Vending Machines from the Locations upon termination of the related Customer Agreement. Dixie's and Maytag's obligation to remove the Vending Machines in this paragraph does not begin until Stitch confirms in writing that Dixie has authority to remove the Vending Machine and provides a name and address and phone number of the vendor.

C. Within 15 days after the end of each calendar month, Maytag and Dixie shall deliver to Stitch the sum of Three Hundred Dollars ($300) for each and every Vending Machine removed by Dixie and Maytag from the Locations at any time during the immediately preceding calendar month. Upon receipt of payment by Stitch for a Vending Machine, the title to the Vending Machine shall pass from Stitch to Maytag and Dixie, and Stitch shall thereafter upon request execute and deliver any and all documents required to confirm such title in Maytag or Dixie. Stitch shall not be responsible for the condition of the Vending Machines and Maytag and Dixie agree to accept the Vending Machines in their "as is" condition. Any and all product contained in the Vending Machine shall be removed by Stitch prior to removal of each Vending Machine from the Location and shall remain the property of Stitch.

D. The amount of $123,716 currently due from Stitch to Dixie and which was incurred in connection with the purchase of Vending Machines is hereby canceled and forgiven by Maytag and Dixie and no further sums are due in connection therewith by Stitch.

E. Stitch hereby represents and warrants to Kodak, Maytag and Dixie that: (i) each of Locations has entered into a placement agreement with Stitch covering the installation, maintenance and use of the Vending Machines ("Customer Agreements"); (ii) each of the Customer Agreements authorizes Stitch to remove the Vending Machine from the Locations; and (iii) except for the 38 locations designated as legend type "B" or "C" on Exhibit "A", all of these Customer Agreements automatically terminate upon the termination of the Vending Agreement.

F. Stitch hereby agrees to indemnify Maytag, Dixie and Kodak against any claims by any person related to the removal of any Vending Machine from any Location in accordance with the terms of this Agreement, including, without limitation, any claim that such removal constitutes a breach of any Customer Agreement. Such indemnification shall include reasonable attorneys fees whether incurred in a third-party action or in an action to enforce this Agreement.

4. Kodak Release.

A. Kodak fully, irrevocably and forever releases and discharges each of Maytag, Dixie-Narco, and Stitch, and each of their respective present and former officers, directors, employees, representatives, affiliates, subsidiaries, successors, assigns, and agents of any of them, in their individual and official capacities (collectively referred to herein as the "Kodak Released Parties"), of and from any and all claims, demands, causes of action, complaints, suits, sums of money, compensation, commissions, fees, wages, income, damages, and liabilities whatsoever, whether contingent or fixed, matured or unmatured, vested or unvested, existing or hereafter accruing, known or unknown, and whether based upon statute, federal or state law, contract, tort, common law, or any other legal or equitable theory, which Kodak ever had, now has, or may or can hereafter have, against the Kodak Released Parties for, based upon, by reason of, or arising out of the Vending Agreement; provided, however, that the foregoing release shall not apply with respect to any breaches by Maytag, Dixie-Narco, and Stitch of any of their respective representations, warranties, covenants and agreements under this Agreement or under the Vending Agreement which survive termination pursuant to the terms of this Agreement.

B. Kodak represents and warrants to each of Maytag, Dixie-Narco, and Stitch that it has not sold, assigned, transferred, conveyed or otherwise disposed of any claim, demand or cause of action relating to any matter covered by this Section 4.

5. Maytag Release.

A. Maytag and Dixie-Narco, jointly and severally, hereby fully, irrevocably and forever releases and discharges each of Kodak and Stitch, and each of their respective present and former officers, directors, employees, representatives, affiliates, subsidiaries, successors, assigns, and agents of any of them, in their individual and official capacities (collectively referred to herein as the "Maytag Released Parties"), of and from any and all claims, demands, causes of action, complaints, suits, sums of money, compensation, commissions, fees, wages, income, damages, and liabilities whatsoever, whether contingent or fixed, matured or unmatured, vested or unvested, existing or hereafter accruing, known or unknown, and whether based upon statute, federal or state law, contract, tort, common law, or any other legal or equitable theory, which Maytag or Dixie ever had, now has, or may or can hereafter have, against the Maytag Released Parties for, based upon, by reason of, or arising out of the Vending Agreement; provided, however, that the foregoing release shall not apply with respect to any breaches by Kodak and Stitch of any of their respective representations, warranties, covenants and agreements under this Agreement or under the Vending Agreement which survive termination pursuant to the terms of this Agreement.

B. Each of Maytag and Dixie-Narco represents and warrants to each of Kodak and Stitch that neither of them has sold, assigned, transferred, conveyed or otherwise disposed of any claim, demand or cause of action relating to any matter covered by this Section 5.

6. Stitch Release.

A. Stitch fully, irrevocably and forever releases and discharges each of Kodak, Maytag, and Dixie-Narco, and each of their respective present and former officers, directors, employees, representatives, affiliates, subsidiaries, successors, assigns, and agents of any of them, in their individual and official capacities (collectively referred to herein as the "Stitch Released Parties"), of and from any and all claims, demands, causes of action, complaints, suits, sums of money, compensation, commissions, fees, wages, income, damages, and liabilities whatsoever, whether contingent or fixed, matured or unmatured, vested or unvested, existing or hereafter accruing, known or unknown, and whether based upon statute, federal or state law, contract, tort, common law, or any other legal or equitable theory, which Stitch ever had, now has, or may or can hereafter have, against the Stitch Released Parties for, based upon, by reason of, or arising out of the Vending Agreement; provided, however, that the foregoing release shall not apply with respect to any breaches by Kodak, Maytag, and Dixie-Narco of any of their respective representations, warranties, covenants and agreements under this Agreement or under the Vending Agreement which survive termination pursuant to the terms of this Agreement.

B. Stitch represents and warrants to each of Kodak, Maytag, and Dixie-Narco that it has not sold, assigned, transferred, conveyed or otherwise disposed of any claim, demand or cause of action relating to any matter covered by this Section 6.

C. Stitch represents and warrants to each of Kodak, Maytag, and Dixie-Narco that it is the successor in interest to e-Vend.net Corporation and has full authority to enter into and perform this Agreement.

D. During period beginning of the date hereof and ending on the Final Removal Date (as defined in paragraph E below), Stitch shall use its best efforts to continue to provide, or cause to be provided, stocking services for Kodak Merchandise with respect to each Vending Machine until such Vending Machine is removed from its Location.

E. As of the date the last Vending Machine is removed from its Location by Stitch (the "Final Removal Date"), all unused Kodak Merchandise in Stitch's inventory as of such date may be returned to Kodak in accordance with Kodak's standard return procedures as stated in Sections 11.3 through 11.5 of the Vending Agreement. All Kodak trademark and other Kodak identification must be removed from each Vending Machine as of the date such Vending Machine is removed from its Location.

F. Kodak and Stitch agree that Section 9.2 of the Vending Agreement shall apply with respect the period beginning on the date hereof and ending on the Final Removal Date. Stitch shall continue to deliver to Kodak a Reconciliation Statement (as defined in Section 9.2 of the Vending Agreement) with respect to each month closing in such period; provided, however, that if the Final Removal Date is not the last day of a month then Stitch shall also deliver to Kodak within thirty (30) days of the Final Removal Date a Reconciliation Statement with respect to the period beginning on the first day of such month and ending on the Final Removal Date. Kodak and Stitch further agree that (i) in the event the e-Vend Purchase Price exceeds the Dealer Cost, e-Vend shall forward to Kodak with the related Reconciliation Statement a check in an amount equal to the amount by which the e-Vend Purchase Price exceeds the Dealer Cost and (ii) in the event the Dealer Cost exceeds the e-Vend Purchase Price, Kodak shall forward to e-Vend a check in an amount equal to the amount of the excess.

7. 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, and there have been no warranties, representations or promises, written or oral, made by any of the parties hereto except as expressly set forth herein. The titles and captions of the Sections of this Agreement are for the convenience of the parties only, and shall not affect, enlarge, or modify the terms and conditions of this Agreement, and shall not be considered in any manner whatsoever in the interpretation, intent, or meaning of this Agreement.

8. Binding Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto, as well as their respective heirs, personal representatives, successors and assigns.

9. 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 the party amending or waiving such term or condition of 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.

10. Notice. Any notice or other communications required or permitted hereunder shall be sufficiently given if sent by certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Stitch:

Stitch Networks Corporation
100 Deerfield Lane, Suite 140
Malvern, PA 19355
Attn. Stephen P. Herbert,
President

If to Kodak:

Eastman Kodak Company
3003 Summit Boulevard, Suite 1100
Atlanta, GA 30319
Attn. Alex Hodges, Director of Capture Marketing

with a copy to:

Eastman Kodak Company
343 State Street
Rochester, NY 14650-0207
Attn. Legal Department

If to Maytag or Dixie-Narco:

Maytag Corporation Law Department
403 W. 4th Street North
Newton, Iowa 50208
Attn: General Counsel

11. Governing Law. This Agreement shall be construed in accordance with and shall be governed by the laws of the State of New York without regard to any conflicts of law rules which would require the application of the laws of any other jurisdiction.

12. Consent to Jurisdiction. Each of the parties hereto irrevocably consents to the jurisdiction of the state courts of New York and the United States District Court for the Western District of New York with respect to all matters arising from this Agreement, for that limited purpose only, and each Party waives any objections to venue in such courts and agrees that process may

be served in the manner provided herein for giving of notices or otherwise as allowed by the applicable court; provided, however, that each Party agrees not to commence any action, suit or proceeding in state court unless the United States District Court for the Western District of New York lacks subject matter jurisdiction with respect to the dispute or otherwise is unable to hear the matter.

13. Arbitration. Any dispute arising out of or relating to this Agreement shall be settled by arbitration before a panel of three independent and impartial arbitrators (the "Arbitration Panel") in accordance with the then current commercial arbitration rules of the American Arbitration Association ("AAA"). Each party to this Agreement who is party to such dispute shall select one member of the Arbitration Panel. If there are only two parties to such dispute, the third member of the Arbitration Panel shall be jointly selected by the other members of the Arbitration Panel. In no case shall there be any ex parte communications between any party hereto and any member of the Arbitration Panel regarding any dispute between the parties. The Arbitration Panel shall not have the authority to make any ruling, finding or award that does not conform to the terms and conditions of this Agreement. The site of any arbitration brought

pursuant to this Agreement shall be at a location to be mutually agreed upon by the parties to such arbitration. All discovery activities shall be completed within 60 days after the initial meeting of the Arbitration Panel. The award of the Arbitration Panel shall be (i) final and binding upon the parties, (ii) issued within 90 days after the initial meeting of the Arbitration Panel, (iii) in writing and (iv) set forth the factual and legal bases for such award. The Arbitration Panel is to award attorneys' fees and costs of the arbitration to the prevailing party. Judgment on the award rendered by the Arbitration Panel may be entered and enforced in any court having jurisdiction thereof.

14. 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.

15. Expenses. Except as specifically provided otherwise herein, each party hereto shall pay its 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 from the other in the event any party hereto breaches this Agreement.

16. 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.

17. Severability. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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

EASTMAN KODAK COMPANY

Attest: ______________________ By: /s/ Gerald Quindler

Name: Gerald Quindler

Title: VP GM WW Sales & Ops

MAYTAG CORPORATION

Attest: ______________________ By: /s/ Roger K. Scholten

Name: Roger K. Scholten

Title: Sr. VP

DIXIE-NARCO, INC.

Attest: ______________________ By: /s/ Roger K. Scholten

Name: Roger K. Scholten

Title: Asst. Secretary

STITCH NETWORKS CORPORATION

Attest: ______________________ By: /s/ Stephen P. Herbert

Name: Stephen P. Herbert

Title: President

Exhibit 10.9.4

# FOURTH AMENDMENT TO EMPLOYMENT AND NON-COMPETITION AND AGREEMENT

This Fourth Amendment is made on the 4th day of February 2004, by and between STEPHEN P. HERBERT ("Herbert"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA").

Background

USA and Herbert entered into an Employment And Non-Competition Agreement dated April 4, 1996, a First Amendment thereto dated as of February 22, 2000, a Second Amendment thereto dated April 15, 2002 and a Third Amendment dated as of July 25, 2003 (collectively, the "Agreement"). As more fully set forth herein, the parties desire to amend the Agreement in certain respects.

Agreement

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

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

> A. In consideration of his services rendered, commencing January 1, 2004, USA shall pay to Herbert a base salary of $230,000 per year during the Employment Period, subject to any withholding required by law. Herbert's base salary may be increased from time to time in the discretion of the Board of Directors.

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

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

4. Effective Time. The amendments to the Agreement made in Paragraph 1 hereof shall be effective from and after January 1, 2004. IN WITNESS WHEREOF, the parties hereto have executed this Fourth Amendment on the day and year first above written.

USA TECHNOLOGIES, INC.

By: /s/ George R. Jensen, Jr.
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George R. Jensen, Jr.,
Chief Executive Officer

/s/ Stephen P. Herbert
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STEPHEN P. HERBERT

Exhibit 10.21.6

SIXTH AMENDMENT TO EMPLOYMENT AND
NON-COMPETITION AND AGREEMENT

This Sixth Amendment is made on the 4th day of February 2004, by and between GEORGE R. JENSEN, JR. ("Jensen"), and USA TECHNOLOGIES, INC., a Pennsylvania corporation ("USA").

Background

USA and Jensen entered into an Employment And Non-Competition Agreement dated November 20, 1997, a First Amendment thereto dated June 17, 1999, a Second Amendment thereto dated February 22, 2000, a Third Amendment thereto dated January 16, 2002, a Fourth Amendment thereto dated April 15, 2002, and a Fifth Amendment thereto dated July 16, 2003. As more fully set forth herein, the parties desire to amend the Agreement in certain respects.

Agreement

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

1. Amendment. Subparagraph (a) of Section 2. Compensation and Benefits is hereby deleted the following new subparagraph (a) is hereby added to Section 2 of the Agreement:

> (a) In consideration of his services rendered, commencing January 1, 2004, USA shall pay to Jensen a base salary of $250,000 per year during the Employment Period, subject to any withholding required by law. Jensen's base salary may be increased from time to time in the discretion of the Board of Directors.

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

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

4. Effective Time. The amendments to the Agreement made in Paragraph 1 hereof shall be effective from and after January 1, 2004.

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

/s/ George R. Jensen, Jr.
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GEORGE R. JENSEN, JR.

USA TECHNOLOGIES, INC.

By: /s/ Stephen P. Herbert
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Stephen P. Herbert,
President

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, George R. Jensen, Jr., Chief Executive Officer of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of USA Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

c. Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 12, 2004

/s/ George R. Jensen, Jr.
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George R. Jensen, Jr.,
Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

I, David M. DeMedio, Chief Financial Officer of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of USA Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

c. Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation, of internal control over financial reporting to the auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 12, 2004

/s/David M. DeMedio
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David M. DeMedio,
Chief Financial Officer

Exhibit 32

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

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-QSB for the period ended December 31, 2003 (the "Report"), I, George R. Jensen, Jr., Chief Executive Officer of the Company, hereby certify that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George R. Jensen, Jr.
\- ------------------------
George R. Jensen, Jr.
Chief Executive Officer



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

In connection with the accompanying Quarterly Report of USA Technologies, Inc., (the "Company") on Form 10-QSB for the period ended December 31, 2003 (the "Report"), I, David M. DeMedio, Chief Financial Officer of the Company, hereby certify that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David M. DeMedio
\- --------------------
David M. DeMedio
Chief Financial Officer